



CONSTI GROUP PLC

INTERIM REPORT

1.1.2016 – 30.9.2016

CEO Marko Holopainen
CFO Esa Korkeela

Building renovation specialist | www.consti.fi

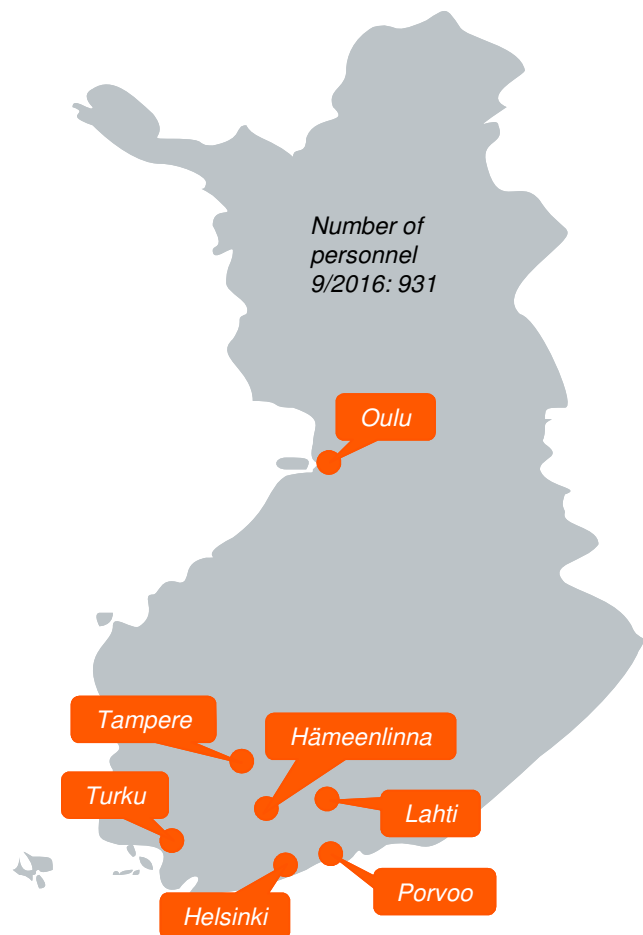
CONSTI
YHTIÖT



Contents

- Highlights and Group performance
- Result, cash flow and financial position
- Market outlook and guidance

Highlights of the third quarter of 2016 – Net sales on par with last year, profitability improved



Highlights of 7-9/2016 (y-o-y comparison in brackets)

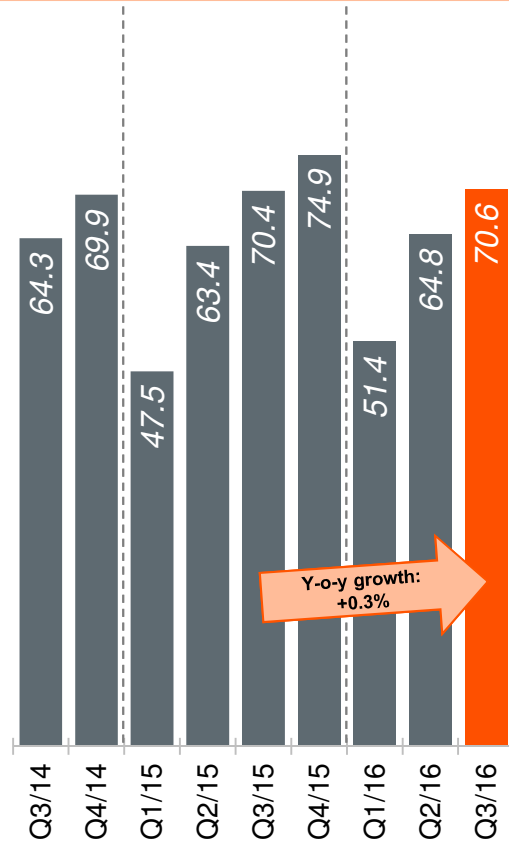
- Net sales EUR 70.6 (70.4) million, growth +0.3%
- EBIT EUR 3.7 (3.0) million, EBIT margin 5.3% (4.2%)
- Adjusted EBIT EUR 3.7 (3.2) million, adjusted EBIT margin 5.3% (4.5%)
- Free cash flow EUR 6.6 (0.09) million
- Earnings per share EUR 0.37 (0.25), up by 48.2%

Highlights of 1-9/2016 (y-o-y comparison in brackets)

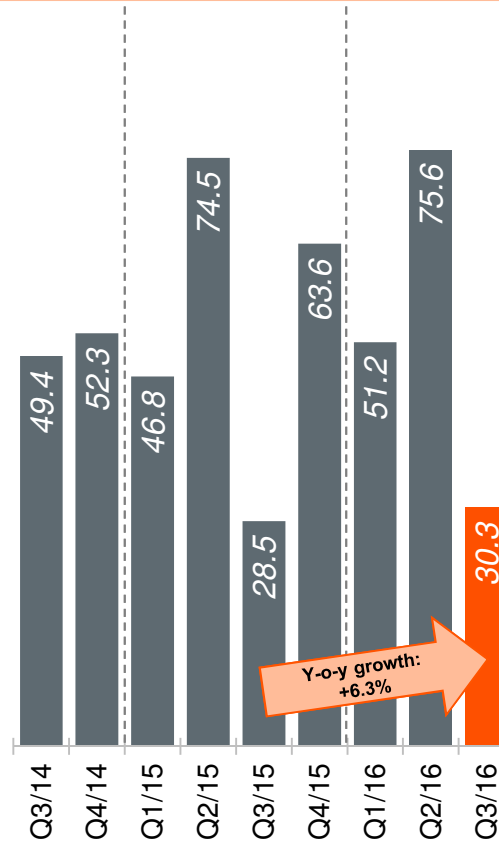
- Net sales EUR 186.7 (181.2) million, growth +3.0%
- EBIT EUR 6.5 (5.4) million, EBIT margin 3.5% (3.0%)
- Adjusted EBIT EUR 6.6 (5.9) million, adjusted EBIT margin 3.5% (3.2%)
- Free cash flow EUR 10.4 (7.2) million
- Order backlog EUR 185.6 (172.3) million, up by +7.7% year-on-year and +2.4% from year-end 2015
- Net interest-bearing debt EUR 11.7 (19.4) million
- Gearing at 44.6% (88.6%)
- Earnings per share EUR 0.60 (0.23)

Quarterly performance overview – Net sales on par with last year, order intake and backlog continued to grow

