

CONSTI GROUP PLC

HALF-YEAR FINANCIAL REPORT

1 JANUARY – 30 JUNE 2019

CEO Esa Korkeela
CFO Joni Sorsanen



CONSTI

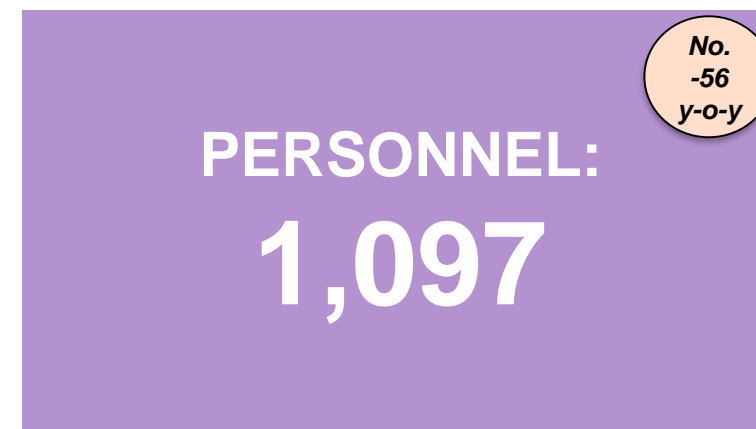
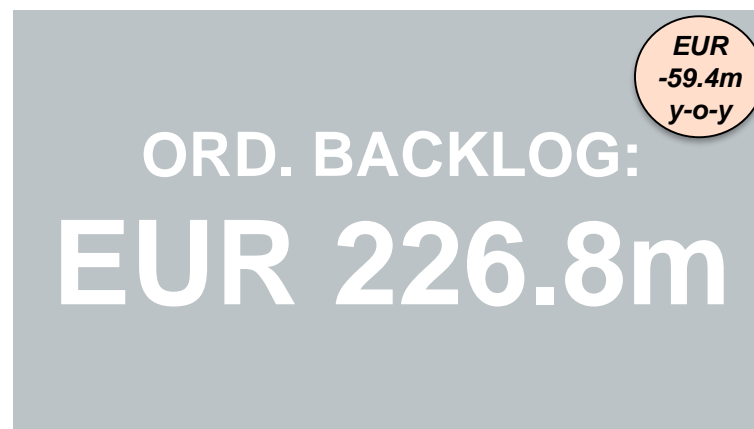
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Highlights of the second quarter of 2019

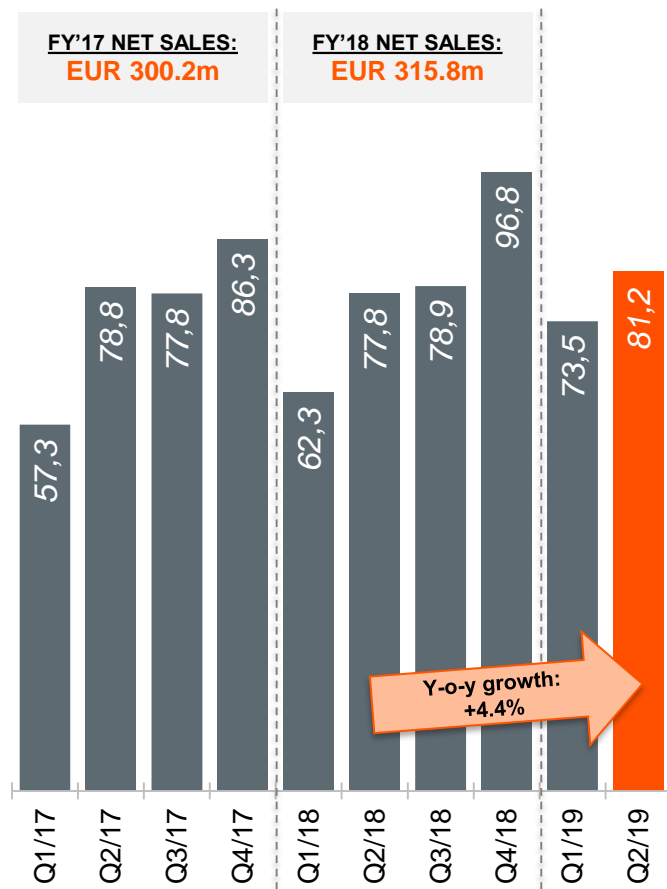
Net sales grew, EBIT turned positive



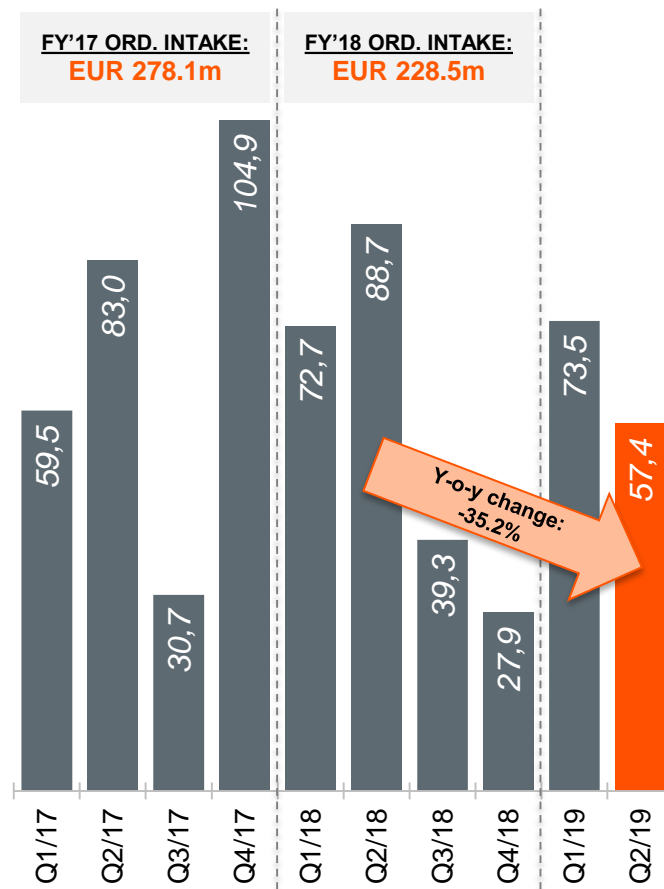
Quarterly performance overview

Net sales grew by 4.4%, order intake and order backlog declined year-on-year

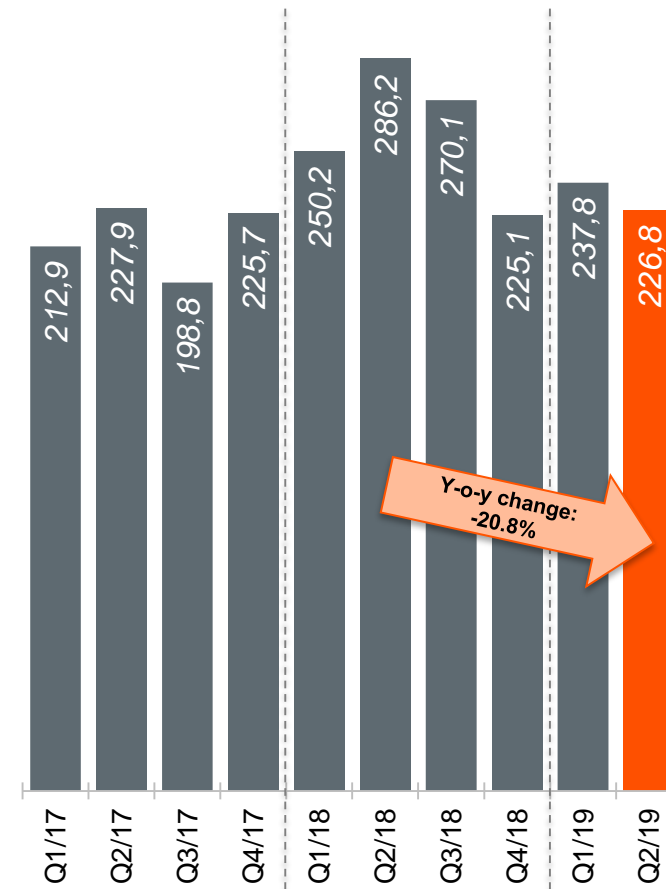
QUARTERLY NET SALES (EUR m)



