



# CONSTI GROUP PLC

## CARNEGIE CONSTRUCTION SEMINAR

### 24 AUGUST 2018

CEO Esa Korkeela



## Contents

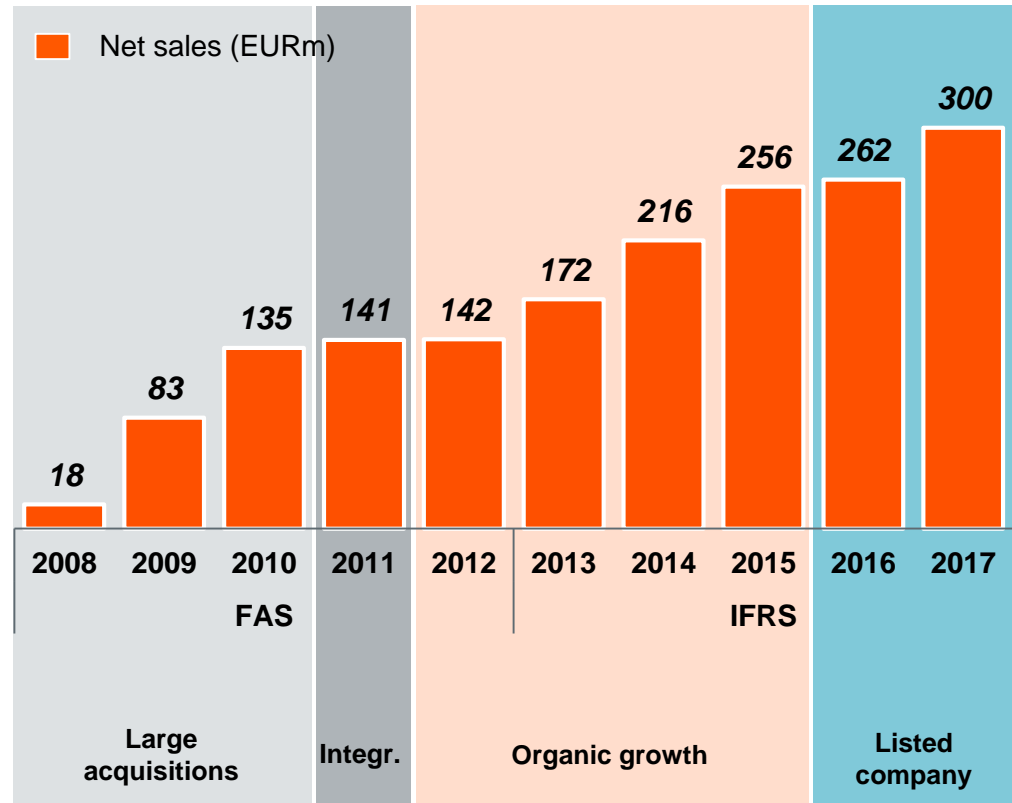
- **Consti in brief**
- H1/2018 highlights in brief
- Market environment and competitive landscape
- Consti's strategy and development activities

# Consti is the leading building renovation company in Finland

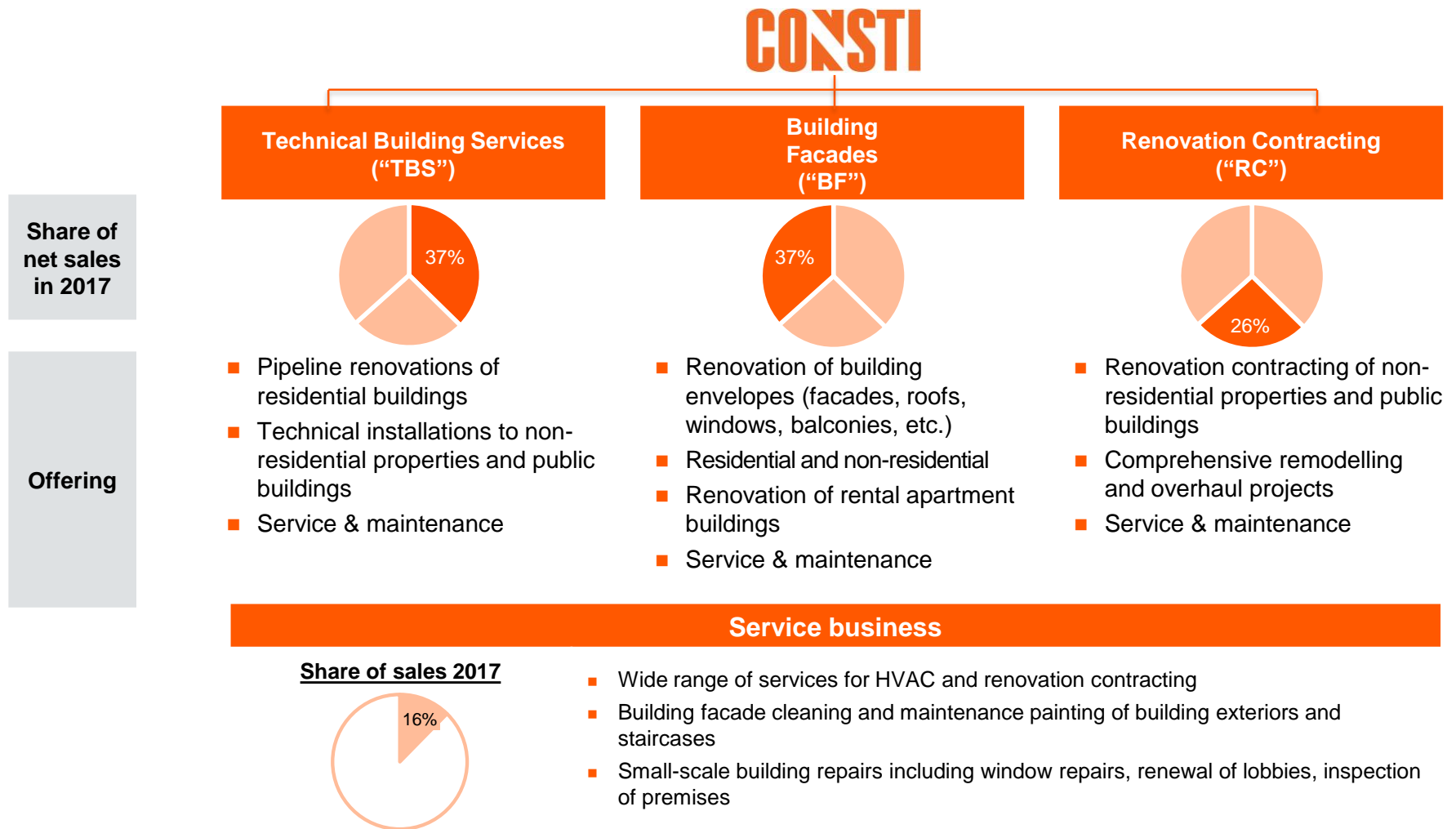
## Consti in brief

- Established in 2008
- Comprehensive service offering covering technical building services, building facades, renovation contracting and maintenance services
- Focused on Finnish growth centres
- Headquartered in Helsinki, Finland
- Employs over 1,000 professionals in renovation and technical building services

