



# CONSTI GROUP PLC

## INTERIM REPORT

### 1 JANUARY – 30 SEPTEMBER 2018

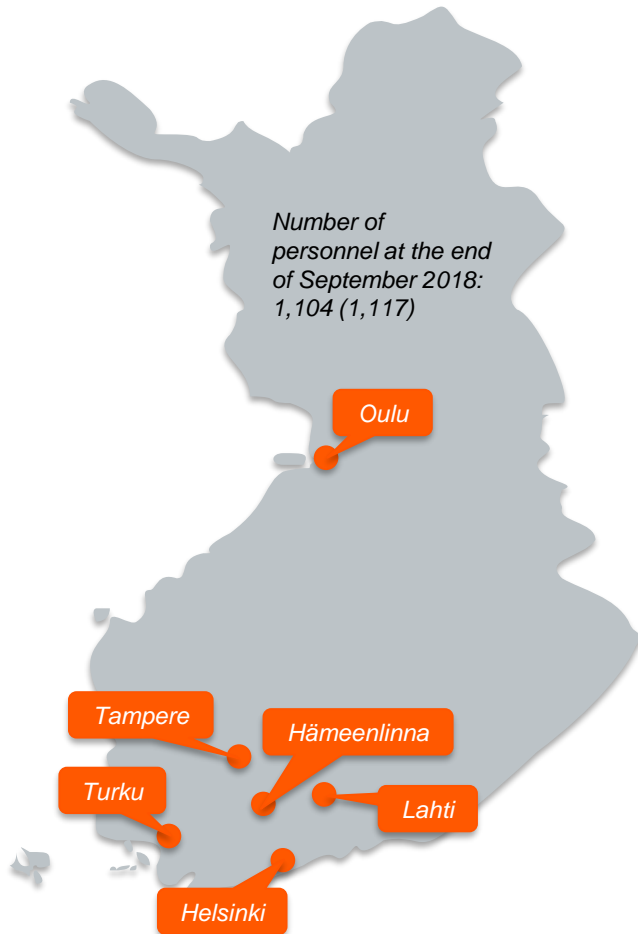
CEO Esa Korkeela  
CFO Joni Sorsanen



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- Highlights and Group performance
- Cash flow and financial position
- Market outlook, guidance and summary
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# Highlights of the third quarter of 2018



## Highlights of 7-9/2018 (y-o-y comparison in brackets)

- Net sales EUR 78.9 (77.8) million, growth 1.4%
- EBITDA EUR -1.0 (-0.2) million, EBITDA margin -1.3% (-0.3%)
- EBIT EUR -1.4 (-0.8) million, EBIT margin -1.8% (-1.0%)
- Free cash flow EUR -3.5 (2.9) million
- Earnings per share EUR -0.17 (-0.10)

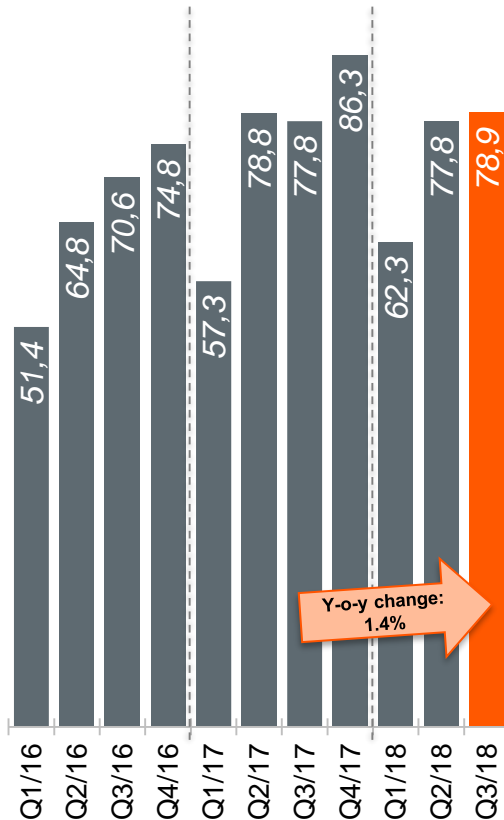
## Highlights of 1-9/2018 (y-o-y comparison in brackets)

- Net sales EUR 219.0 (213.9) million, growth 2.4%
- EBITDA EUR 1.3 (3.8) million, EBITDA margin 0.6% (1.8%)
- EBIT EUR 0.0 (2.2) million, EBIT margin 0.0% (1.0%)
- Order backlog EUR 270.1 (198.8) million, growth 35.9% compared to previous year and 19.6% compared to year-end 2017
- Free cash flow EUR -9.1 (6.4) million
- Gearing 88.9% (48.6%)
- Net debt EUR 22.5 (13.4) million
- Earnings per share EUR -0.05 (0.16)

