

# OTIS

## Otis Worldwide Annual Report 2021

Form 10-K (NYSE:OTIS)

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON D.C. 20549**

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2020

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 001-39221

**OTIS WORLDWIDE CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of incorporation)

**83-3789412**  
(I.R.S. Employer Identification No.)

**One Carrier Place, Farmington, Connecticut 06032**  
(Address of principal executive offices, including zip code)

**(860) 233-6847**  
(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock (\$0.01 par value)	OTIS	New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes . No .

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes . No .

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes . No .

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes . No .

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
		Emerging Growth Company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of the voting Common Stock held by non-affiliates at June 30, 2020 was approximately \$ 24,623,303,912 based on the New York Stock Exchange closing price for such shares on that date. For purposes of this calculation, the Registrant has assumed that its directors and executive officers are affiliates.

At January 31, 2021, there were 433,671,005 shares of Common Stock outstanding.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Parts I, II and IV hereof incorporate by reference portions of the Otis Worldwide Corporation 2020 Annual Report to Shareholders. Part III hereof incorporates by reference portions of the Otis Worldwide Corporation Proxy Statement for the 2021 Annual Meeting of Shareholders.

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**Year Ended December 31, 2020**

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## OTIS WORLDWIDE CORPORATION

### Annual Report on Form 10-K for Year Ended December 31, 2020

Whenever reference is made in this Form 10-K to specific sections of Otis Worldwide Corporation's 2020 Annual Report to Shareholders (2020 Annual Report), those sections are incorporated herein by reference and are included in Exhibit 13 to this Form 10-K. Otis Worldwide Corporation and its subsidiaries' names, abbreviations thereof, logos, and product and service designators are all either the registered or unregistered trademarks or tradenames of Otis Worldwide Corporation and its subsidiaries. Names, abbreviations of names, logos, and product and service designators of other companies are either the registered or unregistered trademarks or tradenames of their respective owners. As used herein, the terms "we", "us", "our", "the Company" or "Otis", unless the context otherwise requires, mean Otis Worldwide Corporation and its subsidiaries. References to internet websites in this Form 10-K are provided for convenience only. Information available through these websites is not incorporated by reference into this Form 10-K.

## PART I

### Item 1. Business

#### Our Company

Otis is the world's leading elevator and escalator manufacturing, installation and service company. We serve customers in over 200 countries and territories around the world. Otis has global scale and local focus, with over 1,400 branches and offices, and a direct physical presence in approximately 80 countries. The following description of our business should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2020 Annual Report, including the information contained therein under the heading "Business Overview."

Otis is a Delaware corporation and was incorporated on March 1, 2019 in connection with the separation and distribution ("Separation") of each of Otis and Carrier Global Corporation ("Carrier") from United Technologies Corporation, subsequently renamed Raytheon Technologies Corporation ("UTC" or "RTX", as applicable) into separate independent publicly-traded companies. The Separation occurred on April 3, 2020. References to "UTC" relate to pre-Separation matters, and references to "RTX" relate to post-Separation matters.

The Separation was completed pursuant to a Separation and Distribution Agreement ("Separation Agreement") and other agreements with UTC related to the Separation, including but not limited to a transition services agreement ("TSA"), a tax matters agreement ("TMA"), an employee matter agreement ("EMA") and an intellectual property agreement (the "Intellectual Property Agreement"). For further discussion of these agreements, see "Item 1A. Risk Factors" and "Item 15. Exhibits and Financial Statement Schedule" in this Form 10-K and "Note 1: Business Overview and Separation from United Technologies Corporation" to the Consolidated Financial Statements in our 2020 Annual Report.

For the year ended December 31, 2020, our net sales and our operating profit were approximately \$12.8 billion and \$1.6 billion, respectively. Our international operations represented approximately 73 percent of our net sales for the year ended December 31, 2020.

For discussions of the impact of the COVID-19 global pandemic on our business, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the heading "Business Overview" and "Note 2, Summary of Significant Accounting Policies" to the Consolidated Financial Statements in our 2020 Annual Report.