QUARTERLY ORDER INTAKE (EUR m)



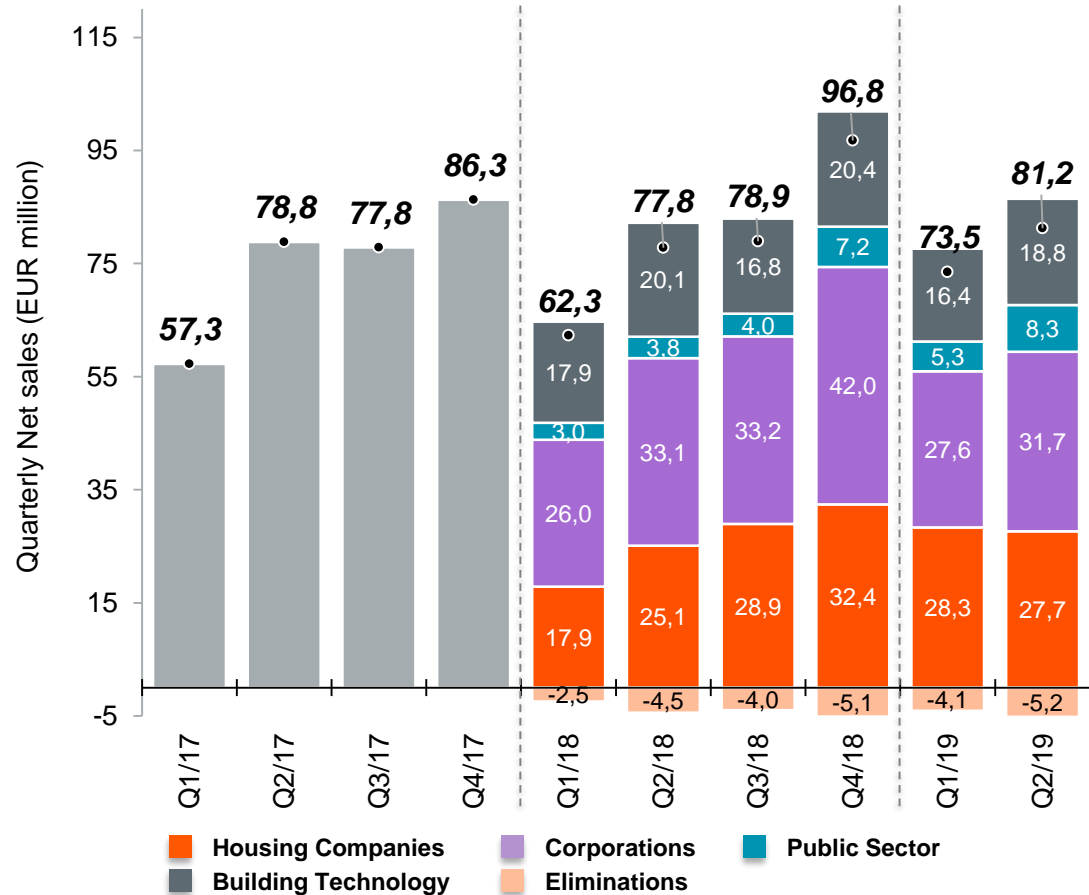
QUARTERLY ORDER BACKLOG (EUR m)



Quarterly net sales development

Q2 net sales EUR 81.2m, growth of 4.4% year-on-year

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



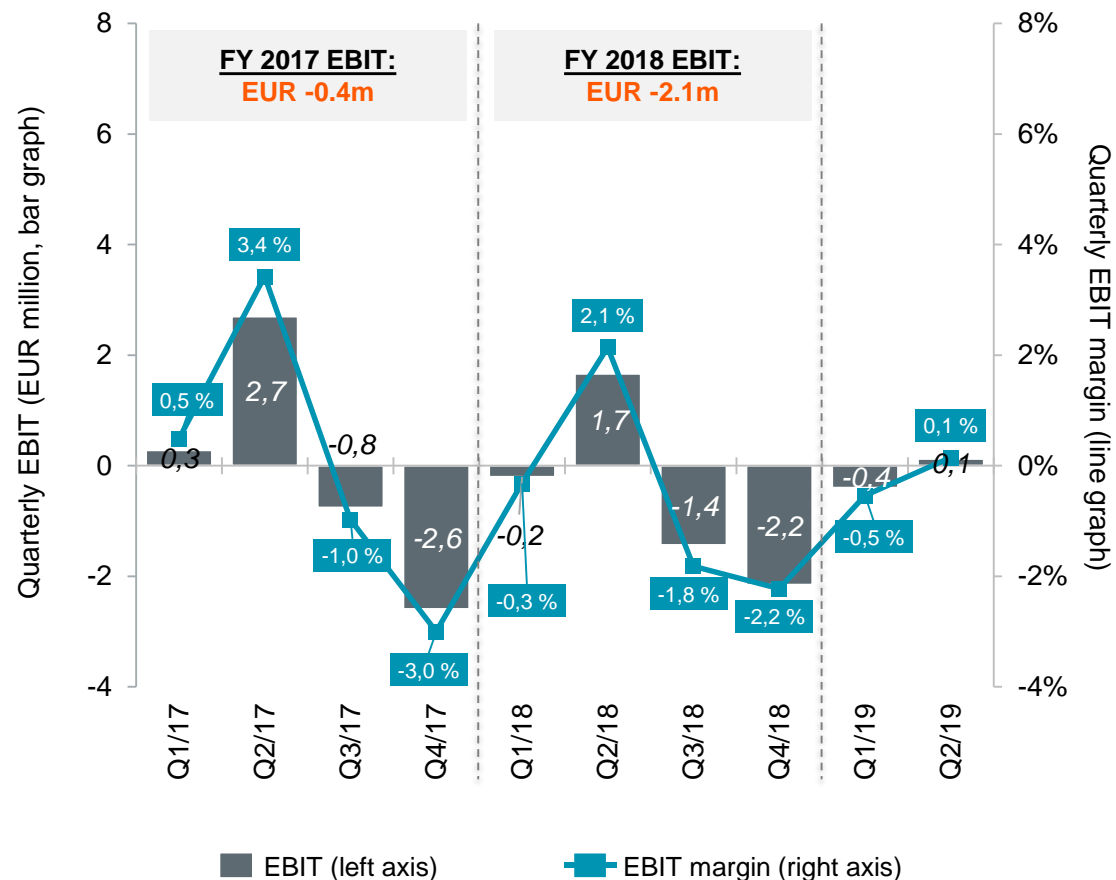
Comments

- Q2/2019 net sales EUR 81.2m (77.8m)
 - Year-on-year growth 4.4%
 - Housing Companies net sales EUR 27.7m (25.1m) → growth was strong particularly in facade renovations in the Greater Helsinki area
 - Corporations net sales EUR 31.7m (33.1m) → net sales generated from non-residential renovation grew strongly but net sales from residential renovation declined due to reorganisation of Housing repair unit initiated in late 2018
 - Public Sector net sales EUR 8.3m (3.8m) → growth in line with expectations in relation to low comparison period
 - Building Technology net sales EUR 18.8m (20.1m) → decline in line with expectations as a result of new operating models and more disciplined bidding processes adopted earlier