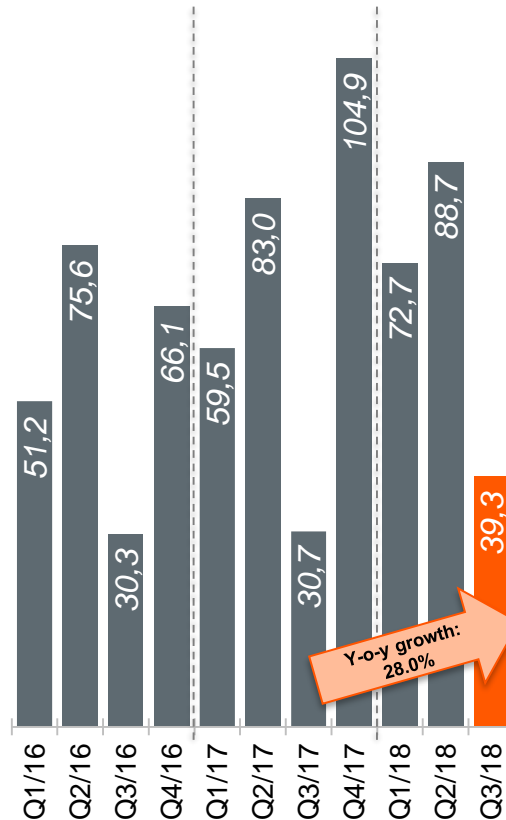
# Quarterly performance overview

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

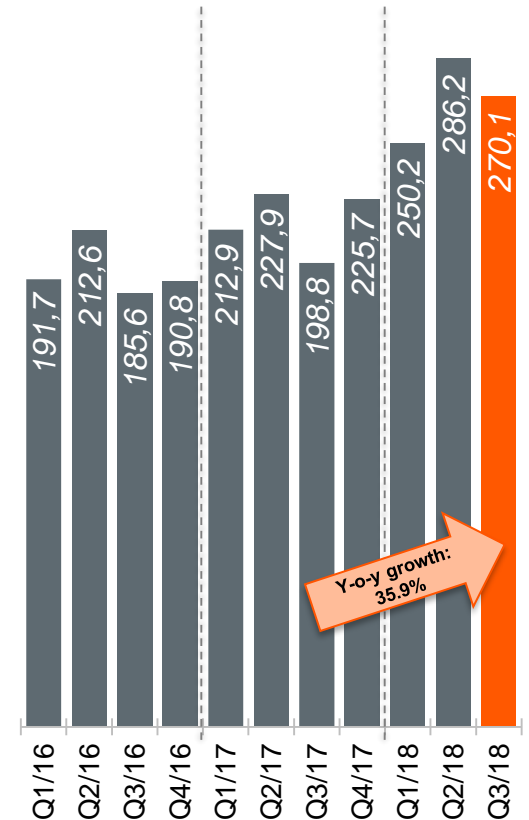
Quarterly net sales (EUR m)



Quarterly order intake (EUR m)



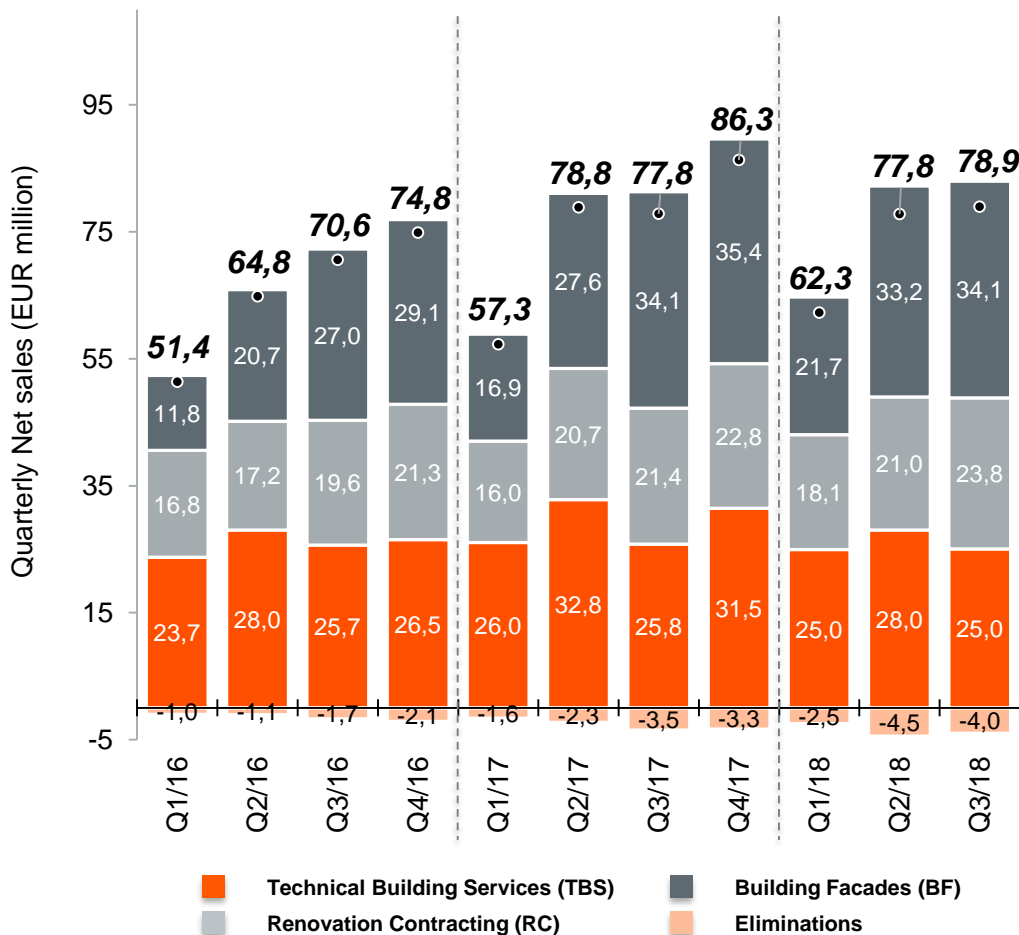
Quarterly order backlog (EUR m)



