



CONSTITI GROUP PLC DANSKE CONSTRUCTION SEMINAR 15 NOVEMBER 2018

CFO Joni Sorsanen



Contents

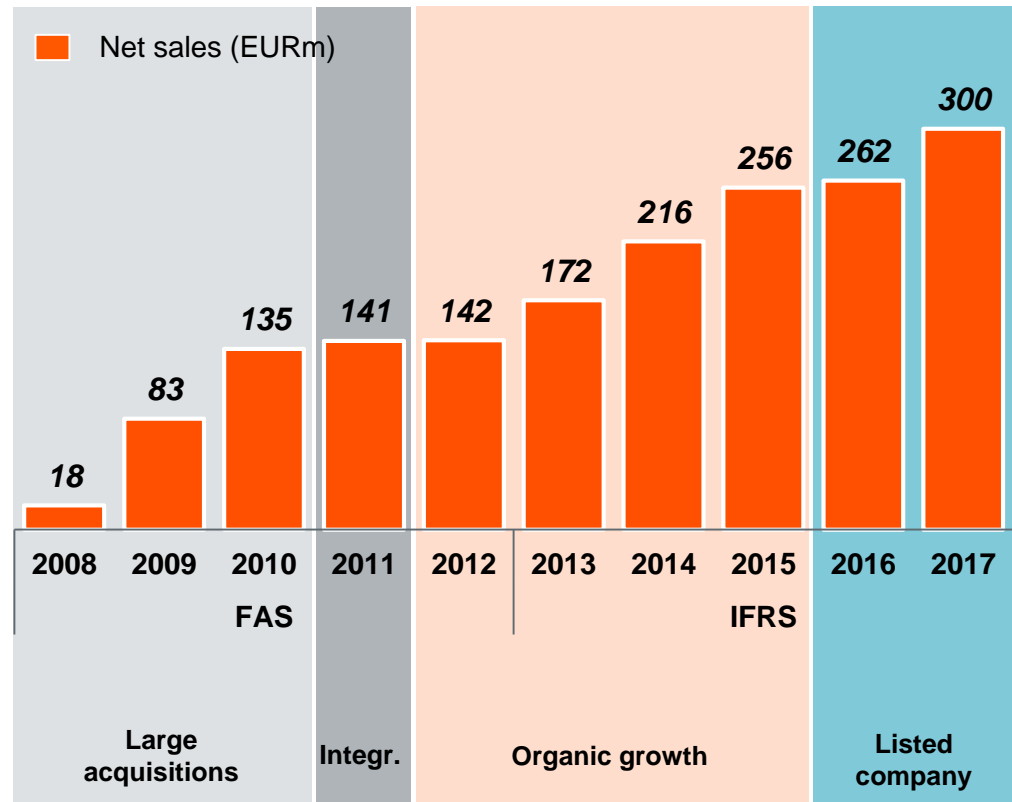
- **Consti in brief**
- January – September 2018 highlights in brief
- Market environment and competitive landscape
- Appendix: Consti's strategy and development activities

Consti is the leading building renovation company in Finland

Consti in brief

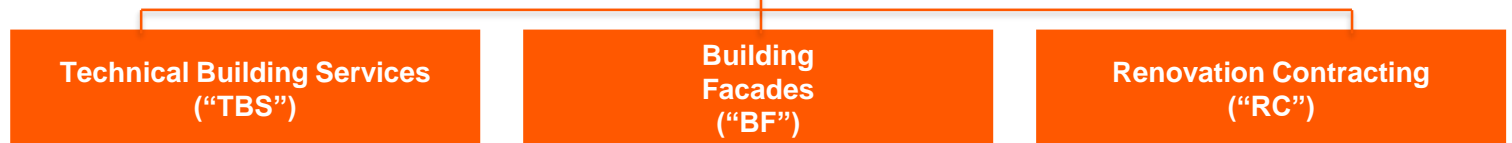
- Established in 2008
- Comprehensive service offering covering technical building services, building facades, renovation contracting and maintenance services
- Focused on Finnish growth centres
- Headquartered in Helsinki, Finland
- Employs over 1,000 professionals in renovation and technical building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

Net sales development in 2008 – 2017

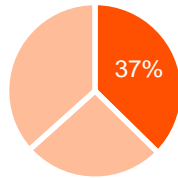


Consti Group consists of three complementary operating segments based in Finland

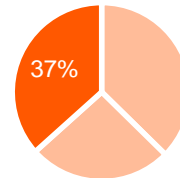
CONSTI



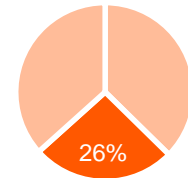
Share of net sales in 2017



- Pipeline renovations of residential buildings
- Technical installations to non-residential properties and public buildings
- Service & maintenance



- Renovation of building envelopes (facades, roofs, windows, balconies, etc.)
- Residential and non-residential
- Renovation of rental apartment buildings
- Service & maintenance

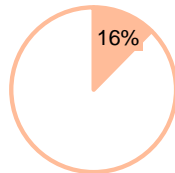


- Renovation contracting of non-residential properties and public buildings
- Comprehensive remodelling and overhaul projects
- Service & maintenance

Offering

Service business

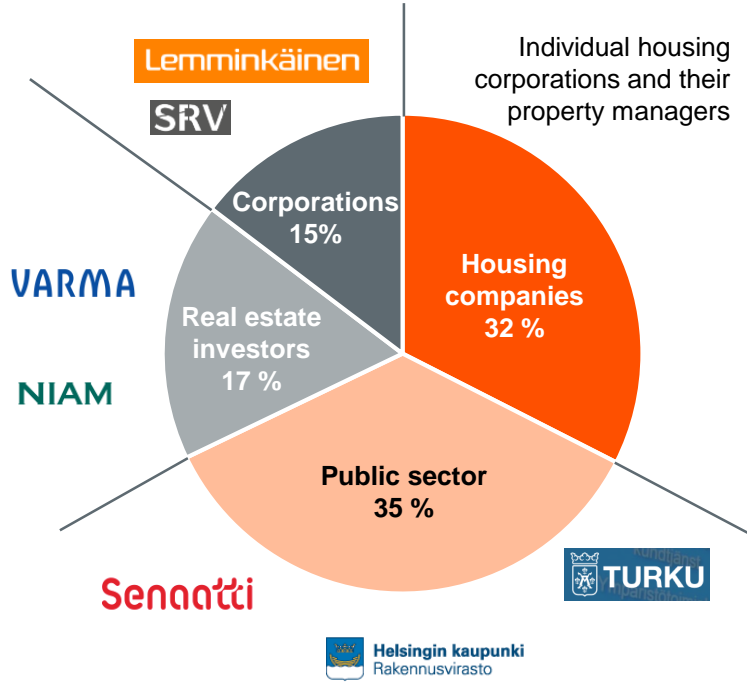
Share of sales 2017



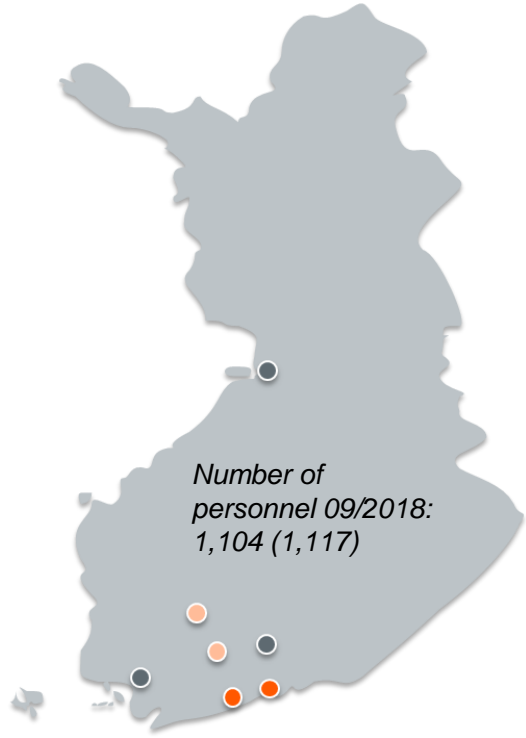
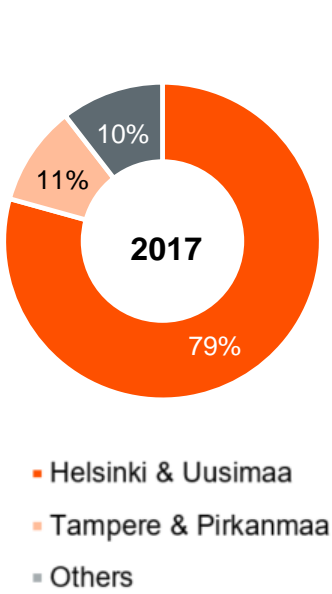
- Wide range of services for HVAC and renovation contracting
- Building facade cleaning and maintenance painting of building exteriors and staircases
- Small-scale building repairs including window repairs, renewal of lobbies, inspection of premises

