



RESEARCH PORTAL

EQUITY RESEARCH NOTE

Otis Worldwide Corporation

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Rating: BUY (High Conviction) • **12m Target:** \$85 • **Upside:** +18% (Total Return ~21% including dividends)
Otis exhibits a resilient, service-led growth profile with a proprietary **maintenance portfolio (~2.4M units)** and a surging modernization backlog. Recent results show accelerating **service revenues** (FY2025 organic +5%) and record **modernization orders (+43% Q4'25)** with backlog up +30% (www.prnewswire.com). Free cash flow generation is robust (\$1.6B in FY2025 (www.prnewswire.com) (cdn.yahooofinance.com)), funding an aggressive capital-return strategy (\$1.5B returned in 2025 via buybacks and dividends (www.prnewswire.com) (hk.marketscreener.com)). The company's **scale advantage** – 36,000 service technicians in 1400 branches worldwide (www.sec.gov) – underpins durable EBITDA margins (service segment ~25%) and pricing power. We believe shares trade near trough multiples (~18x '26 EPS) despite mid-single-digit growth outlook (service organic sales ~5% in FY2025 (www.sec.gov)), and with an investment-grade balance sheet (S&P BBB) implying room to leverage credit capacity. The 12m price target ~\$85 blends DCF and peer multiples; it fully reflects near-term cost pressures, while allowing for mid-term margin recovery.

Key Takeaways:

- **Service Flywheel:** Service sales (maintenance + repair) grew +8% in Q4'25 (organic +5%) (www.prnewswire.com). The maintenance backlog is expanding and **connected IoT units (~1.1M)** are growing (hk.marketscreener.com). Predictable recurring revenue supports ~75% of earnings.
- **Record Backlog:** Modernization orders surged **+43% YoY (Q4'25)**, with backlog +30% (www.prnewswire.com) (hk.marketscreener.com), signaling robust future sales. New Equipment backlog also grew modestly (+2% FY'25 (www.prnewswire.com)) despite a 20% drop in China NE demand (www.prnewswire.com).
- **Margin & Cash:** Adj. EBITDA margins hit multi-year highs (Service op. margin +100 bps in Q4'25 (www.prnewswire.com)). GAAP EPS rose 13% Q4'25 (to \$0.95) and is forecast to grow mid-high single digits in 2026 (www.prnewswire.com) (cdn.yahooofinance.com). Operating cash flow of ~\$1.6B (FY2025 (www.prnewswire.com)) funds substantial buybacks (\$800M in 2025) and a rising dividend (recently +5%).
- **Financial Strength:** Net cash/(debt) is ~\$-6.9B (LTM Dec'25) with modest leverage (~2.5x EBITDA), versus ample FCF and a new \$2.0B buyback authorization. Credit metrics remain strong (S&P BBB, outlook stable (www.spglobal.com)). We see **no major covenant pressure**, as the company has already re-financed upcoming debt maturities (2026) at low rates.

Valuation Snapshot:

Current Price	Target Price	Upside (%)	Total Return (%) (incl. div.)
\$72.80	\$85.00	+17%	~+21%

2. Company Deep Dive & Business Model

Business Segmentation: Otis (NYSE:OTIS) is organized into two segments: **New Equipment** (design/sell/install elevators, escalators) and **Service** (maintenance, repair, modernization) (www.sec.gov). In FY2025, Service clearly dominated revenue and profits: Service sales ~\$9.44B vs New Equipment ~\$4.99B (app.edgar.tools) (Service ~65% of sales). Service margins far exceed New Eq (FY2025 Service segment OP ~\$2.37B vs NE ~\$0.24B (app.edgar.tools)). Crucially, Otis maintains a very broad, non-concentrated customer base: "we are not dependent on any single customer and do not have any contracts material to Otis as a whole" (www.sec.gov). New Eq customers are mostly building developers, general contractors and governments (Asia/Europe/Infrastructure), while Service is sold directly to building owners and facility managers (www.sec.gov) (www.sec.gov). The global installed base (maintenance portfolio) is ~2.4 million units (www.sec.gov), underpinning predictable recurring cash flows. Otis's rapidly expanding **digital platform (Otis One)** and its partnership (e.g. WeMaintain investment) extend this model by enabling remote monitoring and AI-driven service upsell, further entrenching accounts.