# Quarterly net sales development

## Q3 net sales EUR 78.9m, growth of 1.4% year-on-year

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



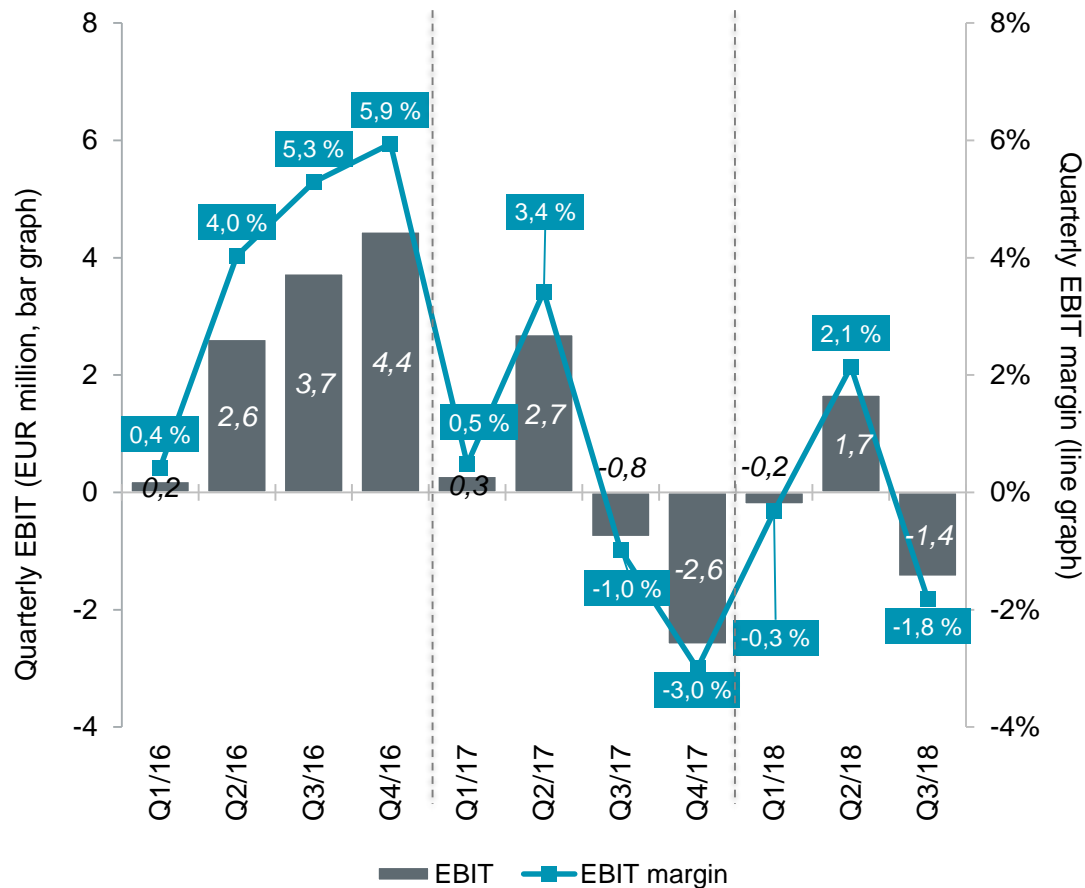
### Comments

- Q3/2018 net sales EUR 78.9m (77.8 m)
  - Year-on-year growth 1.4%
  - Organic growth 0.7%
  - Acquisition growth 0.8%
  - Renovation Contracting net sales grew 11.2 percent. Growth was supported by renovation business in the Greater Helsinki area and Tampere as well as the acquisition made during the second half of 2017.
  - Building Facades net sales remained at the same level as in comparison period with a growth of 0.1 percent.
  - Technical Building Services net sales decreased 3.0 percent due to the business areas' reorganising which was started towards the end of 2017; as well as taking new operating models into use, and the more disciplined bidding activity applied to pipeline renovation services.
- 1-9/2018 net sales EUR 219.0m (213.9 m)
  - Year-on-year growth 2.4%
  - Organic growth -0.2%
  - Acquisition growth 2.6%