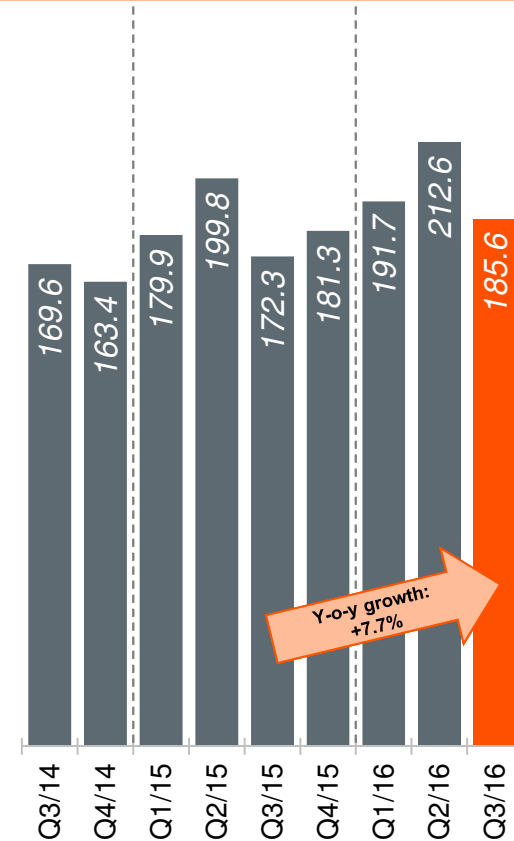
Quarterly net sales (EUR m)



Quarterly order intake (EUR m)

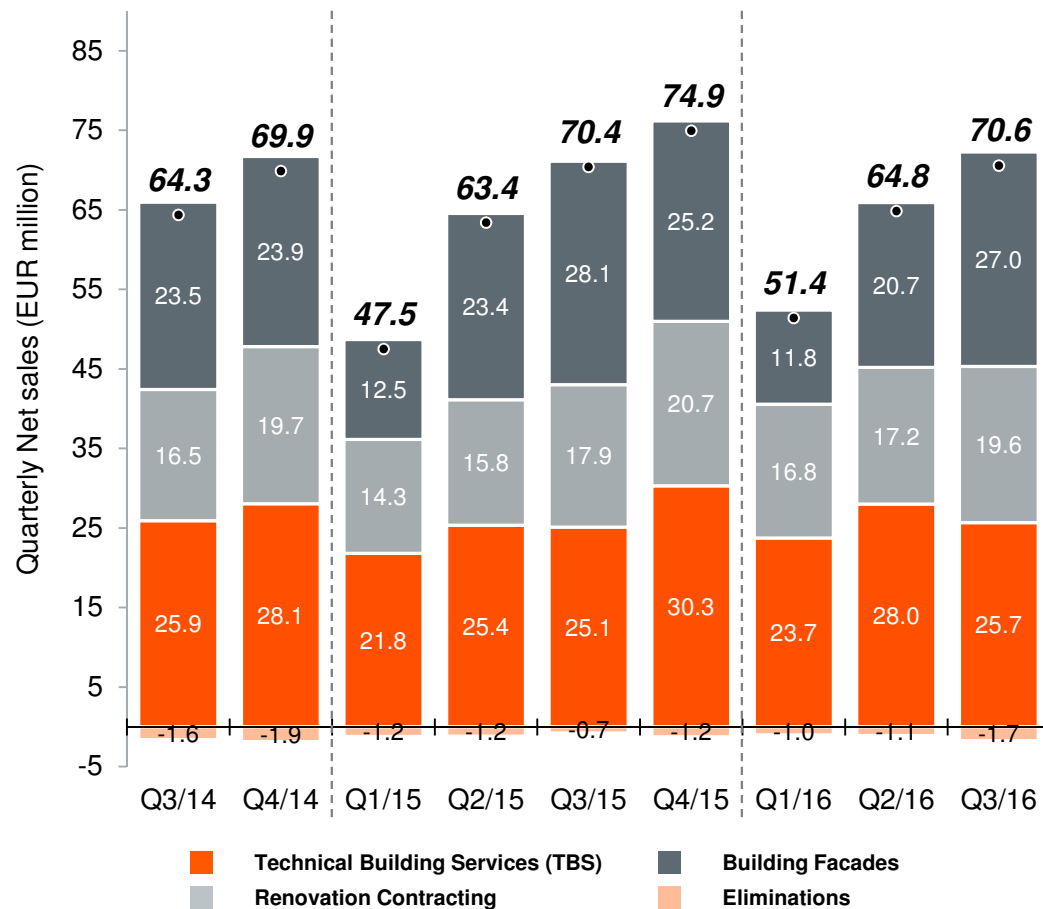


Quarterly order backlog (EUR m)



Consti quarterly net sales development – Third quarter net sales at last year’s level

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

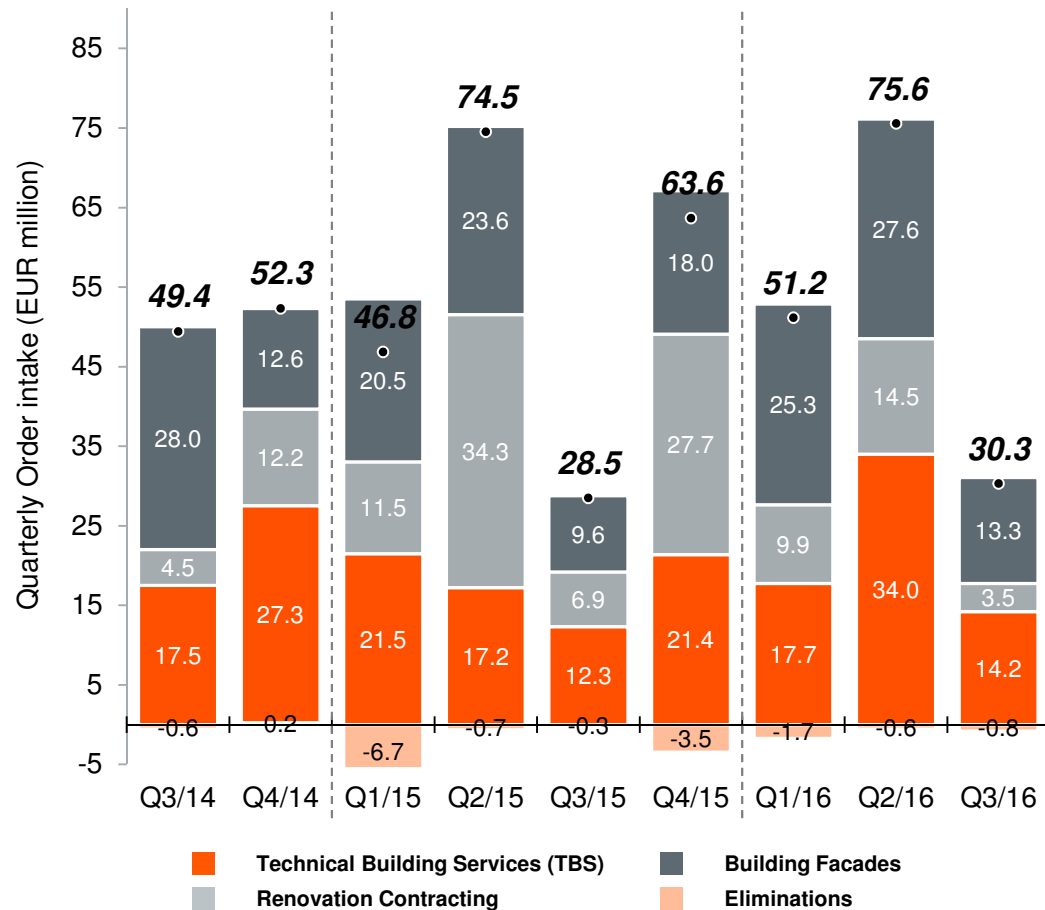


Comments

- Q3/2016 net sales EUR 70.6m (70.4m), y-o-y sales growth +0.3%
 - Q3/16 organic growth -0.7%
- Net sales affected by greater than anticipated challenges in obtaining personnel resources, which in turn reflected on the progress and start of projects in part of the businesses
- In TBS, growth of 2.2% supported by good growth in service business
- In Renovation Contracting, growth of 9.9% attributable to continued growth in the Greater Helsinki area and Turku area
- In Building Facades, decline of 4.1% due to year-on-year decrease in net sales generated by its rental apartment buildings business unit
- 1-9/2016 net sales EUR 186.7 million (181.2m), y-o-y sales growth +3.0%
 - 1-9/16 organic growth +1.8%