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

Net sales by customer groups in 2017



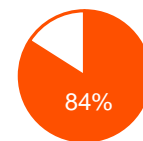
Net sales by geographical area in 2017



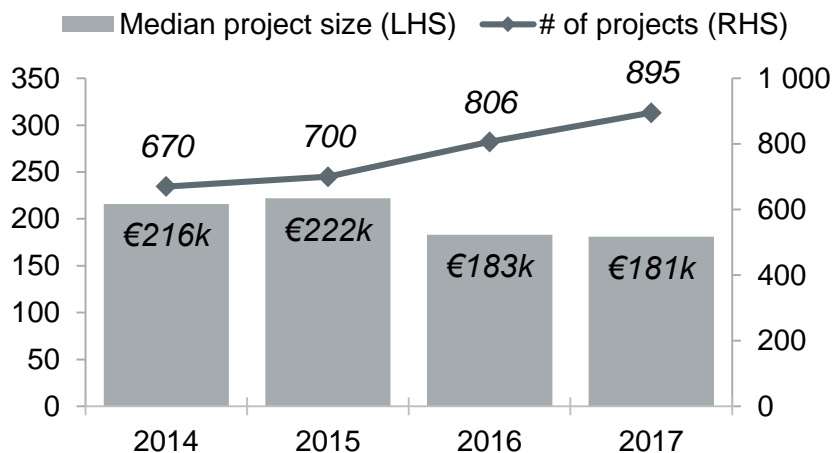
Net sales realised from one single customer did not exceed 10% of the total annual sales

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

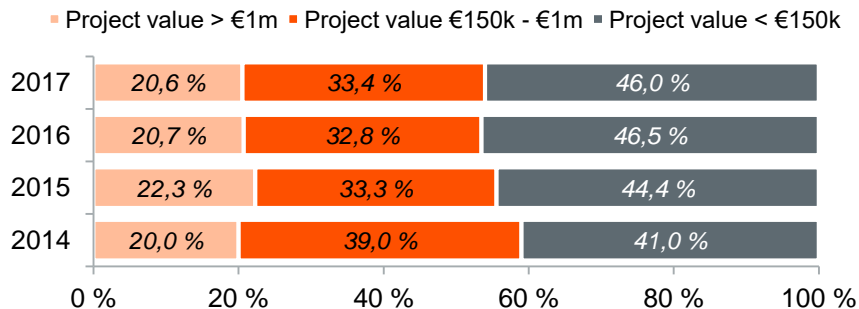
Consti Group's project business – Versatile project base consisting of various project types and sizes



Development of median project size and # of projects



Project size distribution (# of projects)

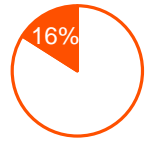


Project types: payment basis / performance obligation

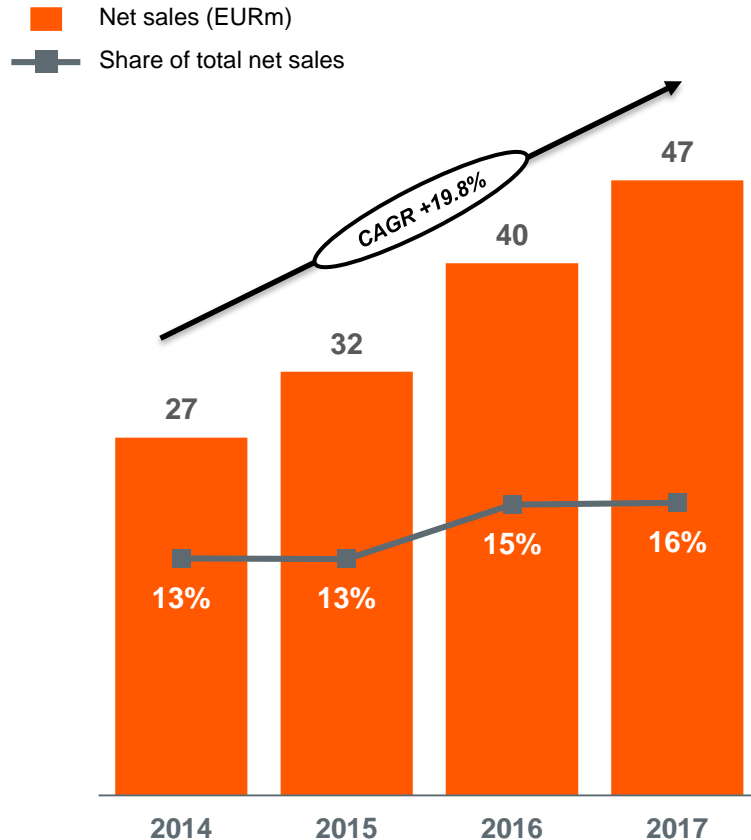
	Fixed price	Target price (incl. ceiling)	Cost + fee (incl. unit price)
Main contract	▶ With design responsibility		
	▶ With design steering responsibility		
	▶ Without design responsibility		
Sub- or partial contract	▶ With design responsibility		
	▶ With design steering responsibility		
	▶ Without design 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
Service business	▶ Fixed-term service contract		
	▶ Frame agreement		
	▶ Service projects		

- 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



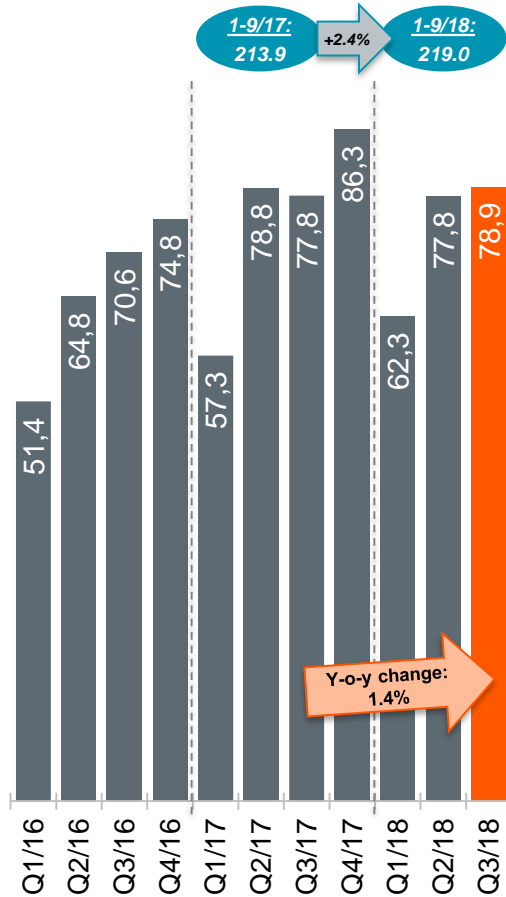
Contents

- Consti in brief
- **January – September 2018 highlights in brief**
- Market environment and competitive landscape
- Appendix: Consti's strategy and development activities