# 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

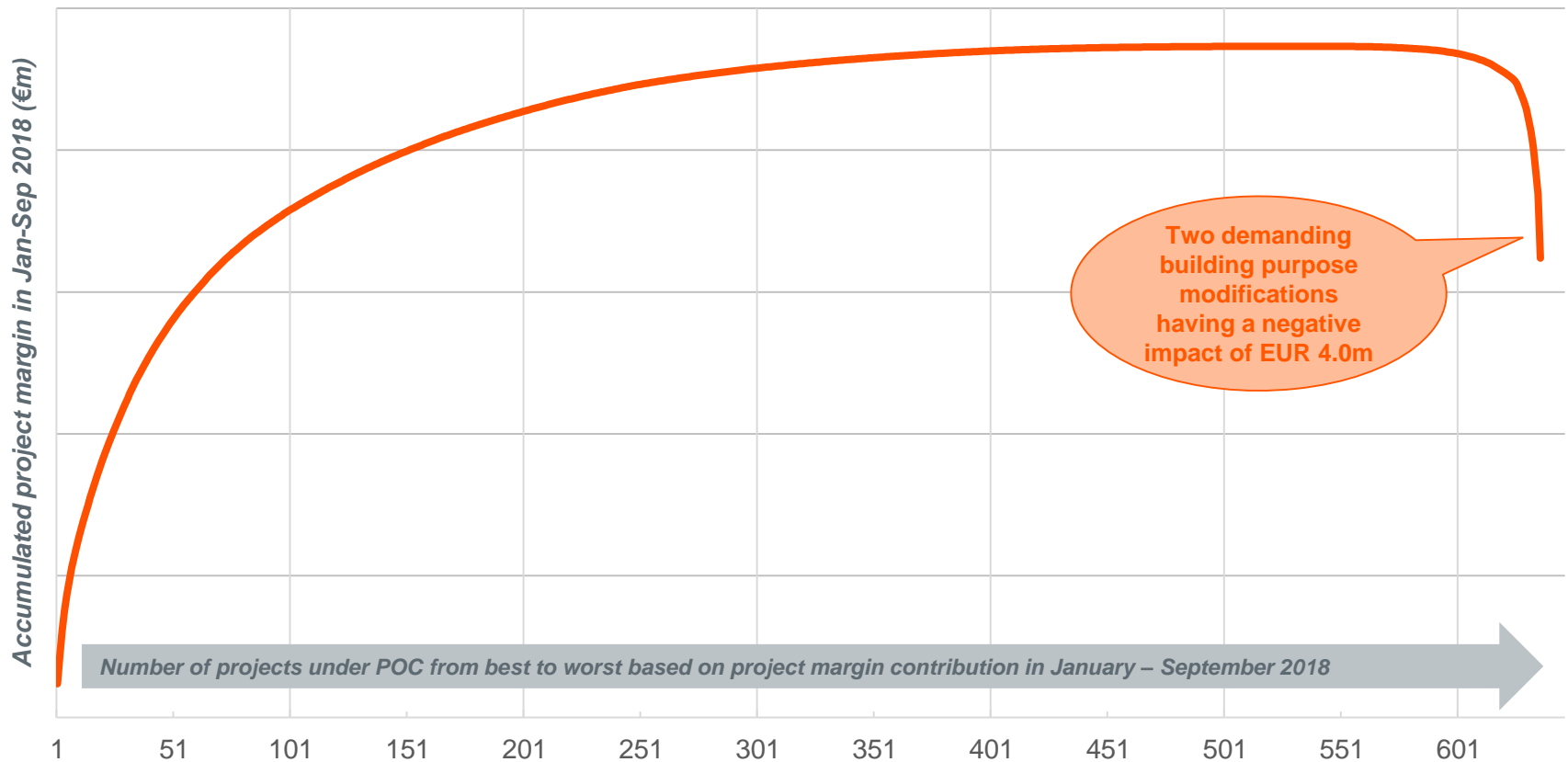
# Consti's whale curve for January-September 2018

## 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

## 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 ✓
- Recruitment of new HR Director ✓
- Continued implementation of harmonised project management processes ✓
- Implementation of performance management principles on all organization levels ✓
- Savings in discretionary costs ✓

- ▶ *Actions have been steps in the right direction, and positive impacts on new project deliveries visible*
- ▶ *However, corrective actions have not yet been fully put into practice in all Consti Group's business areas*

