



# CONSTI GROUP PLC CARNEGIE CONSTRUCTION SEMINAR 24 AUGUST 2016

CEO Marko Holopainen

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Building renovation specialist | [www.consti.fi](http://www.consti.fi)

**CONSTI**  
YHTIÖT



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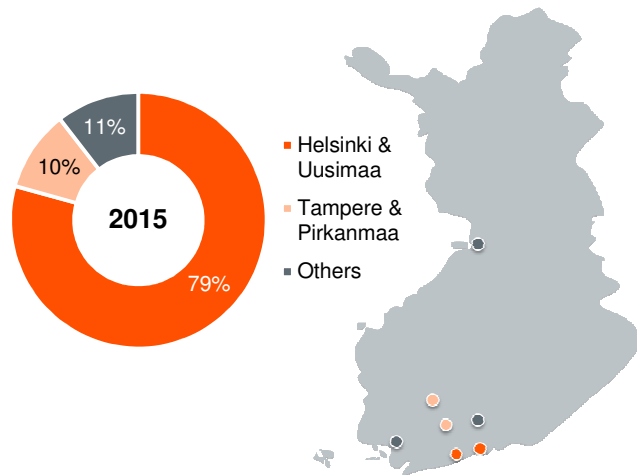
- **Consti in brief**
- H1/2016 highlights
- Market environment and competitive landscape
- Consti's actions to capitalise on market opportunities

# Overview of Consti – one of the leading renovation and technical services provider in Finland

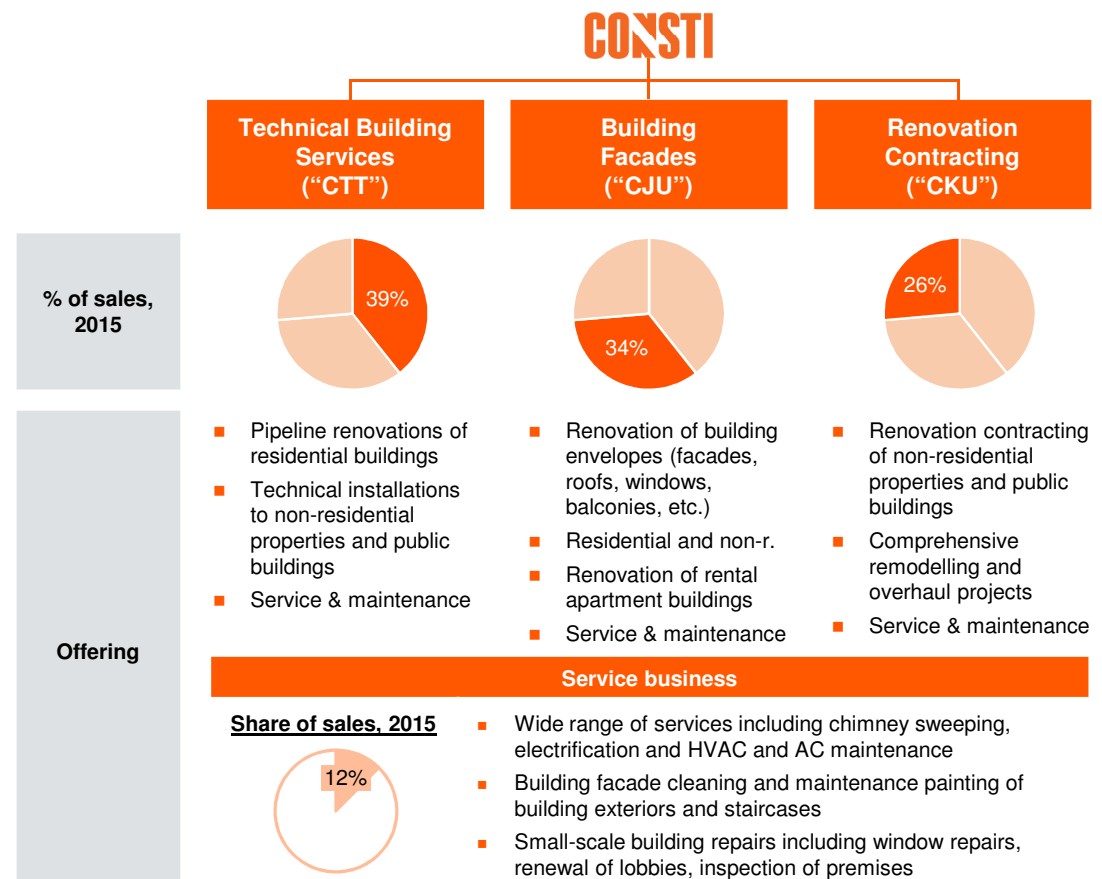
## Consti in brief

- Established in 2008, Consti is one of the leading Finnish company focusing on renovation construction and technical services
- Comprehensive service offering covering technical building services, building facades, renovation contracting and maintenance services
- Operations are focused on Finnish growth centres with particular emphasis on the Helsinki and Uusimaa region
- Headquartered in Helsinki, Finland, and currently employs approx. 900 renovation professionals

## Net sales by geographical locations, 2015

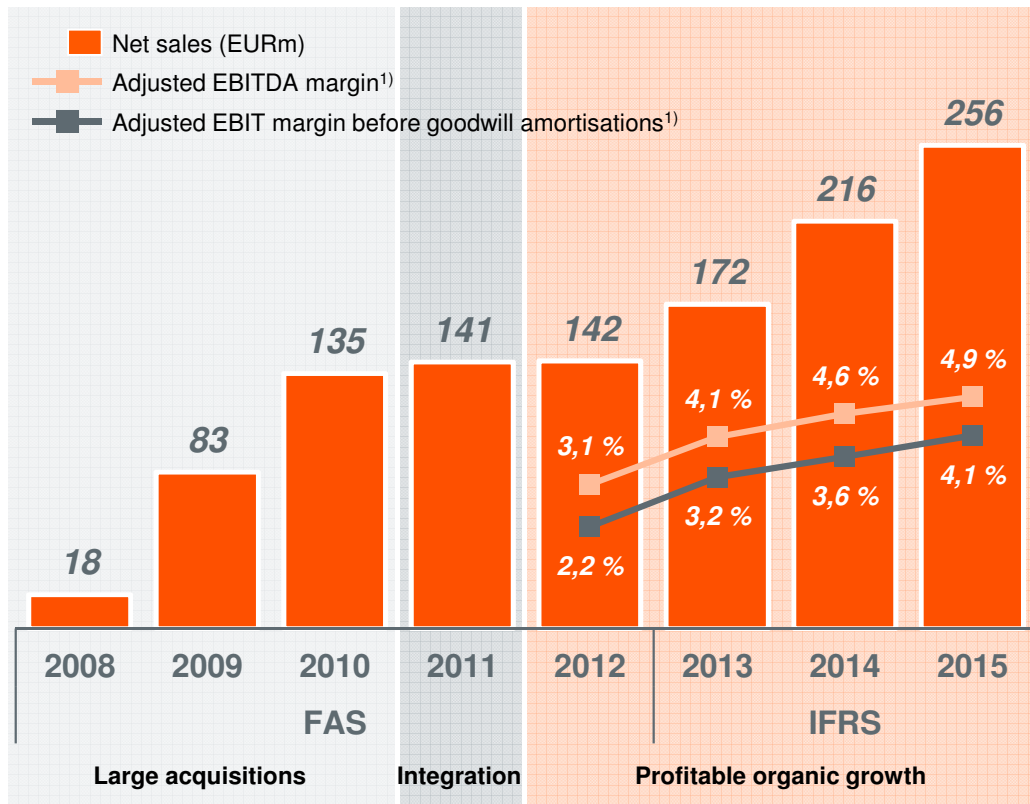


## Consti business areas



# Consti was built through acquisitions and following integration the Company has a track of profitable growth

## Consti's three development phases since the foundation in 2008



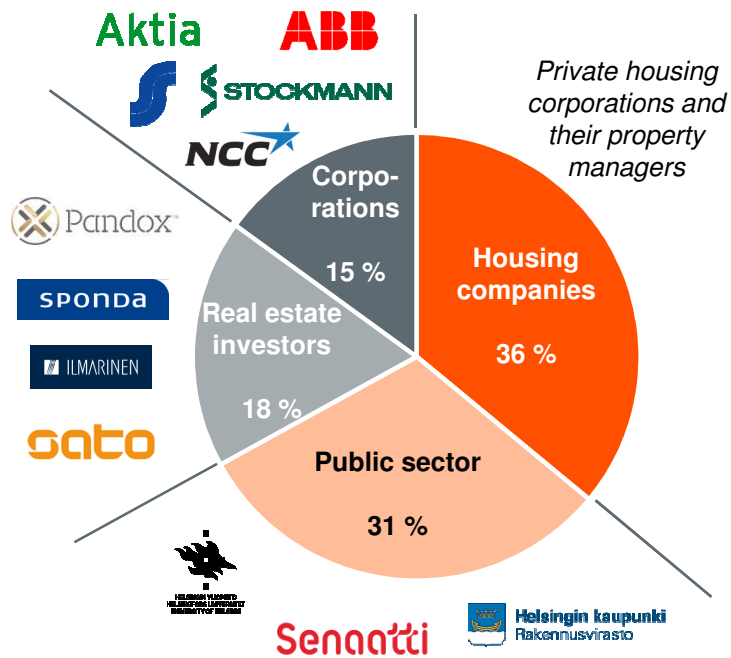
## Key actions taken to drive profitable growth