## Net sales development in 2008 – 2017

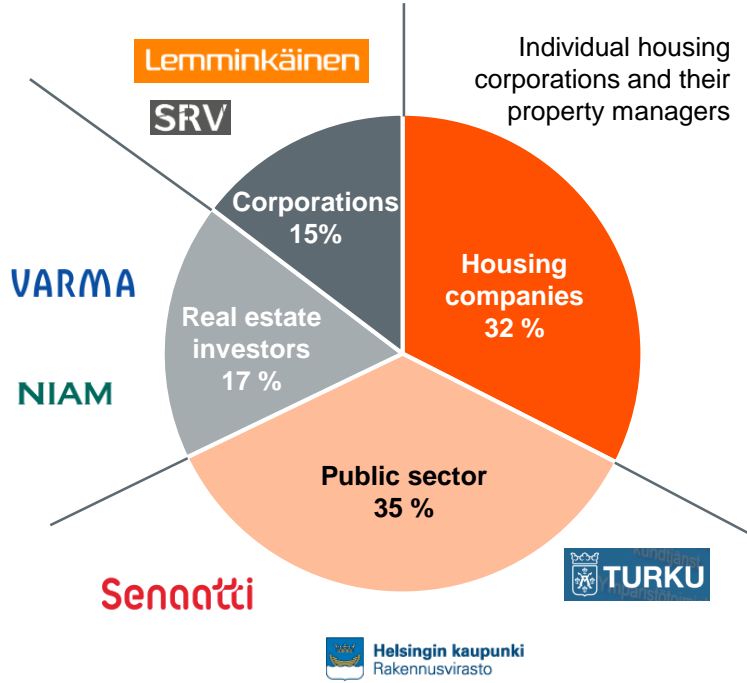


# Consti Group consists of three complementary operating segments based in Finland

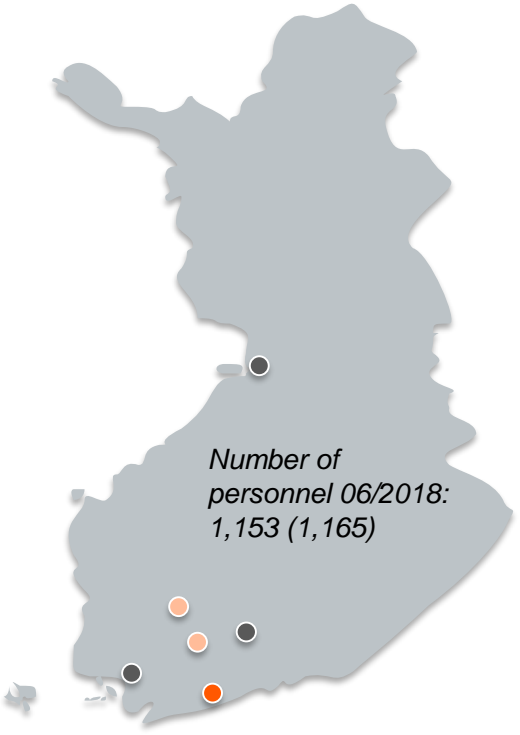
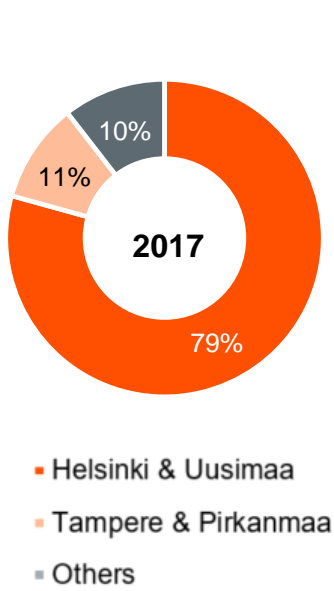


# Diverse customer mix protects against market fluctuations, presence in the Finnish growth centres

Net sales by customer groups in 2017



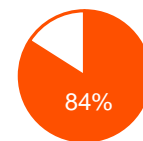
Net sales by geographical area in 2017



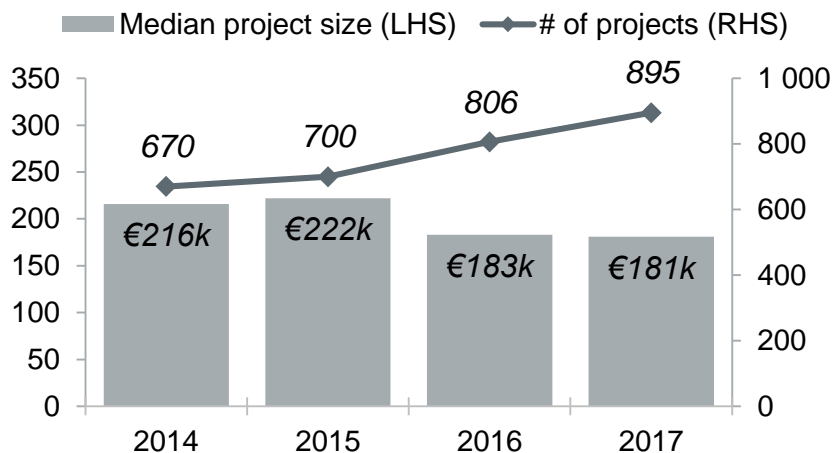
Net sales realised from one single customer did not exceed 10% of the total annual sales

Strong focus on the growth centres, clear majority of the revenue generated from the capital region

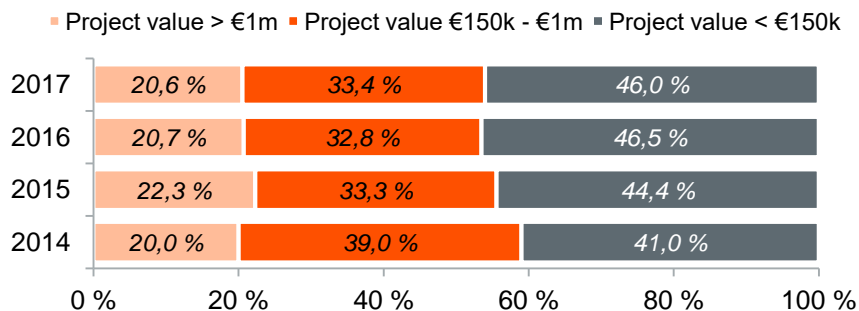
# Consti Group's project business – Versatile project base consisting of various project types and sizes



## Development of median project size and # of projects



## Project size distribution (# of projects)

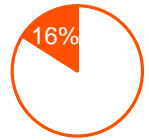


## Project types: payment basis / performance obligation

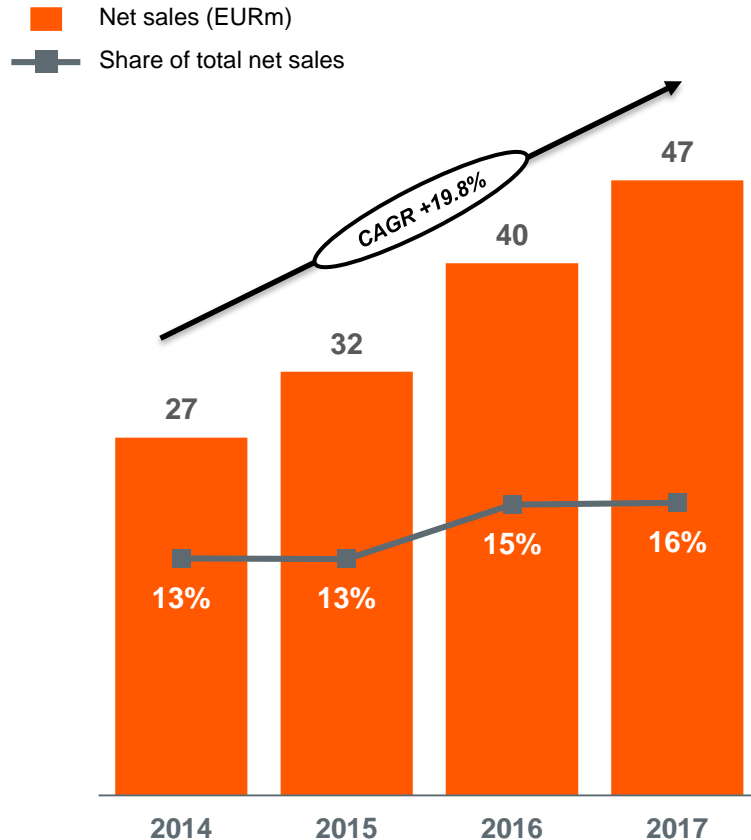
	Fixed price	Target price (incl. ceiling)	Cost + fee (incl. unit price)
<b>Main contract</b>	▶ With design responsibility		
	▶ With design management responsibility		
	▶ Without design responsibility		
<b>Sub- or partial contract</b>	▶ With design responsibility		
	▶ With design management responsibility		
	▶ Without design responsibility		

Note: Nr 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)

