

# CONSTI GROUP PLC

## CARNEGIE CONSTRUCTION SEMINAR

CEO Esa Korkeela

23 AUGUST 2019



**CONSTI**

# CONTENTS

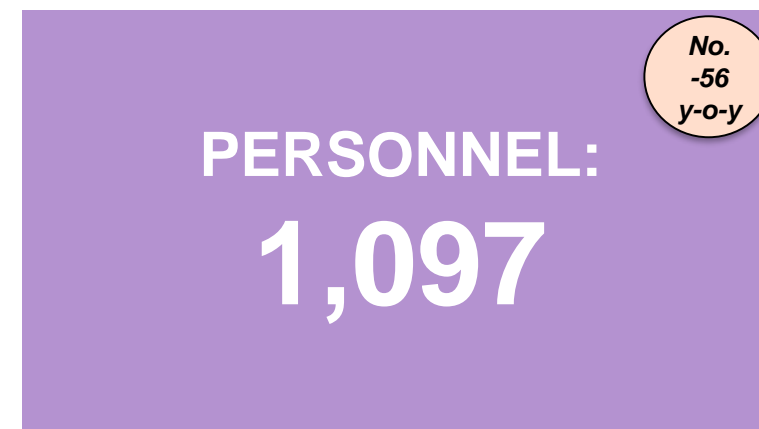
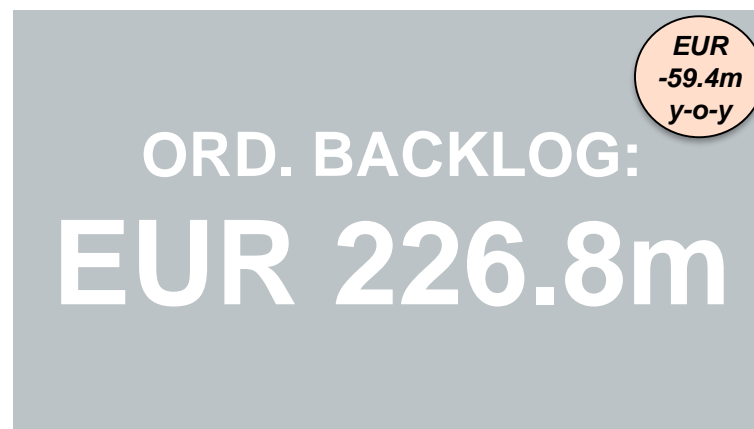
---

1. **Q2 2019 in brief**
2. Turnaround program
3. Market environment and competitive landscape
4. Appendix



# Highlights of the second quarter of 2019

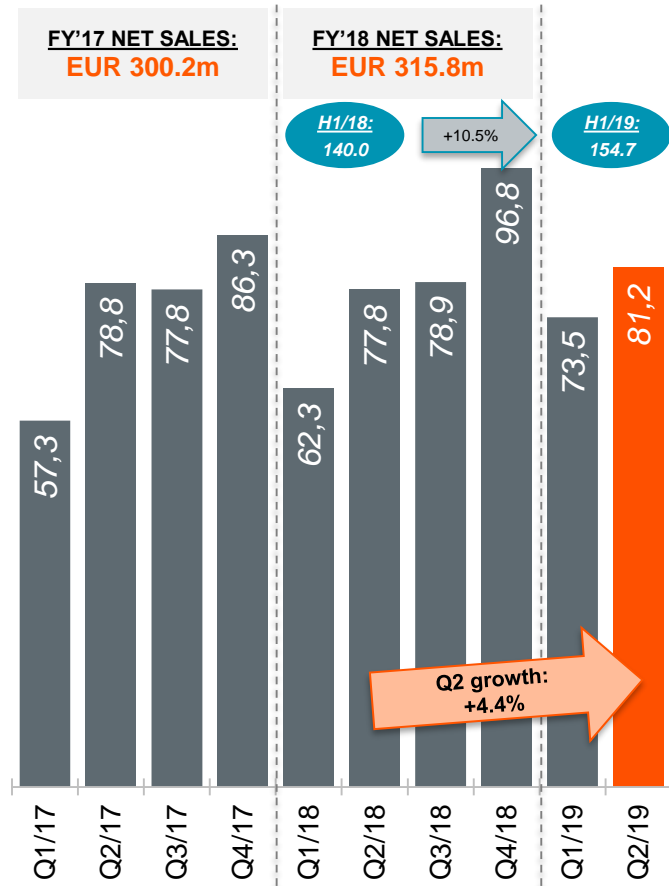
Net sales grew, EBIT turned positive



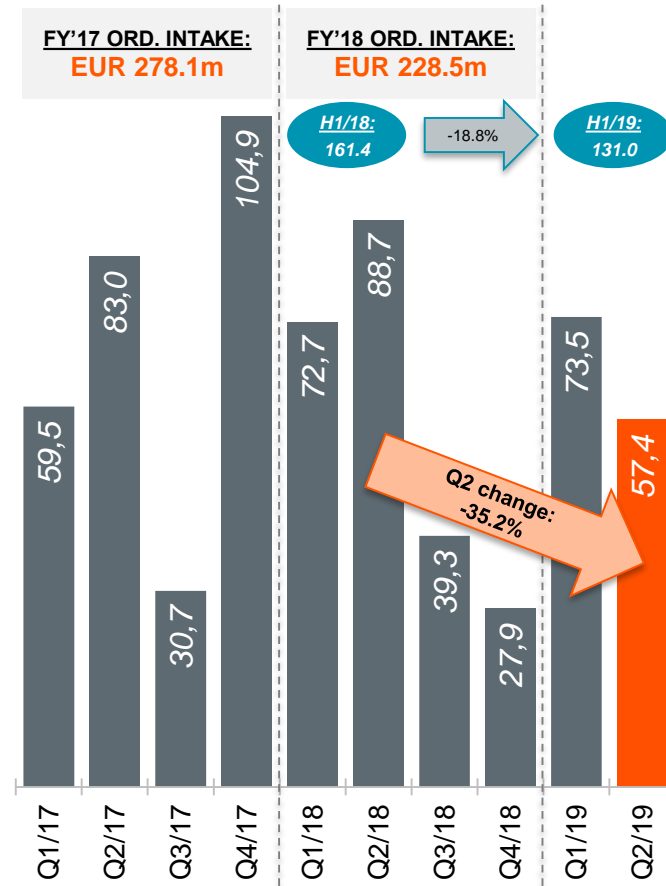
# Quarterly performance overview

Net sales grew by 10.5%, order intake and order backlog declined year-on-year

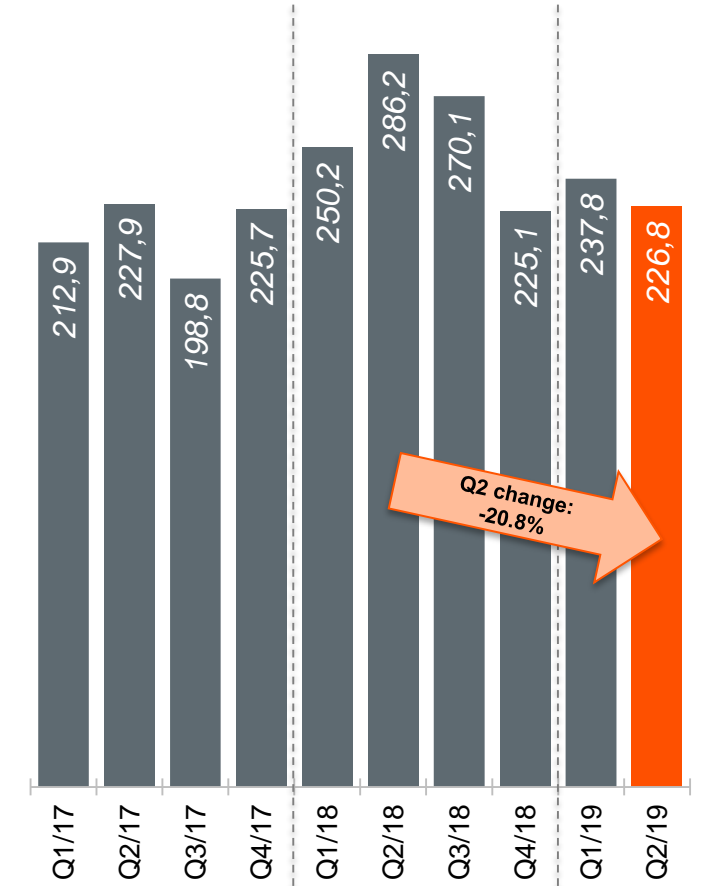
QUARTERLY NET SALES (EUR m)



QUARTERLY ORDER INTAKE (EUR m)