EBIT development

Q2 2019 EBIT turned positive

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

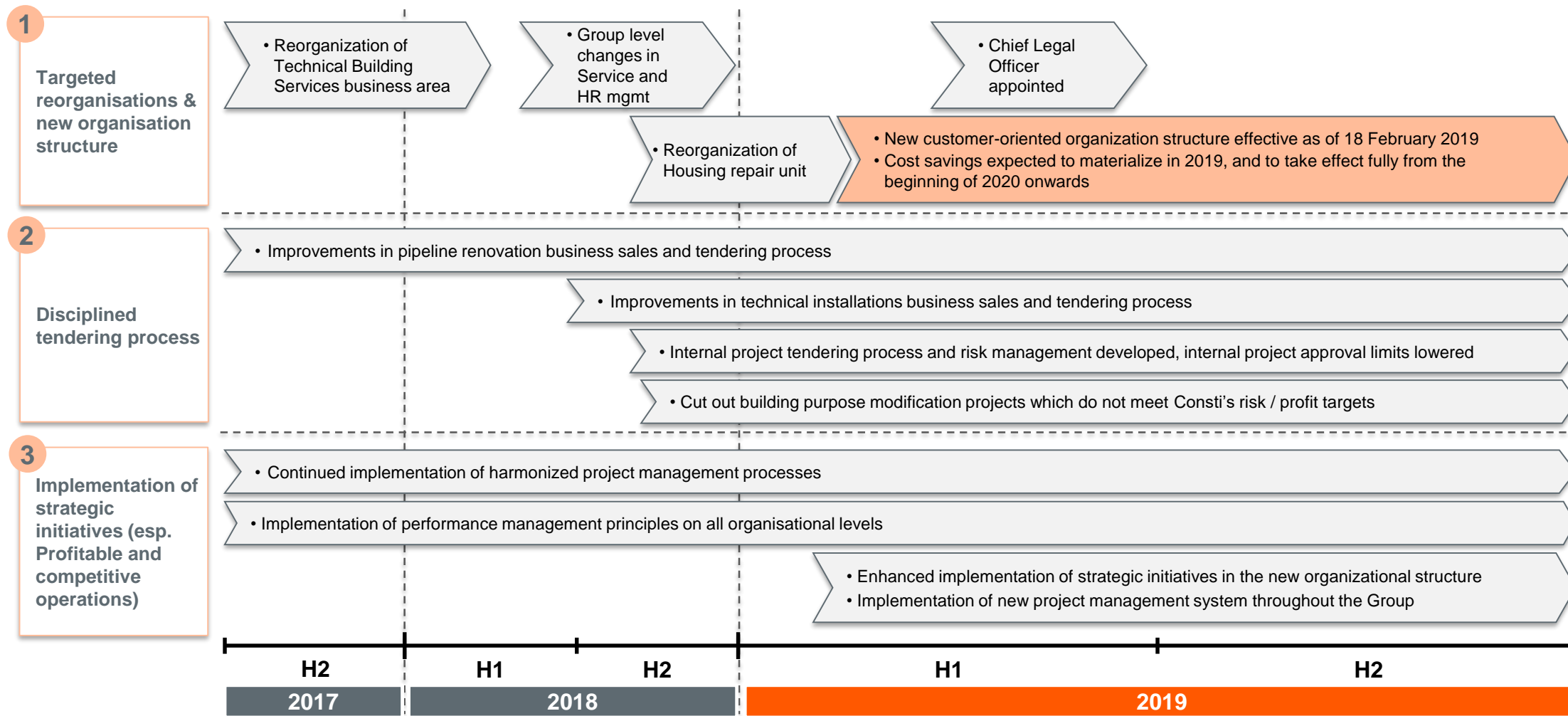


Comments

- 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

Actions to improve profitability ongoing

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



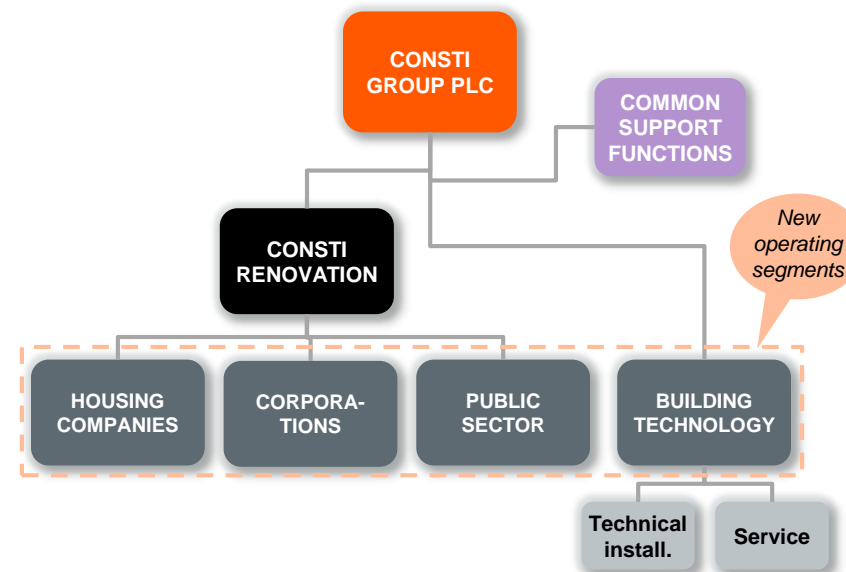
Implementation of new organisation structure progressing

Targeted annual cost savings of EUR 2 million expected to fully materialize in 2020