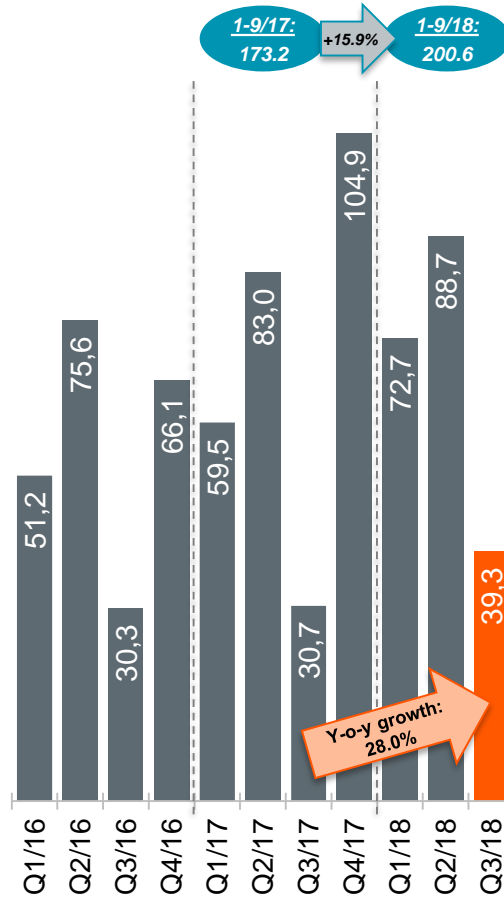
Quarterly performance overview

Net sales, order intake and order backlog grew year-on-year

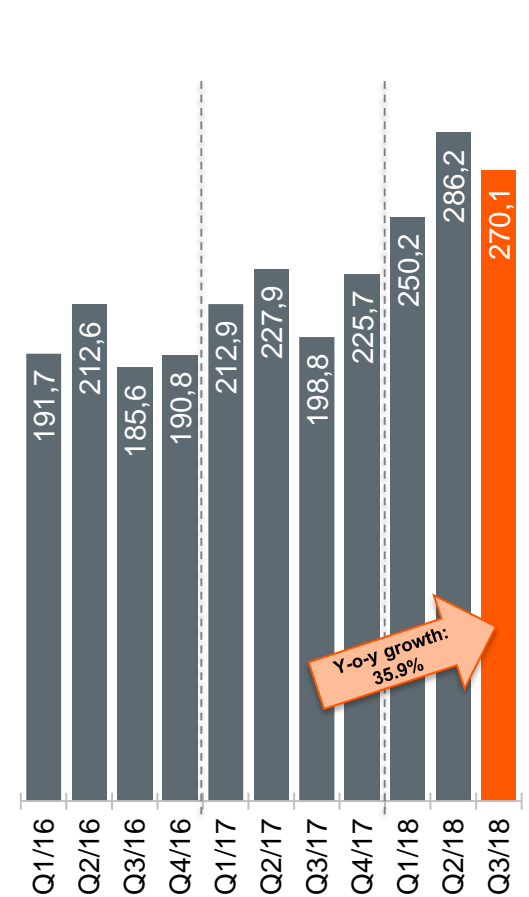
Quarterly net sales (EUR m)



Quarterly order intake (EUR m)



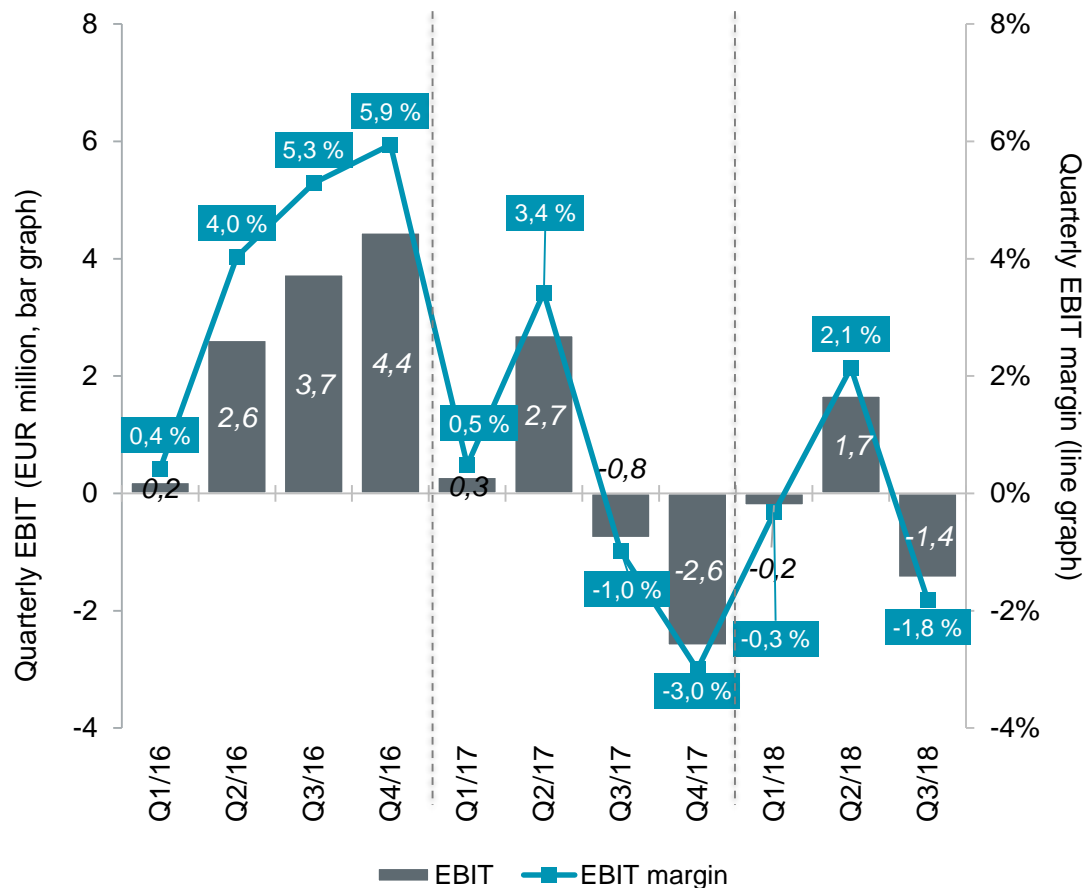
Quarterly order backlog (EUR m)



Quarterly EBIT development

Q3 EBIT negative

Quarterly EBIT development Q1/2016 – Q3/2018 (EUR m)



Comments

- Q3/18 EBIT amounted to EUR -1.4 (-0.8) million, or -1.8% (-1.0%) of net sales
- Operating result was negative due to weaker profitability than expected in project deliveries of technical installations business included in Technical Building Services business area and housing repair business included in Building Facades business area
- Profitability was negatively affected by a limited number of projects, launched in 2016 and early 2017, in which margin estimates were lowered during the reporting period
- 1-9/2018 EBIT amounted to EUR 0.0 (2.2) million, or 0.0% (1.0%) of net sales
- January- September EBIT affected by a total of EUR -4.0m attributable to two demanding building purpose modification projects

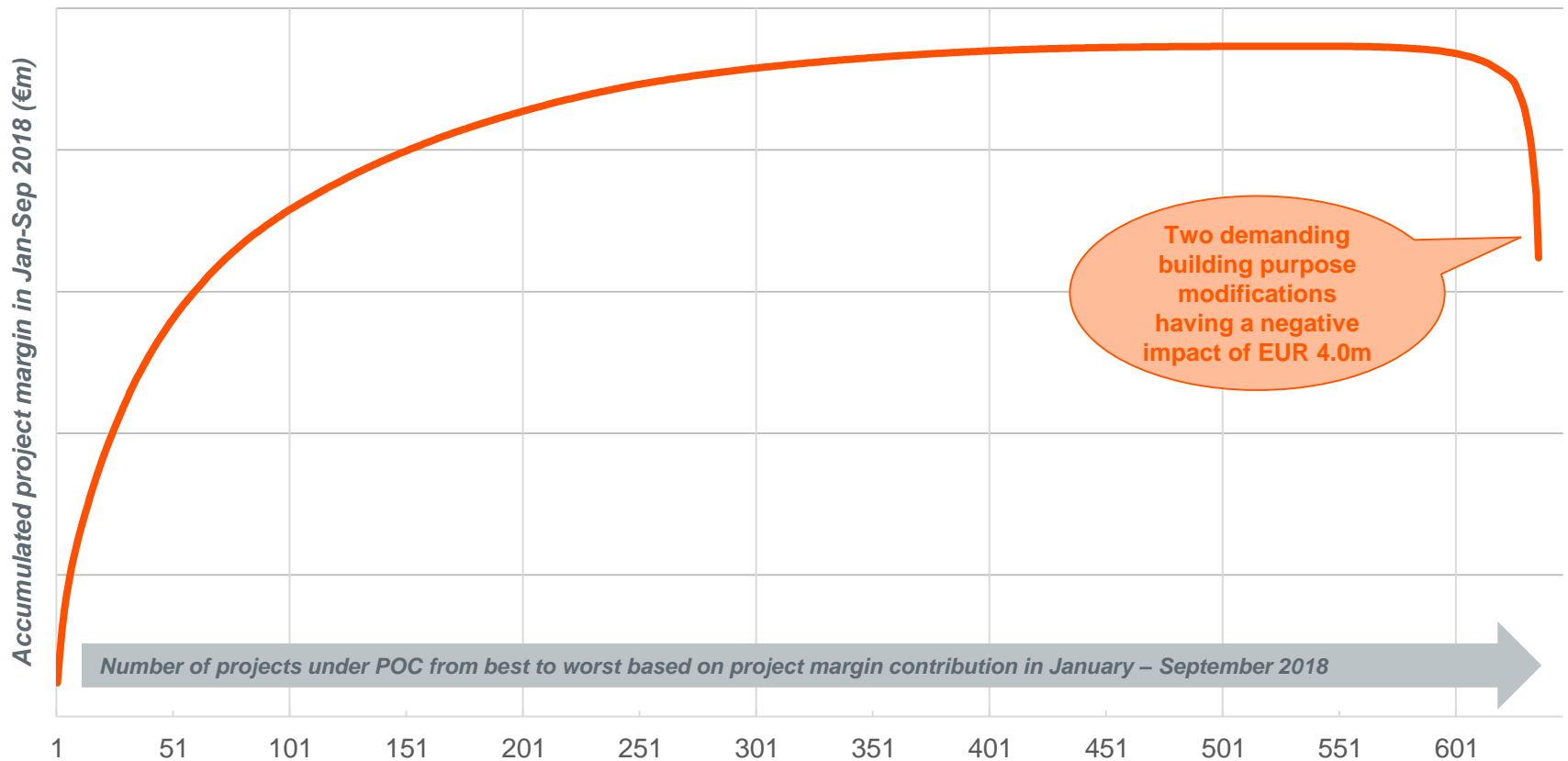
Consti's whale curve for January-September 2018