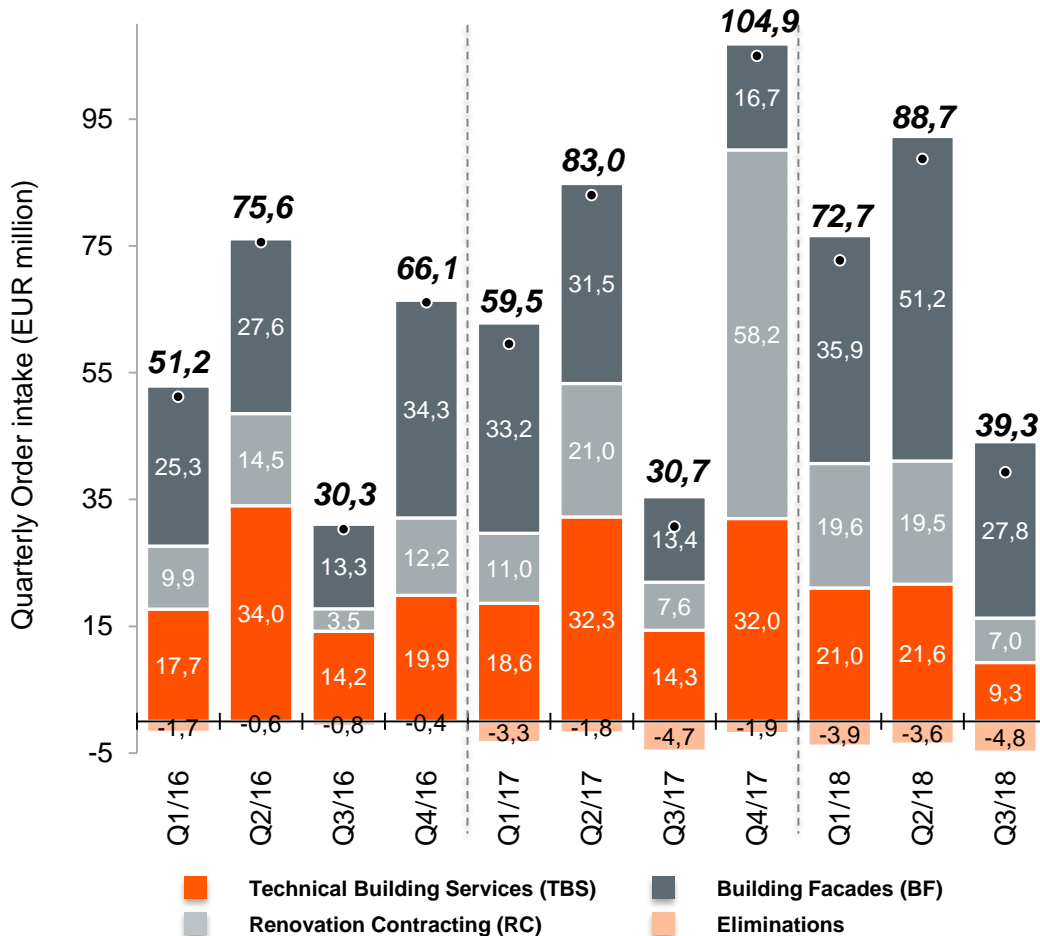
## FURTHER ACTIONS IN Q3/2018 AND THEREAFTER →

- ▶ 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

# Quarterly order intake development

## Q3 order intake up by 28.0 % y-o-y

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



Comments

- Q3/2018 order intake EUR 39.3 million (30.7m), up by 28.0% y-o-y
  - Order intake increased in Building Facades +107.1% y-o-y
  - Order intake decreased in Technical Building Services (-35.4% y-o-y) and in Renovation Contracting (-8.0% y-o-y)
- 1-9/2018 order intake EUR 200.6 million (173.2m), up by 15.9% y-o-y
  - Order intake increased in Building Facades (+47.1% y-o-y) and in Renovation Contracting (+16.2% y-o-y)
  - Order intake decreased in Technical Building Services (-20.4% y-o-y)

# Examples of new orders received in Q3/2018

## TECHNICAL BUILDING SERVICES

**Q3/18 order intake:**  
EUR 9.3m (-35.4% yoy)

### EXAMPLES OF NEW ORDERS:

- **Koy Espoon Vuorimiehentie 2, Espoo**
  - Installation of technical building systems as a part of comprehensive renovation and extension of research building (Aalto University)
- **As Oy Nuoliharju, Oulu**
  - Pipeline renovation, renovation of sauna and swimming pool area, renewal of courtyard areas and carport

## RENOVATION CONTRACTING

**Q3/18 order intake:**  
EUR 7.0m (-8.0 % yoy)

### EXAMPLES OF NEW ORDERS:

- **Lampolankatu 8, Turku**
  - Renovation of interiors, roof and facades in two buildings
- **KOy Rajatorpantien 8 A, Vantaa**
  - Modification work of C-wing stores and lobby