- ✓ Successful integration of acquired businesses
- ✓ Clear strategic focus areas
- ✓ Reorganising business areas and centralising expertise to them
- ✓ Standardisation of operating models and information systems
- ✓ Deepening and systemising risk management
- ✓ Successful project management
- ✓ Management of fixed expenses growth

1) Adjusted figures before items affecting comparability (IAC). IAC include (i) expenses arising from contemplation of the structural agreements and listing, and (ii) implementation of IFRS

# Diverse customer mix and strong track record in project deliveries

## Dispersed customer mix (share of net sales, 2015)



In 2015, net sales realised from one single customer did not exceed 10% of that year's sales

## Selected references

### As Oy Risto Rytin tie 28 (2014)

- 53 apartments
- Pipeline renovation
- Award "The best pipeline renovation of the year"



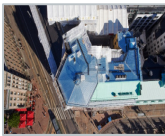
### As Oy Vihtilä (2013)

- 105 apartments
- Broad renewal of HVAC systems



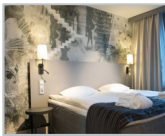
### Oy Kaisaniemenkatu 1 (2015)

- Refurbishment of the roof and building facades, and renovation of yard structures



### Scandic Park (2015)

- 365 hotel rooms
- Renewal of hotel rooms, lobby and restaurant



### Puuvilla shopping centre (2014)

- 40,000 m<sup>2</sup>
- Installation of HVAC systems



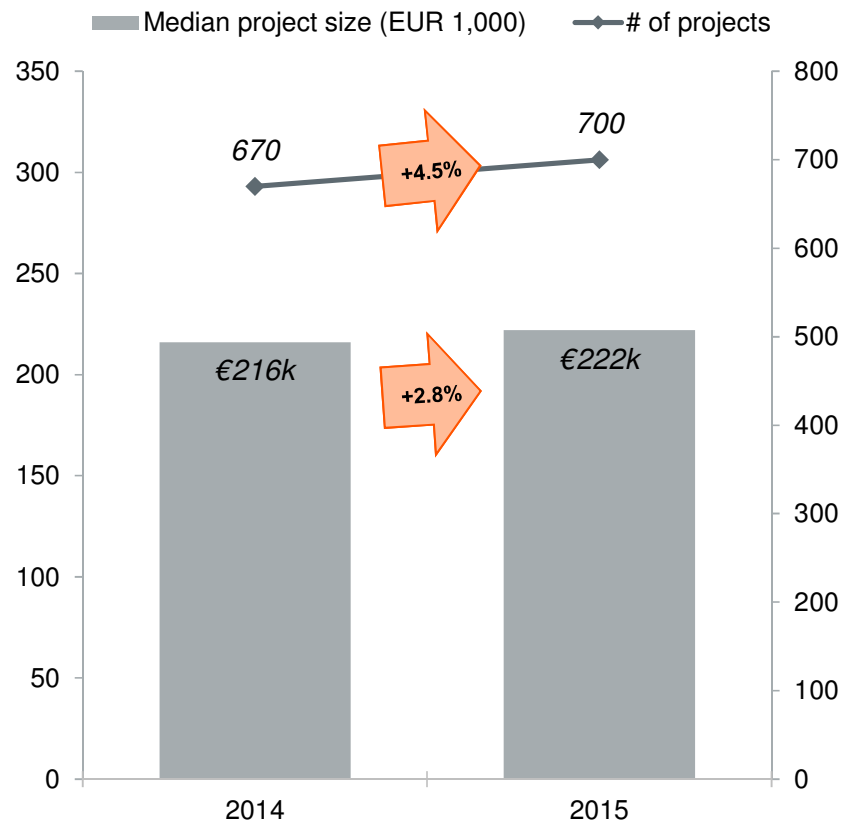
### Stora Enso HQ (2013)

- Comprehensive renovation and improvement of energy efficiency



# Consti Group's project overview – Dispersed project base with a relatively small median project size

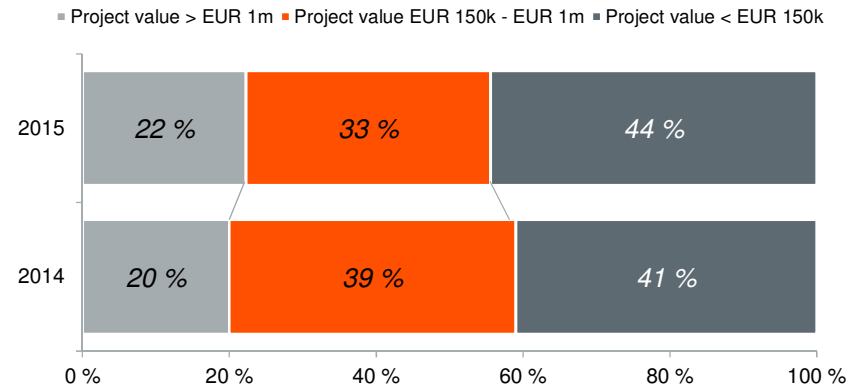
## Diversified project base and a fairly small median project size



## Comments

- In 2015, the company had 700 projects<sup>1)</sup> with a median project size of EUR 222 thousand
- Large projects typically realised in net sales over several years
- In 2012-2015, net sales realised during one year from one single project has not exceeded 10% of that year's sales
- 78% of the projects in progress in 2015 were valued at EUR 1 million or below

## Project size distribution 2014-2015 (# of projects)



1) Number of projects based on management accounts. Project is qualified if it is accounted for according to the POC method and had realised revenue during the financial year. Total number of work tasks performed is larger (including non-POC)

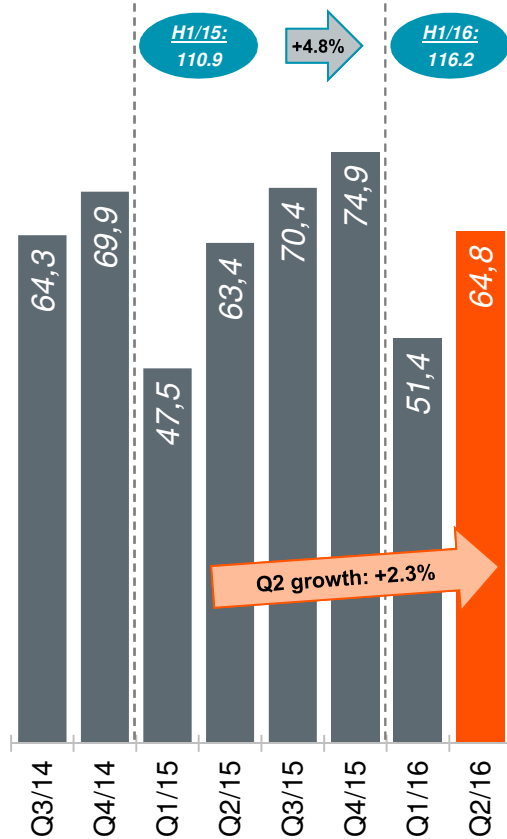


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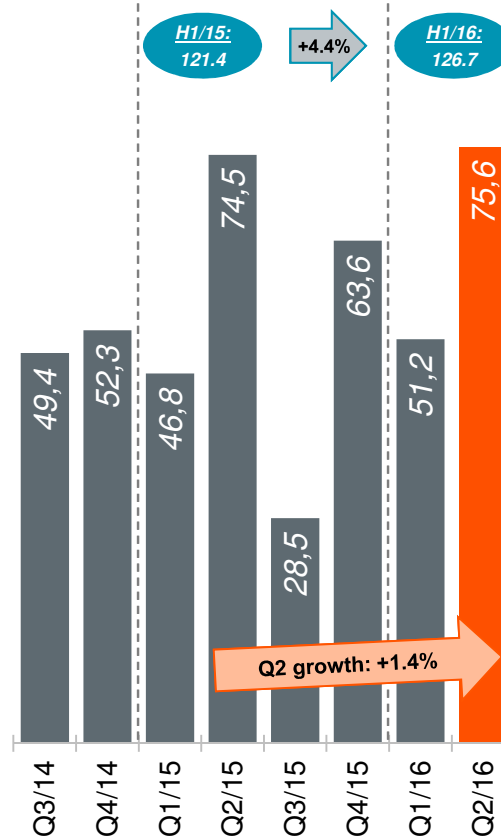
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# Quarterly performance overview – Growth in net sales, order intake and order backlog continued in H1/2016

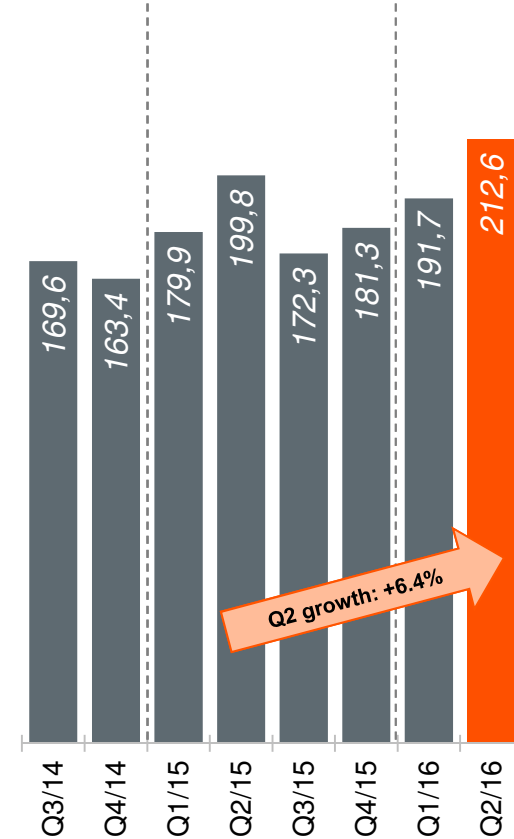
Quarterly net sales (EUR m)