Consti quarterly order intake development – Order intake continued to increase year-on-year

Quarterly order intake development Q3/2014 – Q3/2016 (EUR m)

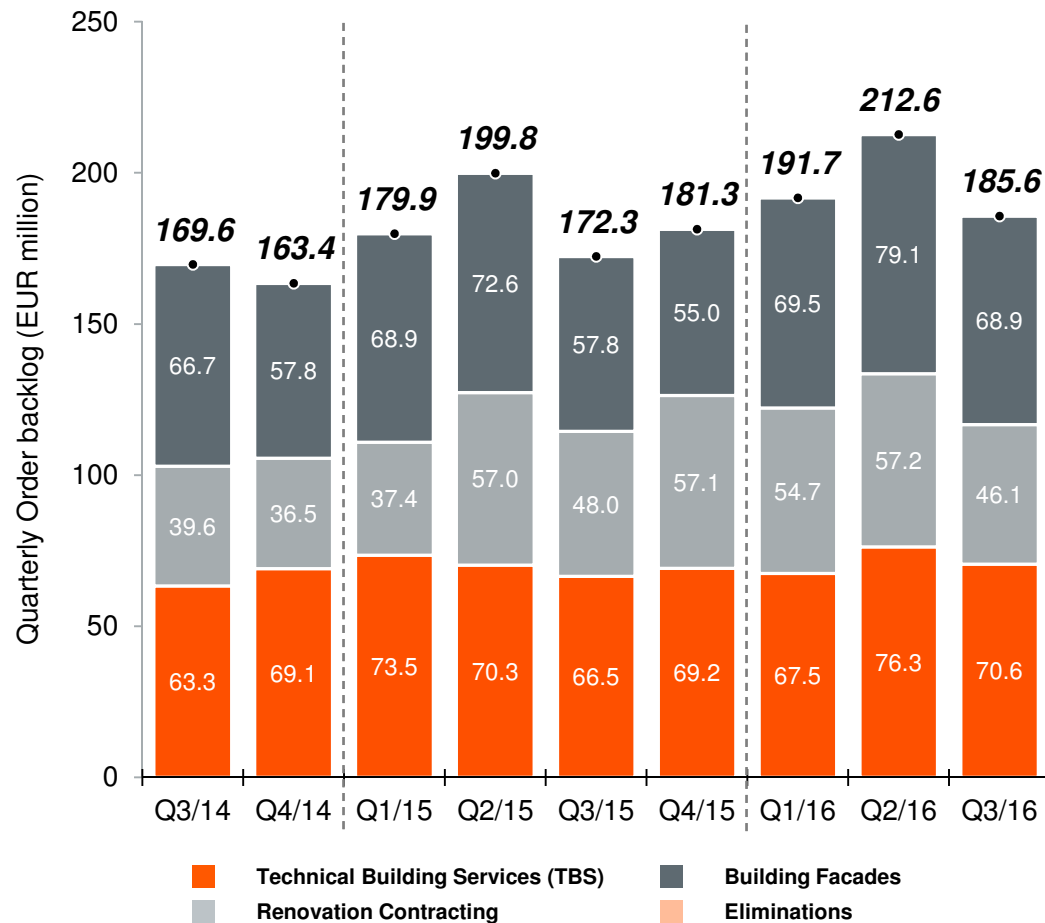


Comments

- Q3/2016 order intake EUR 30.3 million (28.5m), up by 6.3% y-o-y
 - Order intake growth was strong in Technical Building Services (+15.6%) and Building Facades (+39.0%)
 - Growth particularly from residential pipeline and façade renovations as well as from services in general
 - Renovation Contracting order intake was affected by decrease in demand for large office premise renovations compared to last year
 - Also greater than anticipated challenges in obtaining personnel resources reflected somewhat on attaining new projects
- 1-9/2016 order intake EUR 157.0 million (149.9m), up by 4.8% y-o-y

Consti quarterly order backlog development – Backlog up by 7.7% y-o-y and +2.4% from year-end 2015

Quarterly order backlog development Q3/2014 – Q3/2016 (EUR m)



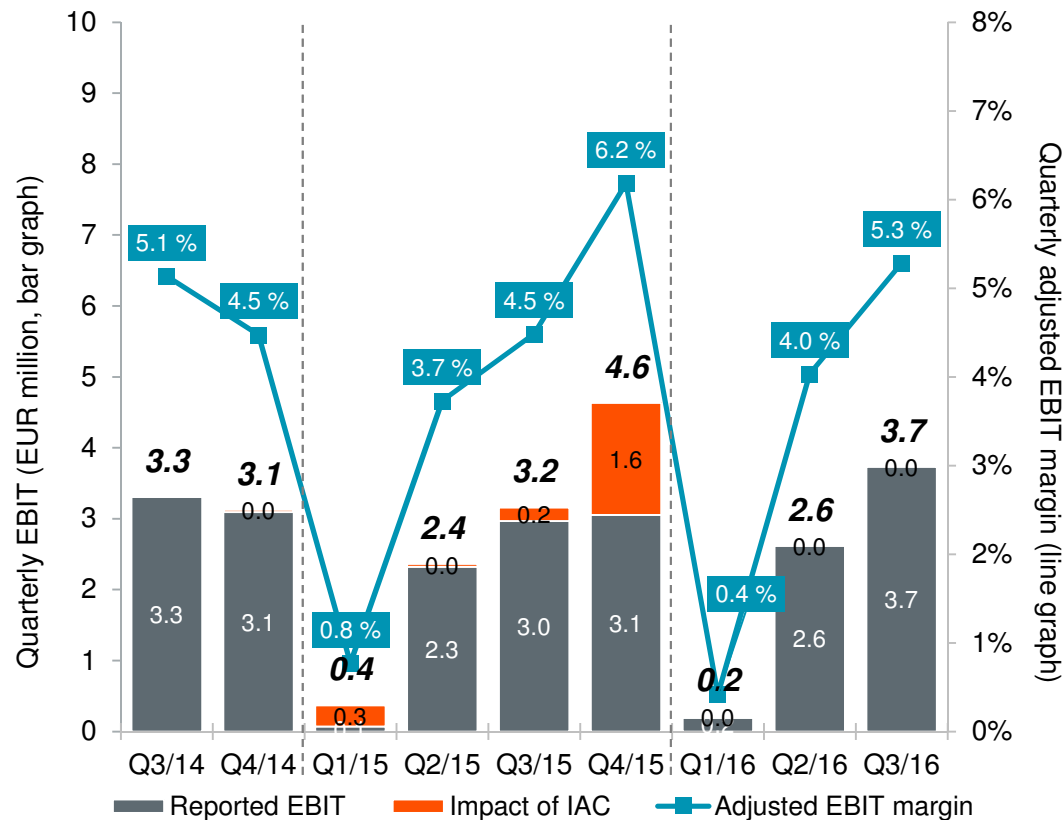
Comments

- Q3/2016 order backlog at EUR 185.6 million (172.3m), year-on-year growth +7.7%
- Backlog up by 2.4% from year-end 2015
- Order backlog grew particularly in Technical Building Services (+6.2% year-on-year) and Building Facades (+19.1% y-o-y)
- Order backlog was not realised as net sales at the anticipated pace in Q3/16