# Consti Group's service business – Service, repairs and installations across business areas



## Service business net sales & share of total net sales



## Service business & contract types

	Consti TBS	Consti BF	Consti RC
<b>Service business</b>	<ul style="list-style-type: none"> <li>▶ Fixed-term service contract</li> <li>▶ Frame agreement</li> <li>▶ Service projects</li> </ul>		

- Services are offered in all business areas
- Responsibility of Service business management allocated to business areas
- Wide range of services including
  - HVAC and renovation contracting
  - Building facade cleaning and maintenance painting of building exteriors and staircases
  - Small-scale building repairs including window repairs, renewal of lobbies, inspection of premises



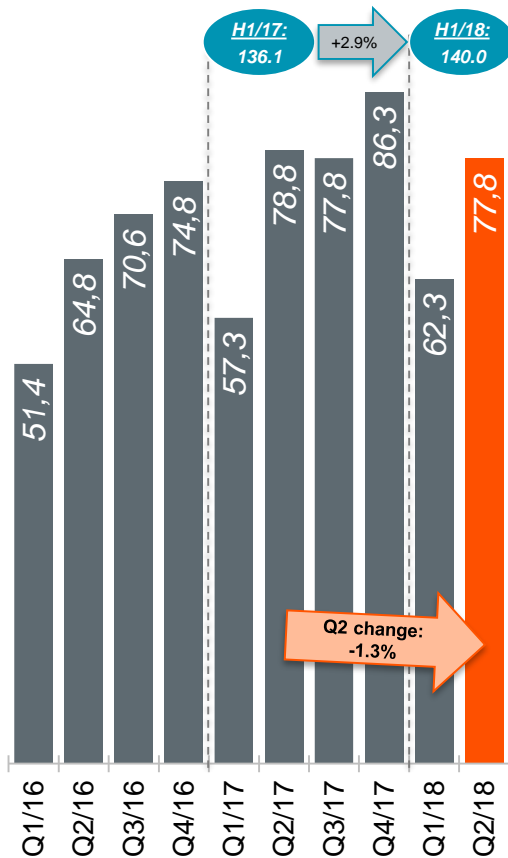
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- **H1/2018 highlights in brief**
- Market environment and competitive landscape
- Consti's strategy and development activities

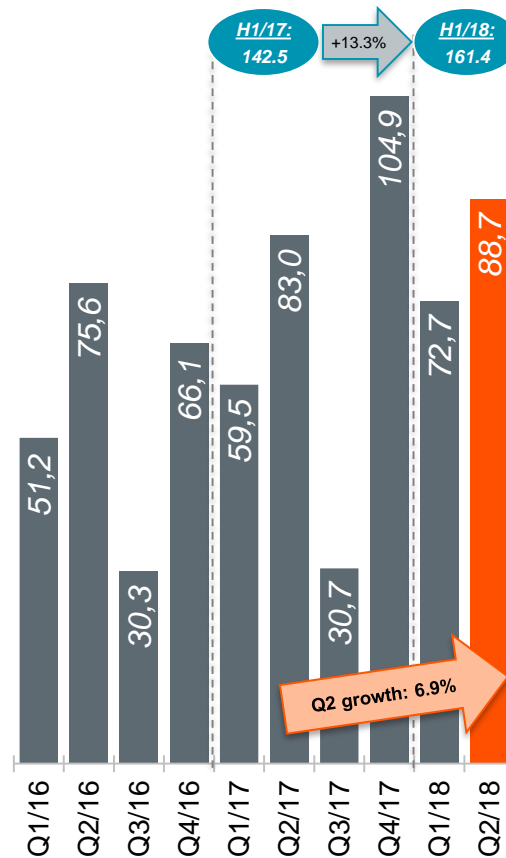
# Quarterly performance overview

## Net sales, order intake and order backlog improved in H1 2018

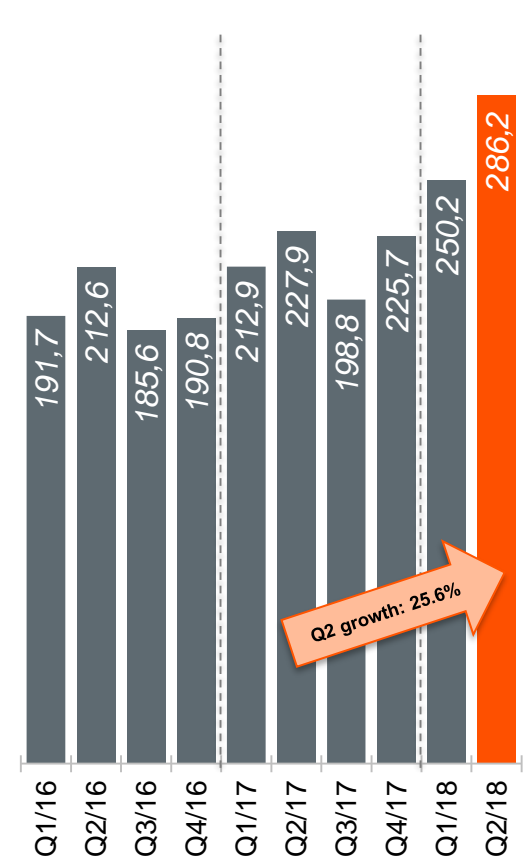
Quarterly net sales (EUR m)



Quarterly order intake (EUR m)



Quarterly order backlog (EUR m)



# Quarterly EBIT development

## Profitability recovering after weak H2 2017

Quarterly EBIT development Q1/2016 – Q2/2018 (EUR m)



### Comments

- Q2/18 EBIT amounted to EUR 1.7 (2.7) million, or 2.1% (3.4%) of net sales
- EBIT improved clearly compared to previous quarter
- Actions to improve profitability gradually starting to have a positive impact on result
- Profitability was still weakened by certain previously identified low-margin projects
- Operating result was also affected by carrying out final performance obligations in one Renovation Contracting project
- H1/2018 EBIT amounted to EUR 1.5 (3.0) million, or 1.0% (2.2%) of net sales

# Actions to improve profitability progressing

## ACTIONS INITIATED IN Q4/2017 AND IMPLEMENTED DURING H1/2018

- Reorganization of Technical Building Services business area ✓
- Implementation of main contracting processes in pipeline renovations ✓
- Implementation of disciplined tendering in pipeline renovations ✓
- Implementation of common operating models to improve project steering and monitoring ✓
- Clarification of financial reporting responsibilities for projects ✓

- ▶ *Actions initiated in Q4 2017 gradually starting to bear fruit even though profitability still affected by low-margin projects*
- ▶ *However, overall performance not yet on required level*