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 AND TARGETED BENEFITS



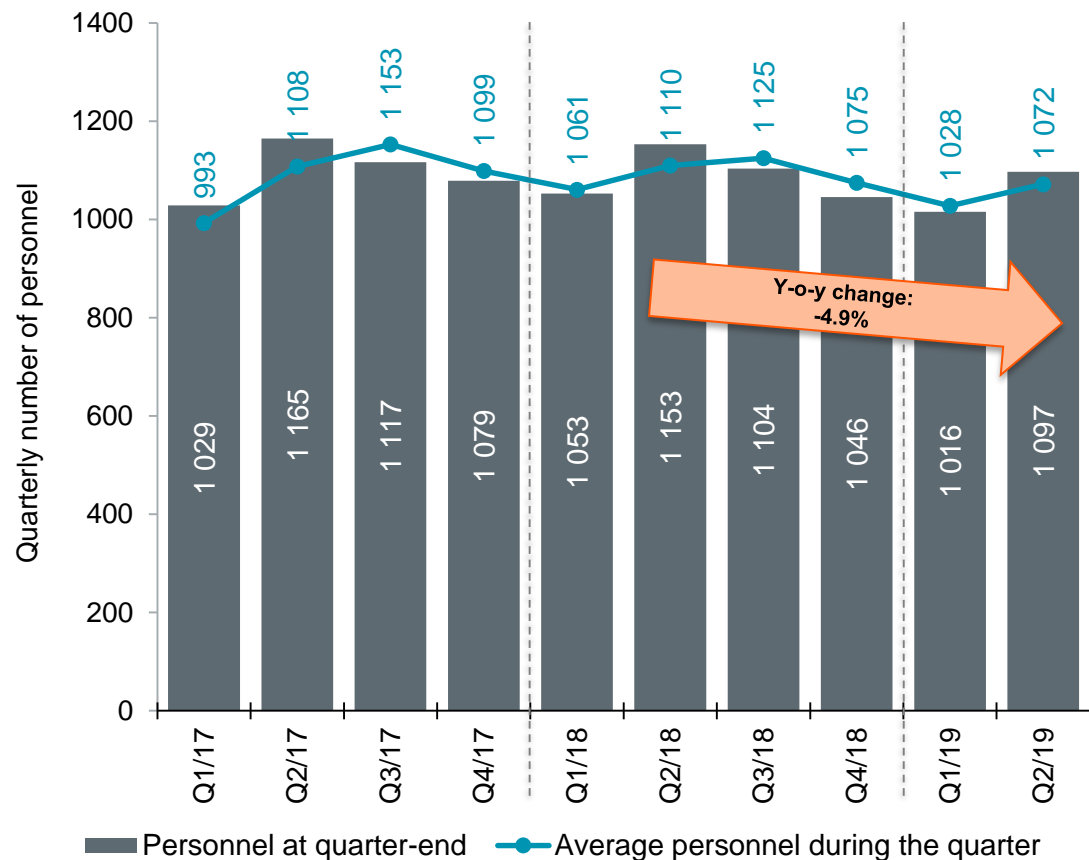
TARGETED BENEFITS OF THE NEW ORGANISATION AND CHANGE PROGRAM:

- 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

Quarterly development in number of personnel

Total number of personnel at the end of Q2 2019 decreased by 56 year-on-year

Quarterly development in number of personnel Q1/2017 – Q2/2019



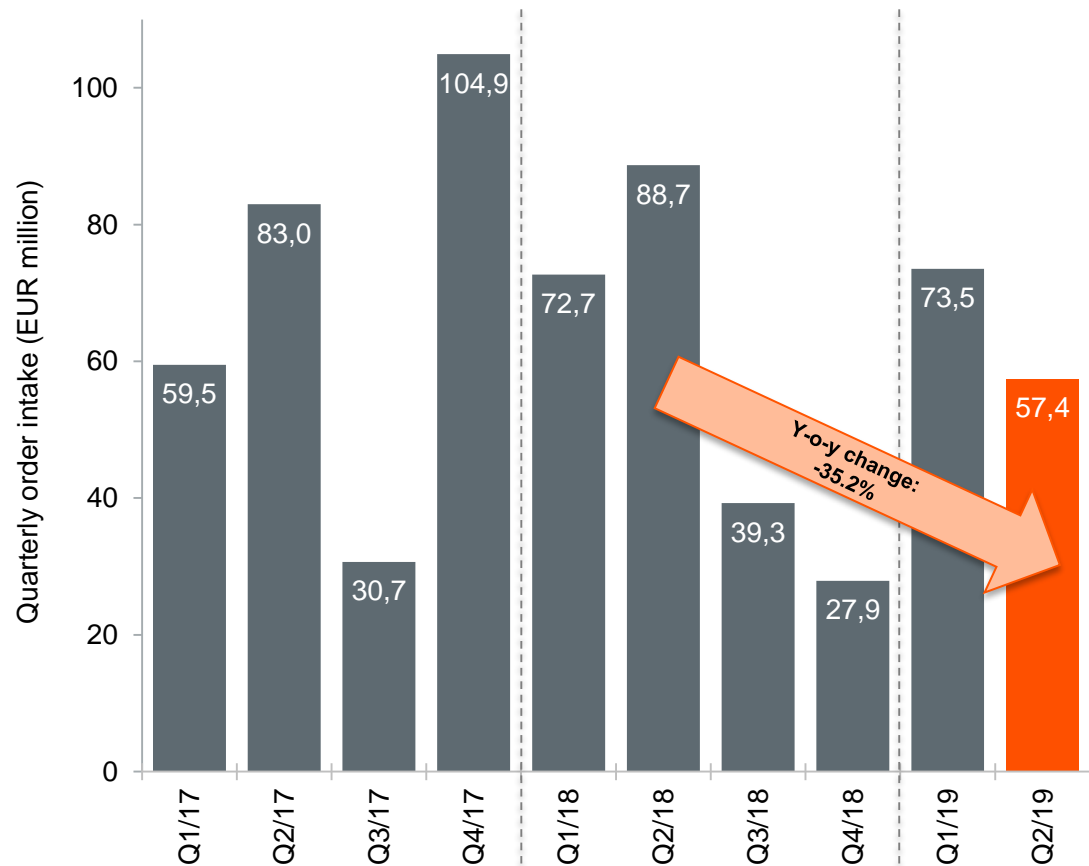
Comments

- Number of personnel at the end of Q2/2019 1,097 (1,153), reduction of 56
- Average number of personnel during Q2/2019 1,072 (1,110), reduction of 38
- Average number of personnel during H1/2019 1,050 (1,085), reduction of 35, or 3.2% year-on-year

Quarterly order intake development

Total Q2/2019 order intake EUR 57.4 million (88.7m)