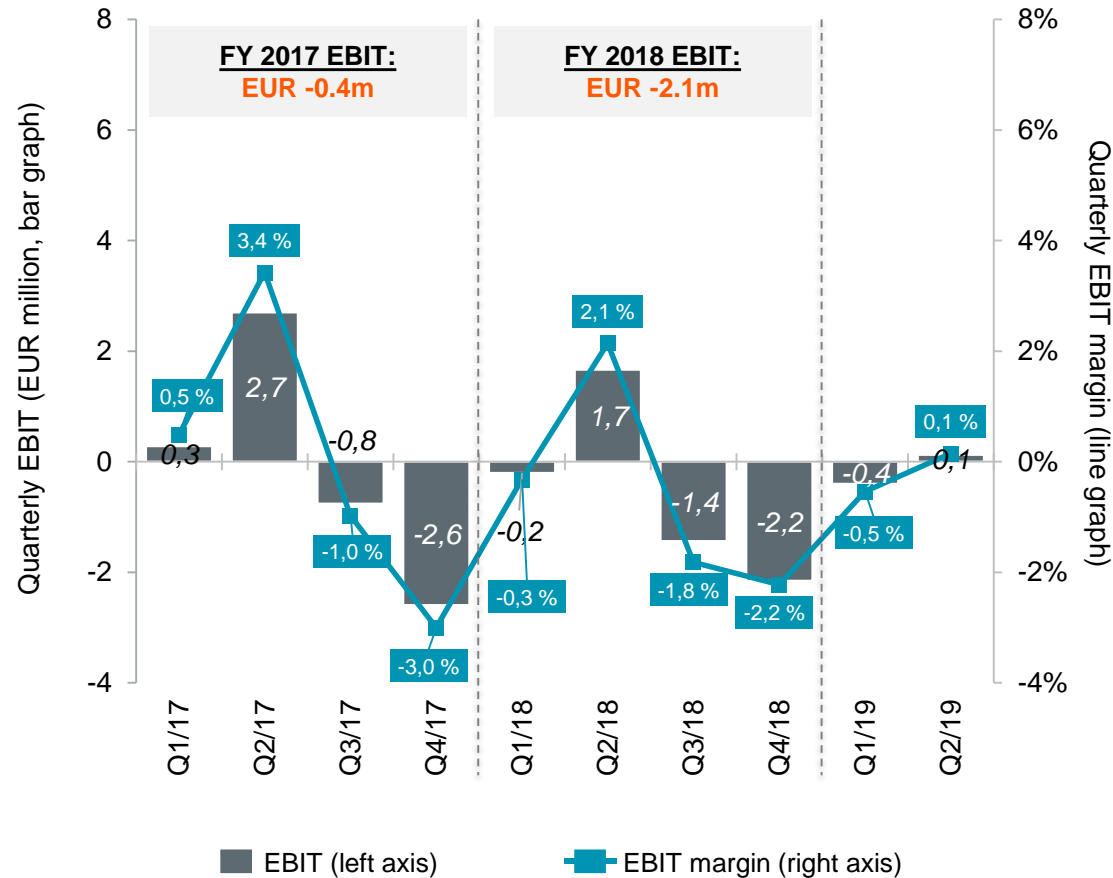
QUARTERLY ORDER BACKLOG (EUR m)



# EBIT development

## Q2 2019 EBIT turned positive

Quarterly EBIT development Q1/2017 – Q2/2019 (EUR m)



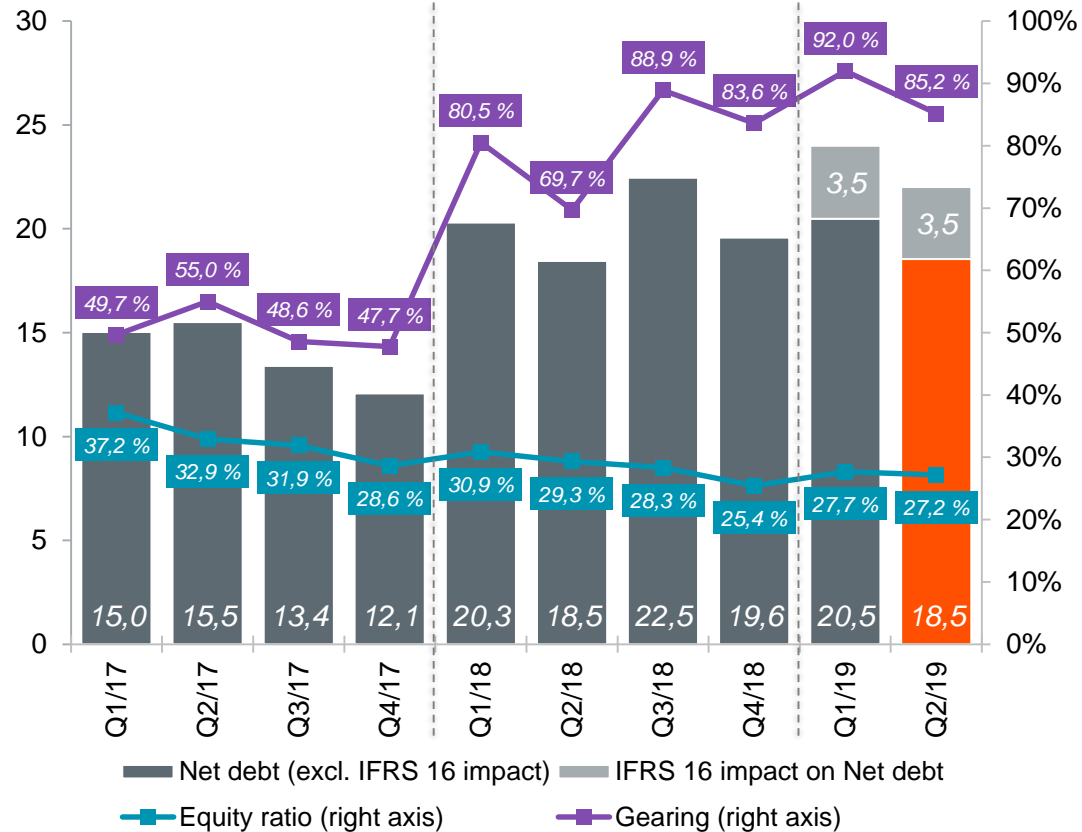
### Comments

- Q2/19 EBIT amounted to EUR 0.1 (1.7) million, or - 0.1% (2.1%) of net sales
  - EBIT improved from previous quarter and turned positive
  - During the period, profitability development was mostly positive
  - However, the operating result was still materially affected by execution of the remaining performance obligations of a building purpose modification project related to a high-value property
  - Excluding the negative impact of the project in question, April-June EBIT would have improved significantly year-on-year
  
- H1/19 EBIT amounted to EUR -0.3 (1.5) million, or - 0.2% (1.0%) of net sales

# Quarterly balance sheet structure

Q2 financial position improved compared to Q1 thanks to positive cash flow in April-June

Quarterly net debt, equity ratio and gearing Q1/2017 – Q2/2019



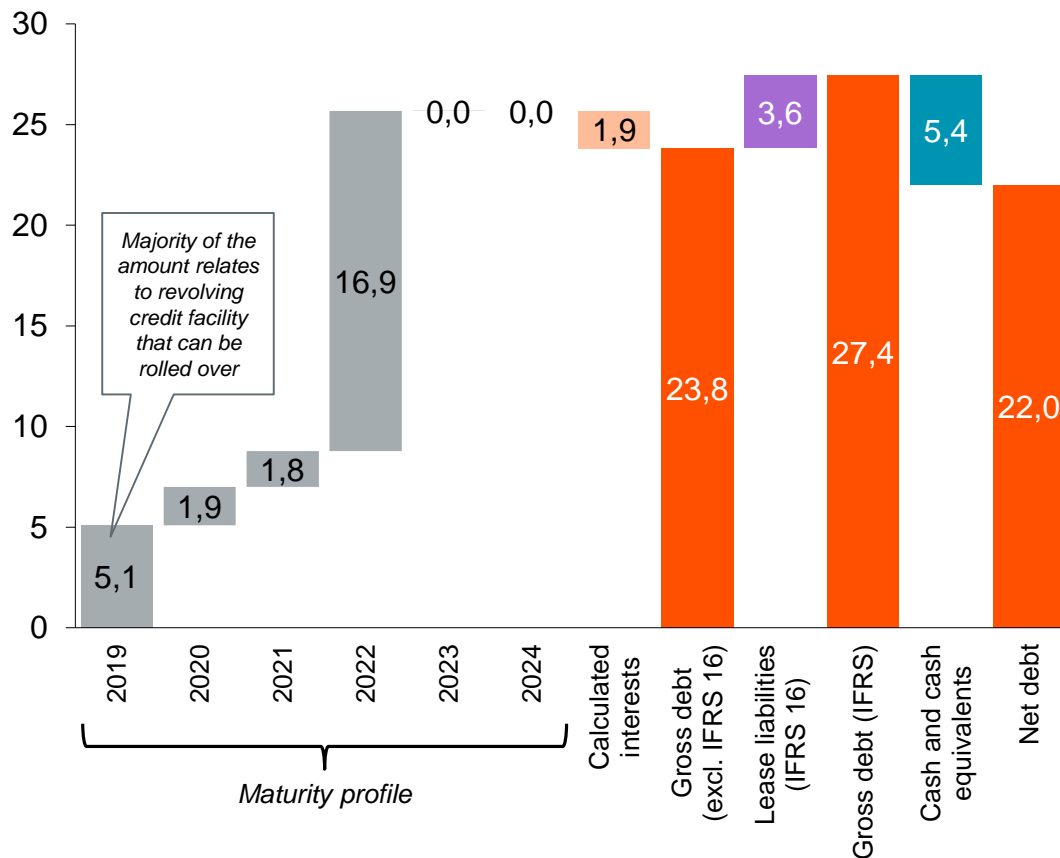
## Comments

- Financial position as per 30 June 2019 improved from previous quarter-end thanks to positive cash flow in Q2
- In addition to operating profitability, change in NWC plays an important role in development of Consti's cash flow and therefore also net debt
- NWC was at EUR -7.8m at the end of Q2/2019
- Q2/2019 net debt at EUR 22.0m (18.5m), of which EUR 3.5m is attributable to IFRS 16 related lease liabilities
- Q2/2019 equity ratio at 27.2% (29.3%)
  - Adoption of IFRS 16 decreased Q2 2019 equity ratio by 1.0 percentage points
- Q2/2019 gearing at 85.2% (69.7%)
  - Adoption of IFRS 16 increased Q2 2019 gearing by 13.5 percentage points
- Excluding IFRS 16, Q2 2019 financial position virtually comparable to that of Q2 2018