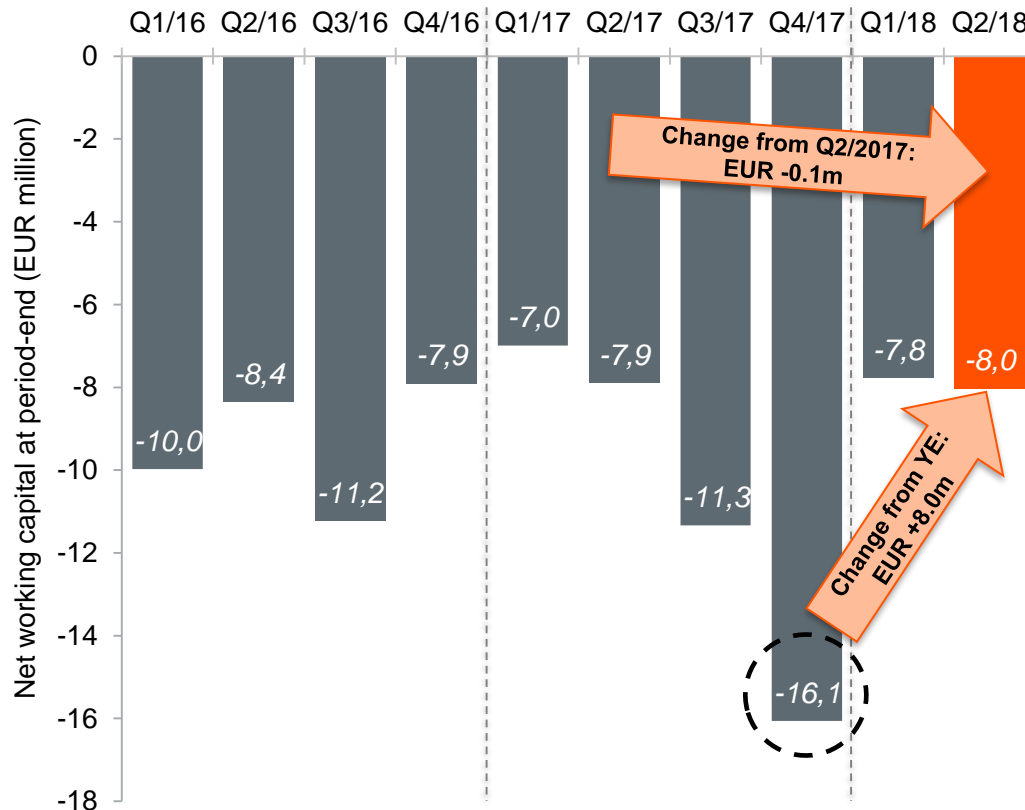
## FURTHER ACTIONS IN H2/2018 →

- ▶ Renewal of the management model in Service business
  - Clarification of responsibilities between line organization and Group functions
  - Target to drive net sales growth in Service business
- ▶ Recruitment of new HR Director
  - Target to enhance HR management throughout the Group in order to retain and attract renovation talents
- ▶ Continued implementation of harmonized project management processes
- ▶ Implementation of performance management principles on all organization levels
- ▶ Savings in discretionary costs

# Quarterly net working capital development

## Net working capital at EUR -8.0 million at the end of Q2/2018

Quarterly net working capital<sup>1)</sup> Q1/2016 – Q2/2018 (EUR m)



### Comments

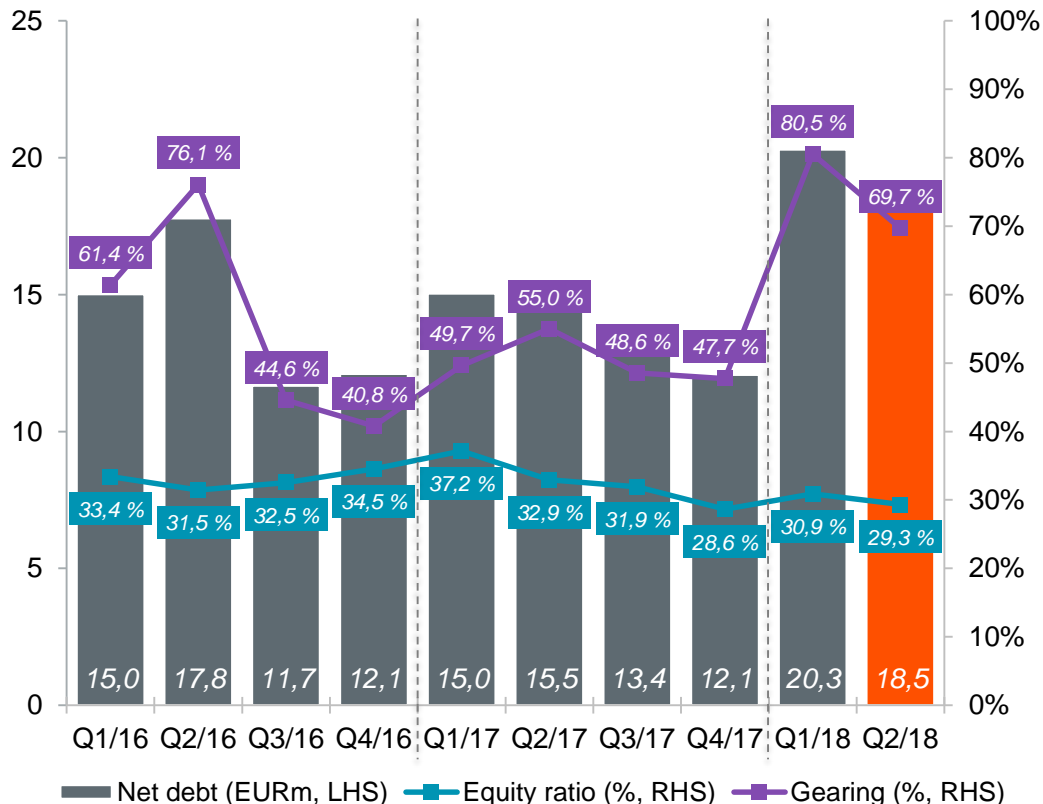
- Net working capital EUR -8.0m (-7.9m) at the end of Q2/2018
- NWC tied up during H1/2018 amounted to EUR 8.0m
  - Exceptionally low NWC level at year-end 2017
  - One specific project in Renovation Contracting tied up capital in the first half of 2018
- However, NWC at end of Q2/2018 slightly better than in comparison period

<sup>1)</sup> Net working capital calculated as follows: Inventories + Trade and other receivables + Deferred tax receivables – Trade and other payables – Advances received – Provisions

# Quarterly balance sheet structure

## Balance sheet strengthened from the previous quarter

Quarterly net debt, equity ratio and gearing Q1/2016 – Q2/2018



Comments

- Balance sheet strengthened thanks to positive cash flow in the second quarter
- Q2/2018 net debt at EUR 18.5m (15.5m)
- Q2/2018 equity ratio at 29.3% (32.9%)
- Q2/2018 gearing at 69.7% (55.0%)
- Cash and cash equivalents at the end of Q2/2018 amounted to EUR 4.7m (5.8m)



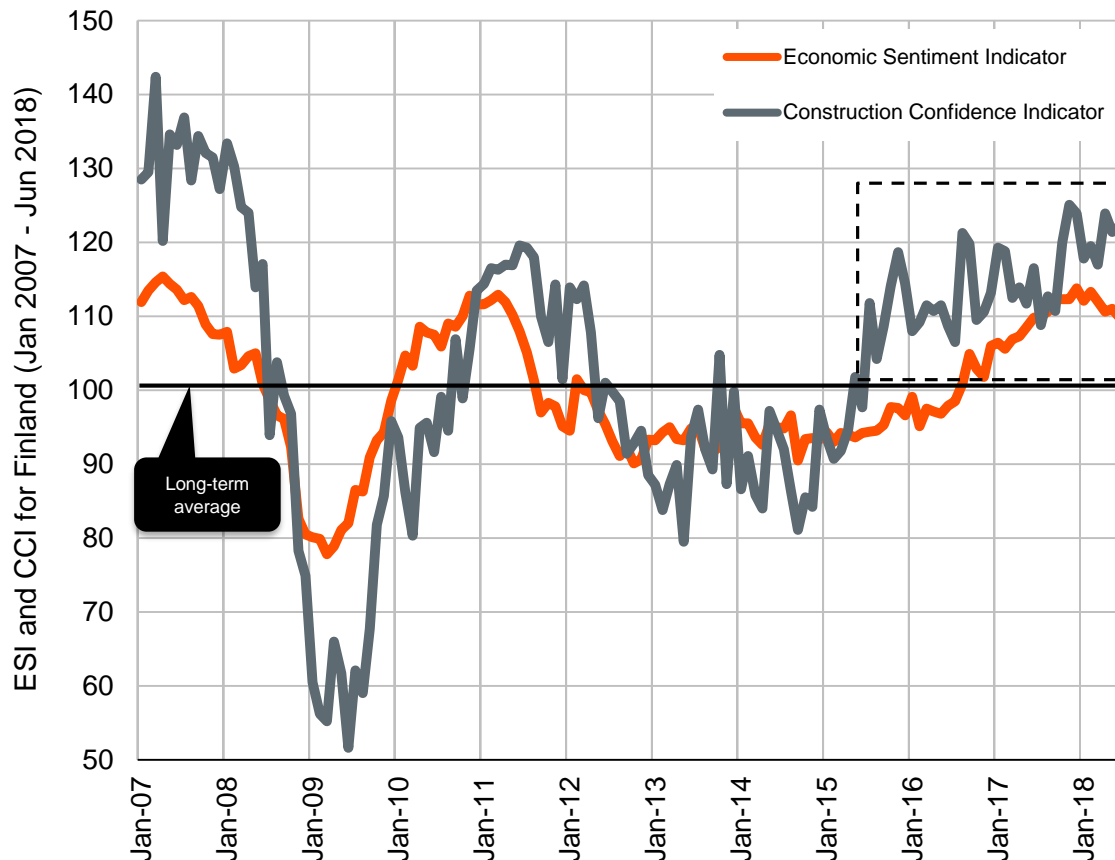
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# Lead indicators for the Finnish economy and construction continue to remain on a good level