Result, Cash Flow and Financial Position

Consti quarterly adjusted EBIT¹ development – Both absolute and relative profitability improved in Q3/2016

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



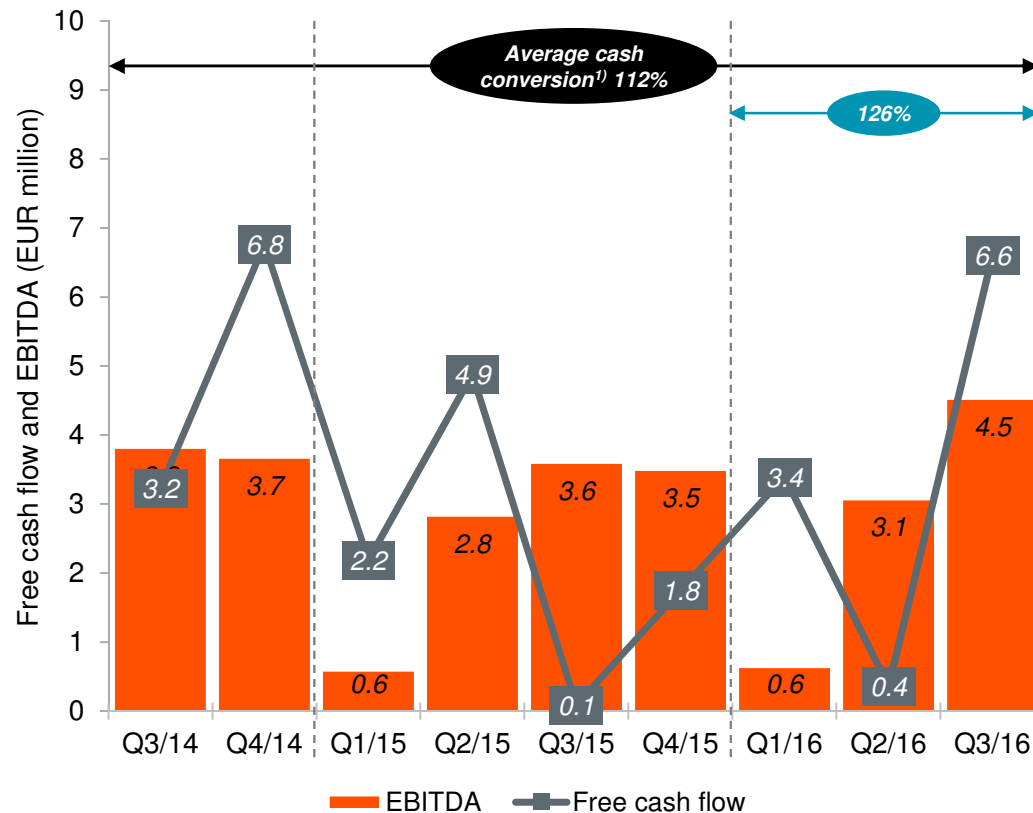
Comments

- Q3/16 adjusted EBIT before IAC¹ amounted to EUR 3.7 (3.2) million, or 5.3% (4.5%) of net sales
- Q3/16 EBIT after IAC EUR 3.7 (3.0) million, or 5.3% (4.2%) of net sales
 - In Q3/15, IAC of EUR 0.2m 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
- 1-9/16 adjusted EBIT before IAC¹ EUR 6.6m (5.9m), or 3.5% (3.2%) of net sales
- 1-9/16 EBIT after IAC EUR 6.5m (5.4m), or 3.5% (3.0%) of net sales
 - In 1-9/15, IAC of EUR 0.5m

¹) Adjusted EBIT = EBIT before items affecting comparability (IAC)

Consti quarterly cash conversion development – Strong free cash flow achieved in Q3/2016

Quarterly free cash flow and EBITDA Q3/2014 – Q3/2016 (EUR m)



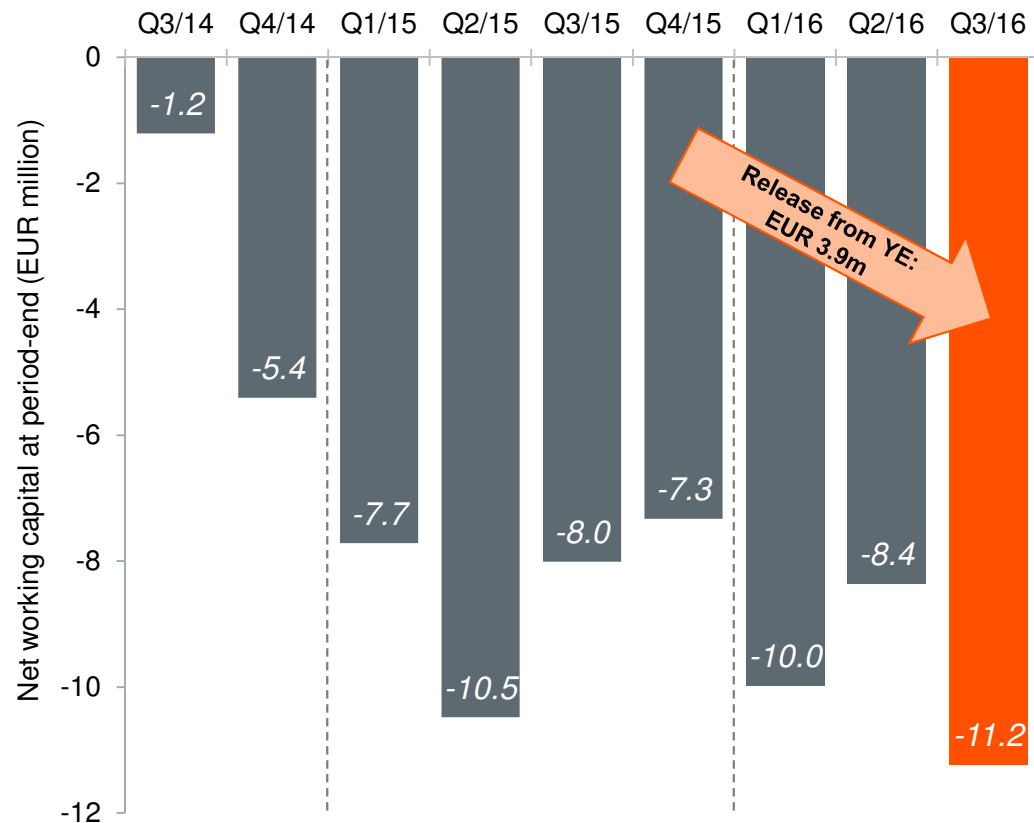
Comments

- Q3/2016 Free cash flow amounted to EUR 6.6m (0.1m), clearly up y-o-y
 - Cash conversion ratio of 146% (2.5%) in the third quarter
 - Cash flow from operating activities was positively impacted by improved profitability
 - In addition, cash flow was positively impacted by NWC released during Q3
- Average cash conversion ratio of 112% in the period of Q3/14 – Q3/16 and 126% in 1-9/2016
 - Consti’s long-term target to achieve cash conversion ratio in excess of 90 percent