Overall relatively healthy curve burdened by a few loss-making projects in January-September

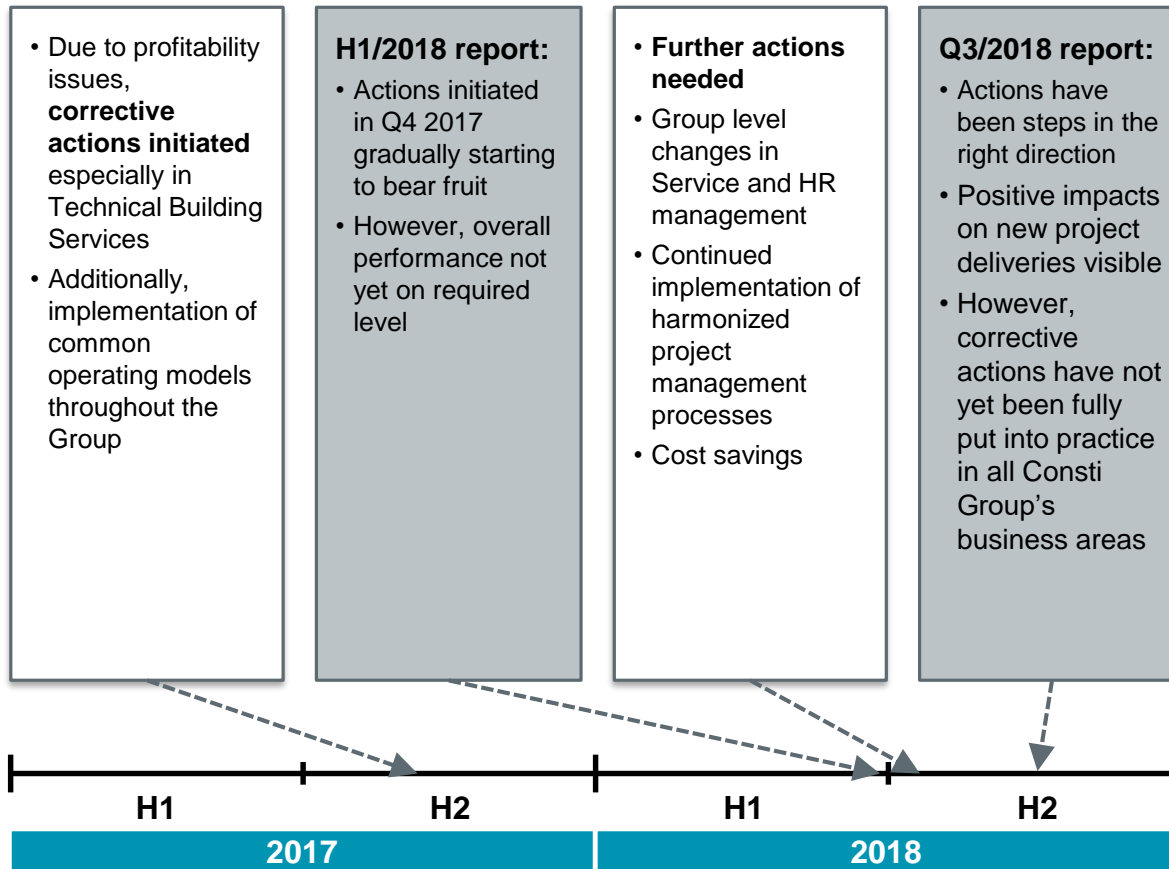
CONSTI GROUP'S PROJECTS FROM BEST TO WORST (Jan-Sep 2018)

Whale curve (1-9/2018)

A total of ~640 projects



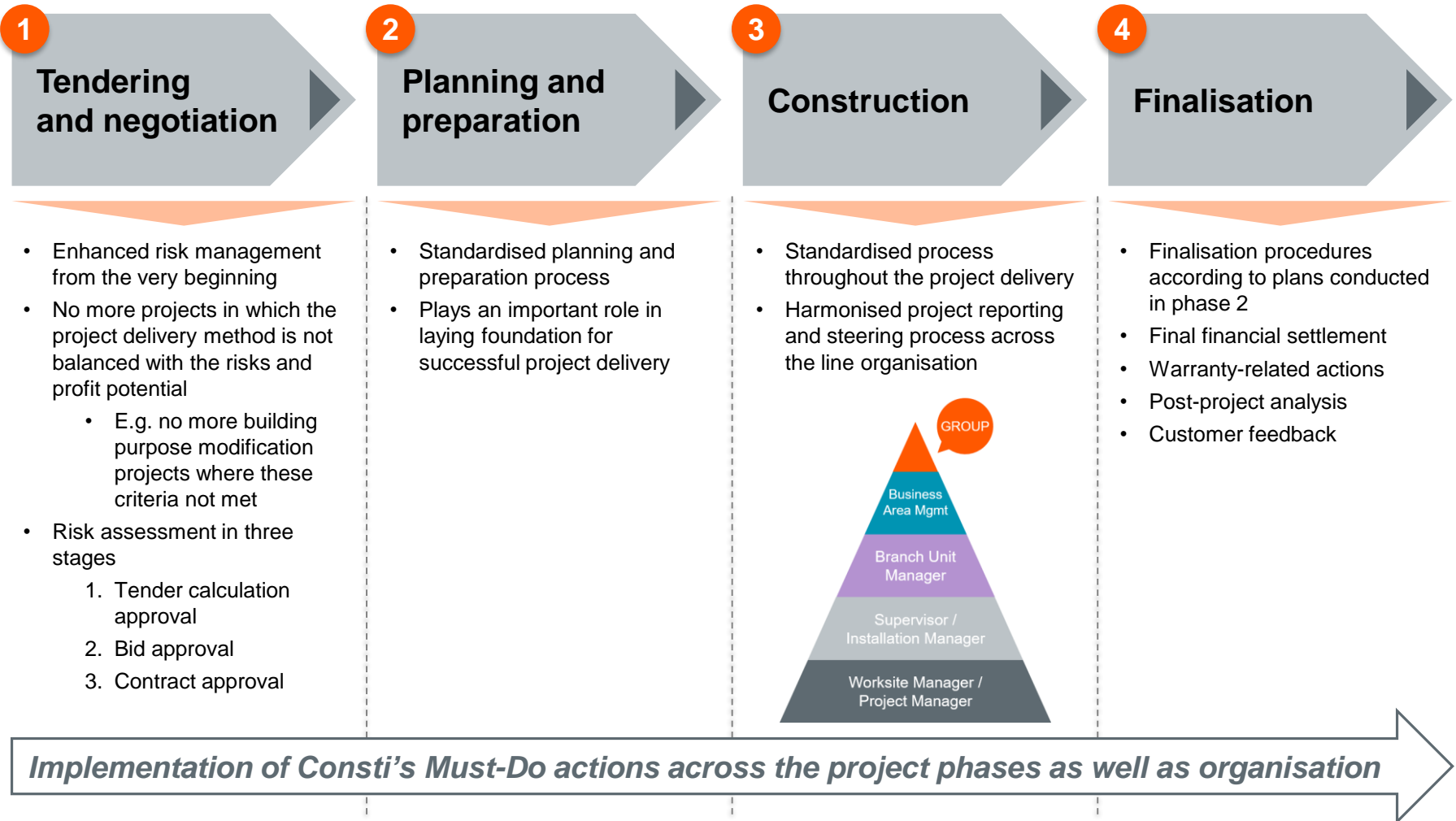
Actions to improve profitability to be continued