## Economic Sentiment and Construction Confidence / Finland (2007 – 6/2018)

## Comments



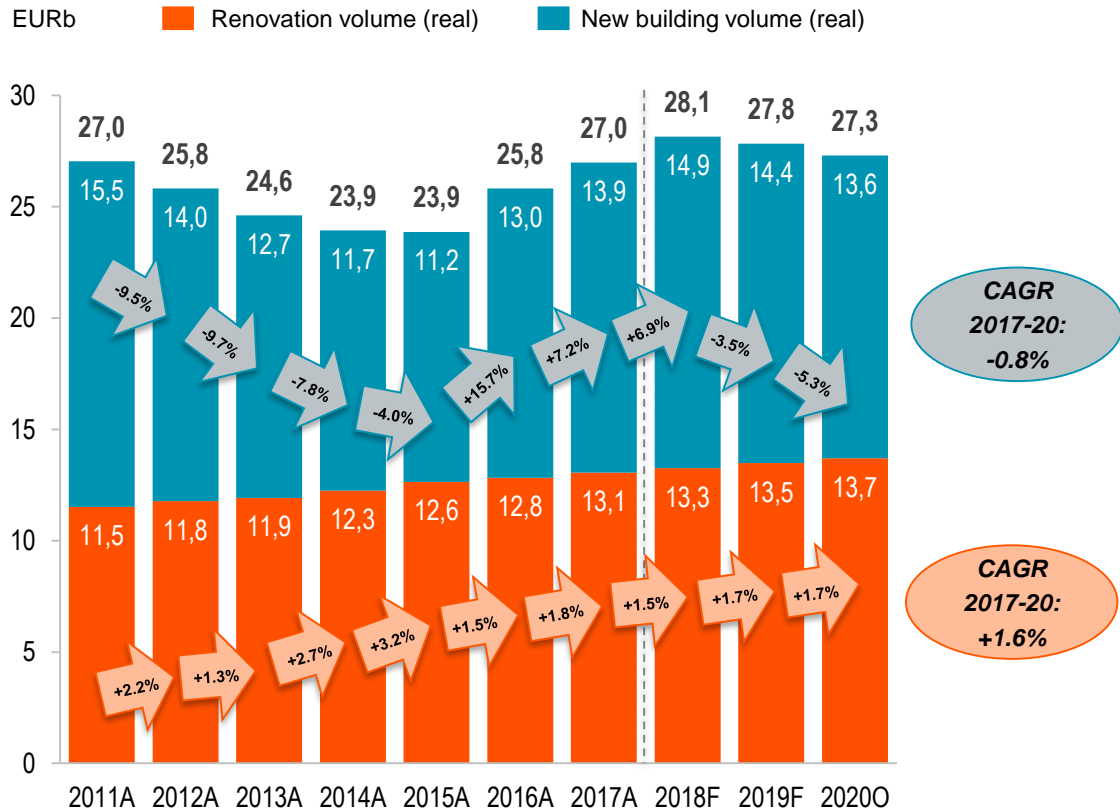
- During the past few years Economic sentiment and Construction confidence in Finland have steadily remained above the long-term average
- Both lead indicators stayed at a good level in the first half of 2018

Note: Mean-adjusted figures

Source: European Commission, June 2018

# Stable growth in renovation to continue

## Finnish new building and renovation market development 2011 – 2020O



Source: Euroconstruct, June 2018

CFCI = The Confederation of Finnish Construction Industries, March 2018

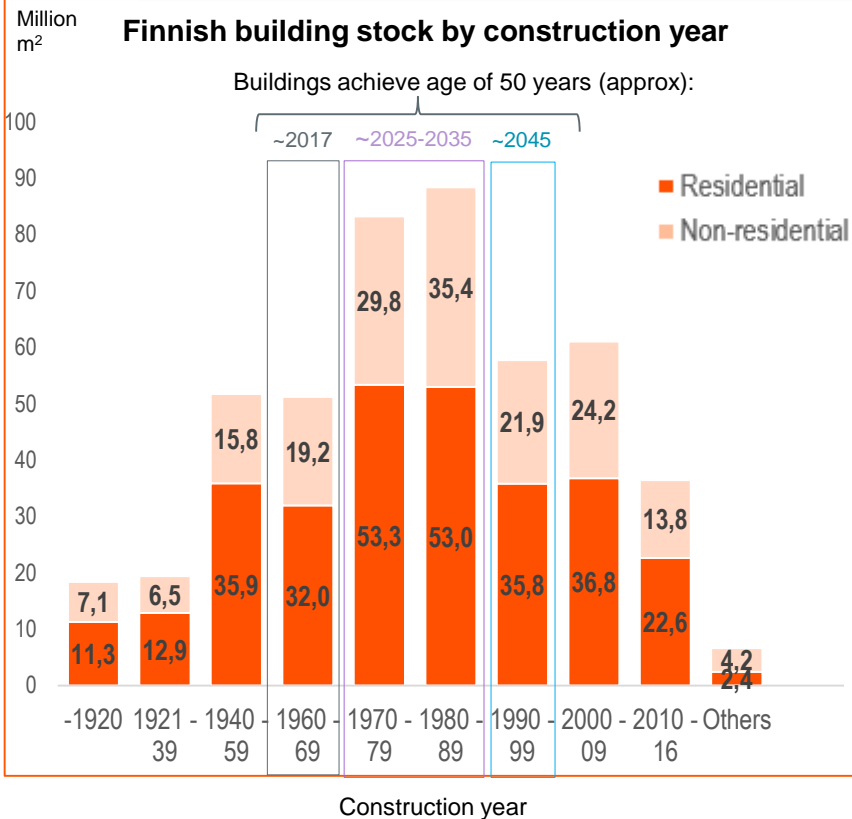
## Comments

- The peak of the economic cycle in construction sector currently on-going
  - Challenges in availability of building technology and renovation professionals
  - However, recent statistics show that although the volume of building production is still growing, the number of issued building permits during the spring 2018 have declined compared to previous year
- Total building market forecast for 2018: Euroconstruct +4.3% and CFCI +2.4%
- New building forecast for 2018: Euroconstruct +6.9% and CFCI +2.8%
- Renovation forecast for 2018: Euroconstruct +1.5% and CFCI +2.0%