# Maturity distribution of interest-bearing debt (30 June 2019)

No significant bank loan redemptions in 2019-2021. Turnaround plays an important role in development of financial position

Maturity profile of interest-bearing debt<sup>1)</sup> as per 30 June 2019 (EUR m)



## Comments

- Consti's gross interest-bearing debt at EUR 23.8 million (excluding IFRS 16) at the end of Q2 2019
- Virtually all of the interest-bearing debt consist of bank loans
- Majority of Consti's bank loans have maturity in 2022, i.e. no significant bank loan redemptions in 2019-2021, which supports the implementation of the change program and actions to improve profitability
- Of note, however, is that hybrid bond of EUR 3.2m has its first call date in 2021 (non-call period of 2 years)
- Through high cash conversion rate inherent to Consti's business, improvement in profitability would directly support company's financial position
- Consti's long-term financial target is to achieve cash conversion ratio in excess of 90 percent (Free cash flow divided by EBITDA)

<sup>1)</sup> Both calculated interest payments and repayments of the principal included in maturity profile values

# CONTENTS

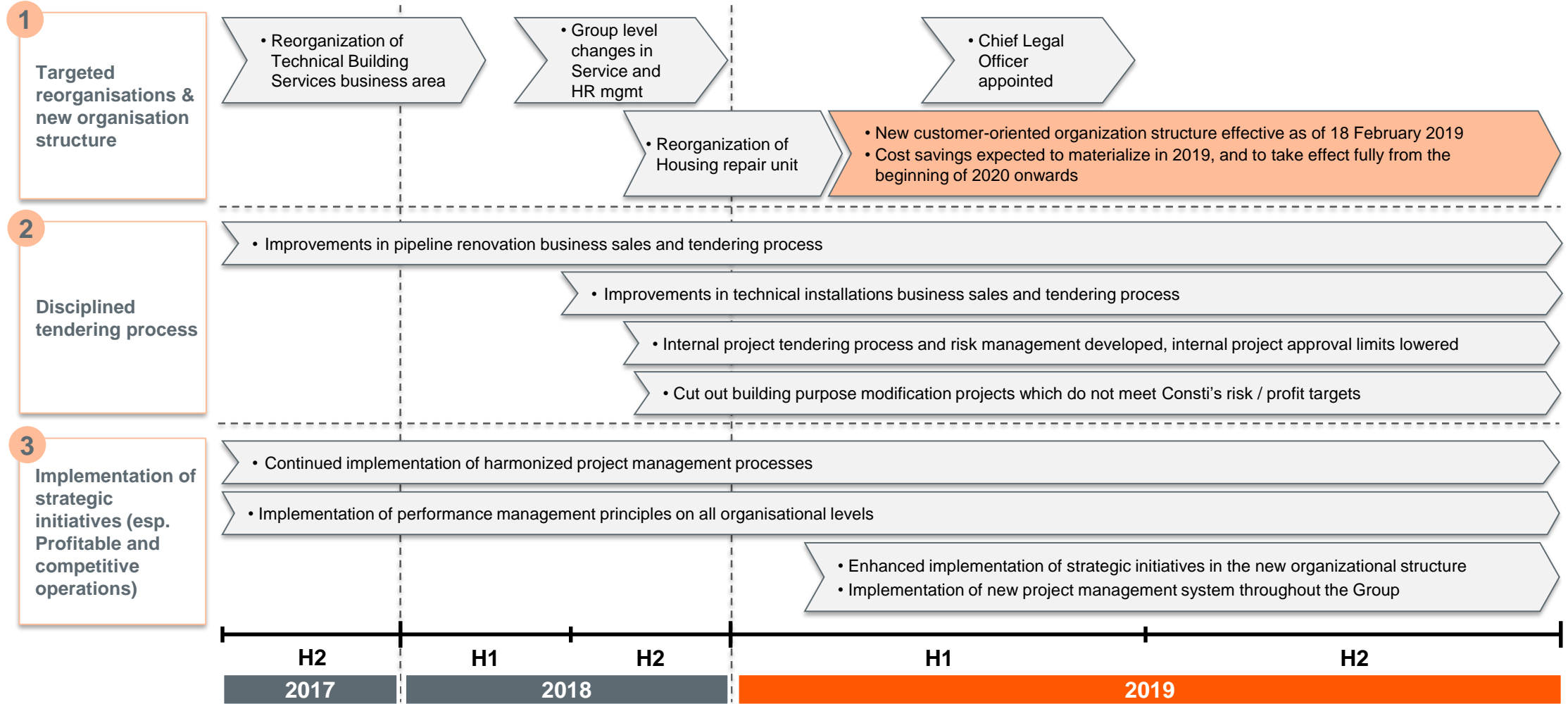
---

1. Q2 2019 in brief
2. **Turnaround program**
3. Market environment and competitive landscape
4. Appendix



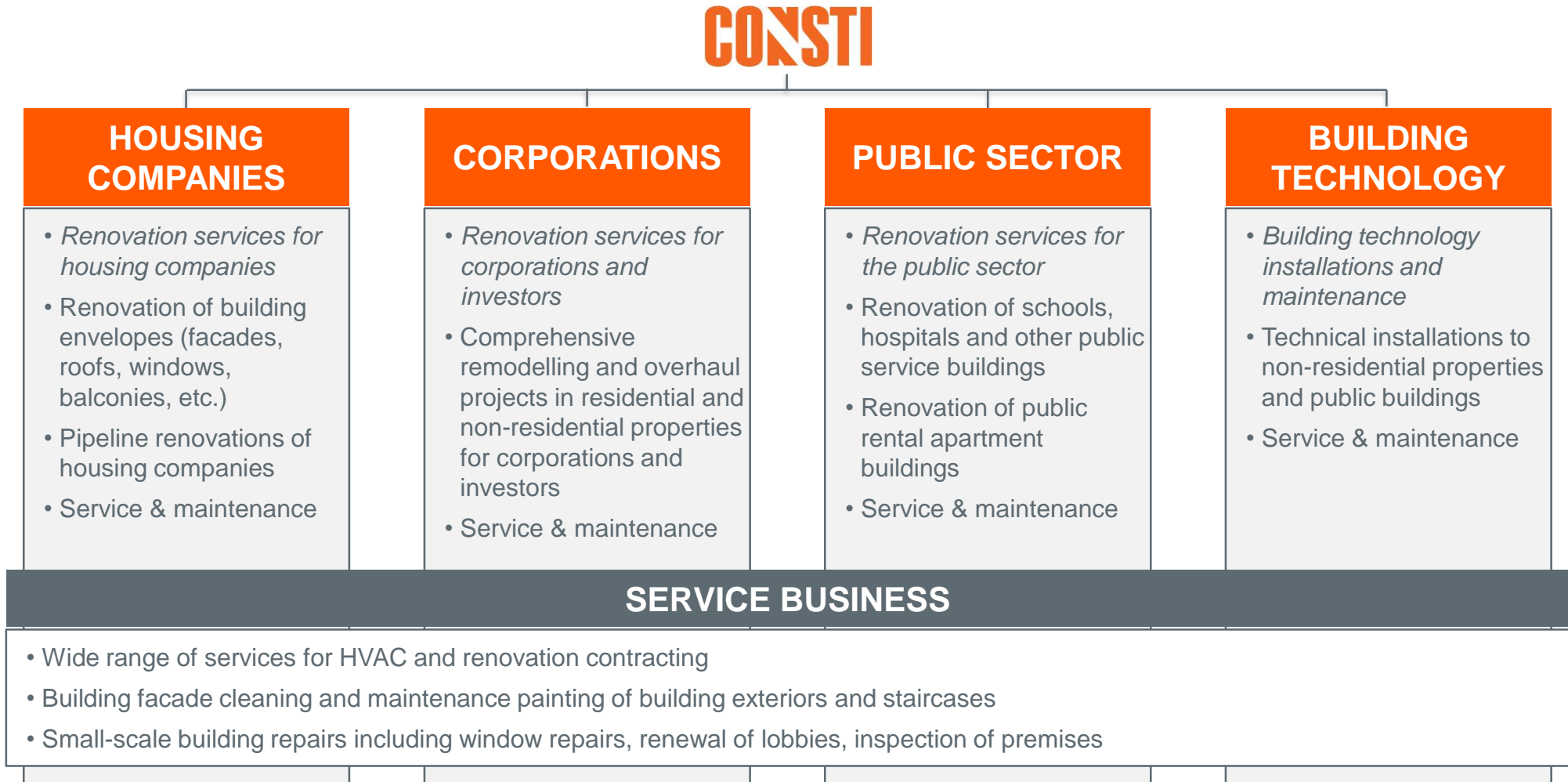
# Overview of Consti's turnaround program and activities