Quarterly order intake (EUR m)

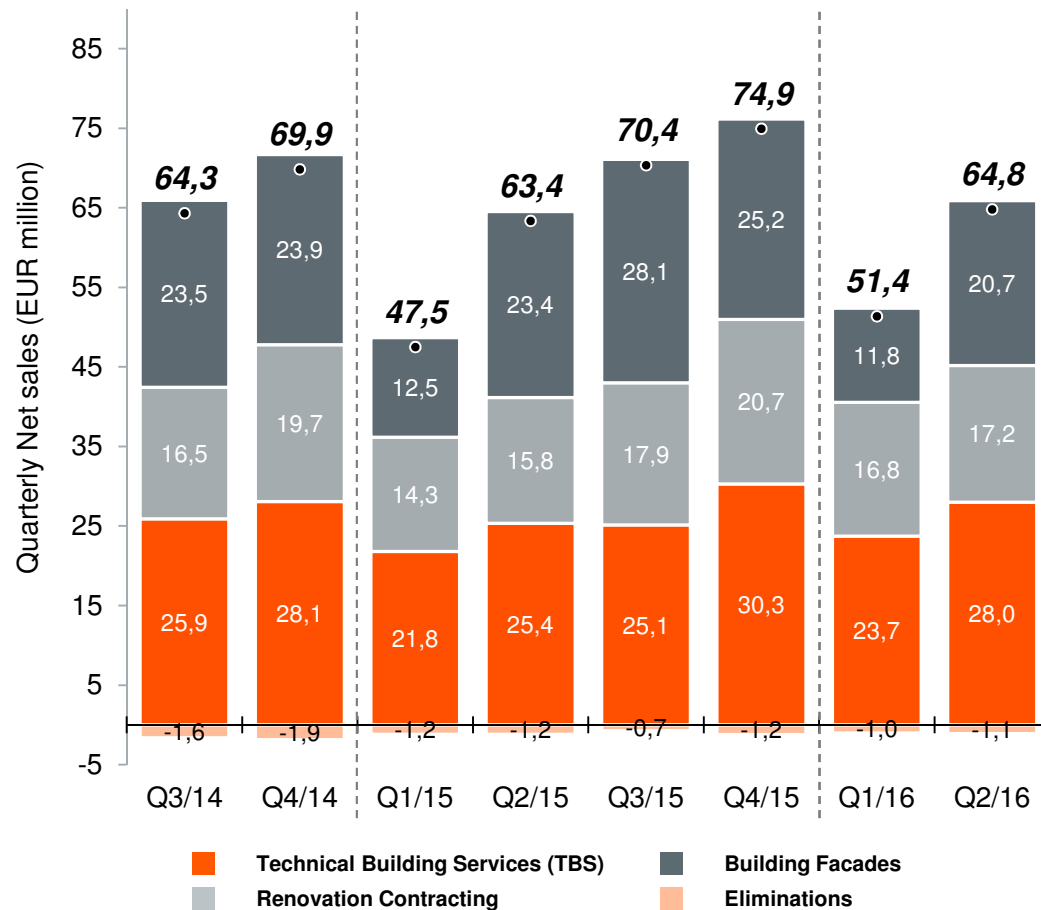


Quarterly order backlog (EUR m)



# Consti quarterly net sales development – Growth continued in the first half of 2016

Quarterly net sales development Q3/2014 – Q2/2016 (EUR m)



## Comments

- Q2/2016 net sales EUR 64.8m (63.4m), y-o-y sales growth +2.3%
  - Q2/16 organic growth +1.5%
- In TBS, growth of 10.4% supported by good growth in service business and non-residential sector
- In Renovation Contracting, growth of 8.8% attributable to continued growth in the Greater Helsinki area as well as in Turku area
- In Building Facades, decline of 11.4% due to year-on-year decrease in net sales generated by its rental apartment buildings business unit
- H1/2016 net sales EUR 116.2 million (110.9m), y-o-y sales growth +4.8%
  - H1/16 organic growth +3.7%

# The amount of tender requests developed positively in H1/16 and order intake increased towards the period-end

## TECHNICAL BUILDING SERVICES

**H1/16 order intake:**  
EUR 51.7m (+33.7% yoy)

### EXAMPLES OF NEW ORDERS:

- **Hämeenlinna swimming centre**
  - HVACEA works
- **As Oy Hiirakkotie 1**
  - Consti Ideal pipeline renovation™ for a housing company in Vantaa
- **Hyvinkään Sairaalanmäki**
  - Installation of HVAC and fire safety systems for a new hospital in Hyvinkää

## RENOVATION CONTRACTING

**H1/16 order intake:**  
EUR 24.4m (-46.8% yoy)

### EXAMPLES OF NEW ORDERS:

- **Espoonlahti church**
  - Complete renovation of a church in Soukka, Espoo (alliance agreement)
- **Building purpose modification in Lahti**
  - Old industrial building to be converted into a new courthouse
- **Samppalinna outdoor swimming stadium in Turku**
  - Complete renovation of the culturally and historically significant outdoor swimming stadium

## BUILDING FACADES

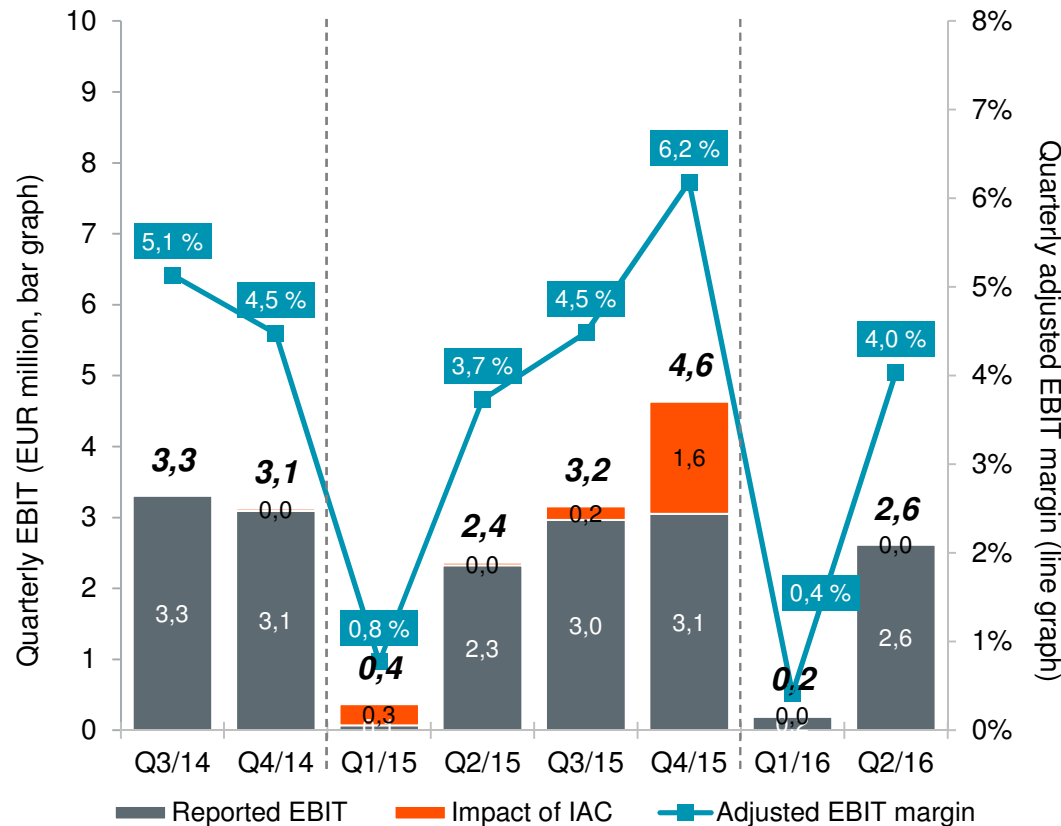
**H1/16 order intake:**  
EUR 52.8m (+19.7% yoy)

### EXAMPLES OF NEW ORDERS:

- **As Oy Meri-Kamppi**
  - Comprehensive façade renovation in Ruoholahti, Helsinki
- **As Oy Oulun liiketalo**
  - Complete façade and building interior renovation in Oulu
- **As Oy Trumpettitie 6**
  - Comprehensive façade renovation in Kannelmäki, Helsinki

# Consti quarterly adjusted EBIT<sup>1</sup> development – Both absolute and relative profitability improved in Q2/2016

Quarterly EBIT development Q3/2014 – Q2/2016 (EUR m)