1) 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 items and taxes, less capital used for purchase of intangible assets and property, plant and equipment

Consti quarterly net working capital development – Good progress in NWC during Q3/2016

Quarterly net working capital¹⁾ Q3/2014 – Q3/2016 (EUR m)



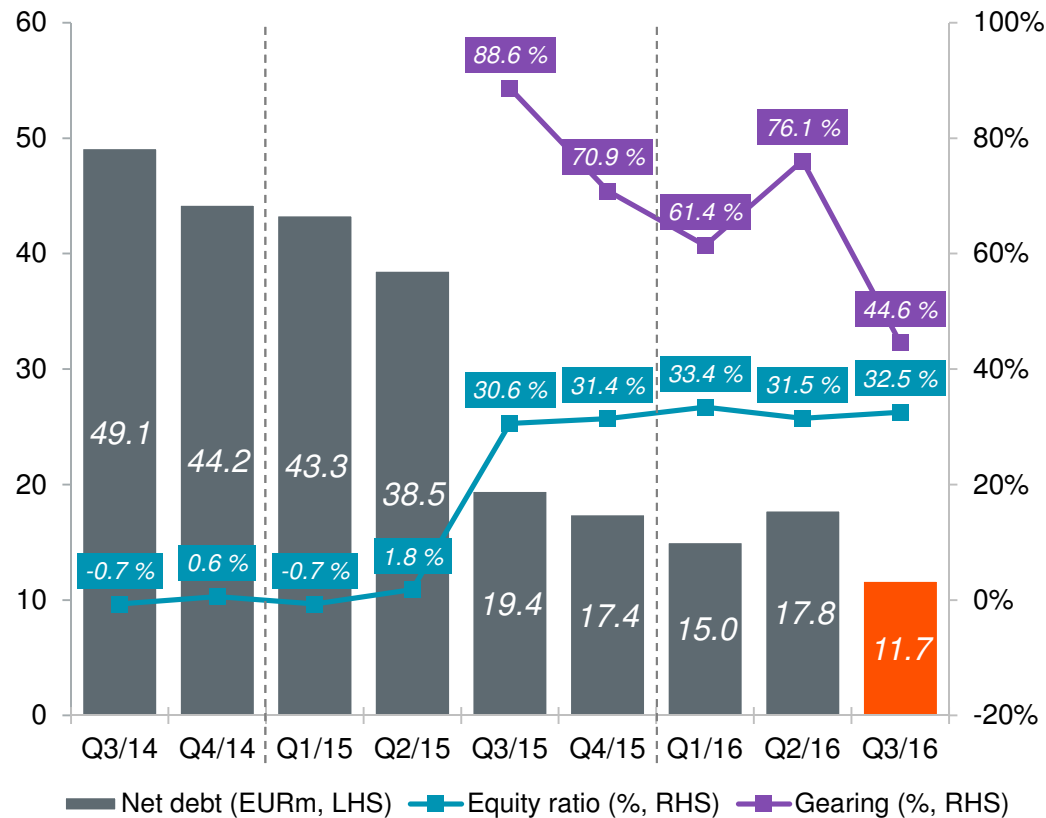
Comments

- Net working capital EUR -11.2m (-8.0m) at the end of Q3/2016
- NWC EUR 3.2m lower compared to end of Q3/2015
- Release of NWC from year-end 2015 amounted to EUR 3.9m (2.6m)

¹⁾ Net working capital calculated as follows: Inventories + Trade and other receivables + Deferred tax receivables – Trade and other payables - Provisions

Consti quarterly balance sheet structure – Balance sheet strengthened in the third quarter

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



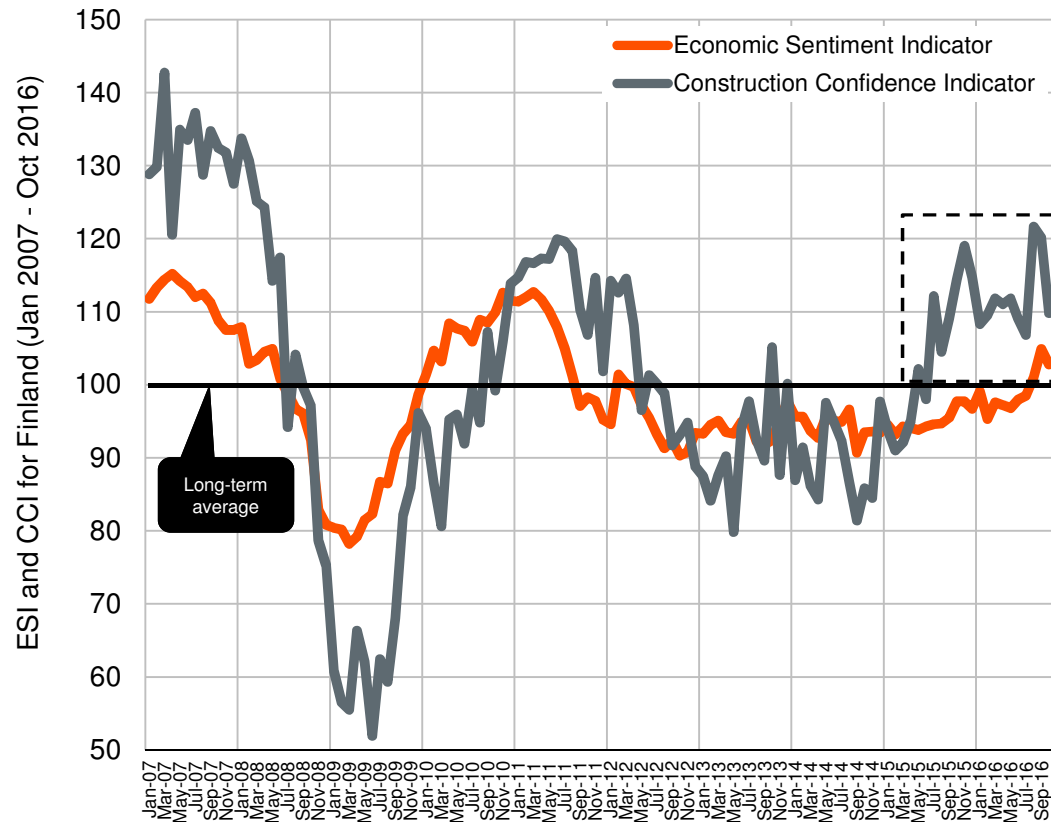
Comments

- Q3/2016 net debt at EUR 11.7m (19.4m)
 - Net debt was positively impacted by strong cash flow in the third quarter
 - 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
- Q3/2016 equity ratio 32.5% (30.6%)
- Q3/2016 gearing at 44.6% (88.6%)