FURTHER ACTIONS IN Q3/2018 AND THEREAFTER →

- ▶ Targeted actions to restore the performance of low-profitability units were immediately began
 - ▶ Personnel changes
 - ▶ Responsibilities in the line organisation clarified
 - ▶ Tendering criteria further tightened
- ▶ For example, in the future Consti will no longer take on building purpose modification projects in which the project delivery method is not balanced with the risks and profit potential of the project
- ▶ Continued implementation of (1) common operating models to improve project steering and monitoring and (2) performance management principles on all organisation levels
- ▶ The whole organisation needs to take a step closer to everyday project execution at worksites

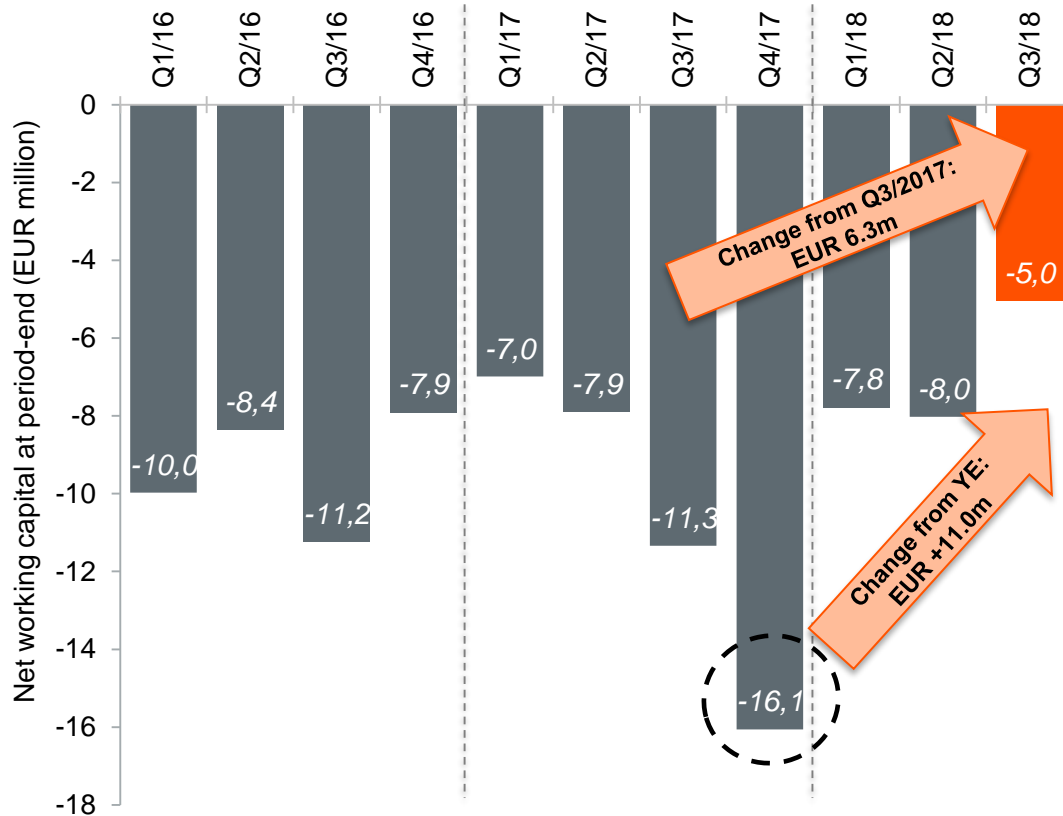
Means to improve project steering and management going forward, end-to-end view



Quarterly net working capital development

Net working capital at EUR -5.0 million at the end of Q3/2018

Quarterly net working capital¹⁾ Q1/2016 – Q3/2018 (EUR m)



Comments

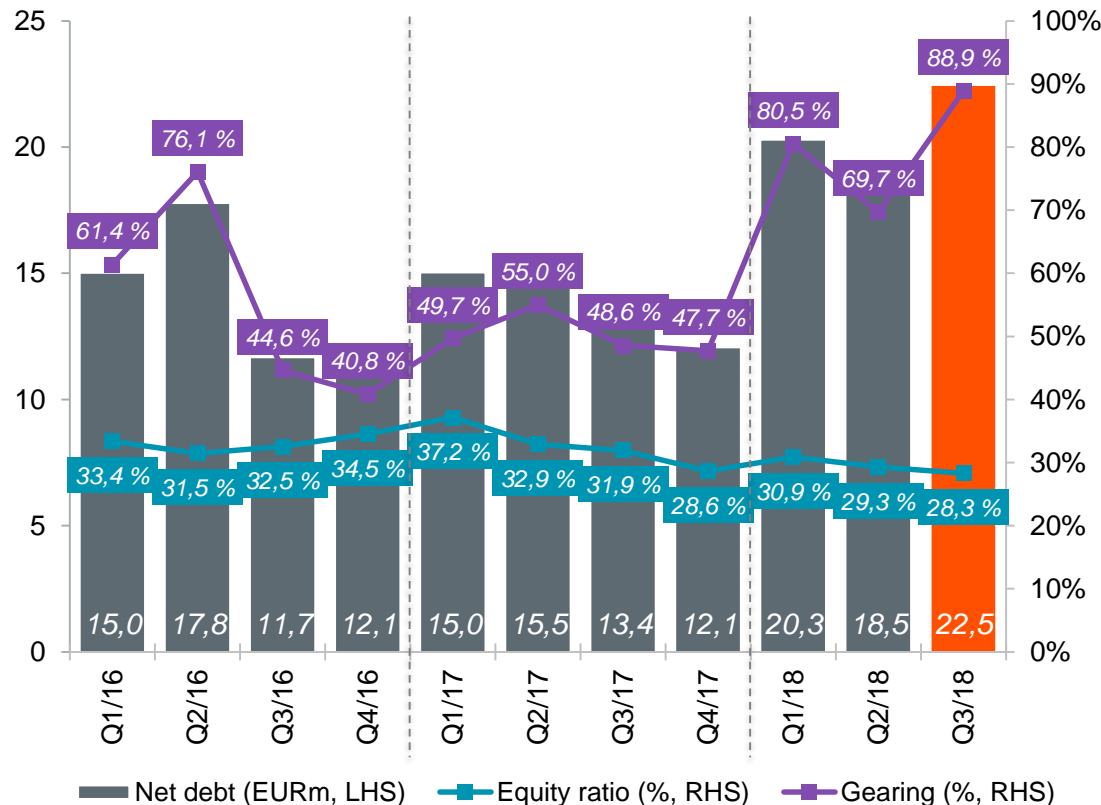
- Net working capital EUR -5.0m (-11.3m) at the end of Q3/2018
- NWC tied up during 1-9/2018 amounted to EUR 11.0m
 - Exceptionally low NWC level at year-end 2017
 - Hotel St. George project in Renovation Contracting tied up capital during 1-9/2018

¹⁾ 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

Financial position weakened compared to previous quarter

Quarterly net debt, equity ratio and gearing Q1/2016 – Q3/2018



Comments

- Financial position weakened from the previous quarter due to negative cash flow in the third quarter
- Q3/2018 net debt at EUR 22.5m (13.4m)
- Q3/2018 equity ratio at 28.3% (31.9%)
- Q3/2018 gearing at 88.9% (48.6%)