The main focus in 2019 is on implementing the new organisation structure



# Consti Group consists of four complementary operating segments

New organisation effective as of 18 February 2019

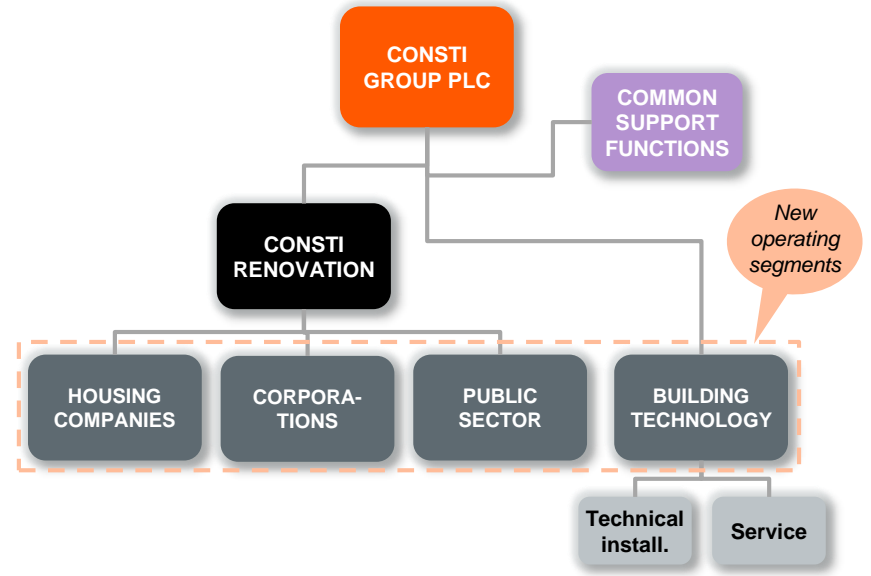


# New organisation structure to bring multiple benefits for Consti

## TARGETED BENEFITS OF THE NEW ORGANISATION

- 1 Enhanced strategy implementation throughout the Group
- 2 New organisation drives customer-centric, effective and efficient operations
- 3 Enables centralisation of expertise and flexibility in resourcing
- 4 Improves risk management and agility of the organisation
- 5 Targeted annual cost savings of EUR ~2m, fully effective as of 2020

## CONSTI'S NEW ORGANISATION STRUCTURE

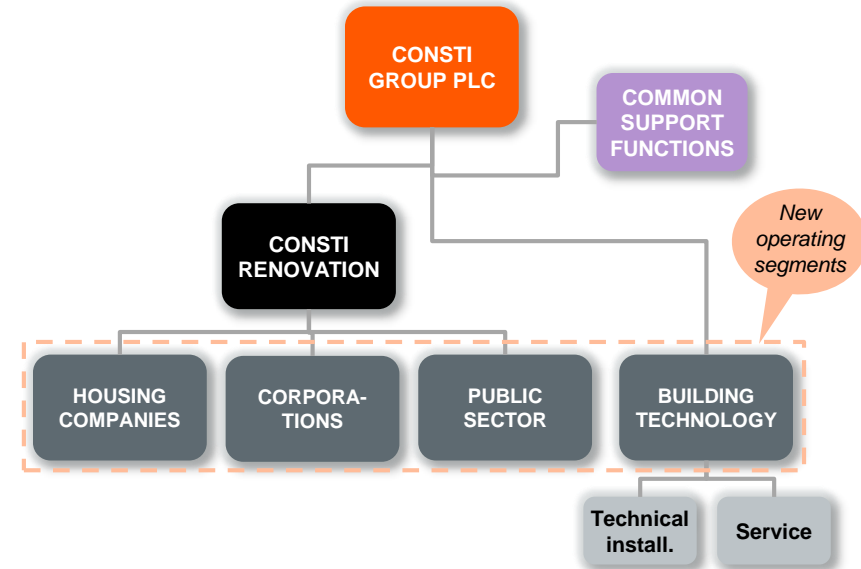


# Implementation of new organisation structure progressing

## Q2 2019 UPDATE ON THE PROGRESS IN IMPLEMENTATION

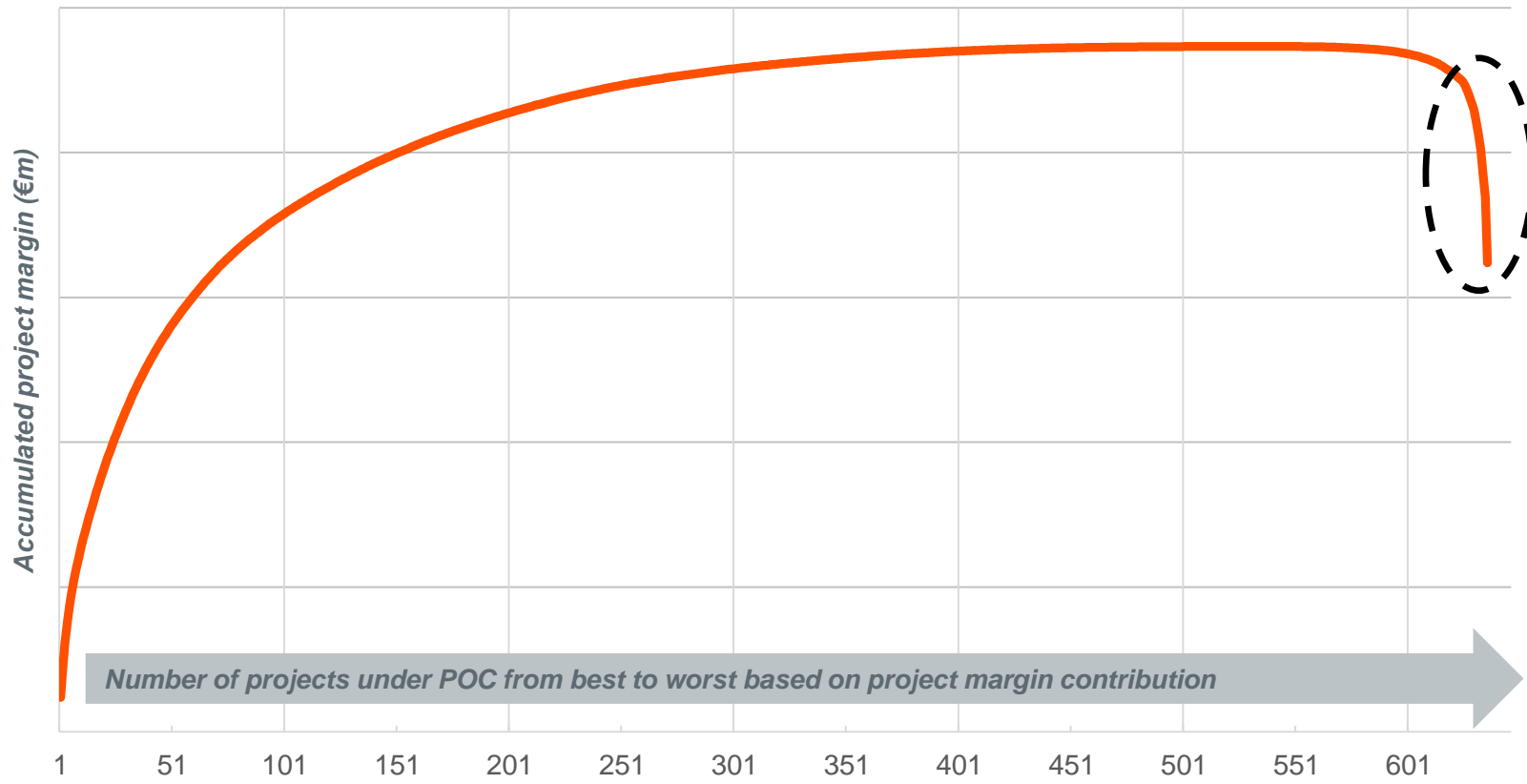
- Implementation work progressing according to plan
  - New business areas have developed their operations in line with expectations
    - Organisation gradually moving closer to the work sites
    - Risk management and agility of the organisation improving
  - As a total, Consti has already been able to realise year-on-year fixed cost benefits during H1 2019
- In H2 2019, for instance development of internal support functions as well as changes in legal structure to be continued

## CONSTI'S NEW ORGANISATION



# In Consti's business, the single most important factor determining profitability is the management of the tail of loss-making projects

Whale curve (illustrative)



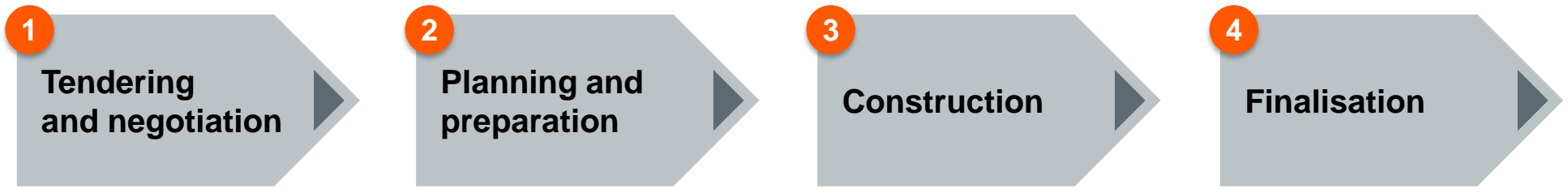
- ▶ In project business, there will always be projects with minor or even negative contribution to profits
- ▶ One of the most important tasks of line management is to identify and cut out projects that are not suitable for the company
- ▶ Through successful risk management in the tendering phase, the impact of occasional loss-making projects can be covered by other profitable projects
- ▶ Project size is only one attribute to be considered - contractual terms, project delivery method, customer profile, project scope, real estate characteristics, quality standards, project duration, own competences etc. are equally important

# Practical implications for managing the tail of loss-making projects

---

- Solid internal project tendering and risk management process:
  - Three stages: (1) Tender calculation approval, (2) Bid approval, and (3) Contract approval
  - Strict approval limits
  - Cut out clear no-go projects
  - Identification of technical and commercial risks
  - Project management resources in place at the time of tendering
- Suitable organisation structure for the business:
  - Know your customer
  - Know your own capabilities and resources
  - Centralisation of expertise and flexible resources
- Harmonised project steering and management:
  - Implementation of new project management system
  - Continuous monitoring and training

# Implementation of harmonised project steering and management processes to be continued

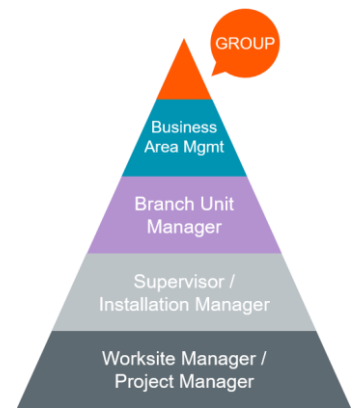


- Enhanced risk management from the very beginning
- No more projects in which the project delivery method is not balanced with the risks and profit potential
  - E.g. no more building purpose modification projects where these criteria not met
- Risk assessment in three stages
  1. Tender calculation approval
  2. Bid approval
  3. Contract approval