## BUILDING FACADES

**Q3/18 order intake:**  
EUR 27.8 m (+107.1% yoy)

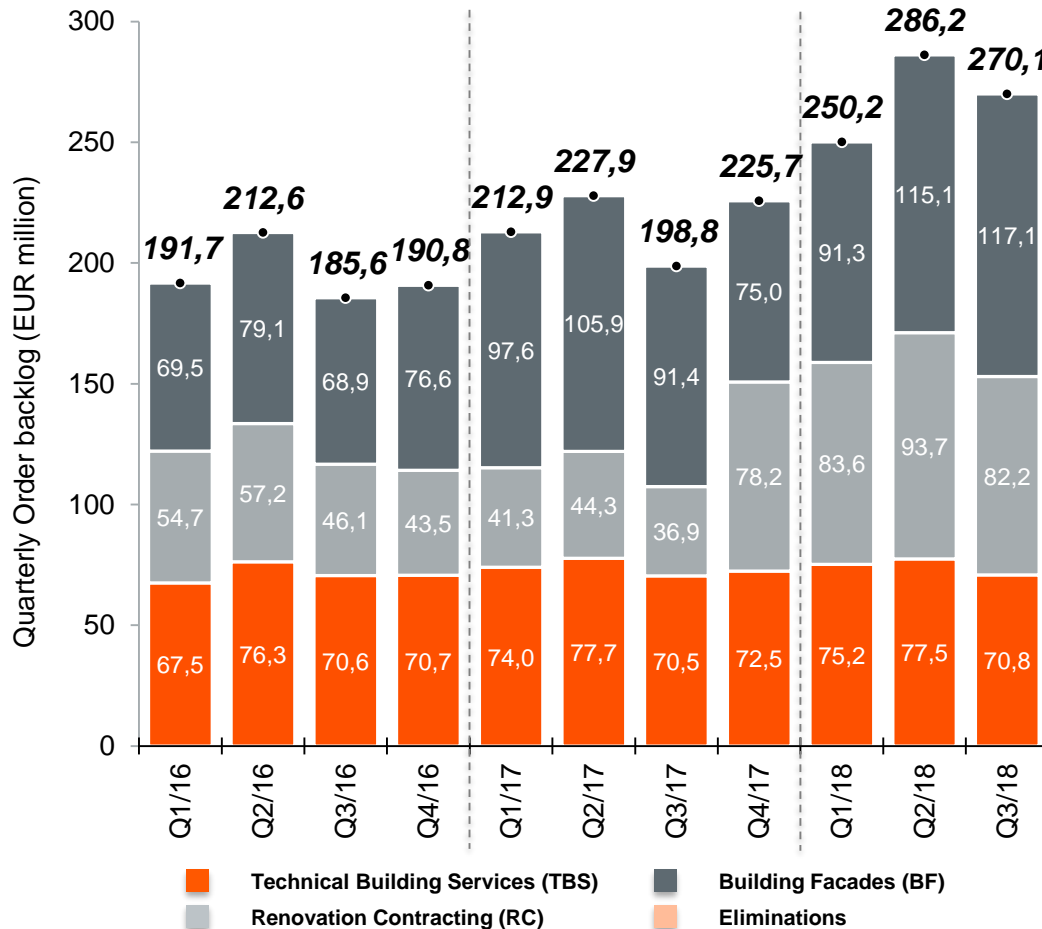
### EXAMPLES OF NEW ORDERS:

- **Koy Espoon Vuorimiehentie 2, Espoo**
  - Comprehensive renovation and extension of a research building (Aalto University)
- **Haukilahti school and high school, Espoo**
  - Repair work extending the life cycle of the building. The entire building is within the project scope - including its exterior area

# Quarterly order backlog development

## Strong order backlog growth continued, up by 35.9 % y-o-y

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



### Comments

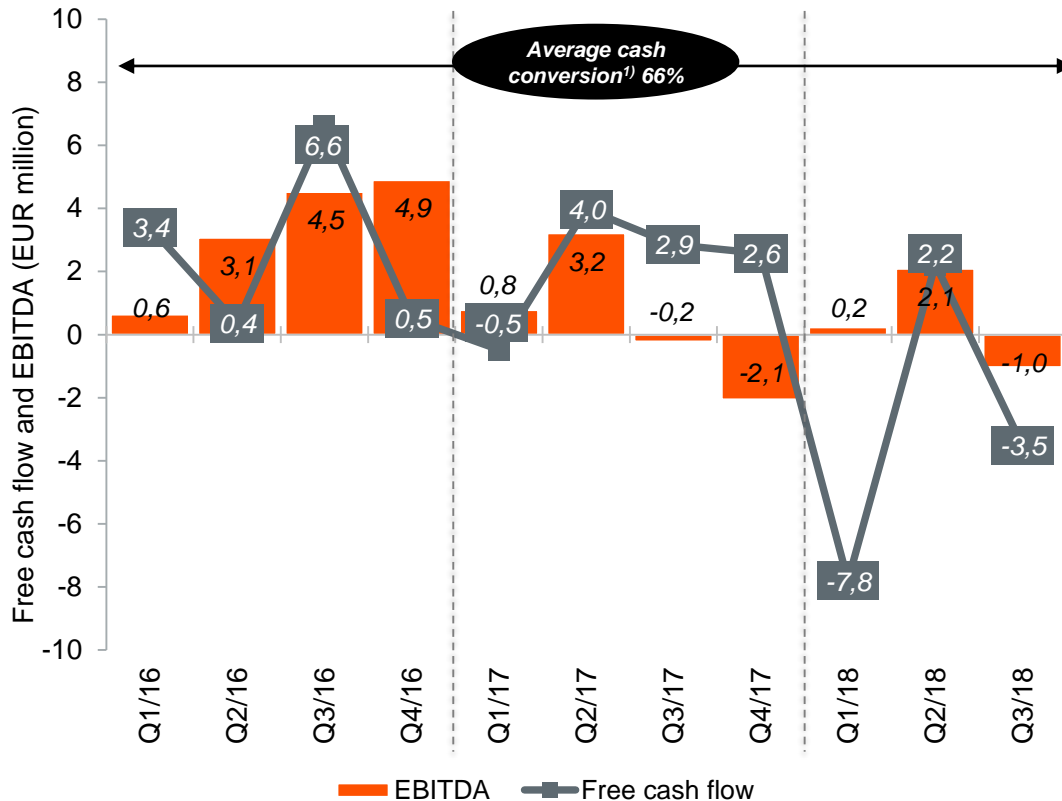
- Q3/2018 order backlog at EUR 270.1 million (198.8m)
  - Year-on-year growth 35.9%
  - Up by 19.6% from year-end 2017
  - Order backlog grew particularly in Renovation Contracting (+123.0% year-on-year) as a result of strong order intake during 1-9/2018 as well as due to major new orders received during Q4/2017
  - Order backlog in Building Facades grew +28.1% y-o-y due to strong order intake during Q3
  - In Technical Building Services, order backlog was close to comparison period's level with change of +0.4% y-o-y