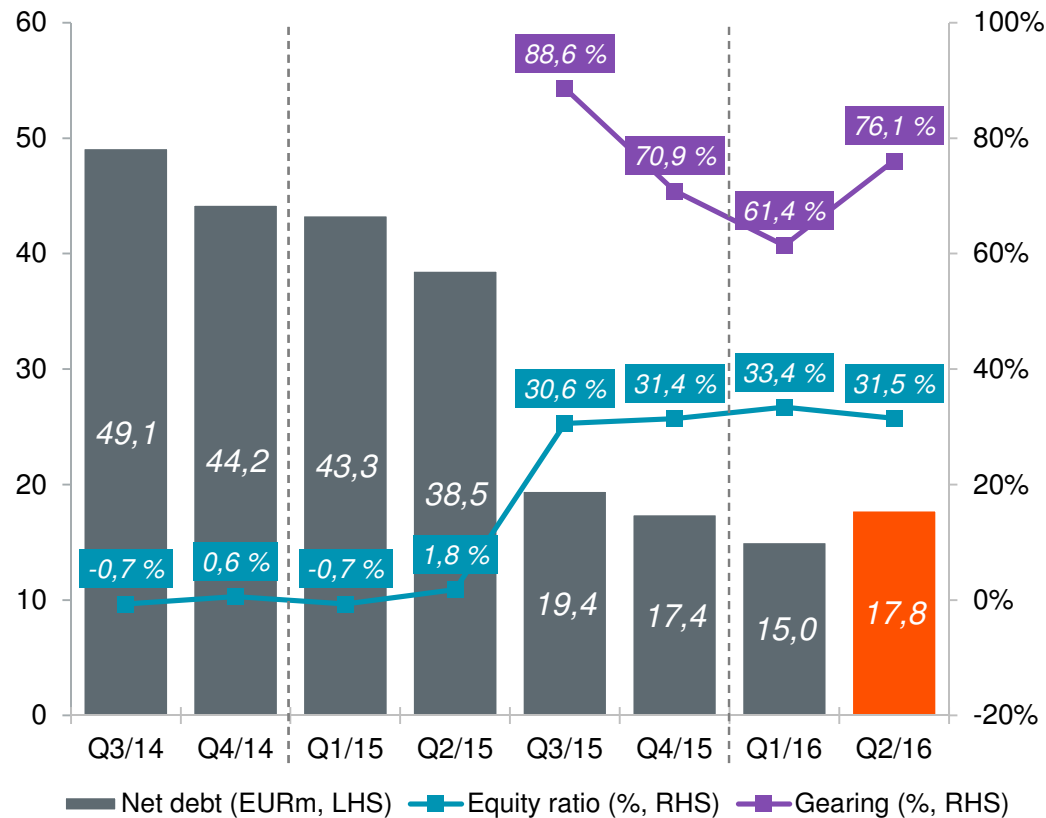
Comments

- Q2/16 adjusted EBIT before IAC<sup>1</sup> amounted to EUR 2.6 (2.4) million, or 4.0% (3.7%) of net sales
- Q2/16 EBIT after IAC EUR 2.6 (2.3) million, or 4.0% (3.7%) of net sales
  - In Q2/15, IAC of EUR 0.04m related to planning of structural arrangements and adoption of IFRS standards
- EBIT and EBIT margin fluctuations are affected by the Group's progress in projects that generate revenue according to the POC method, the starting of new projects and the development of demand for services
- H1/16 adjusted EBIT before IAC<sup>1</sup> EUR 2.8m (2.7m), or 2.4% (2.5%) of net sales
- H1/16 EBIT after IAC EUR 2.8m (2.4m), or 2.4% (2.2%) of net sales
  - In H1/15, IAC of EUR 0.3m

<sup>1</sup>) Adjusted EBIT = EBIT before items affecting comparability (IAC)

# Consti quarterly balance sheet structure – Balance sheet remained strong in the second quarter

Quarterly net debt, equity ratio and gearing Q3/2014 – Q2/2016



## Comments

- Q2/2016 net debt at EUR 17.8m (38.5m)
- Net debt was impacted by dividend distribution of EUR 3m in April 2016
- In September 2015, Consti changed its capital structure and refinanced its indebtedness which decreased financing costs in 2015
- The impact will be seen especially in 2016
- Q2/2016 equity ratio 31.5% (1.8%)
- Q2/2016 gearing at 76.1%

# Number of shareholders gradually increasing, Consti personnel constitutes an important group of owners

## Consti's largest shareholders (30 June 2016)

30 June 2016	% of shares and votes
1. Etera Mutual Pension Insurance Company	6.04
2. Esa Korkeela	5.09
3. Keva	4.94
4. Risto Kivi	4.78
5. Ilmarinen Mutual Pension Insurance Company	3.96
6. Markku Kalevo	3.78
7. Antti Korkeela	3.69
8. Danske Invest Finnish Institutional Equity Fund	3.41
9. Nordea Fennia Fund	3.11
10. Consti Group Plc	3.10
<b>Ten largest in total</b>	<b>41.89</b>
<b>Nominee registered</b>	<b>13.98</b>
<b>Total number of shares</b>	<b>7,858,267</b>

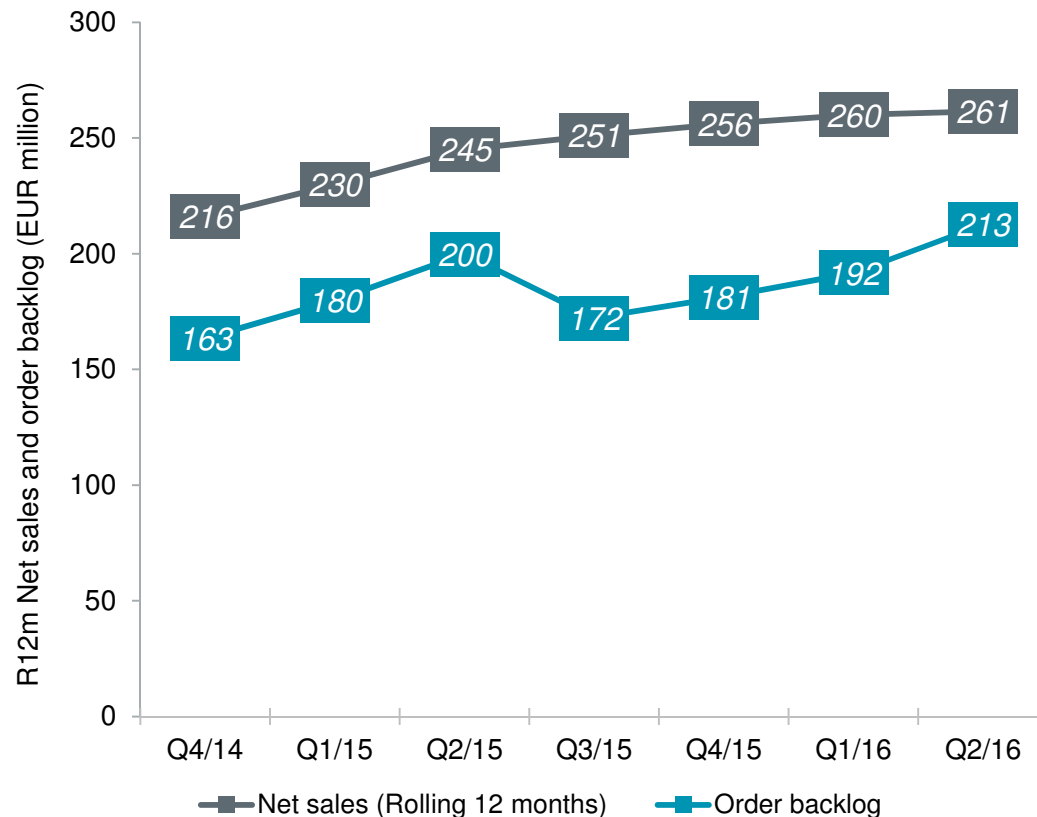
## Comments

- Intera Partners divested its shares in Consti Group Plc in June
- The number of shareholders gradually increasing and the ownership structure becoming more dispersed
- There are approximately 120 Consti employees who own company shares
  - The Board of Directors, Group Management and employees own a total of ~25% of the company
  - Powerful tool to align interests of Consti's employees with those of shareholders
- Free float currently at approximately 75%

Source: Euroclear Finland Ltd

# Strengthening order backlog to support organic growth going forward

Quarterly order backlog and R12m net sales Q4/2014 – Q2/2016 (EUR m)



## Comments

- Rolling 12-month net sales temporarily flattening out in Q2/2016 mainly due to decrease in Building Facades sales
  - However, positive development in order intake and order backlog towards the end of reporting period
  - Also, market outlook remains strong for the rest of the year
- Based on the good market outlook and strong order backlog development, Consti specifies its net sales guidance for 2016

## Guidance for 2016 specified after H1/2016

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*“The Company estimates that its total annual net sales for 2016 will grow approximately 5-10 percent compared to 2015.”*