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



Ageing building stock



Source: Statistics Finland



Energy efficiency



Urbanisation and concentration of renovation in growth centers



Modifications of the use of buildings

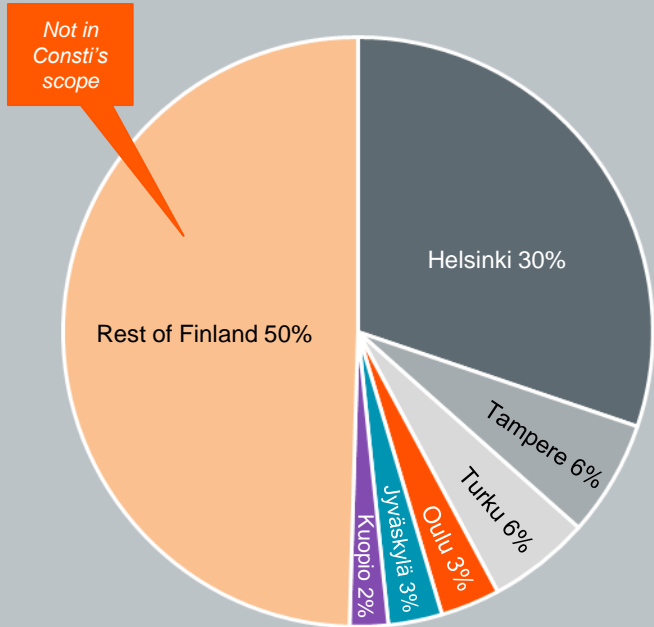


Increased need for building technology and automation

# Finnish renovation market of EUR 13bn is concentrated in growth centres and residential properties...

1

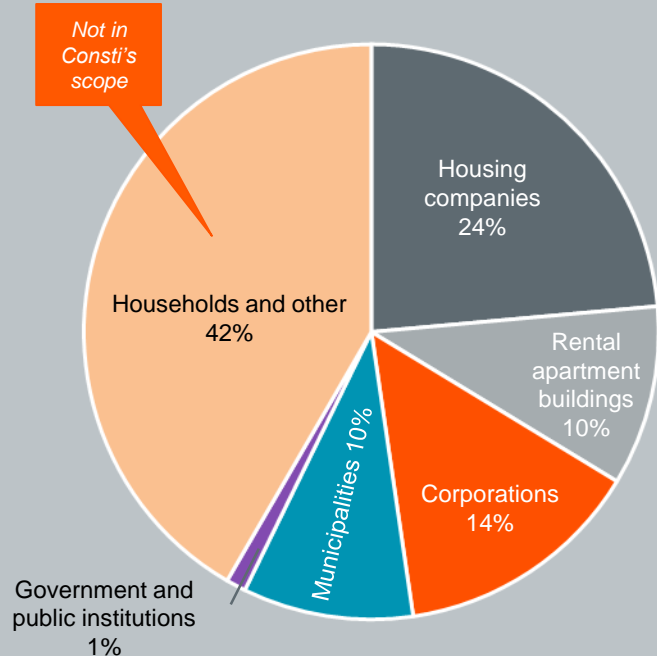
## Renovation by geography



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

2

## Renovation by customer group



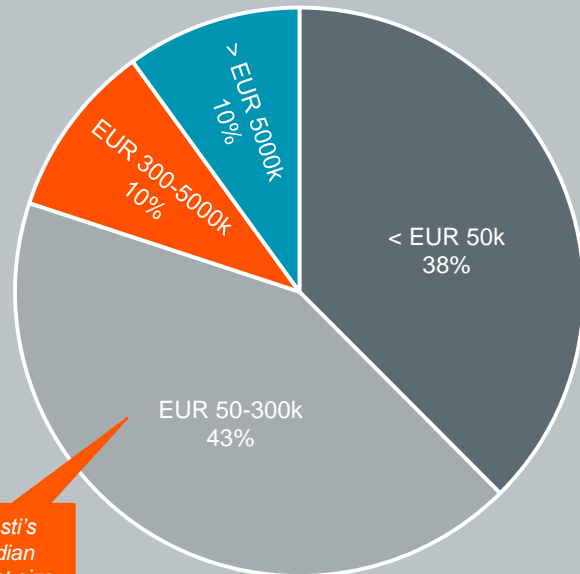
**Strongest need for renovation from residential buildings, also stemming from the building stock structure**

Source: VTT Technical Research Centre of Finland Ltd, 2017

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

3

## Renovation by project size

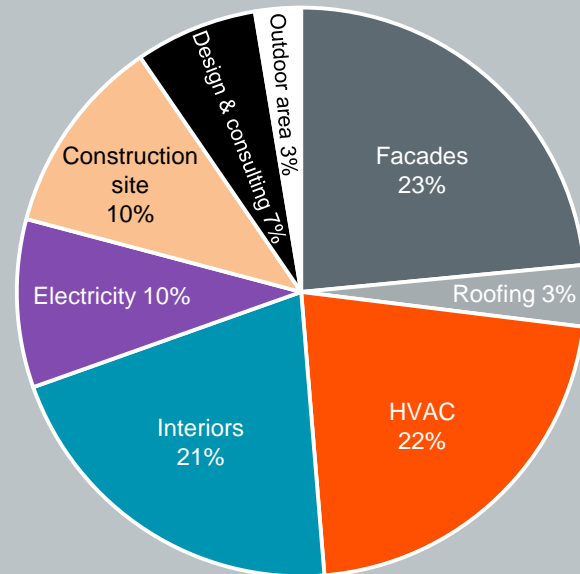


Consti's median project size ~0.2m€

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

4

## Renovation by building section

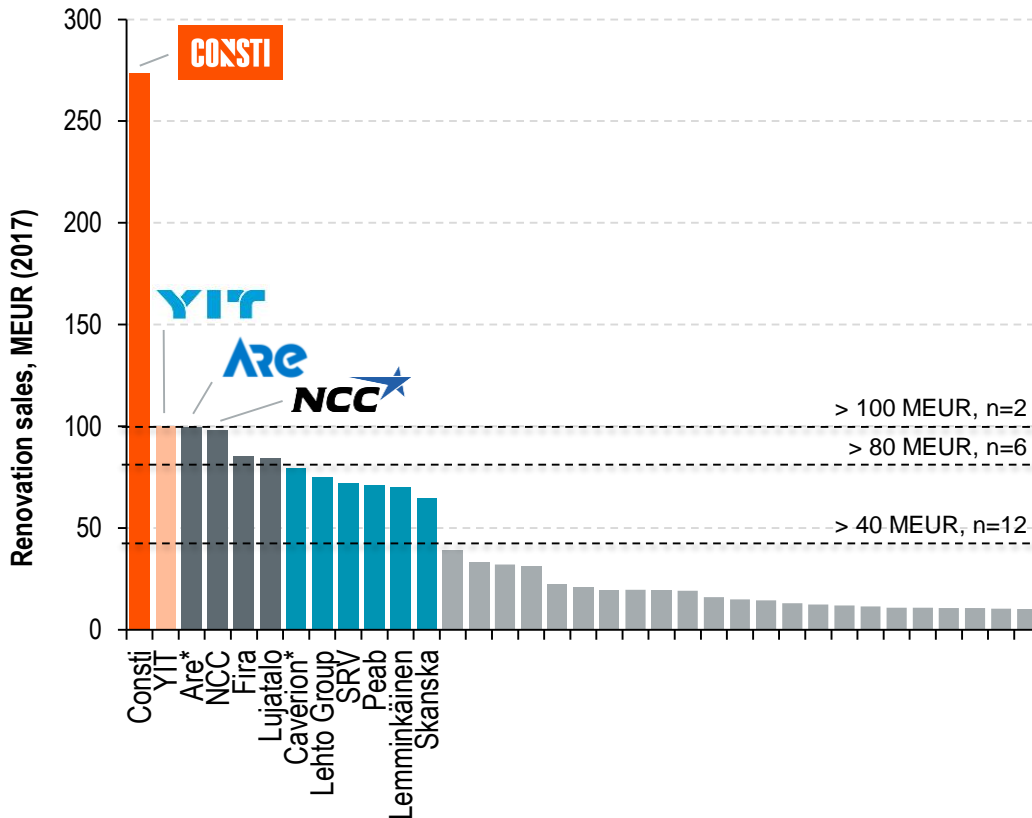


Building technology accounts for one third of the total market, while facades and interiors combined nearly 50%