# Cash flow and financial position

# Quarterly free cash flow development

## Q3 free cash flow EUR -3.5m

Quarterly free cash flow and EBITDA Q1/2016 – Q3/2018 (EUR m)



### Comments

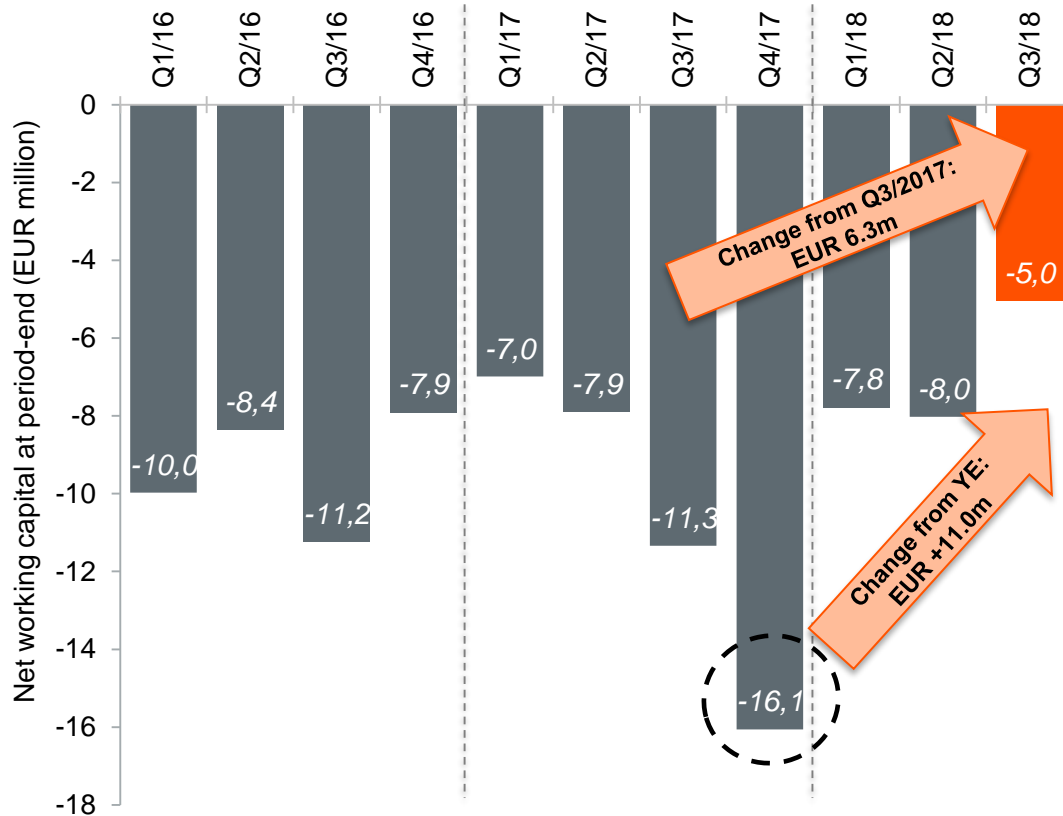
- Q3/2018 free cash flow amounted to EUR -3.5m (2.9m)
  - Cash flow was negatively impacted by weakened operating result as well as working capital tied up during the period
- 1-9/2018 free cash flow amounted to EUR -9.1m (6.4m)
- Average cash conversion ratio of 66% in the period of Q1/2016 – Q3/2018
  - 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

# Quarterly net working capital development

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

Quarterly net working capital<sup>1)</sup> Q1/2016 – Q3/2018 (EUR m)