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



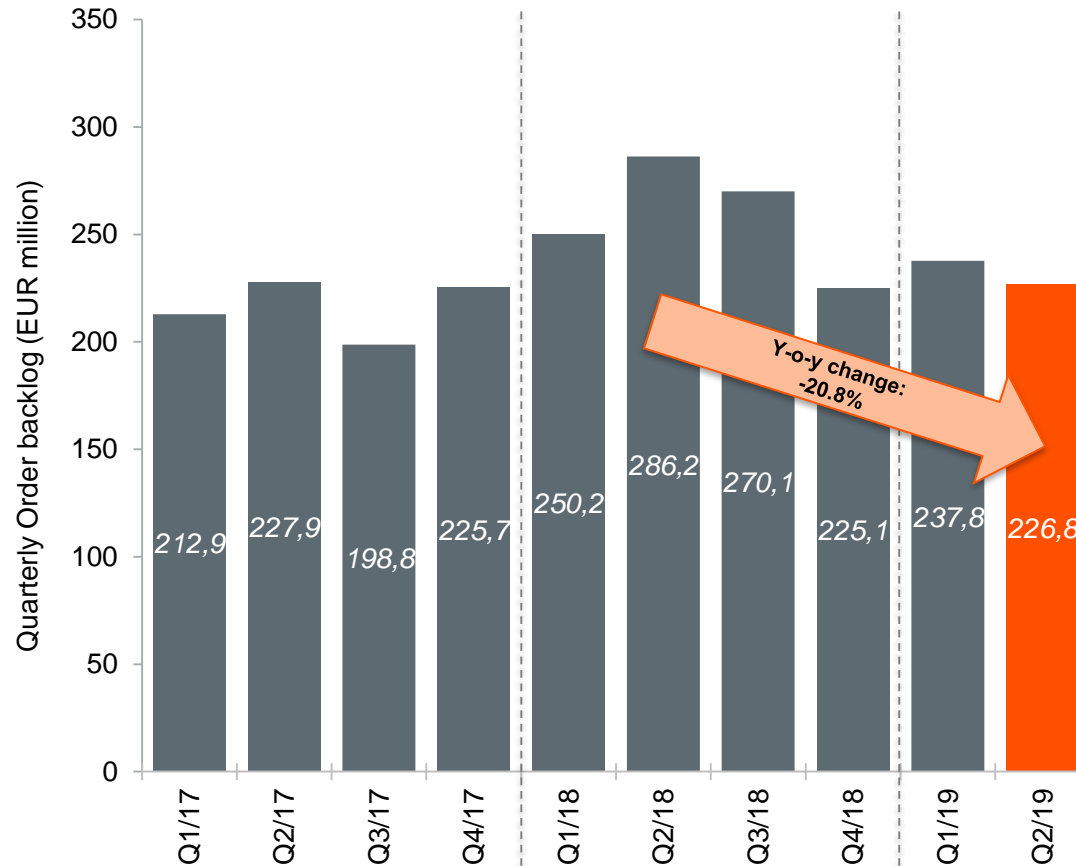
Comments

- Q2/2019 order intake EUR 57.4m (88.7m)
 - Year-on-year change -35.2%
 - Order intake impacted by Group-wide disciplined tendering process adopted during 2018 as well as the fact that large on-going comprehensive renovation projects have tied up resources in 2019
 - Examples of new orders received in Q2:
 - KOy Uudenmaankatu 16-20 office renovation through alliance contract in Helsinki (Corporations & Building Technology)
 - As Oy 3. linja 5 pipeline renovation in Helsinki (Housing Companies)
 - HUS Siltasairaala, contract for heating and cooling works in Helsinki (Building Technology)
- H1/2019 order intake EUR 131.0m (161.4m)

Quarterly order backlog development

Q2/2019 order backlog at EUR 226.8 million (286.2m), down by 20.8% y-o-y

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



Comments

- Q2/2019 order backlog at EUR 226.8m (286.2m)
- Year-on-year change -20.8%
- The quality of the order backlog has gradually improved during H1 2019 as the share of loss-making projects has decreased significantly from the beginning of the year

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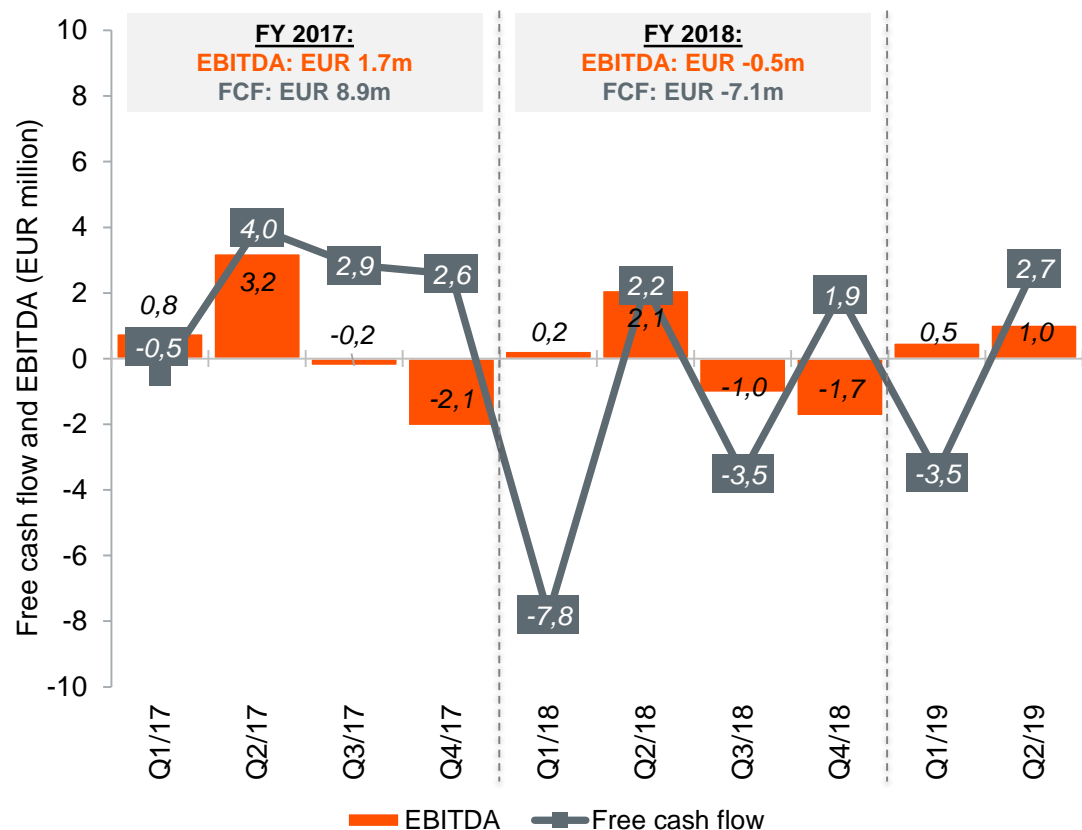
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Quarterly free cash flow development

Q2 cash flow supported by the improvement of operating result and release of working capital

Quarterly free cash flow¹⁾ and EBITDA Q1/2017 – Q2/2019 (EUR m)