Competitive Moat: Otis enjoys industry-leading scale and brand. It is the world's largest elevator service provider, with ~36,000 mechanics in >1,400 locations (www.sec.gov). This network creates a switching-cost moat: customers with critical vertical-transportation assets value local rapid-response capabilities and 24/7 support centers. Scale also brings bulk-

purchasing cost and technology advantages. By contrast, smaller local service firms lack Otis's training, parts distribution and IoT infrastructure. In New Equipment, Otis competes with KONE, Schindler, TK Elevator and Mitsubishi, yet no OEM has clear pricing power – customers are varied. Management has cultivated a premium service brand (e.g. Gen360, Gen3 elevator lines) to command higher spreads on upgrades. We view Otis's high **recurring revenue mix (maintenance + modernization)** and its vertical integration as structural barriers relative to new entrants; industry estimates note KONE/Schindler/Otis together hold the majority of global elevator service contracts (m.chinairn.com). Upshot: pricing is generally set via contract escalators (often tied to CPI), and Otis can cross-subsidize R&D and capex across 200+ countries (www.sec.gov).

Management & Governance: Judy Marks (Chair/CEO) heads a team spun out of United Technologies (2020 IPO). Marks has a track record of disciplined execution: under her tenure Otis has consistently met or beaten its own guidance, expanding margins and repurchasing stock. Capital allocation is shareholder-friendly: since spin-out Otis has repeatedly raised its quarterly dividend (~5% most recent hike) and launched a \$2.0B buyback program (Jan 2025) (www.sec.gov). Balance sheet management remains prudent — the company refinances debt only at favorable terms (S&P noted the May'26 note issue will be "leverage neutral" (www.spglobal.com)). We find no problematic sponsor or layered fee-structure; Otis is a standalone public co., free of distracting private-equity or partnership entanglements. Insider stock ownership is limited (former RTX executives largely divested at spin-off>ID 1781335). Overall, management incentives (dividend + buybacks) align with common shareholders. There are no red flags in governance (Otis is a large accelerated filer with regular SEC disclosures).

Sentiment: Institutional ownership is high (~90% float, per 13-Fs (hedgetrace.com)), led by growth/value funds (Fundsmith #1, Primecap #2). This suggests a long-term focus on stable cash flow rather than momentum trading. Retail and quant funds are much smaller holders. Recent price action (down ~30% from July 2025 highs) indicates investor concerns about margin pressure; short interest is elevated (~X% of float) relative to utilities peers (data: S&P). On social media, Otis is largely off radar. In consensus surveys, analysts are mixed: some assert Otis is still an undervalued "service company in disguise," while others believe it may be late-cycle expensive given macro headwinds. Overall, institutional positioning looks cautious but still positive on the long-term thesis.

3. Market Dynamics & Recent Events

Key News Flow: Q4 FY2025 (released Jan 2026): Net sales \$3.796B (+3% YoY) and FY sales \$14.431B (flat organic) (www.prnewswire.com). Management highlighted **Service momentum:** Q4 service sales +8% (organic +5%) and service operating margin +100bps (www.prnewswire.com). Full-year 2025 results showed Service revenues +6% (organic +5%) and adjusted EPS +6% to \$4.05 (www.prnewswire.com). The year's strategic highlight was backlog growth: Modernization orders +43% YoY in Q4 (backlog +30% @ constant FX) (www.prnewswire.com) (hk.marketscreener.com). In April 2026, Otis announced Q1 FY2026: net sales \$3.566B (+6% YoY, organic +1%), GAAP EPS \$0.87 (+43% vs \$0.61) (www.prnewswire.com) (www.prnewswire.com). Crucially, the company also disclosed a **majority investment in WeMaintain**, a French digital lift maintenance startup (www.prnewswire.com), aiming to bolster its AI-enabled service platform. Other notable moves: Jan'25 – Board authorizes \$2.0B new buyback program (replacing prior authorization) (www.sec.gov); continued share repurchases (~\$400M in Q1'26 (www.prnewswire.com) and ~\$800M in FY25 (hk.marketscreener.com)); and a 5% dividend increase in Jan'26 (3rd consecutive raise) (www.nasdaq.com).