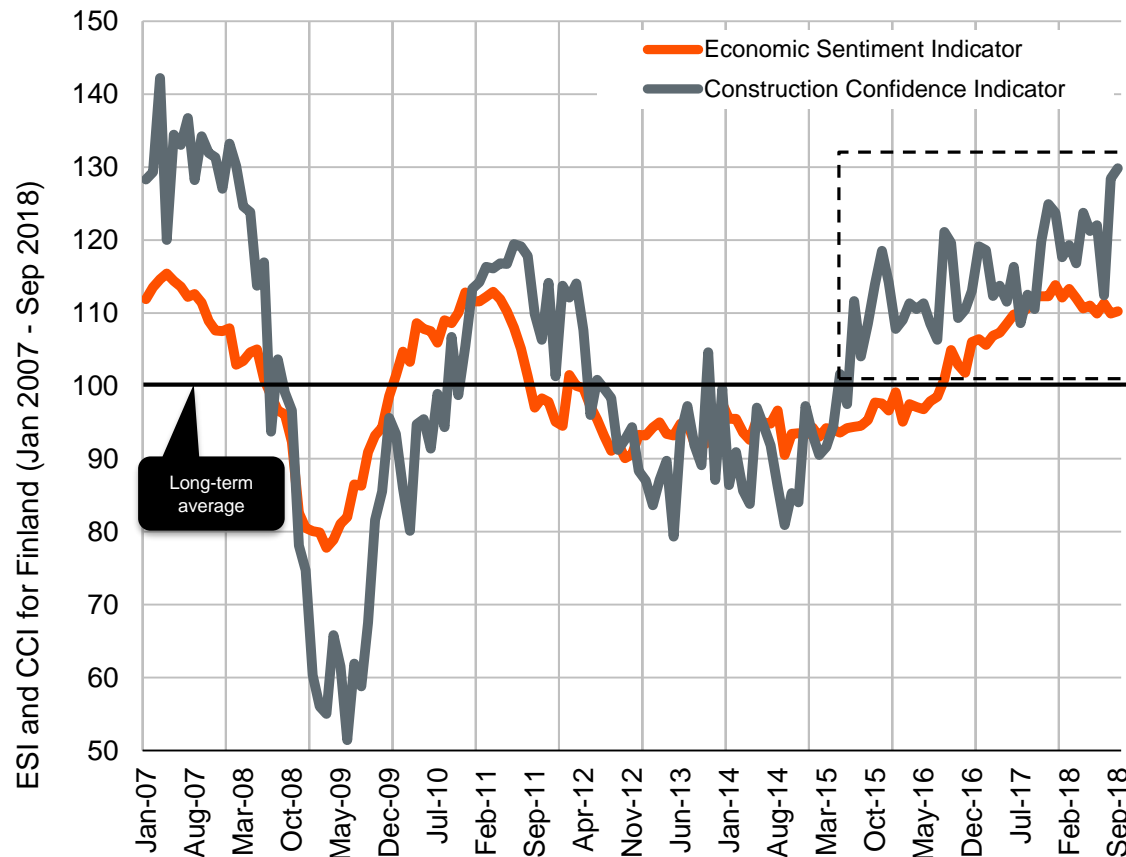
Contents

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

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

Economic Sentiment and Construction Confidence / Finland (2007 – 9/2018)

Comments



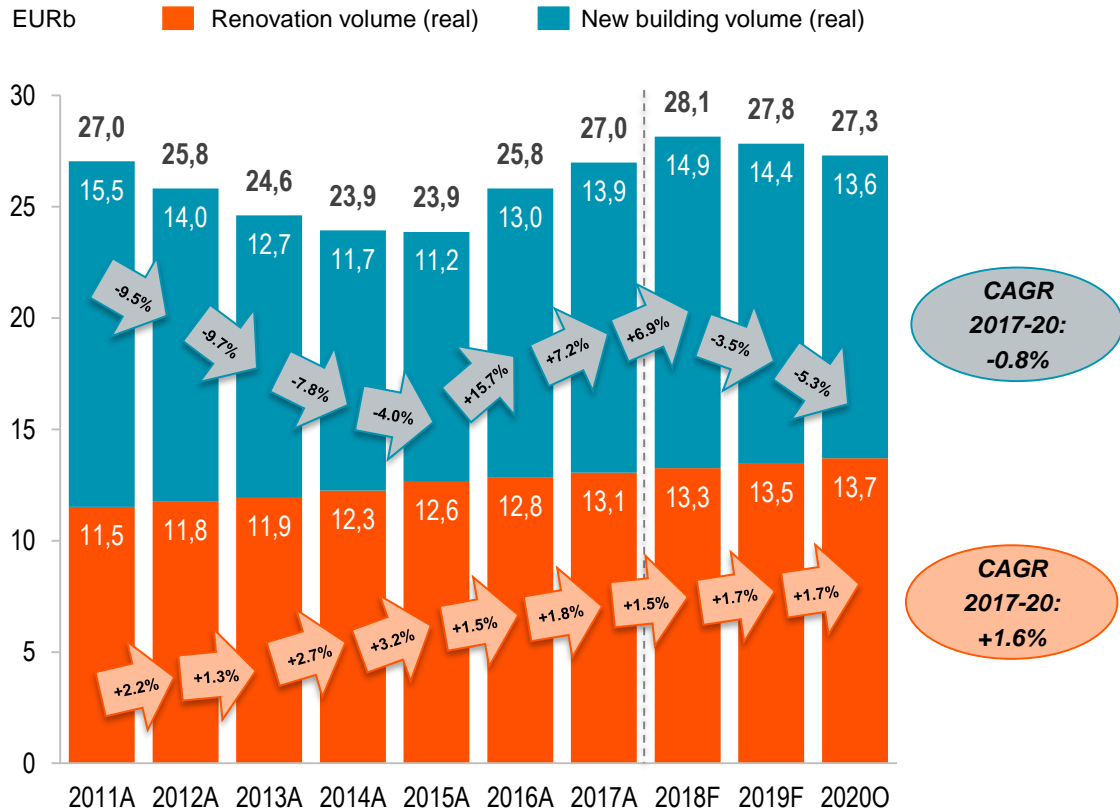
- During the past few years Economic sentiment and Construction confidence in Finland have steadily remained above the long-term average
- Both lead indicators have stayed at a good level during January – September 2018

Note: Mean-adjusted figures

Source: European Commission, September 2018

Stable growth in renovation to continue

Finnish new building and renovation market development 2011 – 2020O



Source: Euroconstruct, June 2018

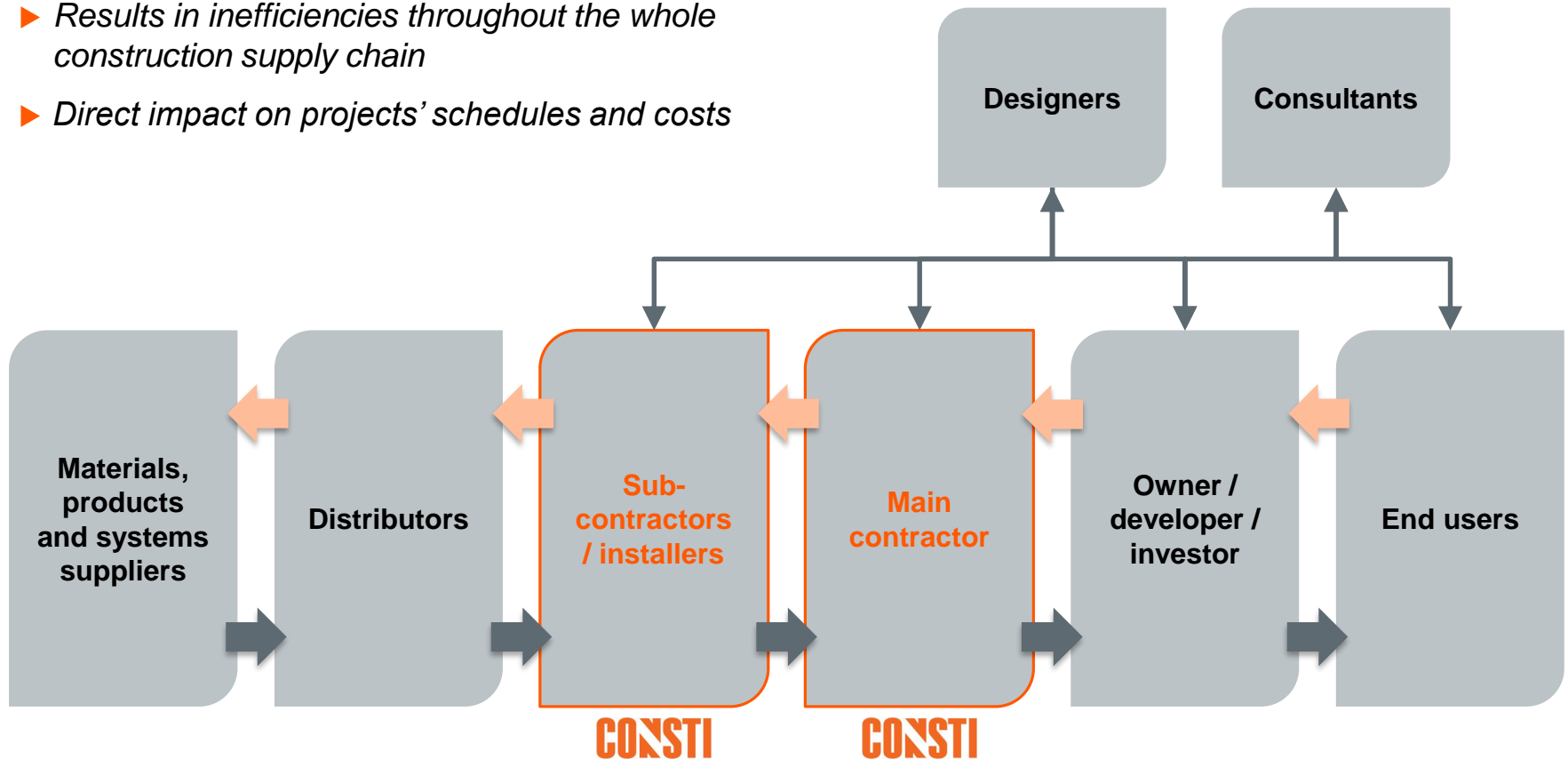
CFCI = The Confederation of Finnish Construction Industries, October 2018