Comments

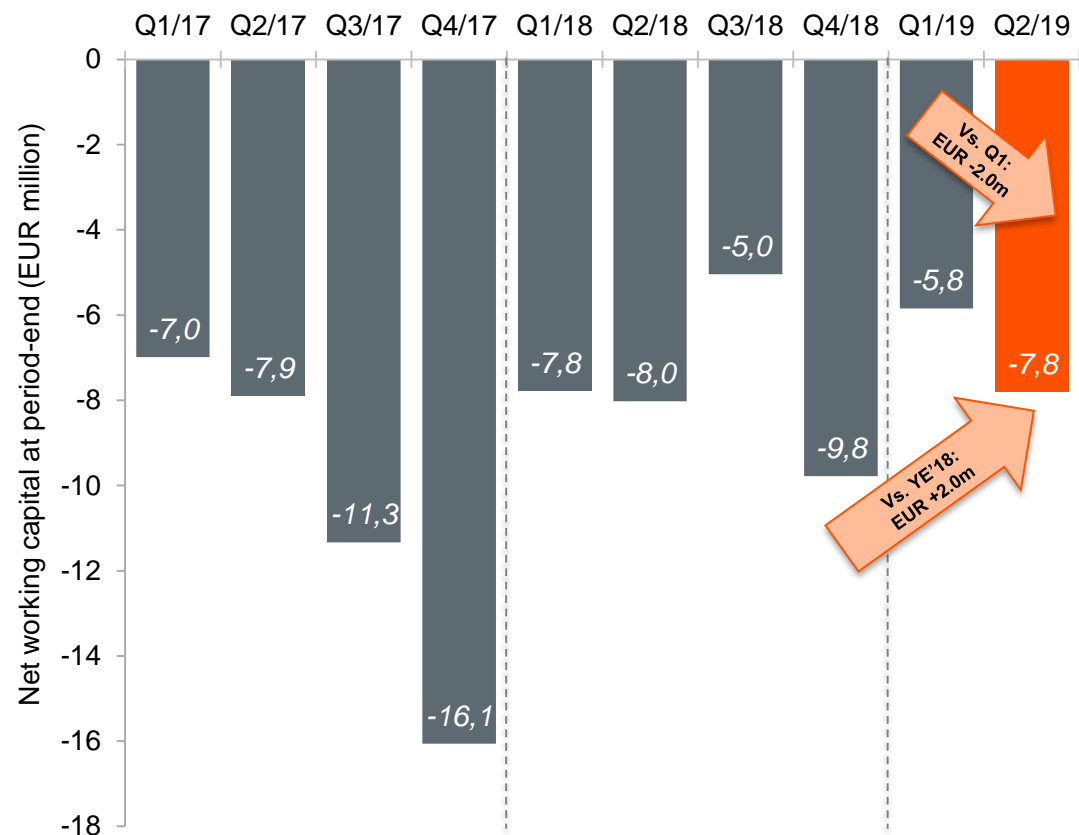
- Q2/2019 EBITDA amounted to EUR 1.0m (2.1m)
 - Adoption of IFRS 16 had a positive impact of EUR 0.6m on EBITDA in Q2 2019
- Q2/2019 free cash flow EUR 2.7m (2.2m)
 - Cash flow impact from change in working capital was EUR +2.0m (+0.4m)
 - Cash flow from investments in tangible and intangible assets amounted to EUR -0.2m (-0.2m)
- H1/2019 free cash flow EUR -0.7m (-5.6m)
 - Cash flow impact from change in working capital was EUR -1.8m (-7.4m)
 - Cash flow from investments in tangible and intangible assets amounted to EUR -0.4m (-0.6m)

¹⁾ 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

Quarterly net working capital development

Net working capital at EUR -7.8 million at the end of Q2 2019

Quarterly net working capital¹⁾ Q1/2017 – Q2/2019 (EUR m)



Comments

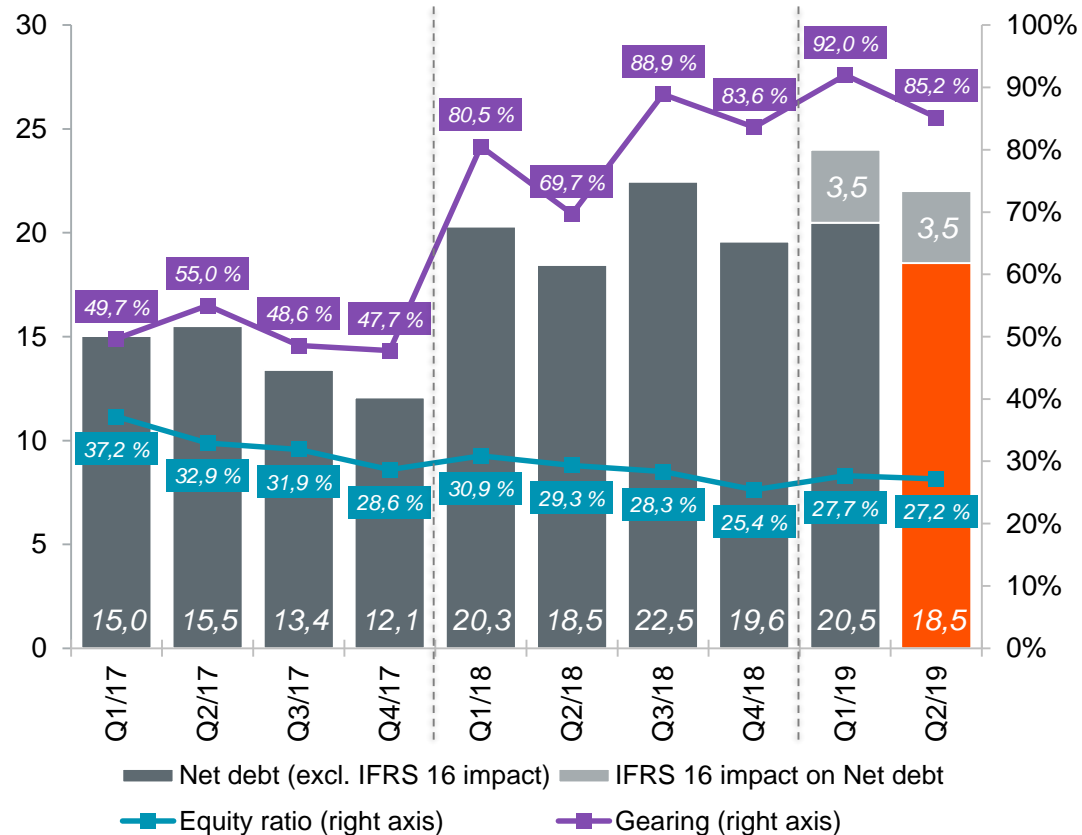
- Net working capital EUR -7.8m (-8.0m) at the end of Q2/2019
 - NWC released during Q2 2019 amounted to EUR 2.0m
 - NWC was released during Q2 2019 thanks to improvement in financial position of project portfolio
 - NWC tied up during H1 2019 amounted to EUR 2.0m
 - NWC was impacted by volume increase in H1 2019 in projects where invoicing is not based on typical payment schedules
 - Moreover, NWC was tied up due to a few large renovation projects progressing towards the hand-over phase during H1 2019
 - Hotel St. George continues to have a negative impact on net working capital

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

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
- 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

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

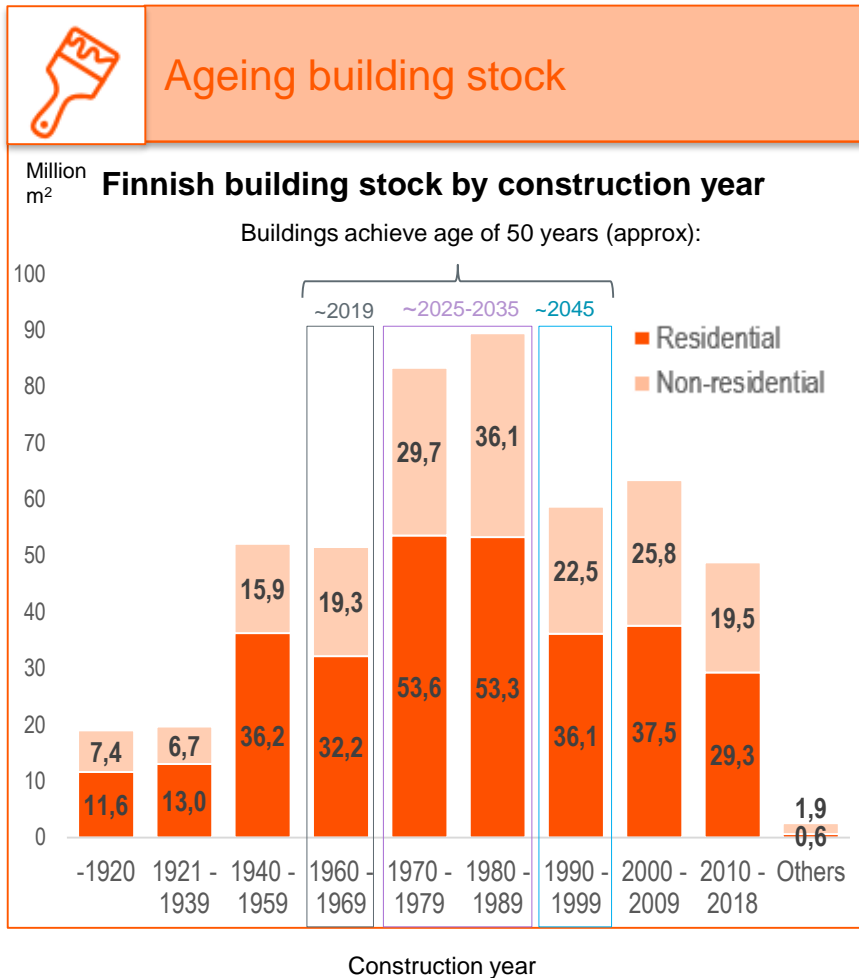
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Renovation market supported by a number of key structural growth drivers