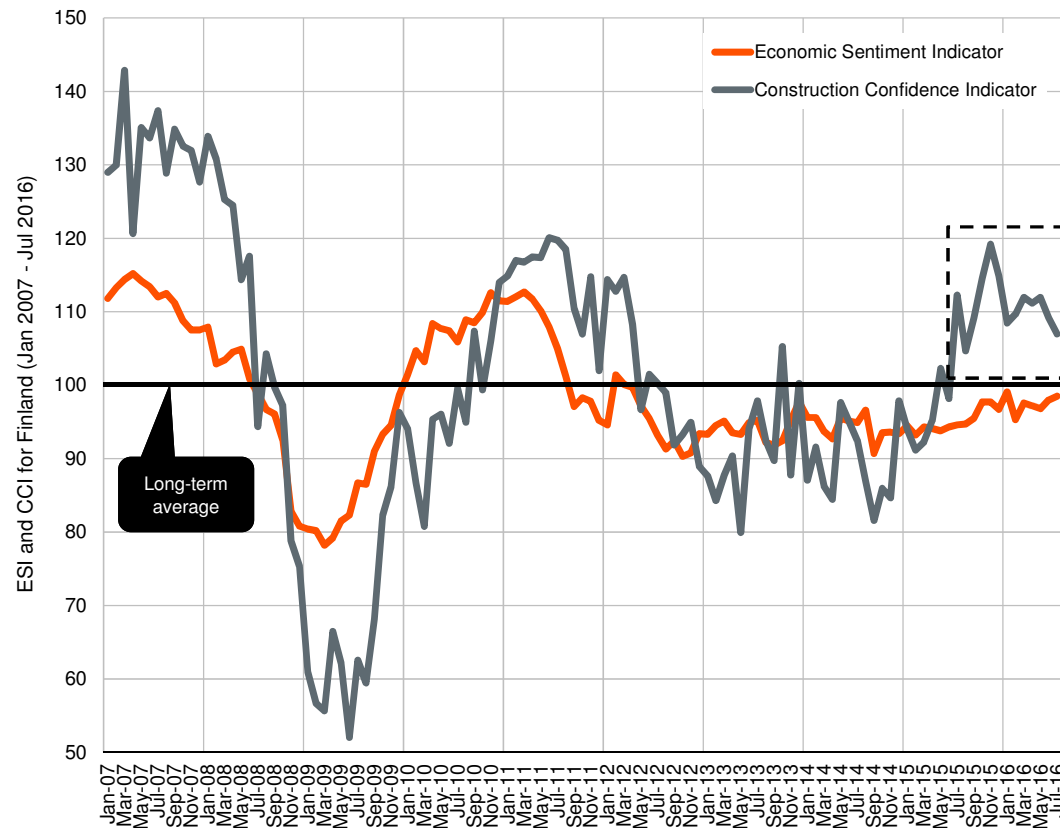


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# Lead indicators for the Finnish construction continue to suggest a favourable market environment going forward

Economic Sentiment and Construction Confidence in Finland (2007 – 7/2016)



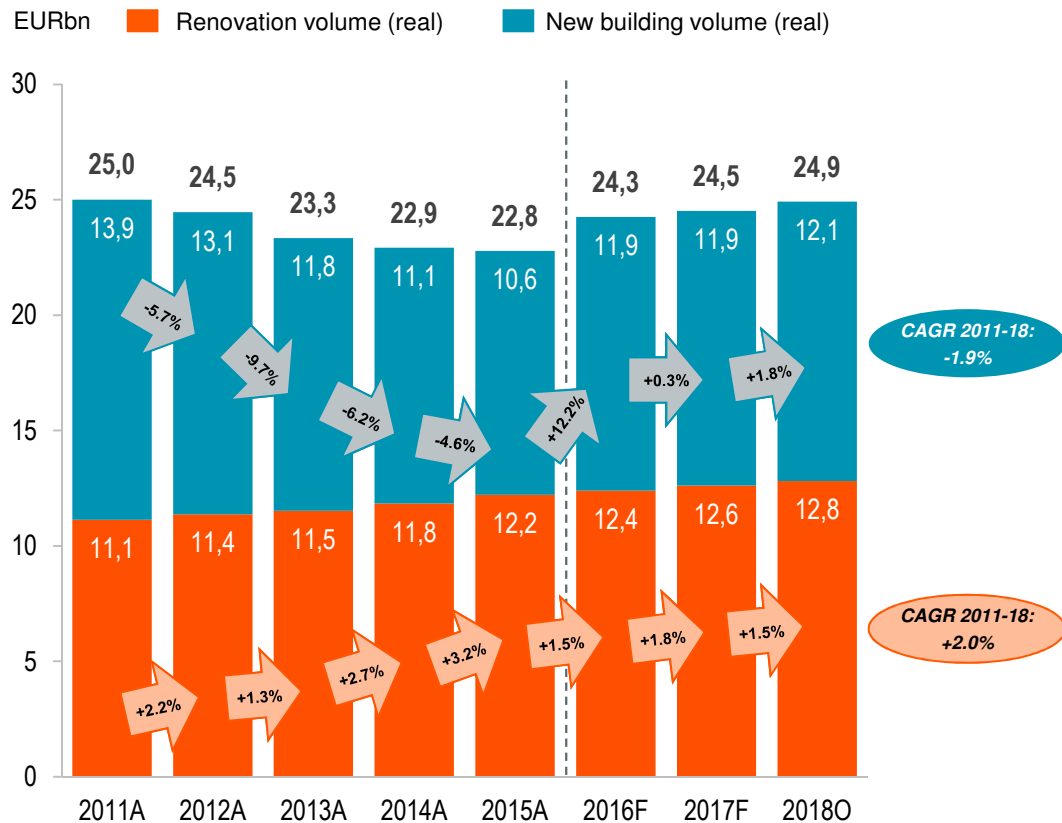
Note: Mean-adjusted figures  
Source: European Commission, July 2016

## Comments

- Economic sentiment in Finland remains still below long-term average, but moderate improvement since Q2/2015
- Construction confidence surpassed long-term average level in the beginning of H2/2015 and has steadily remained above that level for a year
  - Construction market is inherently late-cyclical and should benefit from the improved outlook with a certain delay
- The Finnish Association of HPAC Technical Contractors estimated in their June review that business conditions in technical building services have improved compared to March
  - Growth to materialise more notably during the autumn when building technology work will begin in ongoing construction projects

# Stable growth in renovation to continue going forward, new building projected to grow strongly in 2016

Finnish new building and renovation market development, 2011A – 2018O

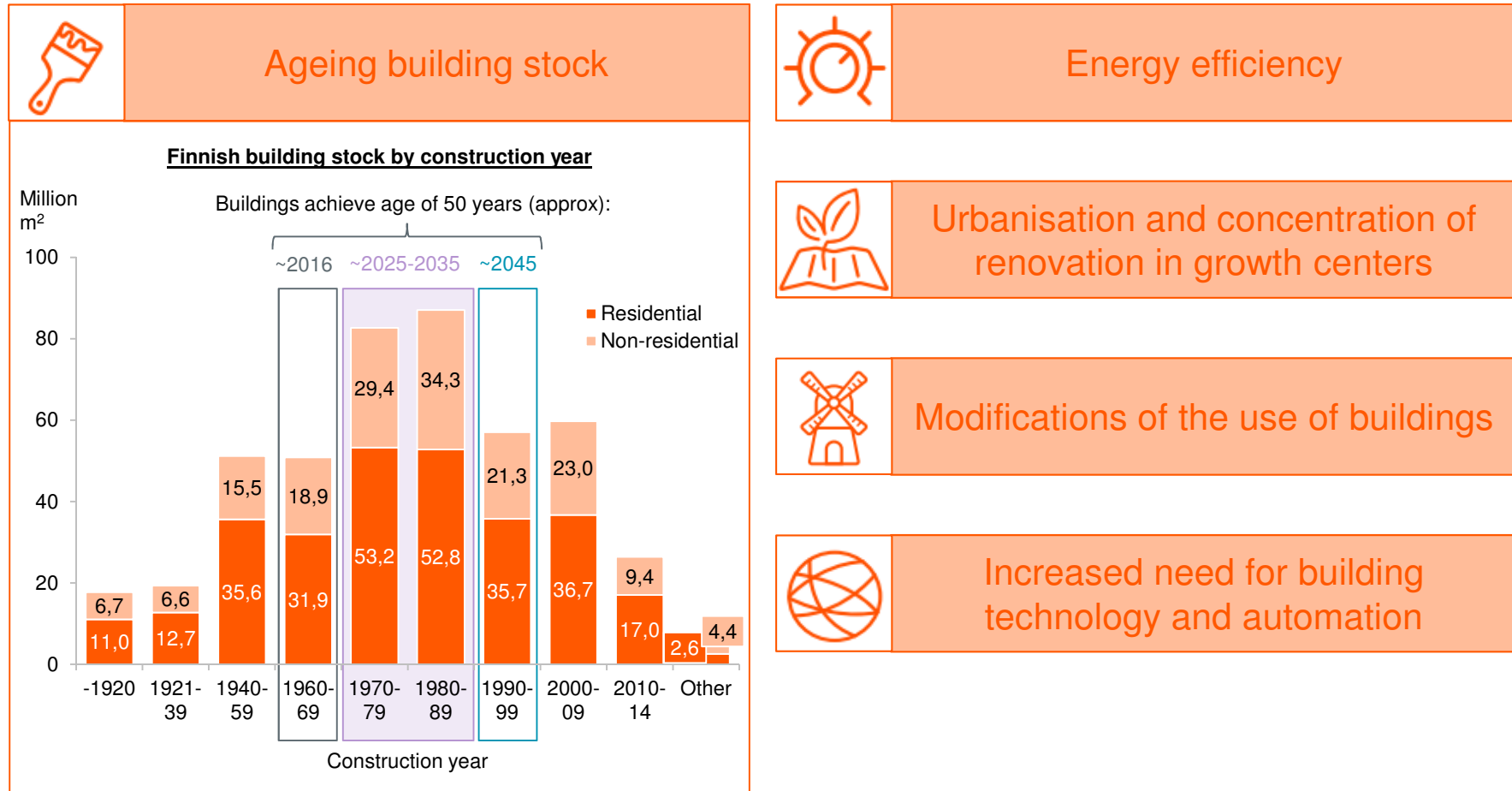


Source: Euroconstruct, June 2016  
 \*TBS = Technical Building Services

## Comments

- Euroconstruct expects stable growth in renovation to continue in 2016 (+1.5%)
- Stable growth in renovation expected to continue going forward, and the average growth to surpass that of new building
- Recent growth estimate for renovation slightly lowered due to deceleration of 1-2 family houses' renovation → not relevant market segment for Consti
- Improved outlook for new building in 2016 (+12.2%) expected to benefit Consti
  - Positive impact on the competitive environment in general → better ability to choose projects and raise prices
  - New growth opportunities for TBS\*
  - HR issues
    - Need for skilled project managers and construction workers
    - Need for competences in renovation
    - Companies with own personnel better positioned for potential increase in costs