- Standardised planning and preparation process
- Plays an important role in laying foundation for successful project delivery

- Standardised process throughout the project delivery
- Harmonised project reporting and steering process across the line organisation

- Finalisation procedures according to plans conducted in phase 2
- Final financial settlement
- Warranty-related actions
- Post-project analysis
- Customer feedback



*Implementation of Consti's Must-Do actions across the project phases as well as organisation*

# CONTENTS

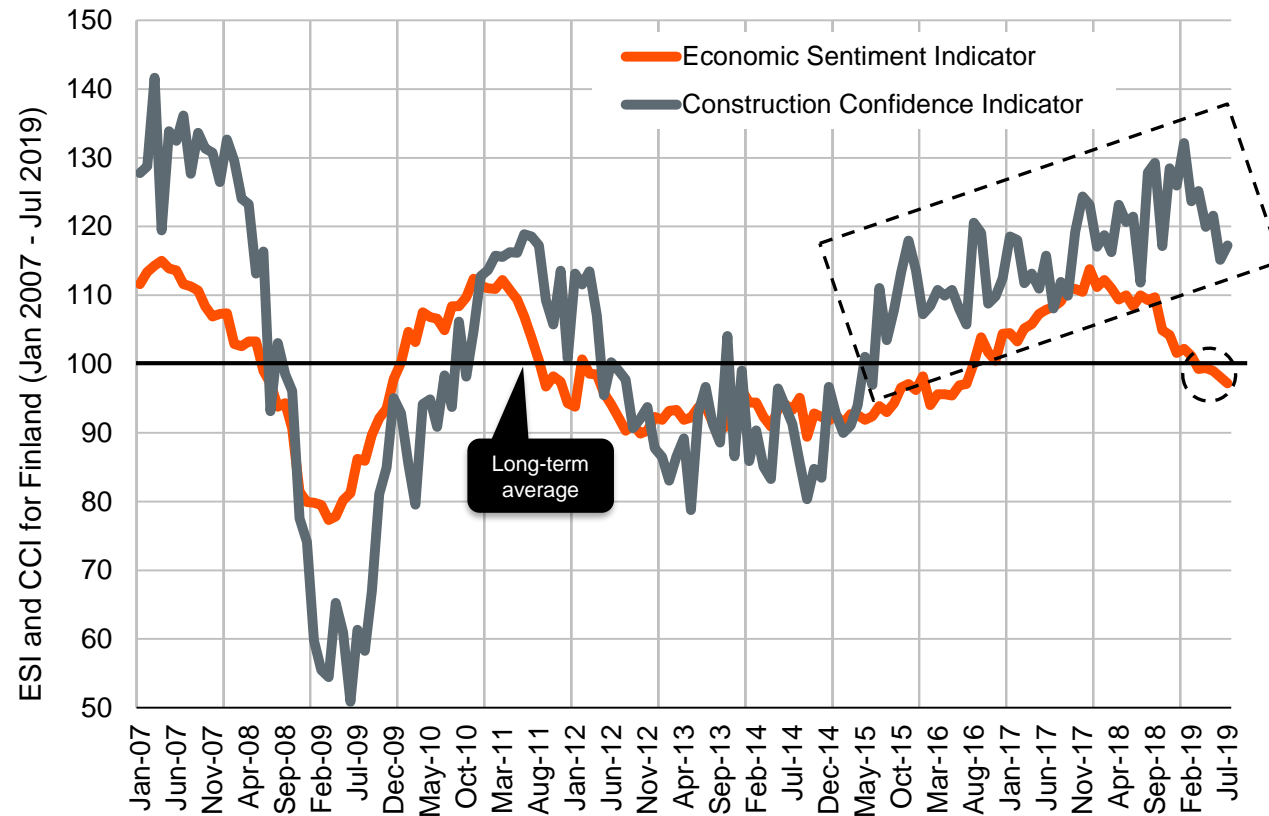
---

1. Q2 2019 in brief
2. Turnaround program
3. **Market environment and competitive landscape**
4. Appendix



# Construction confidence still strong in Finland but the recent trend is downwards, economic sentiment fell below long-term avg. during H1 2019

Economic Sentiment and Construction Confidence / Finland (2007 – 07/2019)



Note: Mean-adjusted figures

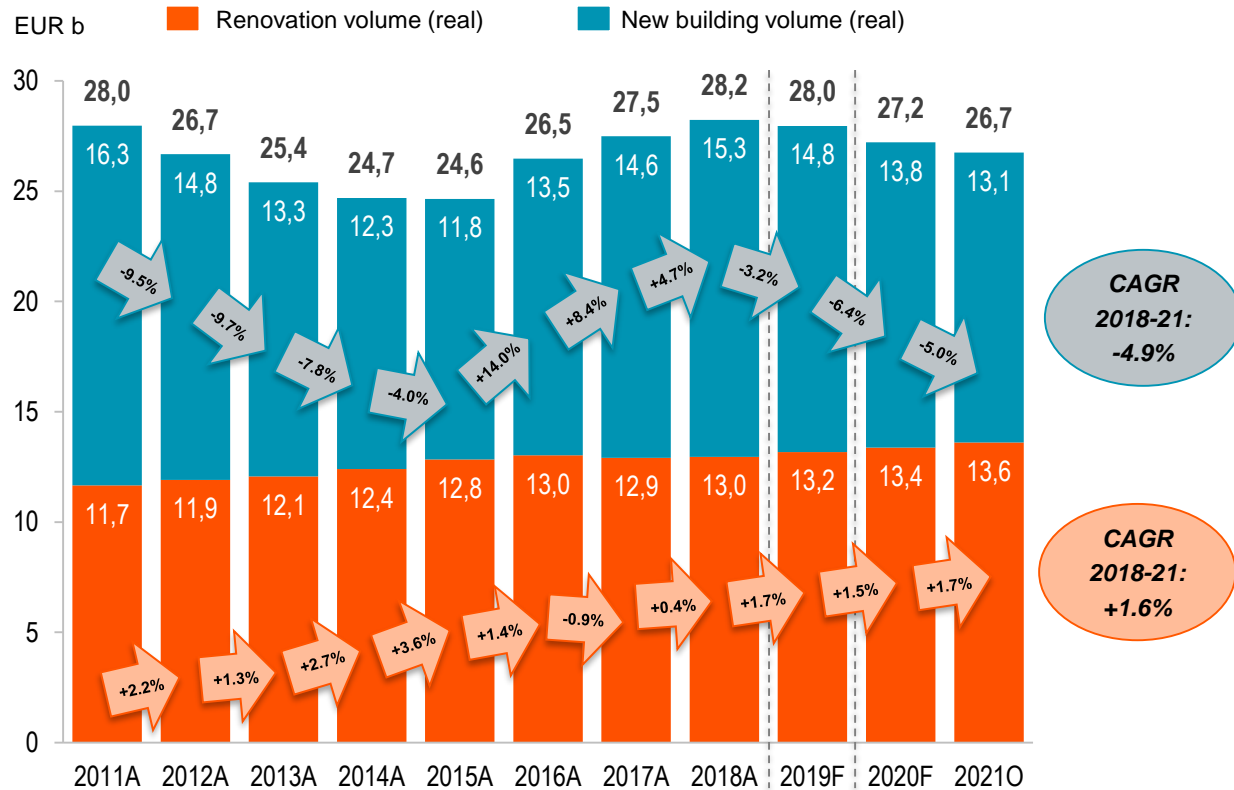
Source: European Commission, July 2019

## Comments

- Since summer 2015, construction confidence in Finland has strengthened and remained above the long-term average
- However, after achieving its peak in January 2019 the trend in construction confidence has been downwards
- According to Confederation of Finnish Construction Industries (CFCI), construction has acted as an engine for the Finnish economic growth for four consecutive years
- In March 2019, economic sentiment indicator fell below the long-term average for the first time in 2.5 years, indicating potential decline in the Finnish economy going forward
- CFCI estimates in its April 2019 report that construction is expected to be the first industry in Finland to enter downturn
- According to Statistics Finland, cubic volume of granted building permits decreased further year-on-year in March-May 2019 (-28.3%)