Market Outlook and Guidance

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

Economic Sentiment and Construction Confidence / Finland (2007 – 10/2016)



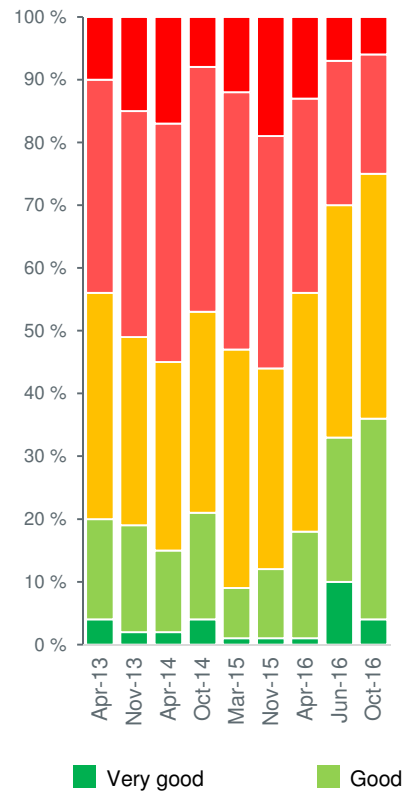
Comments

- Economic sentiment in Finland rose above the long-term average in August 2016
- Construction confidence surpassed long-term average level in the beginning of H2/2015 and has steadily remained above that level
- Construction market is inherently late-cyclical and should benefit from the improved outlook with a certain delay

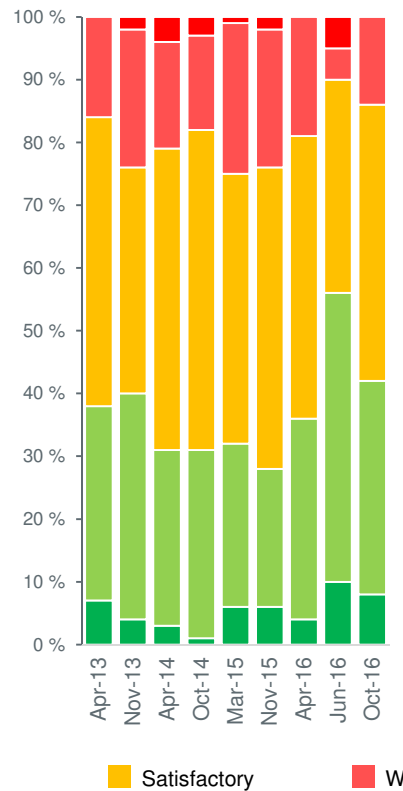
Note: Mean-adjusted figures
Source: European Commission, November 2016

HPAC technical contractors report improving business conditions especially within new building

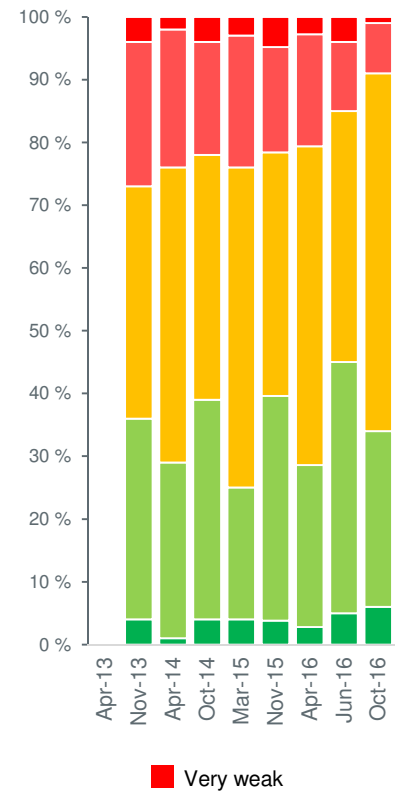
Current business conditions
New building



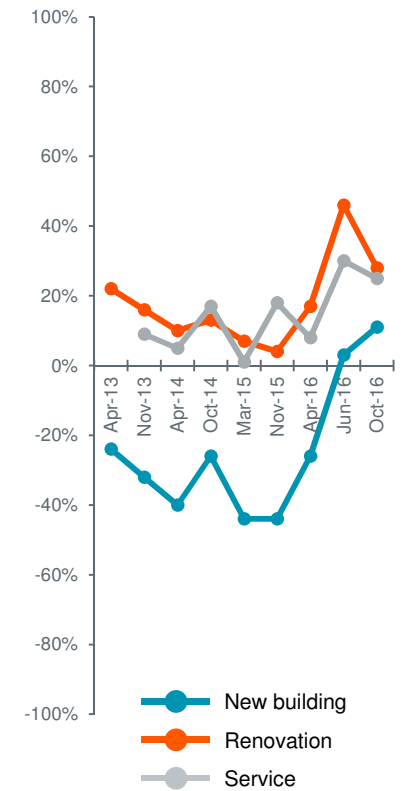
Current business conditions
Renovation



Current business conditions
Service



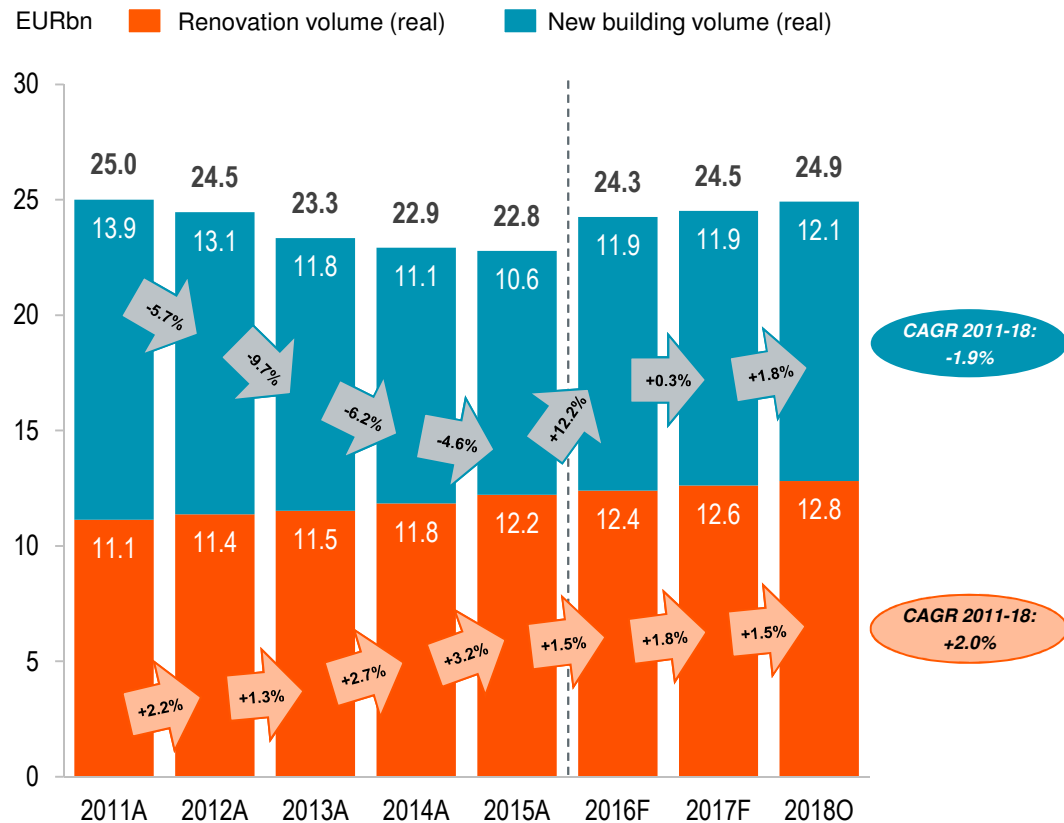
Current business conditions
Balance of opinion*