# Demand-driven renovation market growth supported by a number of key structural growth drivers



Source: Statistics Finland

# Finnish renovation market of EUR 12bn is concentrated in growth centres and residential properties...

1

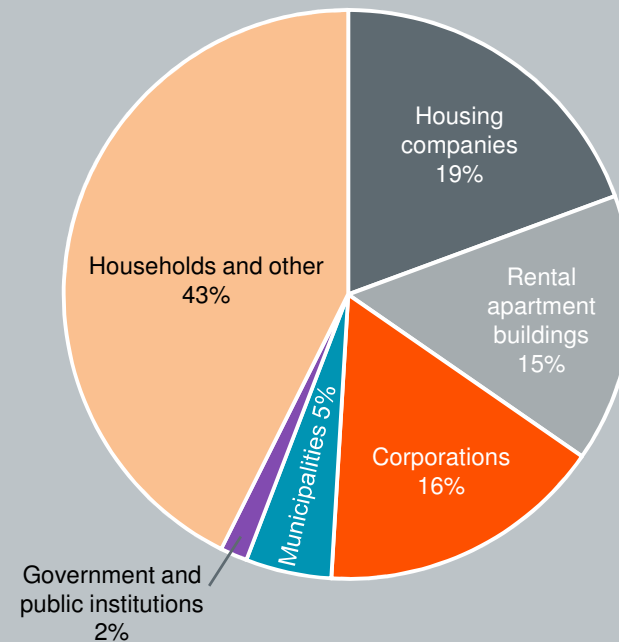
## Renovation by geography



*Renovation market concentrated in the largest cities and growth centres where majority of building stock is located*

2

## Renovation by customer group



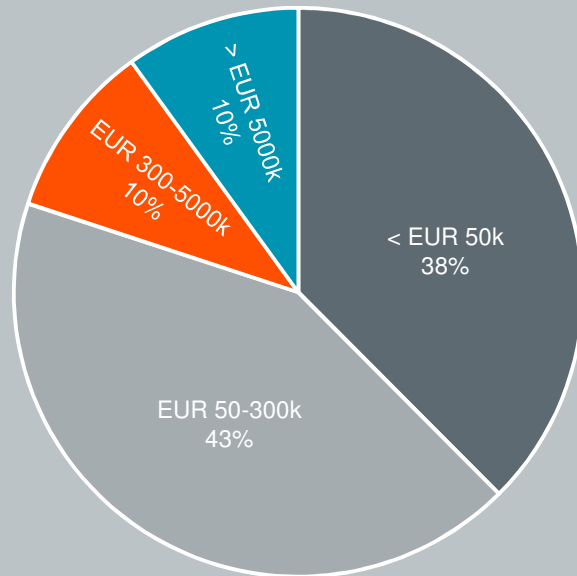
*Strongest need for renovation from residential buildings, also stemming from the building stock structure*

Source: VTT, September 2015

# ... and is highly fragmented consisting of relatively small projects and specific building sections

3

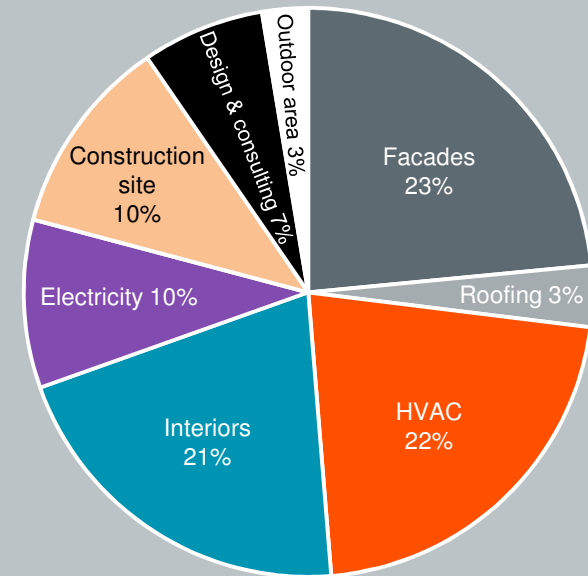
## Renovation by project size



Project size is an important dimension in renovation, 80% of all projects < EUR 300k, large projects in a few big cities

4

## Renovation by building section

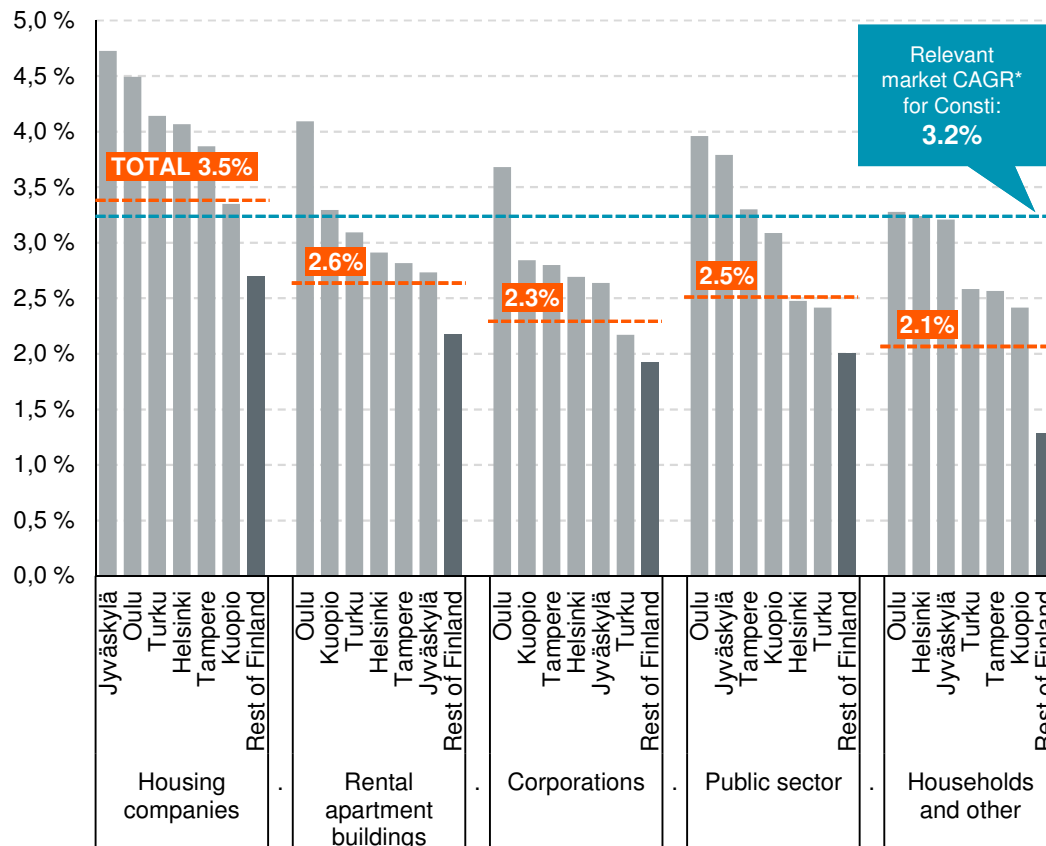


Renovation consists largely of technical building services, facades and building interiors

Source: VTT, September 2015

# Where are the growth pockets going forward? Finnish growth centres in general, housing companies and TBS

Renovation CAGR 2014-2020 by geography and customer group (real)