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 indicate gradual cooling down in the new building sector
- Potential impact on Consti is two-fold:
 - Better availability of professionals throughout the construction value chain
 - Competition in renovation likely to increase (the extent and timing somewhat dependent on development of demand in new building)

The whole construction sector value chain currently under pressure (illustrative)

- ▶ Challenges in availability of professionals are not limited to contractors
- ▶ Results in inefficiencies throughout the whole construction supply chain
- ▶ Direct impact on projects' schedules and costs



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



Ageing building stock



Energy efficiency



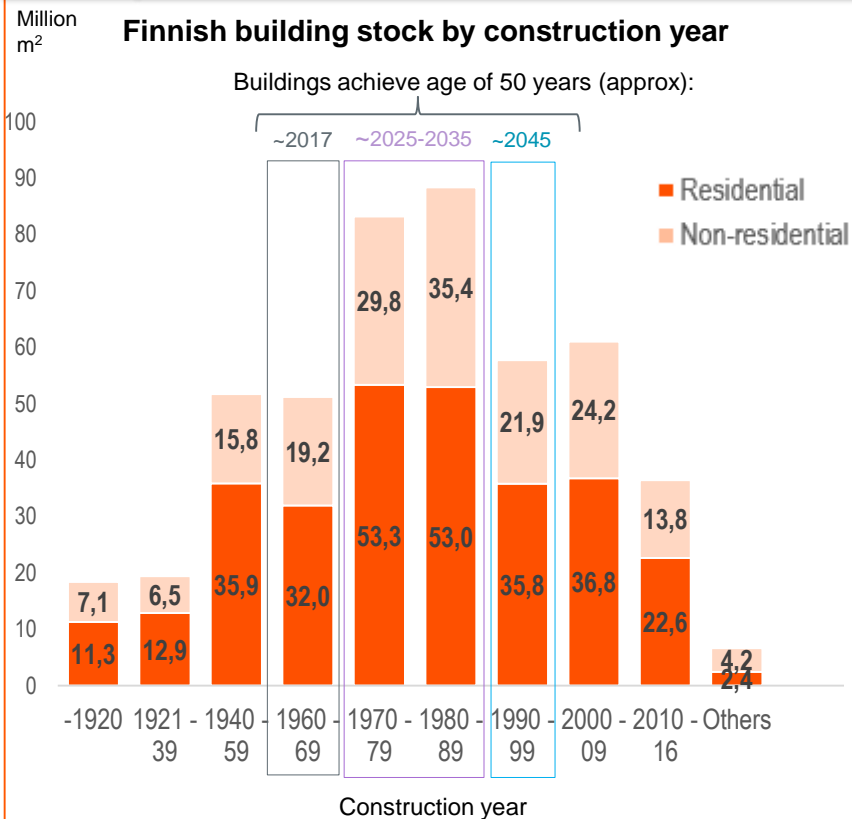
Urbanisation and concentration of renovation in growth centers



Modifications of the use of buildings



Increased need for building technology and automation

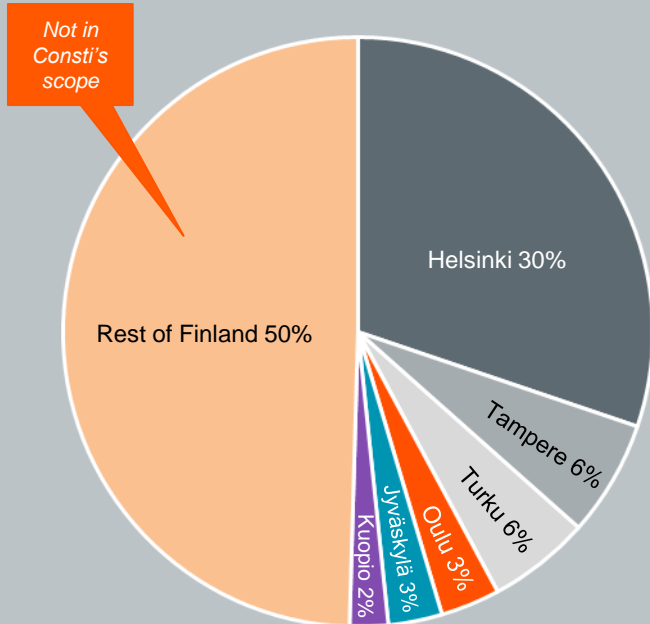


Source: Statistics Finland

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

1

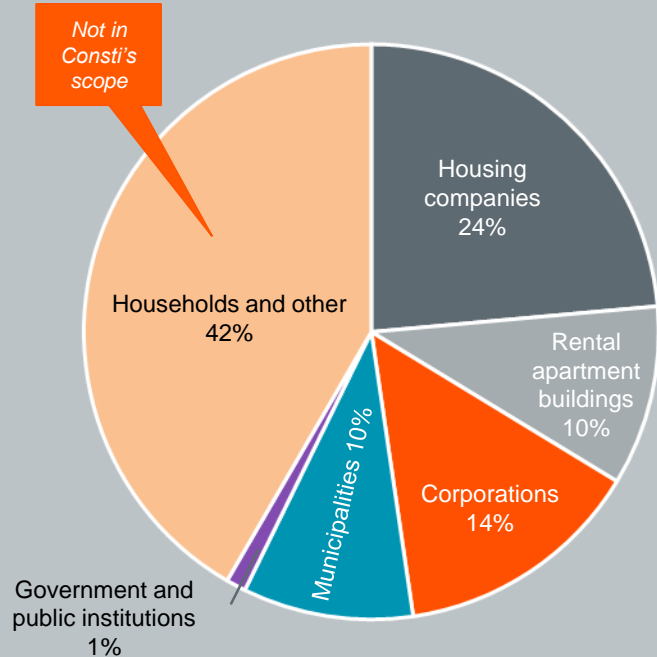
Renovation by geography



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

2

Renovation by customer group



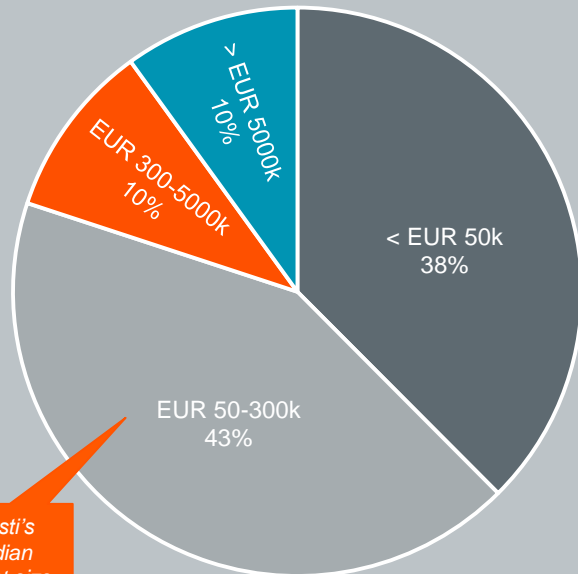
Strongest need for renovation from residential buildings, also stemming from the building stock structure