* Balance of opinion = Very good + Good - Weak - Very weak
Source: Finnish Association of HPAC Technical Contractors

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

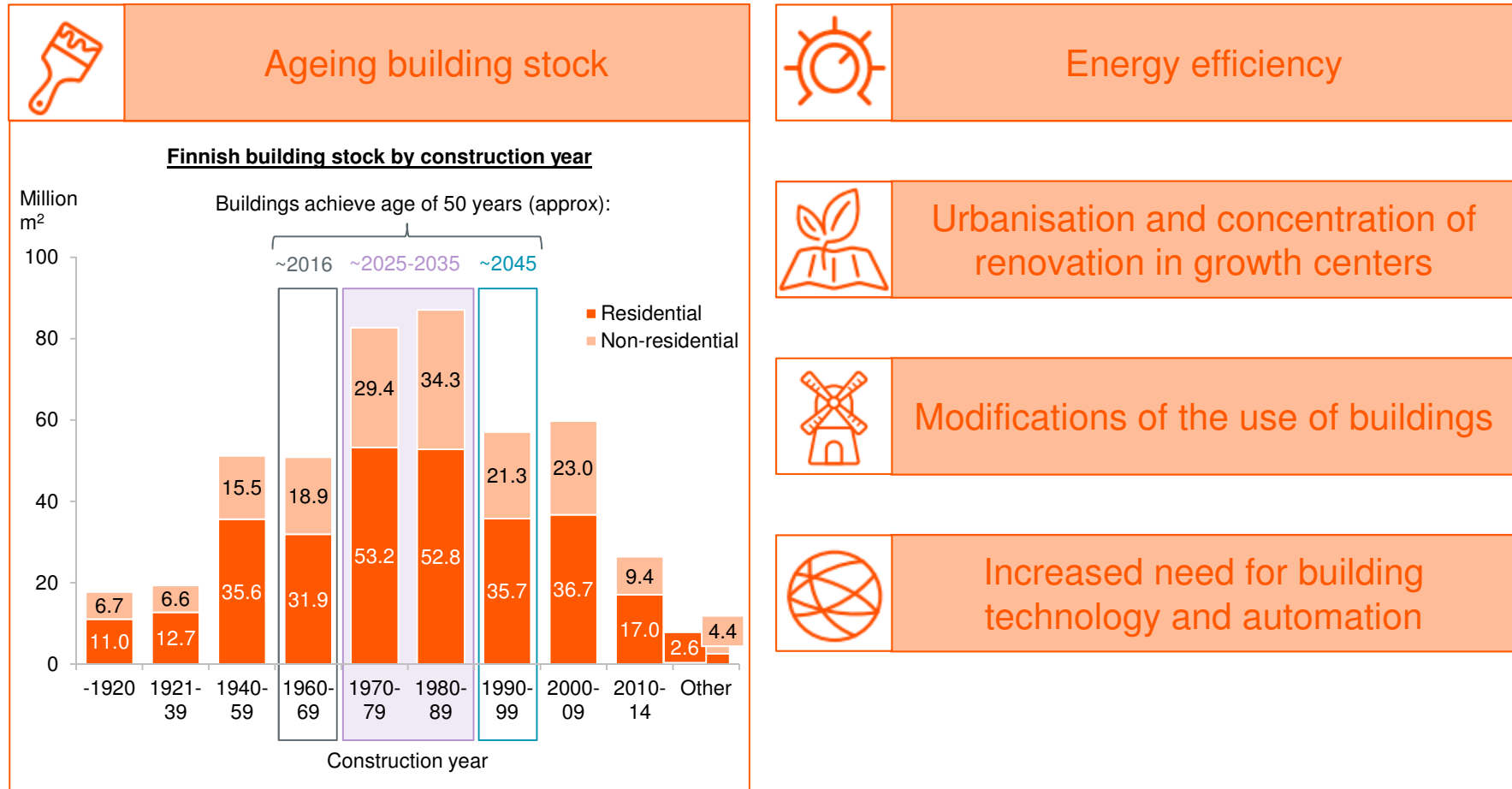


Comments

- Both The Confederation of Finnish Construction Industries RT (CFCI) and Euroconstruct expect stable growth in renovation to continue in 2016 (+1.5%)
- New building projected to grow strongly in 2016 (Euroconstruct +12.2%, CFCI +14%)
- CFCI expects the pace of renovation growth to slightly slow down in 2016-17 because of the strong development in new building sector
- However, CFCI expects stable growth in renovation to continue for years to come due to renovation needs stemming from the existing building stock

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

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



Source: Statistics Finland

Pipeline and façade renovations of residential buildings as well as services came to the fore in Q3 order intake

TECHNICAL BUILDING SERVICES

Q3/16 order intake:
EUR 14.2m (+15.6% yoy)

EXAMPLES OF NEW ORDERS:

- **As Oy Kitiniitynkatu 9-11**
 - Pipeline renovation for a housing company in Tampere
- **As Oy Saukonlinna**
 - Pipeline renovation for a housing company in Tampere
- **Kaukajärvi Business Centre Vinkkeli**
 - Installation of technical building systems

RENOVATION CONTRACTING

Q3/16 order intake:
EUR 3.5m (-49.0% yoy)

EXAMPLES OF NEW ORDERS:

- **HOAS**
 - Amenity renovations for The Foundation for Student Housing in the Helsinki Region
- **Niam Oy**
 - On-going service contracting for multiple properties managed by Niam