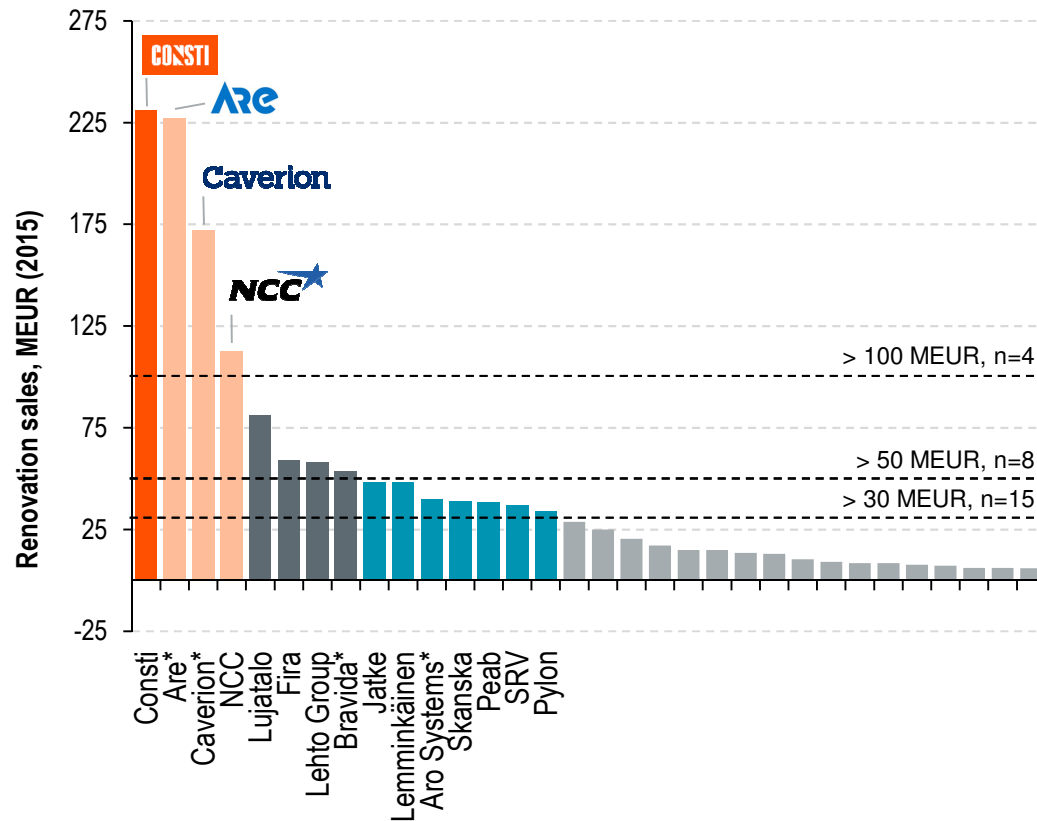
Comments

- Stable growth in renovation expected to continue until 2020 at a rate of 2.5%
- Growth from all customer groups but strongest gains in volume expected from housing corporations and rental apartment buildings
- Growth to be strongest in the growth centres where renovation economically justified. Rural areas will see more demolition/decaying
- Need-based renovation relates particularly to the aging of pipelines, sewers and facades and problems with indoor air quality
- Technical building services renovation expected to outgrow overall renovation market with 3.1% average real growth in 2014-2020

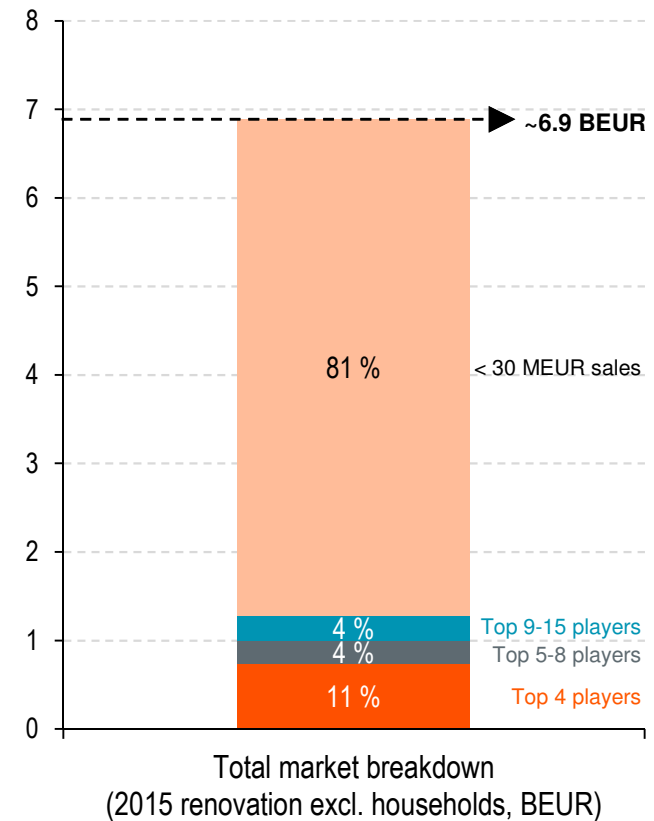
Source: VTT, September 2015 | \* Relevant market CAGR calculated based on Consti's current geographical and business mix

# Finnish renovation market highly fragmented with plenty of consolidation potential – Consti was #1 in 2015

Operators in the Finnish renovation market (TBS specialists estimated)



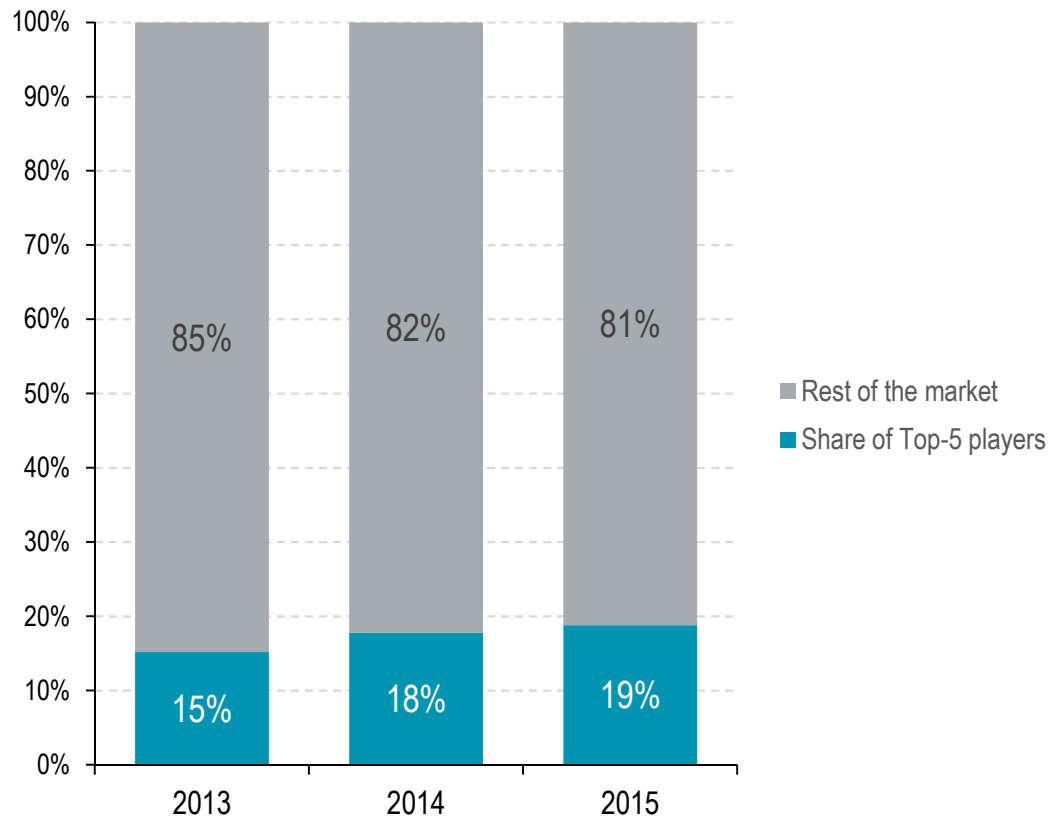
Overall renovation market (excl. households)



Source: Rakennuslehti, Asiakastiето, Consti analysis  
 \* Technical building services specialists estimated on the basis of total Finnish TBS market split: 60% renovation / 40% new building

# Consolidation activity on the Finnish technical building services market in recent years

Share of Top-5 operators in the Finnish technical building services market



Comments

- Total Finnish technical building services market estimated to total approximately EUR 5 billion
- This estimate includes segment “household and others” which, however, plays a clearly smaller role in TBS market compared to renovation
- In recent years, the share of top five players has increased and consolidation is expected to continue going forward
- Through consolidation, TBS market expected to become healthier in general terms

Source: Rakennuslehti, Asiakastieto, VTT, Consti analysis



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# How is Consti capitalising on the market opportunities?