Source: VTT Technical Research Centre of Finland Ltd

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

3

Renovation by project size

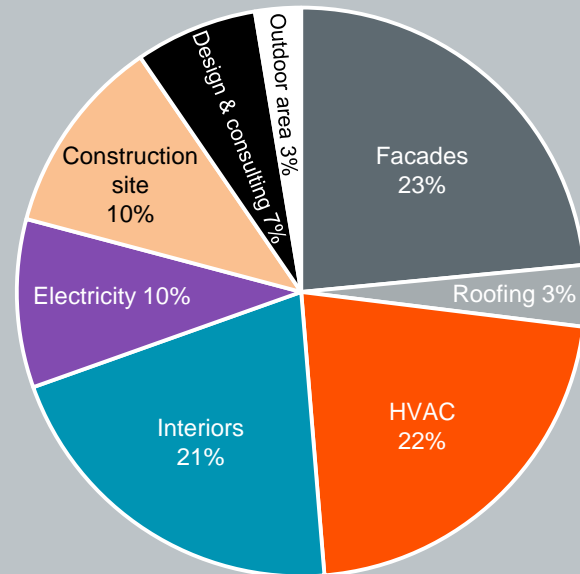


Consti's median project size ~0.2m€

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

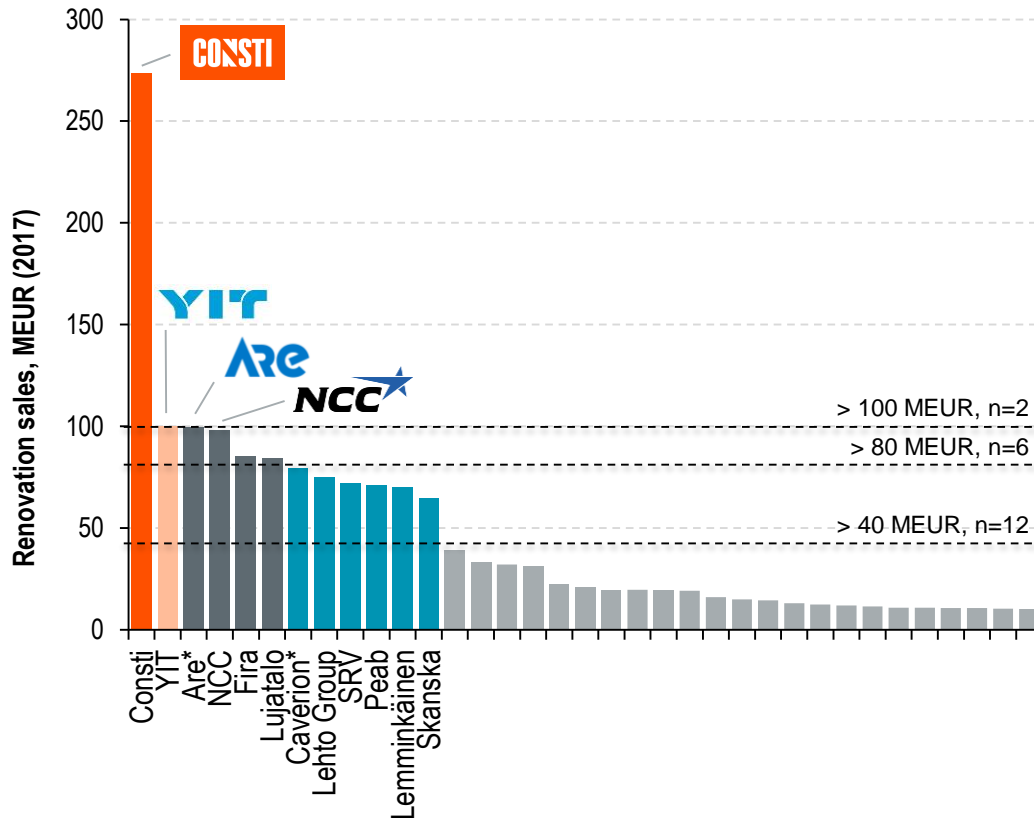


Building technology accounts for one third of the total market, while facades and interiors combined nearly 50%

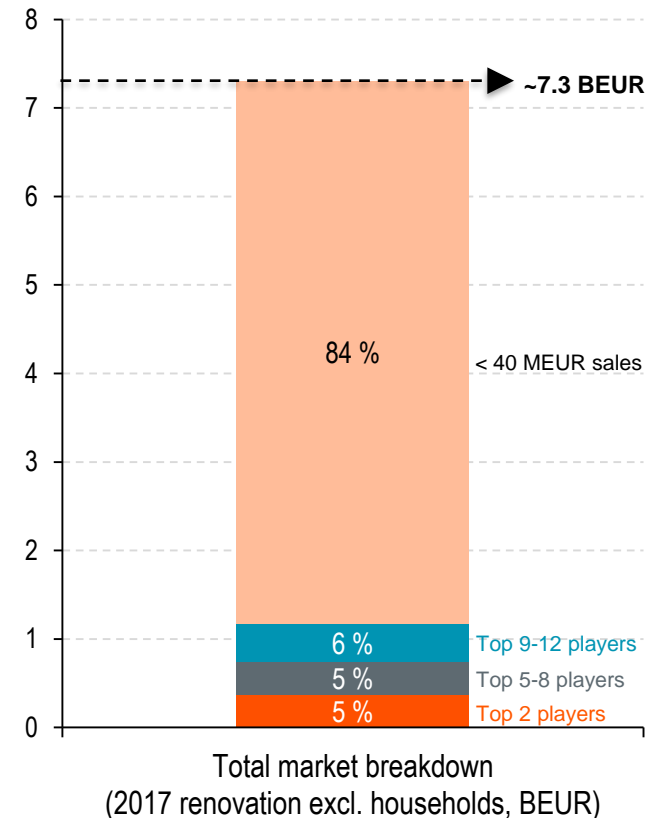
Source: VTT Technical Research Centre of Finland Ltd

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



Contents

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

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

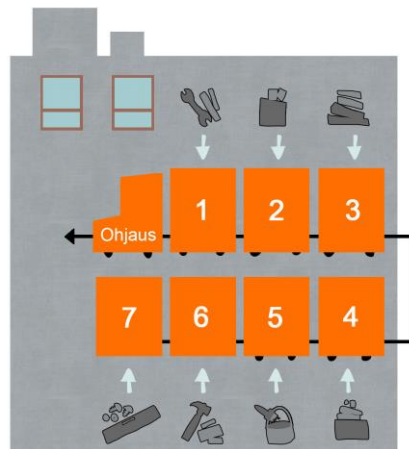
Consti's development efforts go hand-in-hand with the long-term trends of renovation market environment (1/2)

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

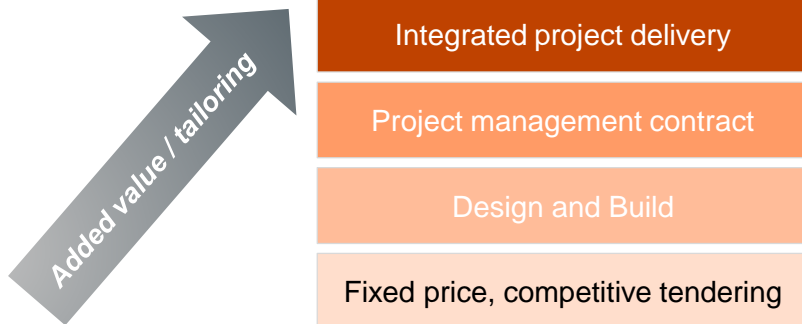


Consti's development efforts go hand-in-hand with the long-term trends of renovation market environment (2/2)

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

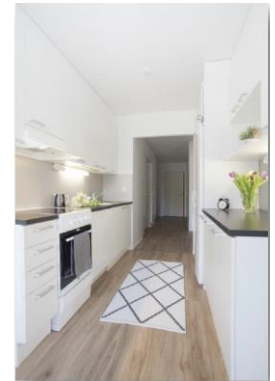
CONSTI KODIKAS

- 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 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 percent¹</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 profit²</i></p>
<ul style="list-style-type: none">▪ Target to clearly outgrow the steady Finnish renovation market▪ Once the current profitability issues have been solved, return to M&A market to support achievement of growth target	<ul style="list-style-type: none">▪ Target to achieve stable annual profitability development▪ Achievement of 5% EBIT margin leaves no room for clear under-performance in any of the business areas	<ul style="list-style-type: none">▪ The importance of cash flow as a financial measure to be further emphasised▪ Target to generate stable cash flow through the asset-light business model and targeted growth and profitability development	<ul style="list-style-type: none">▪ Target to maintain strong and efficient financial position▪ However, target to have adequate financial flexibility to be able to capitalise on market opportunities	<ul style="list-style-type: none">▪ Target to pay stable and growing dividend as a result of achieving all the other long-term financial targets

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.



CONSTI

CONSTI GROUP PLC
15 NOVEMBER 2018

**THANK
YOU**

CONSTI GROUP PLC
HOPEATIE 2
FI-00440, HELSINKI
BUSINESS ID 2203605-05
WWW.CONSTI.FI