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This Form 10-K and our quarterly reports on Form-10-Q, current reports on Form 8-K and any amendments to those reports are available free of charge through the Investors section of our Internet website (<http://www.otis.com>) under the heading "SEC Filings" as soon as reasonably practicable after these reports are electronically filed with, or furnished to, the SEC. In addition, the SEC maintains a website (<http://www.sec.gov>) containing reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

### **Description of Business by Segment**

Our Company is organized into two segments, New Equipment and Service, which, for the year ended December 31, 2020, contributed 42 percent and 58 percent of our net sales, and 16 percent and 84 percent of our segment operating profit, respectively.

#### ***New Equipment***

Through our New Equipment segment, we design, manufacture, sell and install a wide range of passenger and freight elevators, as well as escalators and moving walkways for residential, commercial and infrastructure projects. In 2020, our New Equipment segment had sales of \$5.4 billion and operating profit of \$318 million. In 2020, our New Equipment unit sales in China represented over half of our global New Equipment sales by unit volume.

We have developed a range of elevator and escalator solutions to meet the varying needs and objectives of our diverse customers. Our primary elevator and escalator solutions are described below.

Otis' next-generation, digitally native Gen360 elevator, piloted in 2020, allows us to move from a predominantly mechanical system to an electronic architecture. Gen360 offers a compact design and footprint that frees up space in buildings combined with built-in Otis ONE connectivity providing proactive, predictive and transparent information to our technicians and customers. This technology combination helps to reduce entrapments, expands predictive and remote maintenance capabilities and leads to improved elevator up-time and service productivity. Otis also offers a range of passenger experience enhancements such as eView and Otis eCall. eView is an in-car display providing customized passenger content and communications. Otis eCall enables passengers within a building to call an elevator using an app on their mobile devices.

The Gen2 system is the basis for our principal low-and mid-rise elevator solution. The Gen2 system relies on compact elevator components that can fit within the elevator hoistway and can eliminate the need for a machine-room, which releases rentable or usable space. During 2020, we continued to expand this product offering, launching Gen2 Prime in India and other developing countries for the low-rise, entry-level segment. Since its inception in 2000, Otis has sold over one million Gen2 units.

We enhance the effectiveness of our elevator solutions by offering our proprietary Compass destination dispatch management system. Compass groups passengers by their desired destination and directs them to an assigned car that minimizes waiting and ride time. The system's algorithms anticipate traffic demand within a building and improves traffic flow.

In addition to elevator solutions, we also offer escalators and moving walkways. With a range of finishes and aesthetics, Otis escalators integrate easily with building designs. Our smart design and features enhance sustainability and passenger safety, such as sensor-equipped escalators and moving walkways that efficiently run only when passengers approach, or operate at reduced speeds to conserve energy when there are no riders.

Our New Equipment customers include real-estate and building developers and general contractors who develop and/or design buildings for residential, commercial, retail or mixed-use activity. We also sell New Equipment to government agencies to support infrastructure projects, such as airports, railways or metros. We generally sell directly to our customers through our New Equipment sales personnel. In China, due to the large and widespread nature of the customer base, our direct sales force is augmented by agents and distributors. We also rely on agents and distributors to sell our new equipment in certain countries and territories. Given the breadth of our customer base and the large number of customers to whom we deliver new equipment on an annual basis, we are not dependent on any single customer and do not have any material contracts with any single customer. Our network of agents and distributors is broad and geographically dispersed, and we do not rely on or have any material contracts with any single agent or distributor.

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New Equipment customers typically engage with us at an early stage during the construction cycle. The timing of order placement depends on factors including project complexity and customer requirements. Elevator installation usually occurs midway through building construction.

Most New Equipment orders are delivered within 12 months of booking, though larger projects can take longer to deliver based on customer construction schedules. Component lead-time is generally not a constraining factor. When placing New Equipment orders, customers typically make an advance payment to cover costs including design and contract engineering. These advance payments are typically followed by periodic progress payments at specified milestones, such as delivery of materials at the job site and completion of installation and equipment commissioning. Installation is carried out by our installation technicians or through subcontractors, in which case we typically complete the final inspection and commissioning to ensure that our quality standards are met. Revenues are recognized based on percentage of completion. Once commissioned, New Equipment units are typically supported by a warranty for a limited period of time.

### **Service**

Through our Service segment, we perform maintenance and repair services, as well as modernization services to upgrade elevators and escalators. We have a maintenance portfolio of over 2 million units globally, which includes Otis equipment manufactured and sold by us, as well as equipment from other original equipment manufacturers. Through our network of service sales personnel, we sell our services directly to customers in all significant elevator and escalator end-segments around the world. In 2020, our Service segment had net sales of \$7.4 billion and operating profit of \$1.6 billion.