Ageing building stock the single most important growth driver

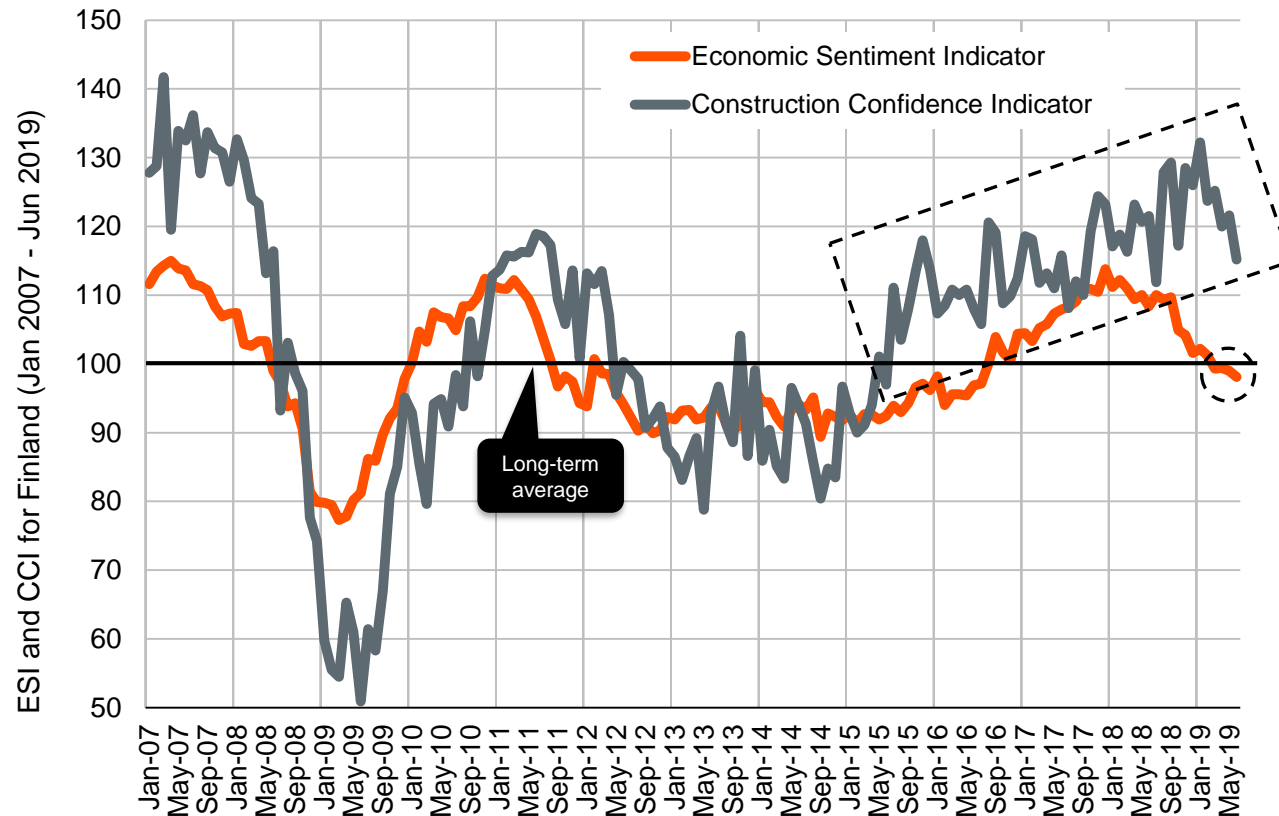


Source: Statistics Finland, May 2019

-  Energy efficiency
-  Urbanisation and concentration of renovation in growth centers
-  Modifications of the use of buildings
-  Increased need for building technology and automation

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 – 06/2019)