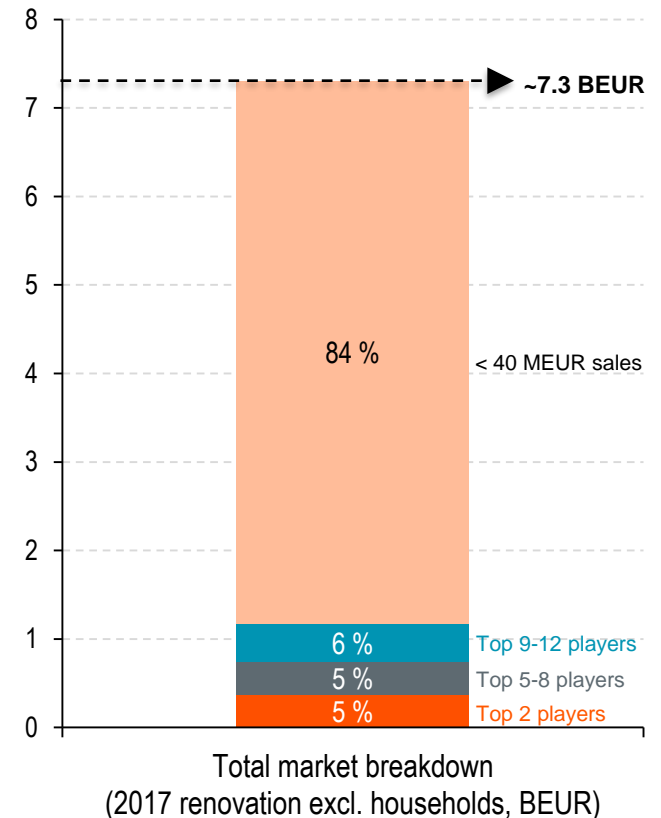
Source: VTT Technical Research Centre of Finland Ltd, 2015

# Finnish renovation market highly fragmented with plenty of consolidation potential – Consti was clear #1 in 2017

Operators in the Finnish renovation market (based on revenue in 2017)



Overall renovation market (excl. households)



Source: Rakennuslehti, Asiakastiето, Consti analysis

\* Technical building services specialists estimated on the basis of assumed business mix: 25% renovation / 25% new building / 50% technical maintenance & facility management

# Consti's renovation market observations - a number of differences compared to new building

1

Renovation market is more versatile than the stable renovation growth graph indicates

*For example, Consti's service offering includes ~30 separate identifiable services*

2

In renovation, work is being performed close to customer

*Sets additional requirements for personnel training, education and ways of working*

3

Renovation projects are typically relatively small in size

*Reflects in organisation → Project managers take care of multiple projects at the same time*

4

Renovation can be complex due to special features of old buildings

*Renovation expertise highly important, Finnish education system emphasises new building*

5

Large construction companies tend to prefer new building

*Renovation gets focus when large projects available and/or challenges in new building market*

6

It is difficult to perform in renovation without specialisation

*Important to ensure sufficient focus → renovation is Consti's main business*



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## Long term strategic goals

**Growth:** Average annual growth in revenue at least **10 %**

**Profitability:** adjusted EBIT-margin exceeding **5 %**

**Cash flow:** Cash conversation ratio exceeding\* **90 %**

**Capital structure:** Net debt to adjusted EBITDA ratio of less than **2,5 x** while maintaining an efficient capital structure

# STRATEGY

## MISSION

Our mission is to improve the value of the building stock, and the value of life. The satisfaction of our customers and partners, as well as the well being of our personnel are the prerequisites to all our operations.

## CUSTOMER PROMISES

Fast and reliable – and ready in one go

Consti – the human factor

We listen, understand and offer a solution

We do what we promise

## STRATEGIC INITIATIVES

**1** Profitable and competitive operations

**2** The best customer experience

**3** Excellent services and solutions

**4** The best professionals

**5** Renewal and growth

## VALUES

Profitable growth  
Professional skill and experience  
Customer orientation  
Enthusiasm  
Reliability and honesty

\* The cash conversion is the amount of free cash flow divided by EBITDA. Free cash flow means net cash flow from operating activities before financial expenses and taxes, less capital used for purchase of intangible assets and property, plant and equipment

# Consti's strategic initiatives aim at achieving the Group's long-term goals – giving also short-term benefits

Strategic initiative	Objectives	Key projects / activities
<b>1</b> • Profitable and competitive operations	<ul style="list-style-type: none"> <li>• Best-in-class lead time and productivity</li> <li>• Efficient and agile organization</li> <li>• Performance management in place to drive operational excellence</li> </ul>	<ul style="list-style-type: none"> <li>• Harmonized project management process</li> <li>• Impl. of flow production and lean principles</li> <li>• Performance management on all org. levels</li> <li>• Efficient procurement</li> </ul>
<b>2</b> • The best customer experience	<ul style="list-style-type: none"> <li>• Improved measurement and follow-up of customer experience</li> <li>• Efficient key account management → increased share of recurring business</li> </ul>	<ul style="list-style-type: none"> <li>• Renewal of customer feedback system with harmonized KPIs and steering</li> <li>• Enhanced incentives for internal cooperation</li> </ul>
<b>3</b> • Excellent services and solutions	<ul style="list-style-type: none"> <li>• Wide service offering meeting the needs of real estate owners and users</li> <li>• New customer-driven services through systematic productization and development</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation of Consti productization model, roadmap and criteria</li> <li>• New categorization of services with clear steering and follow-up</li> </ul>
<b>4</b> • The best professionals	<ul style="list-style-type: none"> <li>• High personnel well-being and safety</li> <li>• Competent and skillful employees</li> <li>• Enhanced attractiveness as employer</li> </ul>	<ul style="list-style-type: none"> <li>• Improvement of recruitment process</li> <li>• Renewal of incentive schemes</li> <li>• Development of HR function and competence management</li> </ul>
<b>5</b> • Renewal and growth	<ul style="list-style-type: none"> <li>• Continued growth in existing markets</li> <li>• Growth in advanced methods of project delivery</li> <li>• Widening of offering in construction life cycle</li> </ul>	<ul style="list-style-type: none"> <li>• Active screening of new growth areas and businesses</li> <li>• Systematic strengthening of required competences</li> </ul>

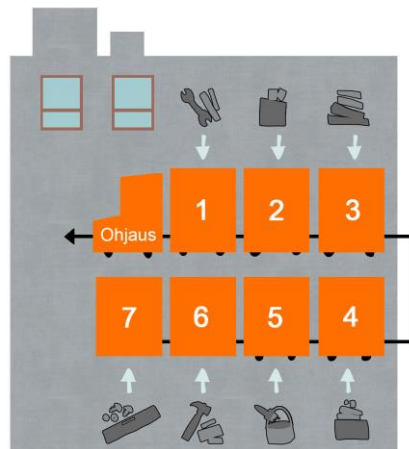
# Consti's development efforts go hand-in-hand with the long-term trends of renovation market environment (1/2)

1

## FLOW PRODUCTION / LEAN PRINCIPLES

- Flow production and takt-time are taking renovation closer to industrial production
- Project flow and takt-time are powerful lean manufacturing concepts but using them in construction has been challenging
- Consti has applied lean principles in projects with repeatable units, e.g. in pipeline renovations
- In takt-time production, the project is divided into identical work packages that follow each other with an uninterrupted pace
  - ▶ production speed is consistent throughout the project
  - ▶ steady flow makes the project predictable

*Flow  
production  
"train"*



2

## PREFABRICATION

New technical solutions developed with partners

### CONSTI BALCONY

- A rapid balcony renovation model that will cut renovation times by half
- With prefabricated units and improved continuous workflow, new balconies can be built in just five weeks



### CONSTI IDEAL

- 10-day pipeline & bathroom renovation
- Ready-made components installed in place
- Potential for time and cost savings



### FLOWALL

- Prefabricated, modular unit replaces the wall between bathroom and kitchen
- Service concept includes design solution, prefabrication and implementation

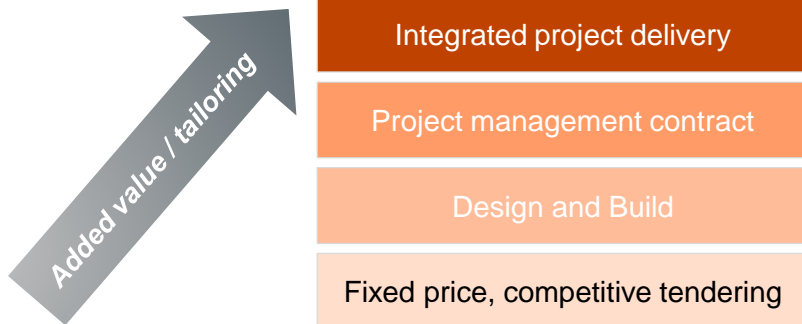


# Consti's development efforts go hand-in-hand with the long-term trends of renovation market environment (2/2)

3

## GROWTH IN ADVANCED METHODS OF PROJECT DELIVERY

- Renovation projects are becoming more and more complex e.g. due to integrated technical systems
  - ▶ IPD is a means to manage risks and uncertainties
  - ▶ Optimisation of the whole becoming more important
  - ▶ Advanced methods of project delivery suit renovation particularly well
- Through wide renovation expertise, Consti is an ideal business partner for Integrated Project Delivery (IPD) projects
- Finland is one of the leading countries in the world to apply IPD contract models, for example Project Alliance
- Such models promoting co-operation, negotiation and communication are expected to gain more ground in the future while the share of fixed-price projects are projected to decrease