Service customers typically comprise building owners, facility managers, housing associations and government agencies that operate buildings where elevators and escalators are installed. Customers securing services for elevators are frequently different from those who initially make purchasing decisions with respect to New Equipment solutions. With over 2 million maintenance units under contract globally, we have a wide range of customers in our Service segment and do not have any single material service contract. Contract duration depends on a number of factors, including customer needs, regulatory requirements and industry/geography dynamics. We work closely with our customers to renew these contracts as appropriate. Certain types of customers, such as those owning or operating large properties or portfolios of properties, tend to execute long-term maintenance agreements.

We grow our maintenance portfolio through conversion of newly installed units into maintenance contracts, through prospecting and winning units already in service from customers using another service provider and through acquisitions. Our Service sales personnel seek to win service contracts upon the expiration or termination of existing service contracts from customers by offering a superior value proposition through service excellence, an engaged and technically sophisticated group of field service technicians, a streamlined customer experience and strong elevator and escalator operating performance.

Our services include inspections, preventive maintenance offerings and other customized maintenance offerings tailored to meet customer needs. A basic maintenance contract provides for inspection consistent with local regulatory needs. We also provide customers with repair services to address equipment and component wear and tear, as well as breakdowns. We offer incremental, tiered maintenance and service offerings, with varying levels of coverage up to and including comprehensive component replacement coverage.

Similar to most other electro-mechanical equipment, elevators and escalators are subject to wear and tear, which over time erodes equipment functionality. As elevator equipment ages, we work with customers to help renew or refresh their elevators with modernization solutions that enhance equipment operation and improve building functionality. Modernization offerings can range from relatively simple upgrades of interior finishes and aesthetics to complex upgrades of larger components and sub-systems.

We provide our Service offerings to our customers through a global network of approximately 33,000 Service mechanics operating out of over 1,400 branches and offices typically located in close proximity to concentrations of customers. Our mechanics are critical to our ability to deliver a high level of service to our customers. Our OTISLINE operations provide personalized customer support 24/7. They receive customer service requests and assign and dispatch field technicians, as necessary, to respond to service requests. Our network of service parts centers, repair centers, and obsolescence management capabilities are key enablers to supporting customers by keeping their elevators and escalators in good working condition.

We are a pioneer in connected elevator and escalator units. Since 1985, we have installed and supported remote elevator monitoring, where elevators and escalators are connected to OTISLINE through telecommunication links. We have deep

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experience in collecting, analyzing and implementing data from remotely monitored elevators, and developing insights to improve equipment operation. In 2020, we launched Otis ONE, an IoT solution providing active monitoring and cloud-based actionable analytics to our Otis experts, technicians and customers. Otis ONE provides real-time visibility of the entire portfolio, a range of health and diagnostic information and analytics to improve elevator up-time. This solution is proven to enhance customer satisfaction, improving retention, conversions and recaptures. By the end of 2020, we deployed and connected nearly 100,000 Otis ONE units, primarily in Europe. With the addition of the Otis ONE units, our total global portfolio of connected units is approximately 540,000 units as of December 31, 2020. In 2021, we will continue to innovate and expand our digital ecosystem and suite of digital solutions for both our existing service portfolio customers and for new equipment shipments from our factories.

## **Research and Development & Intellectual Property**

Innovation is a fundamental characteristic of our history and is central to our strategy. For the year ended December 31, 2020, research and development ("R&D") expense was \$152 million and 1.2% as a percentage of net sales. In addition to research and development expense, we made investments in digital and strategic initiatives of approximately \$47 million, which in combination with research and development expense was 1.6% as a percentage of net sales for the year ended December 31, 2020.

We coordinate our R&D efforts globally through an operating model that sets global and local priorities based on customer and segment needs. We have several R&D centers and factories around the world, including major locations in China, India, France, Spain and the United States. The centers are strategically located close to concentrations of customers to enable efficient development of engineering solutions that can serve as global model products and adapt quickly and efficiently to local customer needs and local demographic and construction trends. We have approximately 1,300 engineers globally, with increasing focus on digital initiatives, software, design and user interface and the user experience.