Note: Mean-adjusted figures

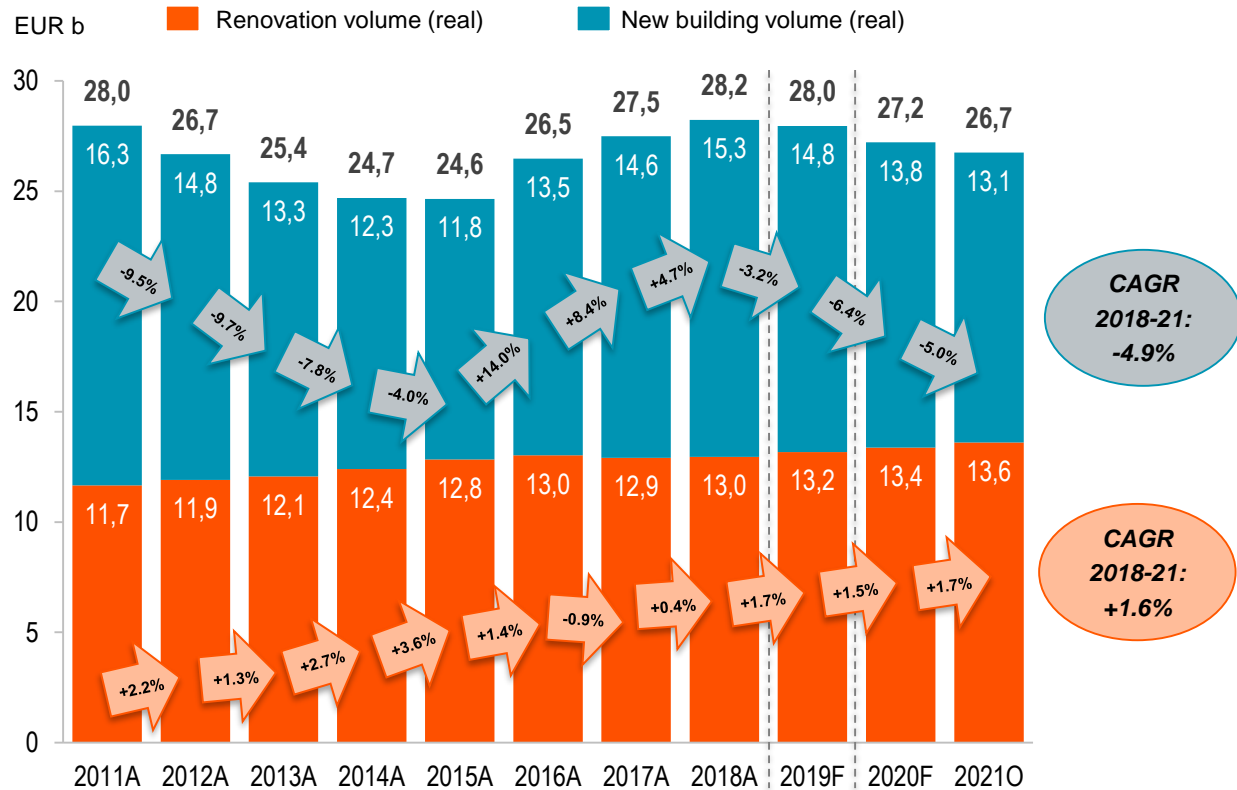
Source: European Commission, June 2019

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

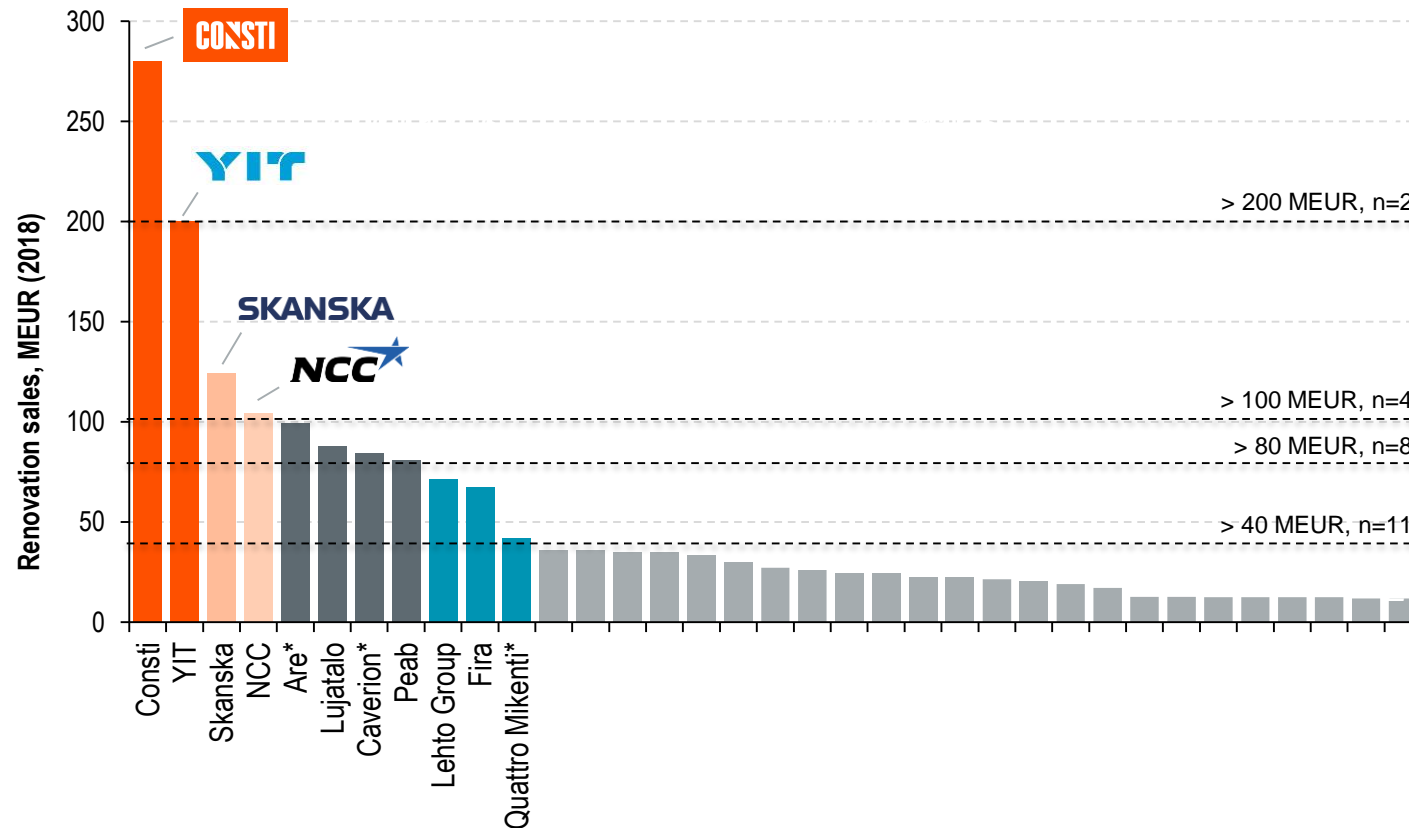
Comments

- 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

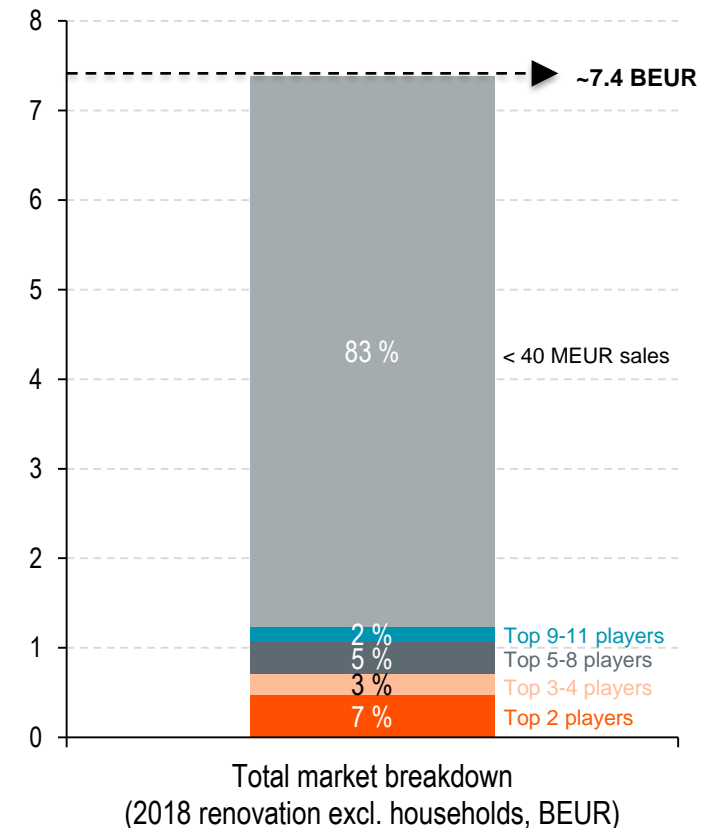
Finnish renovation market highly fragmented

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."



Summary

1. Net sales grew and EBIT turned positive in Q2 2019
2. Profitability development was mostly positive, but EBIT was still negatively impacted by one project
3. Order backlog and order intake down year-on-year, but the quality of order backlog continued to improve in Q2 2019
4. Implementation of new organisation structure progressing according to plan: new business areas have developed their operations in line with expectations, fixed cost savings achieved in H1 2019
5. Market environment continued to be predominantly good, outlook positive also for the second half of 2019
6. Change program and corrective actions to support performance going forward → FY2019 operating result to grow compared to 2018

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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

* 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

HALF-YEAR FINANCIAL REPORT

1-6/2019

CONSTI GROUP PLC

H1

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