# Stable growth in renovation expected to continue

## Finnish new building and renovation market development 2011 – 2021



Source: Euroconstruct, June 2019

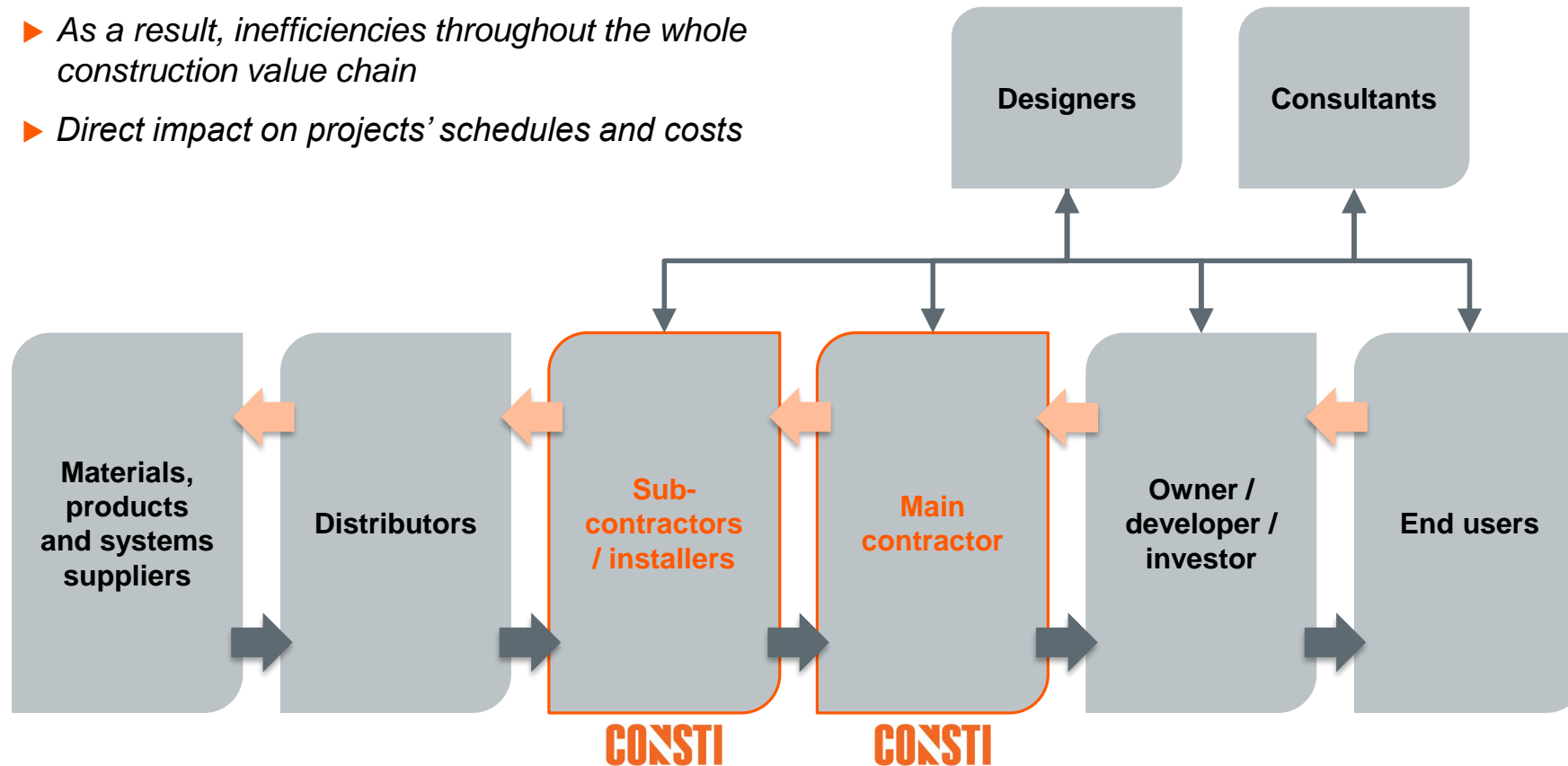
Confederation of Finnish Construction Industries RT (CFCI), April 2019

## Comments

- The amount of professional renovation has grown nearly continuously for the past 20 years in Finland
- In 2014-15 the value of renovation surpassed the value of new building
- According to Euroconstruct, the value of building renovation amounted to approximately EUR 13.0 billion in 2018
- Euroconstruct estimates that renovation will continue to grow by approximately 1.7 percent in 2019. The Confederation of Finnish Construction Industries RT (CFCI) estimates growth of 1.8 percent
- In 2019, growth is expected to be seen in both residential (+1.8%) and non-residential (+1.6%) renovation
- According to the Euroconstruct's June 2019 report, new building is expected to decline by 3.2% in 2019 while the forecast for 2020 shows decline of 6.4%
- The growth of professional renovation is expected to gain some speed as the new building starts to slow down going forward

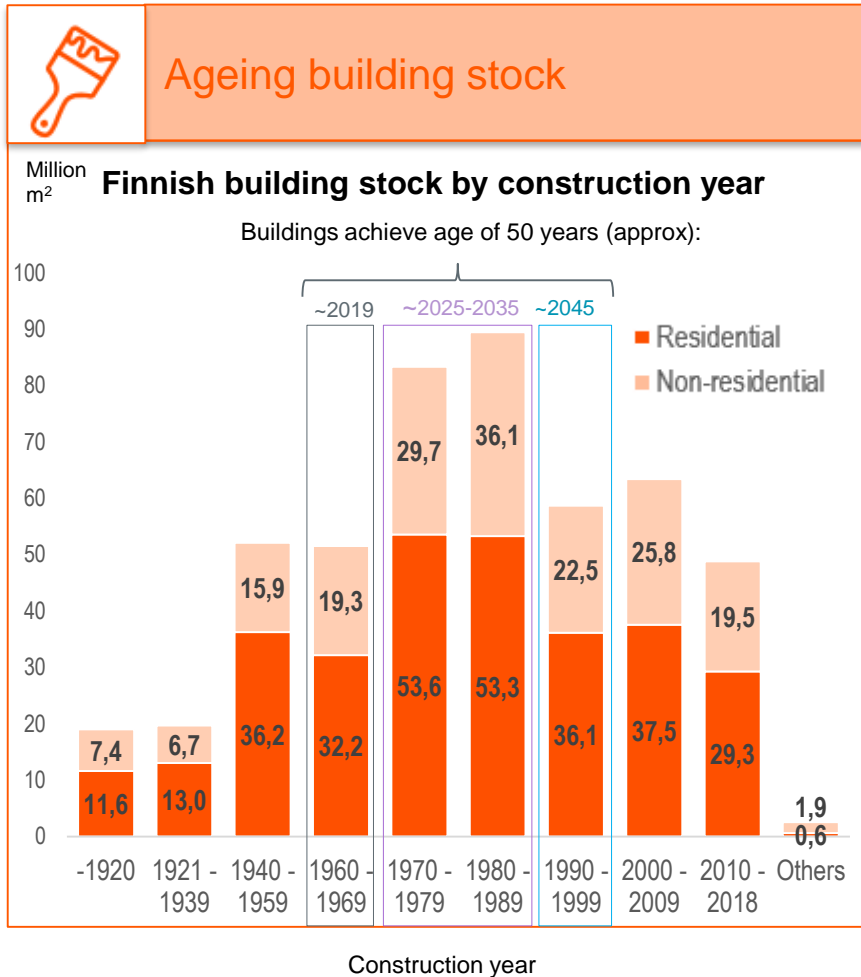
# The whole construction sector value chain lately under pressure, but the expected decline in Finnish new building likely to bring relief

- ▶ *Current challenges in availability of professionals are not limited to contractors*
- ▶ *As a result, inefficiencies throughout the whole construction value chain*
- ▶ *Direct impact on projects' schedules and costs*