We maintain a portfolio of patents, trademarks, copyrights, trade secrets, licenses and franchises related to the Otis business to protect our R&D investments in products and services. We currently own approximately 3,000 globally issued patents, and we have approximately 3,100 patent applications pending globally, of which 2,500 applications were filed in the last three years. Our patents are primarily filed in Europe, the United States and Asia. We believe that our patents and trade secrets create a competitive advantage and that we have taken reasonable measures to build a portfolio of valid and enforceable intellectual property rights. However, these intellectual property rights might be challenged and could be found invalid or unenforceable. Loss of strategic patents and trade secrets could significantly affect our competitiveness. See "Item 1A. Risk Factors" in this Form 10-K for further discussion of intellectual property matters.

## **Joint Ventures and Non-Wholly Owned Subsidiaries**

Our international strategic relationships, joint ventures and non-wholly owned subsidiaries are an important part of our business as they support our access to international markets and customers. Results of these entities are consolidated with our financial and operational results. In addition to China and Spain as discussed below, we also operate joint ventures in other countries, including Russia, Kuwait, Malaysia, Saudi Arabia and the United Arab Emirates.

### ***China***

We operate in China through two principal joint ventures: Otis Elevator (China) Investment Company Limited ("Otis China") and Otis Electric Elevator Company Limited ("Otis Electric"). Otis China is a joint venture established in 1998 for the purpose of manufacturing, installing and servicing elevators, escalators and related equipment in China. We are a majority owner of Otis China, and Tianjin Tai Kang Investment Co. Ltd. ("Tianjin Tai Kang") is our joint venture partner. Otis Electric, a subsidiary of Otis China, is a joint venture established in 1997 for the purpose of manufacturing, installing and servicing elevators, escalators and related equipment both in and outside China. Otis China owns a controlling equity stake in Otis Electric. Otis China's partner in Otis Electric is Xizi Elevator Group Co.

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## **Spain**

We conduct our operations in Spain through Zardoya Otis S.A. ("Zardoya Otis"), which manufactures, installs and services elevators and elevator equipment in Spain, and exports elevator equipment it manufactures for installation by certain of our subsidiaries outside of Spain. Zardoya Otis' shares are listed on the Madrid stock exchange, and the company is subject to the regulations of the Spanish Stock Exchange Market National Commission. We own a majority equity stake in Zardoya Otis, with Euro Syns S.A. owning a minority position and the remaining shares being held by public shareholders.

## **Competition**

We operate in a global and highly competitive industry. Due to the global and localized nature of the industry, there are numerous participants of varying size that operate in our industry. According to industry estimates, there are several hundred participants that offer New Equipment solutions and several thousand participants that offer maintenance and service solutions. In both the New Equipment and Service segments, major competitors globally include KONE Oyj, Schindler Group and TK Elevator, while there are a number of additional competitors in the Asia Pacific region. Competitive dynamics vary significantly by segment and geography. In the Service segment, independent service providers and other small operators are significant competitors in most of our local geographies. We estimate small and independent service providers globally have an aggregate portfolio of about 50 percent of service units, but these small and independent service providers account for a smaller percentage of the service business when measured by value because of the types of units and level of maintenance covered by these providers.

There are several factors that determine competitiveness in the industry, including local codes and compliance requirements, customer preferences, price, reputation, delivery and execution, product quality, equipment performance, reliability and long-term service and product support. Our success in both our New Equipment and Service segments depends upon our ability to develop and market our products, services and solutions, as well as our ability to provide the people, technologies, facilities, equipment and financial capacity needed to deliver those products and services with maximum efficiency. We believe our global presence, local relationships and proven track record in executing complex elevator and escalator solutions contribute to our iconic brand, reputation and competitive position in the industry. We believe our business strategies sustain New Equipment growth, accelerate Service portfolio growth, advance the digitalization of Otis, and focus and empower the organization, will support our ability to successfully compete across the New Equipment and Service segments, and will help deliver sustainable earnings growth.

## **Compliance with Government Regulations**

We conduct our business through subsidiaries and affiliates worldwide. Any changes in legislation or government policies impacting our industry, including with respect to employee safety, labor-related regulations, industrial equipment, licensing requirements, foreign ownership limitations and building and elevator safety codes, can affect our worldwide operations. We closely monitor local legislation and government policies in the locations in which we operate as they set the maintenance requirements for our customers.