## FINDINGS FROM THE MARKET

- 1 Renovation growth expected to be strongest in the Finnish growth centres**
- 2 Strongest need for renovation from residential buildings (housing corporations in particular)**
- 3 Renovation market consists of numerous small projects largely ignored by bigger companies**
- 4 Renovation consists largely of technical building services, facades and building interiors**
- 5 Technical building services renovation expected to outgrow overall renovation market**
- 6 Both renovation and TBS markets offer plenty of consolidation potential, i.e. room to grow**



*Consti aims at strengthening its position in current locations and also expand to new growth centres*



*Consti has a long track record in residential renovations → growth to be continued, terraced and detached houses built in 1980s pose a potential untapped market*



*Consti's business model allows also smaller project sizes where customer service, flexibility, agility and smart resourcing are emphasised*



*Consti has operations in all of the biggest renovation segments → aim to grow in existing expertise areas and complement them with e.g. roof and glass construction*



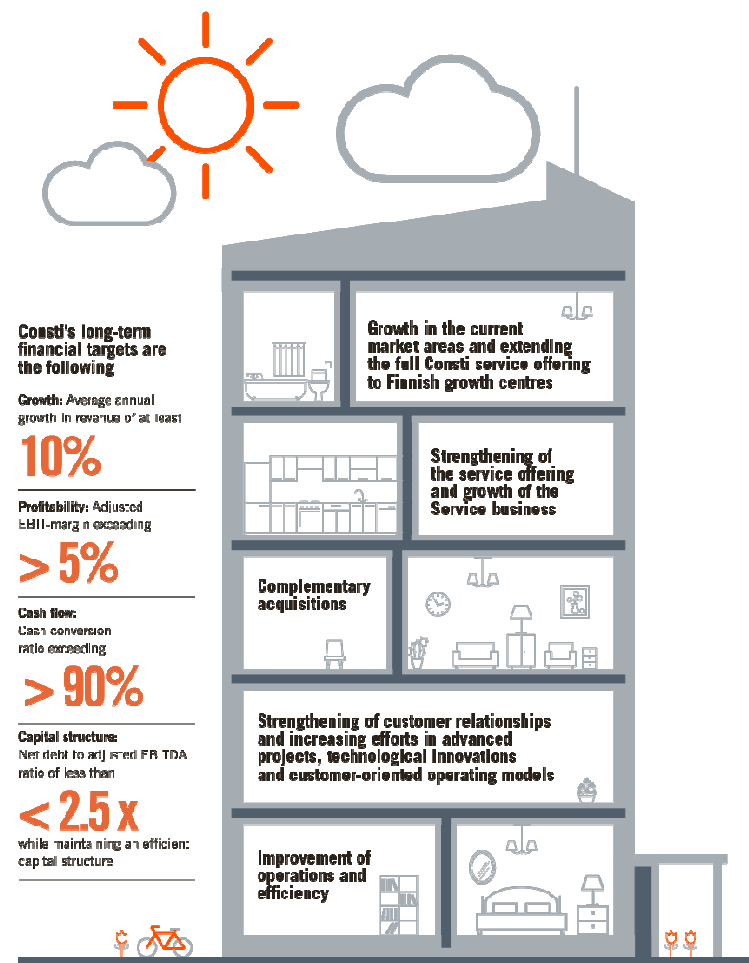
*Consti's Technical Building Services unit to be further strengthened with e.g. energy, indoor air, automation and pipeline renovation services*



*Consti continues to seek growth through acquisitions and hence capitalise on the market's consolidation potential*

# Consti Group's strategic themes

## STRATEGY



- 1 Exploit market position and expand full offering to Finland's growth centers**
  - Grow in businesses where Consti has long experience and a strong position
  - Expand full offering to the growth centers of Finland
  - Acquisitions to support growth
- 2 Strengthen the offering and continuously grow in Service business**
  - Strengthen and complement the service offering with supplementary capabilities (building automation, roof renov.)
  - Further grow the service business
  - Acquisitions to support growth
- 3 Continue to strengthen customer relationships and innovation leadership**
  - Cross-selling across business areas and development of KAM
  - Growth in advanced project types
  - Modern renovation methods and technological innovations
- 4 Maintain and further improve operational excellence**
  - Development and optimisation of sales mix
  - Project management and procurement
  - Fixed expense control
  - Strengthening of HR operations

# Active screening of M&A candidates - Consti's knock-out criteria used to shortlist potential M&A targets



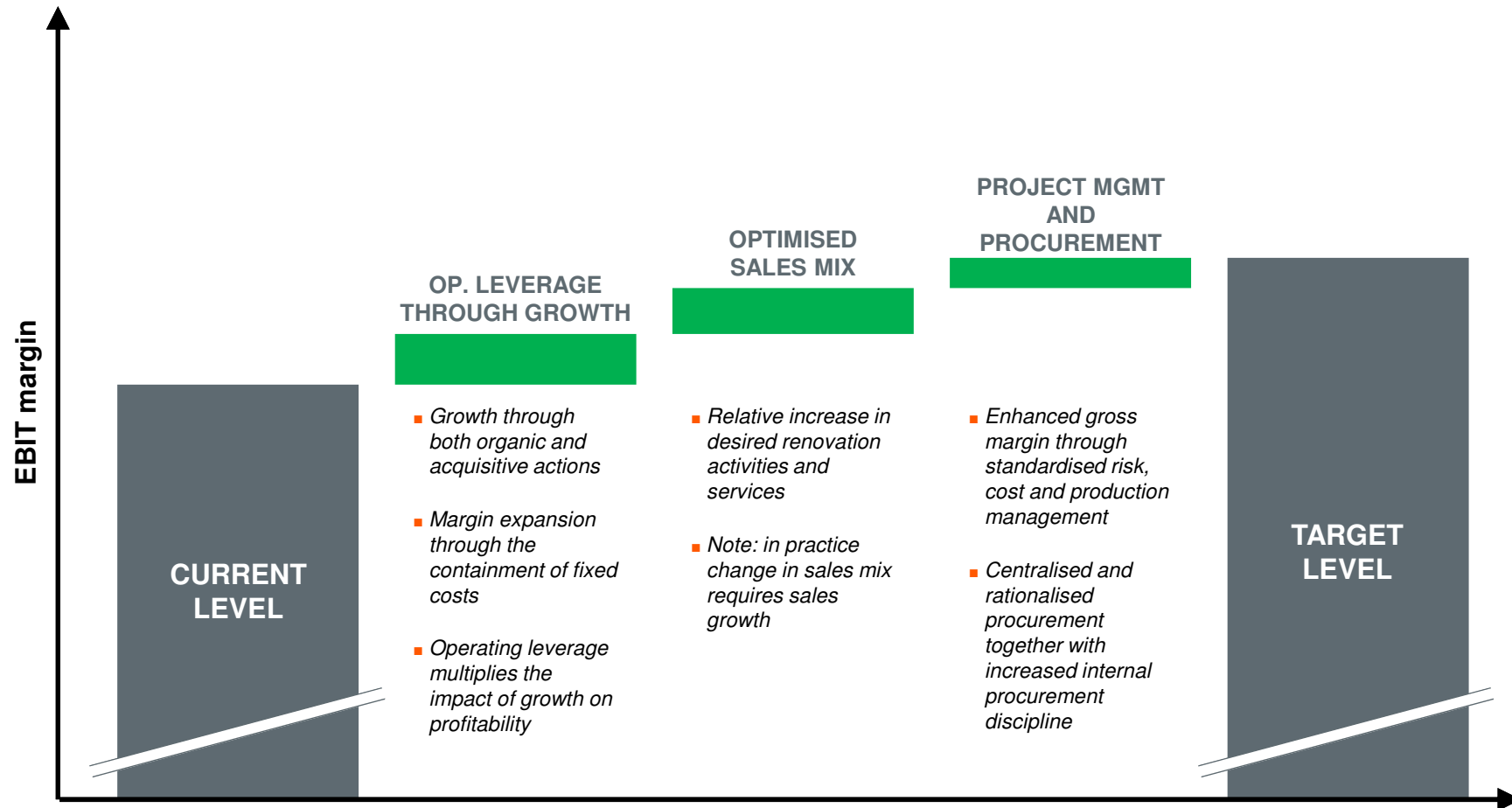
# Realisation of Consti's long-term financial targets

Growth	Profitability	Cash flow	Capital structure	Dividends
<p><i>Average annual growth in net sales of at least 10%</i></p> <p><b>CAGR 2011-H1/16</b></p> <p><b>+14.7%</b></p> <ul style="list-style-type: none"> <li>Long-term target level achieved during Consti's organic growth phase (2011 – H1/2016)</li> </ul> <p>✓</p>	<p><i>Adjusted EBIT-margin exceeding 5 percent</i></p> <p><b>H1/2016 (Roll. 12m)</b></p> <p><b>4.1%</b></p> <ul style="list-style-type: none"> <li>Performance, efforts continue to meet the target level</li> </ul>	<p><i>Cash conversion ratio exceeding 90 percent<sup>1</sup></i></p> <p><b>H1/2016 realisation</b></p> <p><b>101.1%</b></p> <ul style="list-style-type: none"> <li>Target was achieved in H1/2016</li> </ul> <p>✓</p>	<p><i>Net debt to adjusted EBITDA ratio of less than 2.5x while maintaining an efficient capital structure</i></p> <p><b>H1/2016 (Roll. 12m)</b></p> <p><b>1.4x</b></p> <ul style="list-style-type: none"> <li>Target was clearly achieved on a rolling 12-month basis</li> </ul> <p>✓</p>	<p><i>The Company's aim is to distribute as dividends at least 50 percent of the Company's annual net profit<sup>2</sup></i></p> <p><b>FY 2015 realisation</b></p> <p><b>63.8%</b></p> <ul style="list-style-type: none"> <li>AGM resolved dividend of EUR 0.39 per share, or 64% of 2015 EPS</li> </ul> <p>✓</p>

1) Cash conversion defined as free cash flow divided by EBITDA. Free cash flow equals operating cash flow before net financial items and taxes less investments in tangible and intangible assets

2) While taking other factors such as financial position, cash flow and growth opportunities into consideration.

# Bridge to higher profitability – Improvement to stem from op. leverage through growth and optimised gross margin





**CONSTI**

**CONSTI GROUP PLC**  
**24 AUGUST 2016**

**THANK  
YOU**

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