# Renovation market supported by a number of key structural growth drivers

Ageing building stock the single most important growth driver



Source: Statistics Finland, May 2019

Energy efficiency

Urbanisation and concentration of renovation in growth centers

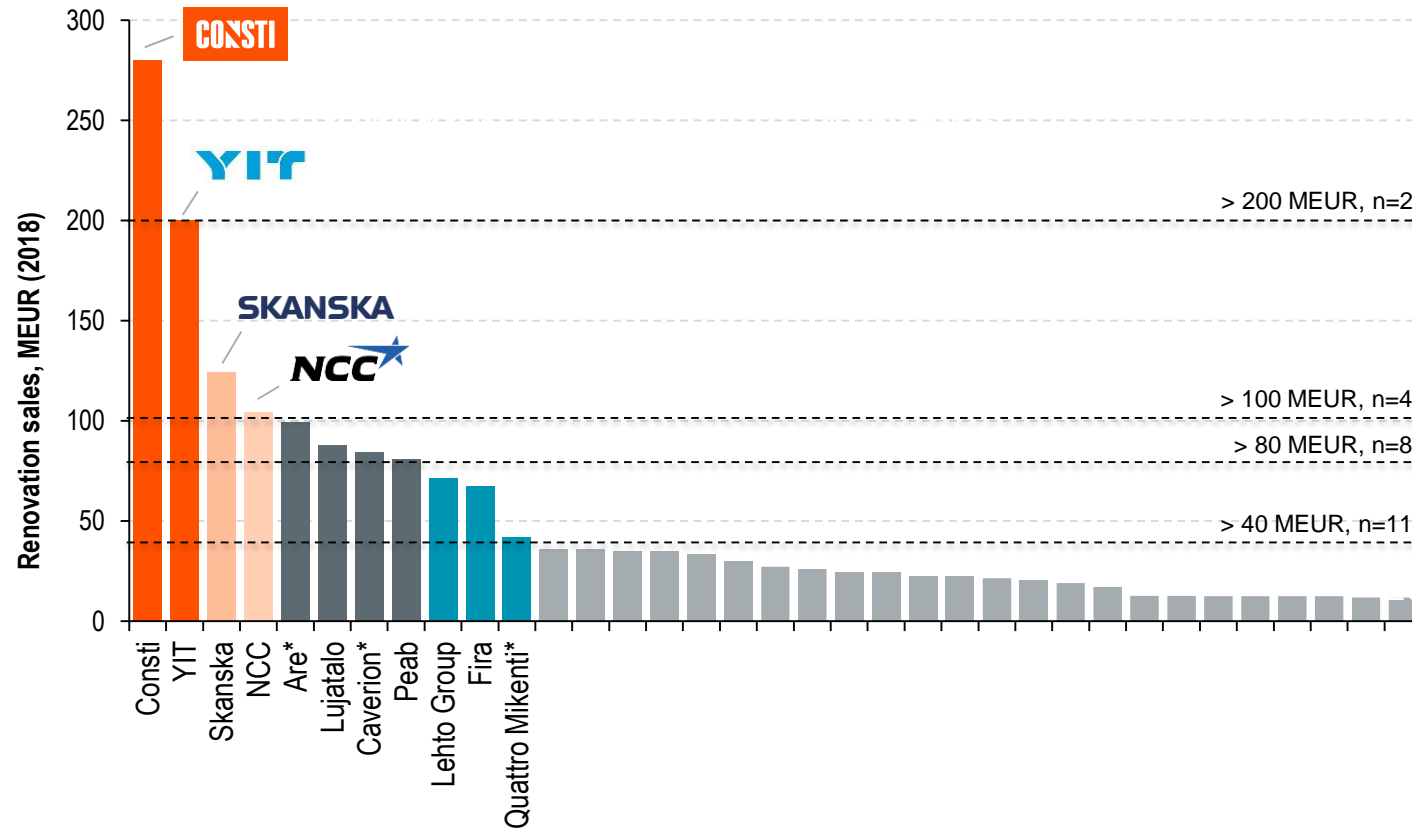
Modifications of the use of buildings

Increased need for building technology and automation

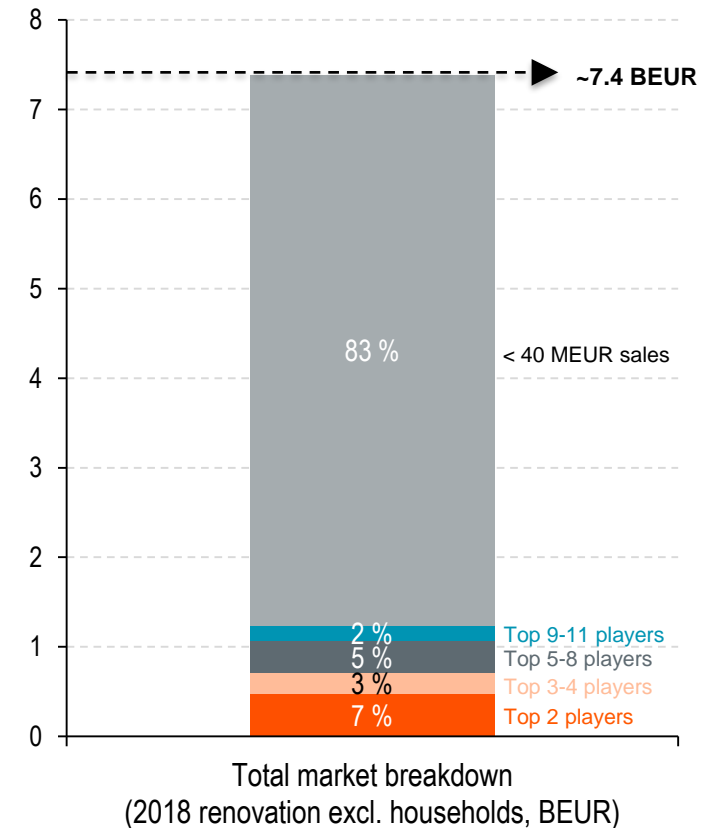
# Finnish renovation market highly fragmented

Consti continued to be the largest player in Finnish renovation in 2018

Operators in the Finnish renovation market (based on revenue in 2018)



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

# Outlook and guidance for 2019

- The economic cycle in construction continues to be on a high level
- Still challenges in availability of certain sub-contractors
- However, recent statistics on the building permits and starts suggest that construction is likely to slow down after a long upswing as the economic growth starts to wane
- The potential decrease in the new building volume is likely to have a two-fold impact on Consti:
  - 1) As the pressure in the whole construction value chain eases up, the availability and quality of resources improve → contribution to profitability improvement
  - 2) Competition slightly to increase especially in large renovation projects
- In 2019, renovation expected to grow by 1.8% (CFCI) / 1.7% (Euroconstruct)
- The Group's guidance for 2019 remains unchanged: "The Company estimates that its operating result for 2019 will grow compared to 2018."



# CONTENTS

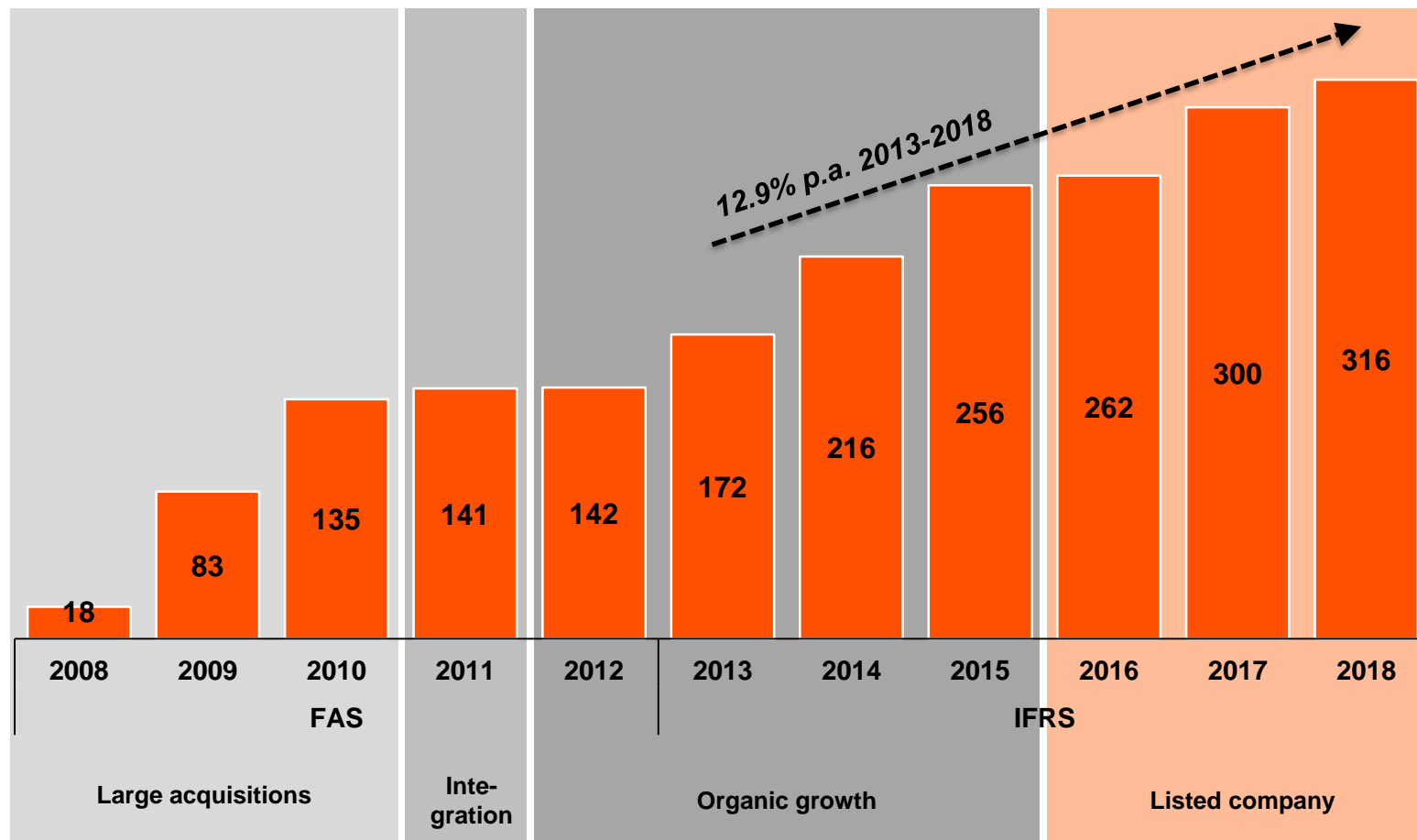
---

1. Q2 2019 in brief
2. Turnaround program
3. Market environment and competitive landscape
4. **Appendix**



# Consti is one of the leading renovation and technical services providers in Finland

Net sales development since the foundation year 2008 (EUR m)



## Consti in brief

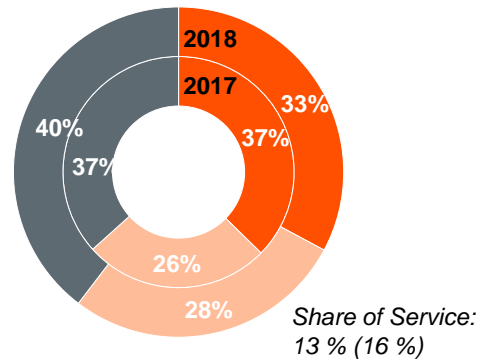
- Consti is one of Finland's leading companies offering comprehensive building technology, pipeline renovation, renovation contracting, façade renovation and other demanding construction and maintenance services
- Company's business is strongly concentrated in Finland's growth centres
- At the end of 2018, Consti employed 1,046 renovation and building technology professionals



# Consti Group's sales and order backlog overview – Diverse business and customer mix with strong focus on growth centres

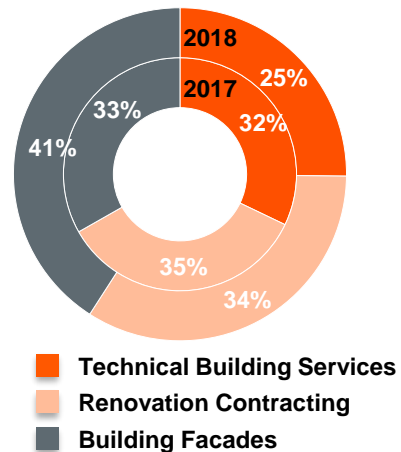
**Net sales**  
EUR 316m (300m)