BUILDING FACADES

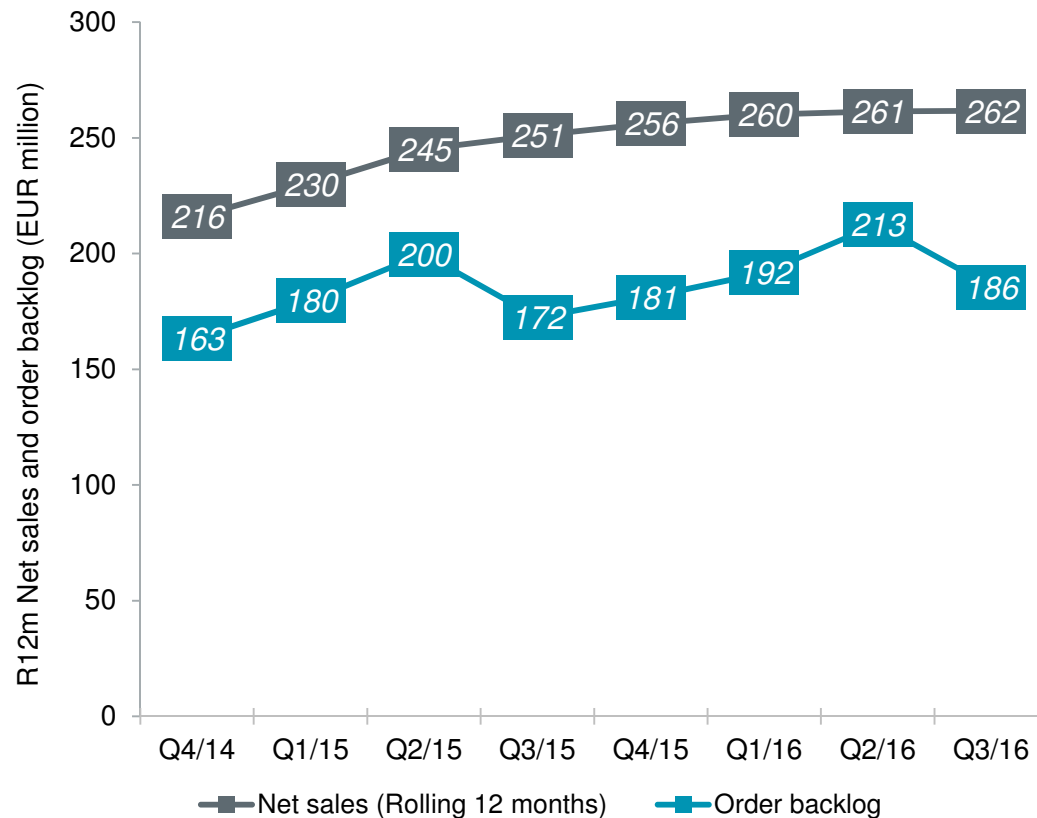
Q3/16 order intake:
EUR 13.3m (+39.0% yoy)

EXAMPLES OF NEW ORDERS:

- **VVO / Services**
 - Façade joint sealants in six locations in the capital area
- **As Oy Otsonkallio**
 - Comprehensive façade renovation in Espoo
- **Sato Oyj**
 - Complete floor renovations in four locations in the capital area, project to be delivered by the rental apartment buildings business unit

Slower than anticipated net sales realisation from order backlog during the second half of 2016

Quarterly order backlog and R12m net sales Q4/2014 – Q3/2016 (EUR m)



Comments

- Rolling 12-month net sales flattening out in Q2/16 and Q3/16
 - Order backlog – which had strengthened during the beginning of the year – has not realised as net sales at the anticipated pace
 - Capacity challenges in part of businesses affecting progress and start of projects
 - Order intake for Q3/16 will be delivered for the most part in 2017
- Also, Q4/16 net sales will be affected by capacity challenges, and also in part by project schedules moving forward

Guidance for 2016 was specified through a stock exchange release on 26 Oct 2016

“The Company estimates that its total annual net sales will grow compared to 2015.”



HR issues emphasised in current market environment



- Consti needs more competent personnel to support its growth going forward
- Hence, efforts increased in for instance personnel recruitment, training, and career paths
- In addition, Consti aims at strengthening its employer image, as the fight for competent personnel is fierce in the construction industry at the moment

Realisation of Consti's long-term financial targets

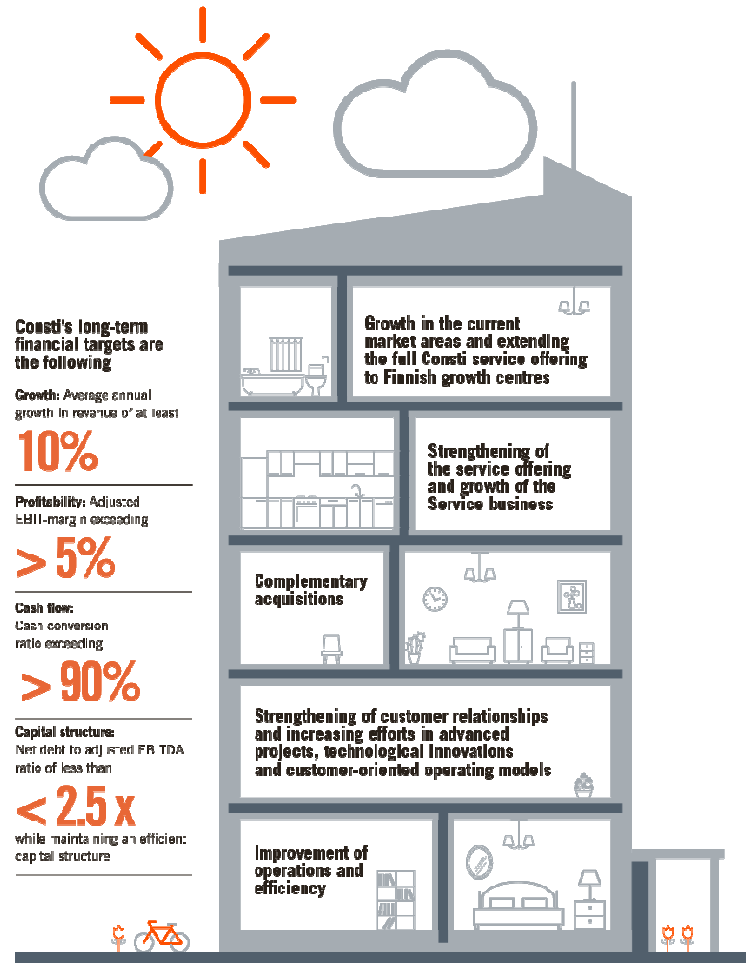
Growth	Profitability	Cash flow	Capital structure	Dividends
<p><i>Average annual growth in net sales of at least 10%</i></p> <p>CAGR 2011-Q3/16</p> <p>+13.9%</p> <ul style="list-style-type: none"> Long-term target level achieved during Consti's organic growth phase (2011 – Q3/2016) <p>✓</p>	<p><i>Adjusted EBIT-margin exceeding 5 percent</i></p> <p>Q3/2016 (Roll. 12m)</p> <p>4.3%</p> <ul style="list-style-type: none"> Profitability steadily improving, efforts continue to meet the target level 	<p><i>Cash conversion ratio exceeding 90 percent¹</i></p> <p>Q3/2016 (Roll. 12m)</p> <p>103.3%</p> <ul style="list-style-type: none"> Target was clearly achieved on a rolling 12-month basis <p>✓</p>	<p><i>Net debt to adjusted EBITDA ratio of less than 2.5x while maintaining an efficient capital structure</i></p> <p>Q3/2016 (Roll. 12m)</p> <p>0.9x</p> <ul style="list-style-type: none"> Target was clearly achieved on a rolling 12-month basis <p>✓</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> <p>FY 2015 realisation</p> <p>63.8%</p> <ul style="list-style-type: none"> AGM resolved dividend of EUR 0.39 per share, or 64% of 2015 EPS <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.

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



Summary

1. Net sales on par with last year, slower than anticipated net sales realisation
2. Profitability improved both in absolute and relative terms
3. Strong development in cash flow during the third quarter
4. Fairly good market situation in Q3/2016, order intake grew year-on-year
5. Slower than anticipated net sales realisation during H2/2016
6. FY2016 net sales to grow compared to 2015



CONSTI

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CONSTI GROUP PLC

Q3

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