4

## CUSTOMER-DRIVEN PRODUCTISATION & CONCEPTUALISATION OF SERVICES

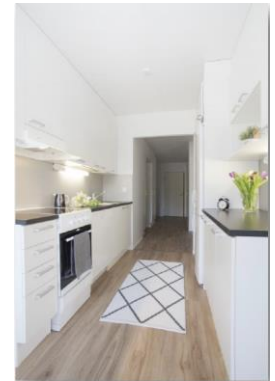
### CONSTI KODIKAS

- Comprehensive service concept tailored for housing companies
- Consists of a group of services covering all areas of renovation
- Practical board game assists in determining the goals and contents of needed renovations
- The main focus is on guaranteeing a positive customer experience and a cozy and comfortable end result



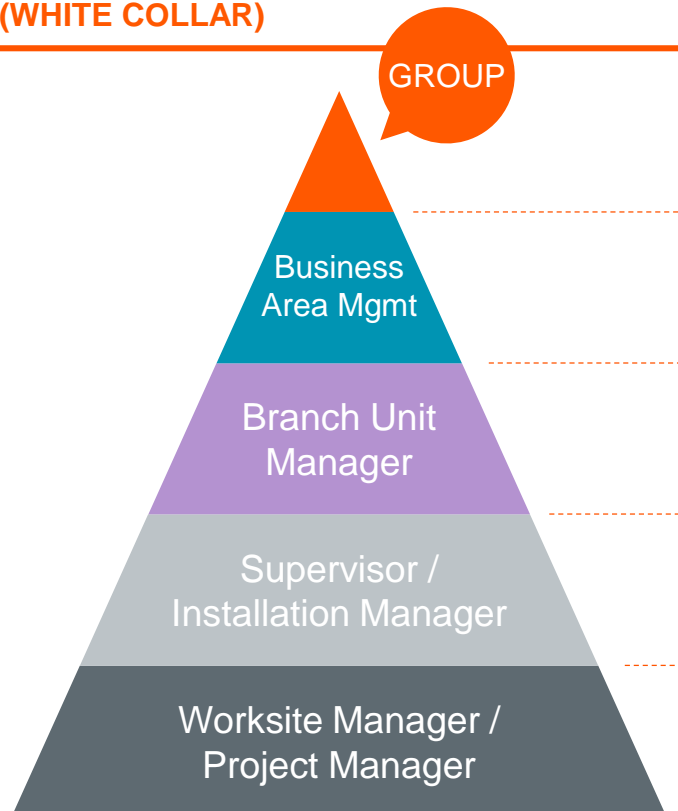
### CONSTI FACELIFT RENOVATION

- Light renovation concept for rental or student apartments
- Based on strict production planning and fast implementation
- Residents do not need to move due to the renovation
- Typically, takt-time and flow production concepts utilised



# Consti's incentive schemes set to foster high-level performance and achievement of strategic goals

## CONSTI'S LINE ORGANISATION (WHITE COLLAR)



## PERSONNEL SHAREHOLDING

- At the end Q2, **120 Consti employees** owned shares in the company
- Consti employees (incl. Board of Directors) own **~24% of the share capital**
- LTI program aims at growing personnel shareholding

## INCENTIVE SCHEMES AND CHANGES IMPLEMENTED AS OF FY2018

- All white collar workers are part of the short-term incentive (STI) scheme
- LTI program offered for appr. 70 key people across the Group
- STI based on Group's and own Business Area's financial performance, and achievement of personal targets
- STI based on Group's, Business Area's and own Business Unit's financial performance, and achievement of personal targets
- *Importance of own unit's performance increased*
- STI based on Business Area's, Business Unit's and particularly own project portfolio's financial performance, and achievement of personal targets
- *Importance of own project portfolio's perf. increased*
- STI based on Business Area's, Business Unit's and particularly own projects' financial performance, and achievement of personal targets
- *Importance of own projects' performance increased*

# 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><i>Adjusted EBIT-margin exceeding 5 percent</i></p>	<p><i>Cash conversion ratio exceeding 90 percent<sup>1</sup></i></p>	<p><i>Net debt to adjusted EBITDA ratio of less than 2.5x while maintaining an efficient capital structure</i></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>
<ul style="list-style-type: none"><li>▪ Target to clearly outgrow the steady Finnish renovation market</li><li>▪ Once the current profitability issues have been solved, return to M&amp;A market to support achievement of growth target</li></ul>	<ul style="list-style-type: none"><li>▪ Target to achieve stable annual profitability development</li><li>▪ Achievement of 5% EBIT margin leaves no room for clear under-performance in any of the business areas</li></ul>	<ul style="list-style-type: none"><li>▪ The importance of cash flow as a financial measure to be further emphasised</li><li>▪ Target to generate stable cash flow through the asset-light business model and targeted growth and profitability development</li></ul>	<ul style="list-style-type: none"><li>▪ Target to maintain strong and efficient financial position</li><li>▪ However, target to have adequate financial flexibility to be able to capitalise on market opportunities</li></ul>	<ul style="list-style-type: none"><li>▪ Target to pay stable and growing dividend as a result of achieving all the other long-term financial targets</li></ul>

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.



# Appendix

# Examples of new orders received in H1/2018

## TECHNICAL BUILDING SERVICES

**H1/18 order intake:**  
EUR 42.6m (-16.2% yoy)

- **Vatjalan koulu**, Kangasala
  - Installation of technical building systems through Design & Build contract
- **As Oy Albertinkatu 16**, Helsinki
  - Pipeline renovation for a housing company
- **As Oy Saaristonkatu 27**, Oulu
  - Pipeline renovation for a housing company
- **Jätkäsaari elementary school**, Helsinki
  - Installation of HVAC and electrical systems
- **Telkkälaakso As Oy**, Tampere
  - Improvement of technical building systems
- **As Oy Kaukohaukka**, Oulu
  - Pipeline renovation

## RENOVATION CONTRACTING

**H1/18 order intake:**  
EUR 39.1m (+21.9 % yoy)

- **Keilaranta 4**, Espoo
  - Comprehensive renovation including facades and office modification work through project management contract
- **Svenska gården**, Lahti
  - Comprehensive renovation
- **Koy Vantaan Antaksentie 4 Lidl**, Vantaa
  - Modification work
- **Kasarmikatu 25**, Helsinki
  - Renovation of a high value property built in the 19<sup>th</sup> century
- **KOy Helsingin Hiilipiha**, Helsinki
  - Office modification work
- **Turku Fair and Congress Centre**
  - Renewal of Fair and Congress Centre entrance

## BUILDING FACADES

**H1/18 order intake:**  
EUR 87.1 m (+34.6% yoy)

- **Helsingin kaupungin asunnot, Pihlajisto, Liusketie 3**, Helsinki
  - Complete renovation of a rental apartment building
- **Helsingin medialukio**, Helsinki
  - Renewal of facades and roof as well as ventilation modification work
- **Kansallisarkisto**, Helsinki
  - Repair of facades and roof
- **Helsingin kaupungin asunnot, Susitie 2-6**, Helsinki
  - Extensive facade and interior renovation in three apartment buildings
- **As Oy Helsingin Halsuantie 5-7**, Helsinki
  - Repair of facades, balconies and roofs
- **Luovi Vocational College**, Oulu
  - Repairs related to indoor air and replacements of windows



**CONSTI**

**CONSTI GROUP PLC**  
**24 AUGUST 2018**

**THANK  
YOU**

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