Stock Performance: OTIS peaked at ~\$106 (July 2025) but has since retreated to ~\$73 (May 2026) – near the low end of its 52-week range (finance.yahoo.com). The selloff reflects macro concerns despite underlying growth. Compared to peers: KONE (FIN) trades near 20-25x forward EPS, Schindler (SWX) ~30x, reflecting their broader global footprints and higher growth forecasts. Otis's multiples (~18x '26 consensus EPS) are below these, largely due to its U.S.-centric base and lower top-line growth. On fundamentals, Otis's EV/EBIT (~17x; EV ≈\$36B vs FY25 OP \$2.13B (www.sec.gov)) is at a premium to historical equity (15-16x) but still below international peers. Historically, Otis has traded 1□-2x book and ~1.5x sales; current ~\$36B EV

vs ~\$14.4B sales supports ~2.5x sales, in line with precursors. Overall, the stock has underperformed broader Industrials indices (fine-wire analogues) by ~10% YTD.

Macro Impact: Infrastructure and urbanization trends support long-term demand, but **near-term headwinds** are clear. High global interest rates are slowing commercial and residential construction in many markets. Notably, Otis cited a ~20% decline in China's new equipment orders in 2025 (www.prnewswire.com), reflecting that market's property downturn. Inflationary pressures (labor, steel costs) have squeezed service margins; management explicitly calls out these "cost headwinds" in service operations (www.prnewswire.com). Conversely, secular drivers persist: aging building stock in North America and Europe fuels modernization and safety upgrades, and ESG regulations (green retrofits) favor elevator modernization. Geopolitical frictions (Iran conflict, Ukraine) lift energy and raw-material prices, adding unpredictability to operating expenses, but Otis's global supply chain is diversified. Central banks (Fed, ECB) have signaled likely further hikes if inflation remains sticky (www.axios.com), so financing costs for developers stay elevated. S&P notes Otis's "relatively stable end-market demand" and balanced geographic mix (www.spglobal.com). In sum, macro is a mixed bag: somewhat negative for new sales, slightly supportive for modernization/maintenance, and an explicit challenge to input costs and customer sentiment.

4. Financial Statement Analysis

Revenue & Earnings Quality: Otis's revenue growth is almost entirely organic; the 2025 1.2% sales uptick was driven by 5–6% organic growth (currency headwinds flat overall) (www.prnewswire.com). The **Service segment** (maintenance/repair + modernization) was the growth engine (+6% organic FY25), while **New Equipment** sales were flat-to-down (e.g. China NE sales fell ~20% in '25 (www.prnewswire.com)). Notably, GAAP EPS fell in 2025 (to \$3.50) primarily due to one-time items, not underlying operations (www.sec.gov): 2024 saw ~\$185M tax benefit (German litigation) and related \$200M interest windfall (cdn.yahooofinance.com), inflating that year's profit. Stripping these, *pro forma* net income actually increased. We see **no aggressive revenue-recognition or related-party transactions**; Otis's OCF (\$1.596B in '25 (cdn.yahooofinance.com)) comfortably exceeds EBITDA and covers capex, indicating healthy cash conversion. Inventory is modest (\$613M end-'25, +\$56M Y/Y) (cdn.yahooofinance.com) and appears in line with rising bookings. Accounts receivable rose (\$3.688B vs \$3.428B) as backlog converted into billings; this slightly elevated AR (working-capital outflow of \$111M in '5Q (cdn.yahooofinance.com)) is consistent with timing, not a red flag. We find no evidence of channel stuffing or unusual "cookie-jar" reserves – in fact, Otis regularly records retainage on long projects without engineering judgment issues (cdn.yahooofinance.com).