## BUSINESS SEGMENTS<sup>1</sup>



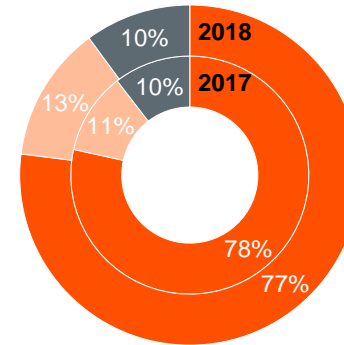
- Technical Business Services
- Renovation Contracting
- Building Facades

**Order backlog**  
EUR 225m (226m)



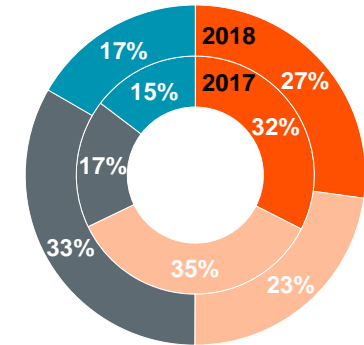
- Technical Building Services
- Renovation Contracting
- Building Facades

## GEOGRAPHICAL LOCATIONS



- Helsinki & Uusimaa
- Tampere & Pirkanmaa
- Others

## CUSTOMER GROUPS



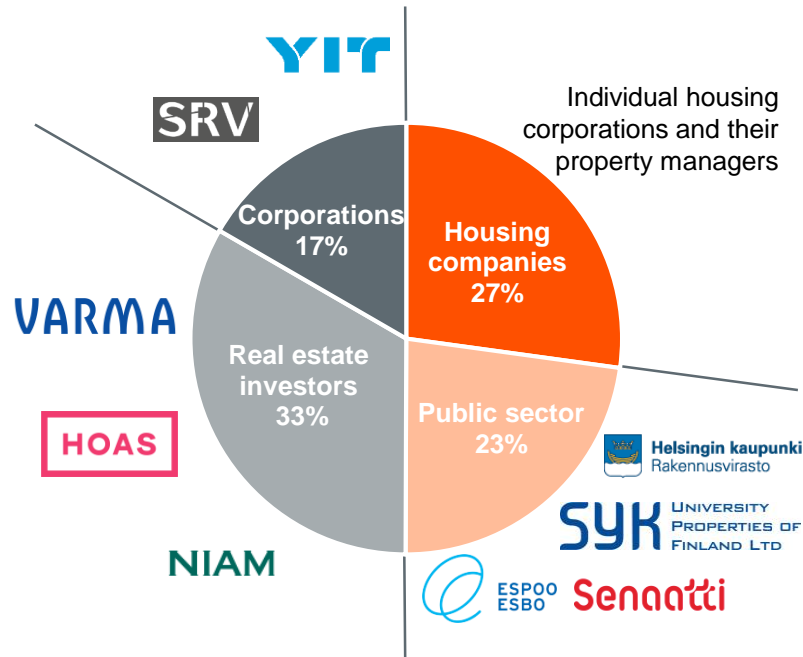
- Housing companies
- Public sector
- Real estate investors
- Corporations



<sup>1</sup> Business segments split excluding eliminations

# Diverse customer and project mix protects against market fluctuations and dependency on single customer

## Net sales by customer groups in 2018



Only one customer's net sales slightly exceeded 10% of the total annual sales

## Selected recent and ongoing reference projects

### Scandic Hotel Marski, Helsinki

- Complete renovation of the hotel property and renewal of technical building services systems
- Renovation Contracting
- Technical Building Services



### Oy Ässäkeskus Ab and KOy Vallilan toimisto, Helsinki

- Oy Ässäkeskus Ab's facility modifications and repairs to technical building services systems
- KOy Vallila premises complete renovation of three buildings
- Renovation Contracting



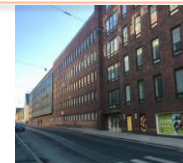
### Espoonlahden kirkko, Espoo

- Extensive renovation including ia. Moderatisation of all facilities, renovation of old church roof and its supporting structures
- Renovation Contracting



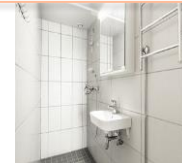
### KOy Helsingin Satamakatu 3, Helsinki

- Modifications of old office building into rental apartment use
- Building Facades
- Technical Building Services



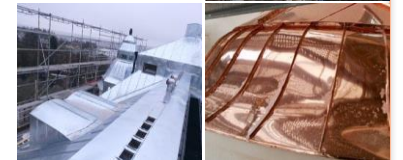
### HOAS Linnoituskentie 10, Helsinki

- Renovating the bathroom, kitchen and floors using Consti's amenity renovation concept
- Renovation Contracting



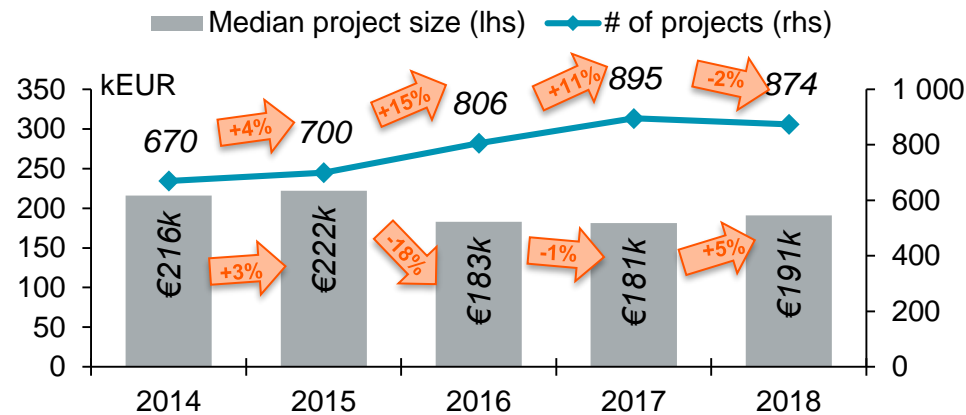
### Bostads Ab Parkgatan 9, Helsinki

- Renewal of facades, sheet metal roof and copper details
- Building Facades

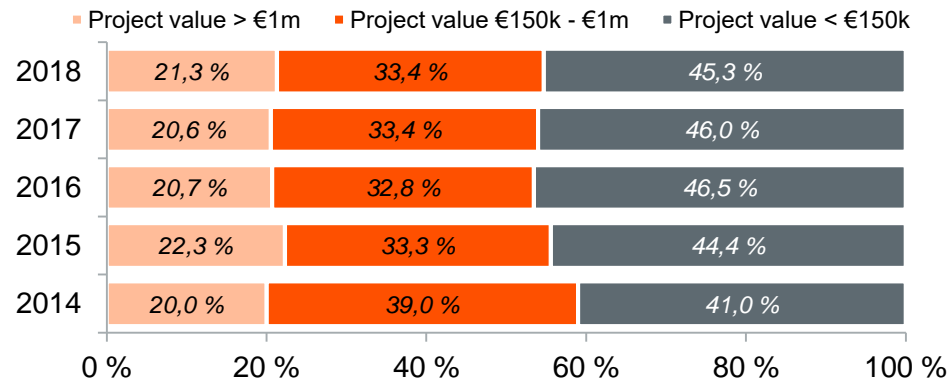


# Consti Group's project overview – Dispersed project base with a relatively small median project size

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

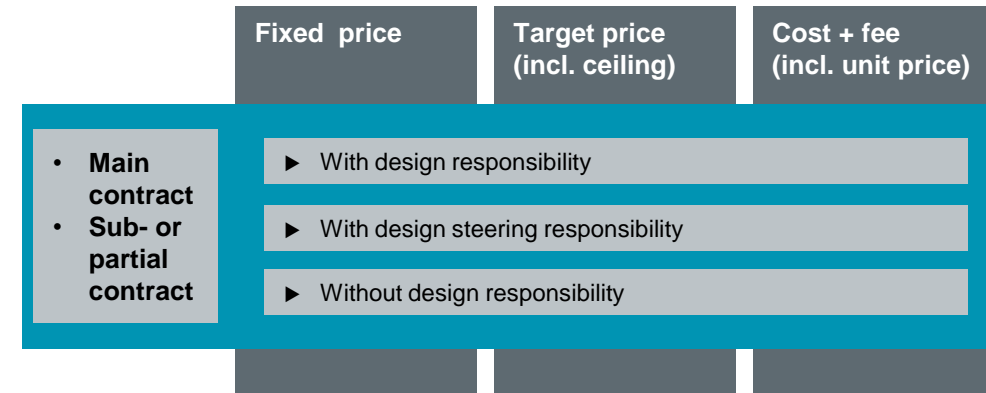


## Project size distribution (# of projects)



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

## Project types: payment basis / performance obligation



## Comments

- In 2018, the company had 874 projects<sup>1)</sup> with a median project size of EUR 191 thousand
- Large projects typically realise in net sales over several years
- 79% of the projects in progress in 2018 were valued at EUR 1 million or below
- However, approximately 70% of 2018 revenue was generated from projects valued in excess of EUR 1 million

# STRATEGY

## Long term strategic goals

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

**10 %**

**Profitability:** adjusted EBIT-margin exceeding

**5 %**

**Cash flow:** Cash conversion ratio exceeding\*

**90 %**

**Capital structure:** Net debt to adjusted EBITDA ratio of less than

**2,5 x**

while maintaining an efficient capital structure

## MISSION

Based on our top talent, 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

## VISION

“Consti professionals are passionate about renovating and developing the built environment in a sustainable and sensible manner. This is why we are number one in renovation construction.”

## THE KEYS TO OUR SUCCESS

**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



**CONSTI**

**CONSTI GROUP PLC**  
23 AUGUST 2019

**THANK  
YOU**

CONSTI GROUP PLC  
HOPEATIE 2  
FI-00440, HELSINKI  
BUSINESS ID 2203605-05  
[WWW.CONSTI.FI](http://WWW.CONSTI.FI)