In addition, our operations are subject to and affected by environmental regulations promulgated by federal, state and local authorities in the United States and regulatory authorities with jurisdiction over our foreign operations. We have incurred and will likely continue to incur liabilities under various government statutes and regulations for the cleanup of pollutants previously released into the environment. We do not anticipate that compliance with current provisions relating to the protection of the environment or that any payments we may be required to make for cleanup liabilities will have a material adverse effect upon our competitive position, cash flows, results of operations or financial condition.

U.S. laws, regulations, orders, and other measures concerning the export or re-export of products, software, services and technology to, and other trade-related activities involving, non-U.S. countries and parties affect the operations of Otis and its affiliates, as do those of other countries pertaining to similar matters.

For further discussion of risks related to environmental matters and other government regulations, see "Item 1A. Risk Factors" in this Form 10-K and "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Note 2: Summary of Significant Accounting Policies" and "Note 21: Contingent Liabilities" to the Consolidated Financial Statements in our 2020 Annual Report.

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## Seasonality

Our business and operating results are generally not subject to significant fluctuations as a result of seasonality, although we have experienced lower New Equipment sales in Asia in the first calendar quarter, coinciding with Lunar New Year celebrations. In addition, we have also experienced lower New Equipment sales in the fourth quarter in China, due to a national holiday that occurs during the first week of October which may impact the relative mix of sales within the quarter.

## Raw Materials and Supplies

Due to the global and distributed nature of our operations, we partner with a diverse network of several thousand suppliers globally. These include product and non-product suppliers, as well as subcontractors. We rely on approximately 500 key suppliers for our manufacturing supply chain.

Components and systems necessary to effectively complete our New Equipment projects, as well as to satisfy our maintenance and repair obligations, are often available from two or more sources within the industry. While we believe no single supplier is material to our business, some components or applications require particular specifications or qualifications. In those cases, there may be a single supplier or a limited number of suppliers that can readily provide such components, which could result in supply constraints or cost pressures due to an issue with such a supplier, including financial or operational difficulties or a contract dispute. We utilize a number of techniques to address potential disruption in and other risks relating to our supply chain, including the use of safety stock, alternative materials and qualification of multiple supply sources.

Although at times high prices for some raw materials important to our business have caused margin and cost pressures, we do not foresee near-term unavailability of materials, components or supplies that would have a material adverse effect on our competitive position, cash flows, results of operations or financial condition.

See "Item 1A. Risk Factors" section in this Form 10-K, for further discussion on the possible effects of the cost and availability of raw materials and risks associated with our supply chain.

## Human Capital

As of December 31, 2020, our global workforce consists of approximately 69,000 employees divided as follows: 41% in Asia, 37% in Europe, the Middle East and Africa ("EMEA") and 22% in the Americas.

Approximately 64% of our employees in the U.S. are covered by collective bargaining agreements. Outside of the U.S., our employees are represented by workers' councils or statutory labor unions as may be customary or required in those jurisdictions. While we strive to maintain good relationships with our employee representative bodies, our business may be adversely affected by work stoppages, union negotiations, labor disputes and other matters associated with our labor force. The collective bargaining agreement for most of our bargaining unit employees in the U.S. was renewed without disruption in July 2017 and is set to expire in July 2022. Although some previous contract renegotiations have had a significant impact on our financial condition or results of operations, we do not anticipate that the renegotiation of this contract in 2021-2022 will have a material adverse effect on our competitive position, cash flows, financial condition or results of operations. For a discussion of the effects of our restructuring actions on employment, see "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Note 16: Restructuring Costs" to the Consolidated Financial Statements included in 2020 Annual Report.

## Safety and Health

Safety is one of the Otis Absolutes. For that reason, safety measures and indicators are regularly monitored by management and reported to our Board of Directors. To promote safety, we have a health and safety management system and regularly measure the effectiveness of our health and safety programs. We empower all of our employees and subcontractors with stop work authority if they perceive an unsafe condition or a behavior that may cause injury. We also seek to promote a culture where stop work authority can be freely exercised without the fear of retribution or retaliation, and a learning culture to enhance the quality and delivery of safety and technical training.

For employees to be effective, they need to be healthy. In 2020, with the added stress of the COVID-19 pandemic, we increased our efforts to improve our employees' mental health by expanding employee assistance plan benefits and by bringing increased attention to the importance of mental health. We also covered the cost of COVID-19 testing and treatment for our