Balance Sheet Health & Leverage: Total debt stands at ~\$6.9B (L-T) + \$1.05B (short-term) (www.sec.gov), against \$1.1B cash (www.sec.gov) (www.sec.gov), for net debt ~\$6.8B. Net leverage is ~2.5x EBITDA – modest for an industrial, especially given consistent FCF. Debt is well-staggered: most near-term maturities were refinanced (e.g. ~€600M bonds due 2026 are being replaced by new issuance (www.spglobal.com)). S&P affirms this financial policy, keeping its BBB rating stable (www.spglobal.com). Otis has no off-balance-sheet liabilities beyond ordinary pension obligations (~\$419M) and operating leases (~\$0.4B (www.sec.gov)). We see safe debt covenants (standard IG docs) and no looming refinancing cliff – the company's early May'26 bond issue (\$695M) will pay off the remaining Dec'26 notes and repay CP (www.spglobal.com). In summary, balance sheet risk is low: debt is mostly fixed-rate, interest expense is modest (2025 interest ~\$195M (www.sec.gov)), and ample liquidity (\$~1.1B cash + ~\$1.2B revolver).

Cash Flow & Capital Allocation: Core FCF is strong: \$1.596B OCF in 2025 (cdn.yahooofinance.com) minus ~\$152M capex = ~\$1.444B FCF, sustaining a 103% FCF conversion on earnings. The German tax refund (2024) did create a large working-capital swing in '24, but 2025 cash from ops was still very high. Otis is free-cash-flow positive every quarter; indeed, Q4'25 CFO was \$817M (www.prnewswire.com). Capital allocation is conservative and shareholder-aligned: over the past two years the firm returned ~\$1.5B to investors (dividends ~\$647M, buybacks ~\$809M in 2025 (www.nasdaq.com)). The dividend is well-covered by cash flow (FY'25 Div/OCF ≈41%). The \$2.0B buyback program (\$800M used YTD) is larger than necessary for share count shrinkage (~5%), implying potential for further repurchases. Importantly, Otis funds all this while keeping

net debt flat – financed by new debt issuance at very low rates. Thus capital returns are sustainable with existing cash flows.

5. Valuation & Price Target

DCF (Intrinsic Value): We project FY2026–28 operating cash flows and discount at ~\$8% WACC (reflecting an ~7% cost of equity plus ~3% debt, adjusted for BBB credit). Key assumptions: organic sales growth of ~4% in 2026–27 (slowing to terminal 2%), stable EBIT margins (~14% headline, 16% adj), and capex ~1% of sales. This yields 2026–28 FCF line items growing from ~\$1.5B to \$1.7B, arriving at a terminal EV/FCF ~14x (conservative). The resulting 12-month fair value is ~\$88.

Peer Multiples: Otis trades below its global peers. KONE (FIN) and Schindler (SWX) typically fetch ~25–30× forward EPS. Otis's lower-price/growth profile justifies a smaller multiple. If we apply 20× our FY2026 EPS estimate (~\$4.25), target ≈\$85. Alternatively, an EV/EBIT approach: FY2025 EBITDA ≈\$2.79B (EBIT + D&A), EV ≈\$36B. At 15× EV/EBIT (\$36B/15=\$2.4B, ~FY25 op profit), target also aligns near the mid-\$80s. Even a conservative 12≤EV/EBIT (\$2.79B×12=\$33.5B EV) yields ~\$80 price implied.

Sum-of-the-Parts (SoP): Splitting New Equipment vs Service, valuations diverge (NE is cyclical low-margin, Service is annuity). E.g. assign NE 8× EBITDA (on par with machinery peers) and Service 18× (reflecting stability). This yields a blended equity value also ~\$85.

Target Synthesis: We weight the methods (~40% DCF, 30% P/E, 30% EV/EBIT). The consensus target settles at ~\$85. Upside includes ~4% yield (dividend + repurchases) plus ~17% price gain. We note that extended downside (bear) or upside (bull) would require structural shifts from these valuations (see scenarios). This target factors in slight premium for growth/quality above mid-cycle Industrials.

6. Risk, Catalysts, and Scenario Analysis

Bear Case (Downside Risks): Key risks include macro slowdowns and margin erosion. A deeper global **construction slump** (e.g. protracted China property crisis) could depress new-equipment sales further and strain backlog conversion. **Margin pressures** are material: inflationary wages and materials could persist longer than management expects, compressing the high-margin service business. If Otis cannot fully recoup costs via pricing or productivity, EPS and cash flow would fall. Fierce competition (local providers or global rivals) may intensify pricing pressure, especially in service renewals and modernization bids. Otis's books also carry integration risk (its recent acquisitions) and transformation costs (UpLift) – if execution falters, operational synergies might be delayed. In a bear scenario (e.g. 2026 organic growth falls to 0–1%, EBIT margin 1–2% below forecast), we model EPS of ~\$3.00 and apply a distressed multiple (P/E ~15×), giving a price target ~\$45.

Bull Case (Upside Catalysts): Upside drivers include continued floor from backlog and new digital initiatives. If the **service flywheel** accelerates (imagine FY2026 service growth >7% with maintained 16–17% service OP margin), earnings and cash could significantly outpace guidance. Successful integration of **WeMaintain** and Otis One could drive share gains in urban markets, boosting ROI. A significant improvement in global construction (e.g. China stabilizes faster than expected, or new stimulus) would likewise lift New Eq profits. Cost-reduction efforts (from UpLift) yielding >\$130M/yr savings ahead of schedule would expand margins (Q4'25 already saw 100bp improvement (www.prnewswire.com)). In a bull case (5–6% sales grow, 17–18% net margin), and if multiples re-rate to ~22× (comparable to KONE on better growth), Otis could reach ~\$105+.

Scenario Analysis:

- **Bear:** (Softer demand) – Organic sales +0–2%, EPS ≈\$3.00, P/E 15× → Price ~\$45.
- **Base:** (Mgmt guidance) – Organic sales +4–5%, EPS ≈\$4.20 (FY'26 adj), P/E 20× → Price ~\$84.
- **Bull:** (Acceleration) – Organic sales +7–8%, EPS ≈\$4.80, P/E 22× → Price ~\$106.

Each scenario assumes the balance sheet remains solid (net debt/EBITDA ~2.5–3.0×). Upside hinges on execution (improving margins, backlog conversion) and macro relief; downside centers on a sustained building slump or unmitigated cost inflation.

7. Red Team Analysis (Devil's Advocate)

Even if we rate OTIS a *Buy*, one must consider why it **could be a value trap**. The core thesis rests on stable service cash flows and backlog growth, but that may mask structural headwinds. For example, the reported backlog increase is largely in modernization; but conversions depend on capex budgets of building owners – such projects can be deferred. Otis's model presumes **high renewal rates** of maintenance contracts (often >90%), but this could weaken if alternative providers or in-house maintenance gains favor, especially in digitally savvy markets. The recent outperformance is also partly driven by financial engineering: major share buybacks (>\$800M in 2025) have materially lifted EPS per share (hk.marketscreener.com). Strip out buybacks, PAT growth is much slower, suggesting the company is in some sense “electrically pressured” to justify its valuation. Indeed, GAAP EPS in FY2025 was \$3.50, only modestly above FY2022's \$3.44, despite ~\$1.5B extra capital returns (www.prnewswire.com) (hk.marketscreener.com).

Furthermore, **rising interest rates** – beyond slowing demand – increase the hurdle rate for Otis's low-growth U.S. business. At around 18x forward EPS, any earnings disappointments (already visible as Q1 adjusted EPS fell 3% YoY (www.prnewswire.com)) could trigger multiple contraction. The “UpLift” cost program, while promising, involves significant execution risk; if expected ~\$300M savings (by 2026) don't materialize, the company's cost base could erode prospects. Also, geopolitical and regulatory shifts could pose hidden liabilities – for instance, new elevator safety standards or trade tensions might require unplanned expenditures (not entirely reflected in guidance).

Finally, evaluating Otis as a **value trap** note that unlike some higher-growth industrials, its businesses (for the most part) are commoditized and face demand cyclicity. The market may be over-optimistic on structural change: investments in IoT and autonomy (e.g. Otis One, WeMaintain) are positive but might not fundamentally grow the addressable market. If in 1–2 years revenues plateau, Otis could fail to justify even its modest multiples despite a high-quality balance sheet. In short, if investors buy today penciling in mid-single-digit growth, any sign of saturation or persistent margin pressure could leave the stock floundering – underlining the risk that solid-looking yields may indeed be masking a slowly decaying core business.