### Comments

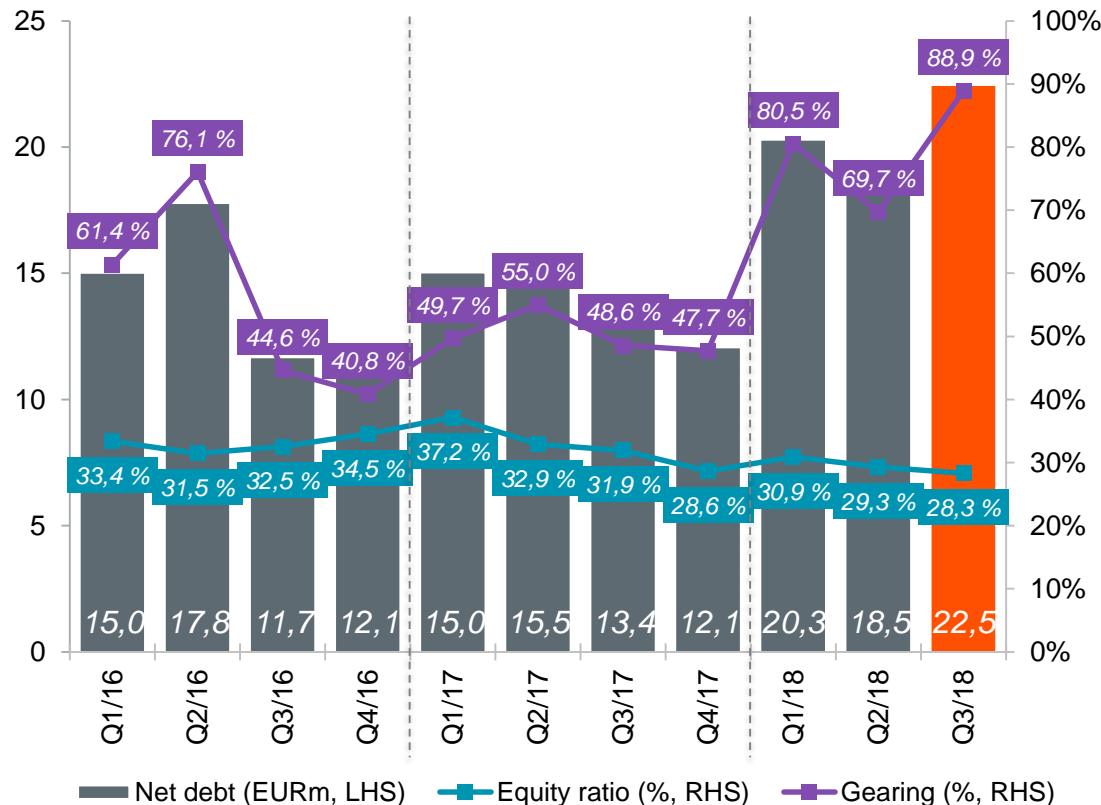
- Net working capital EUR -5.0m (-11.3m) at the end of Q3/2018
- NWC tied up during 1-9/2018 amounted to EUR 11.0m
  - Exceptionally low NWC level at year-end 2017
  - Hotel St. George project in Renovation Contracting tied up capital during 1-9/2018

<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

## Financial position weakened compared to previous quarter

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



Comments

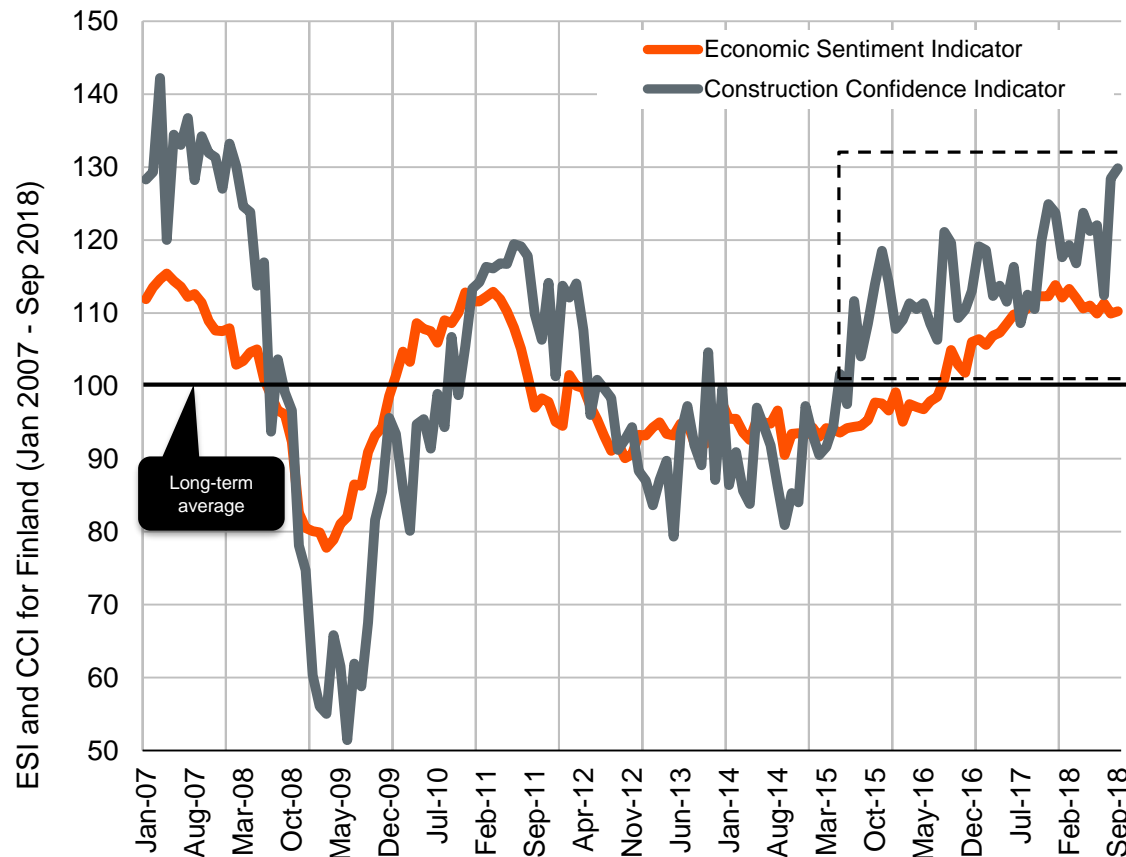
- Financial position weakened from the previous quarter due to negative cash flow in the third quarter
- Q3/2018 net debt at EUR 22.5m (13.4m)
- Q3/2018 equity ratio at 28.3% (31.9%)
- Q3/2018 gearing at 88.9% (48.6%)

# Market outlook, guidance and summary

# 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



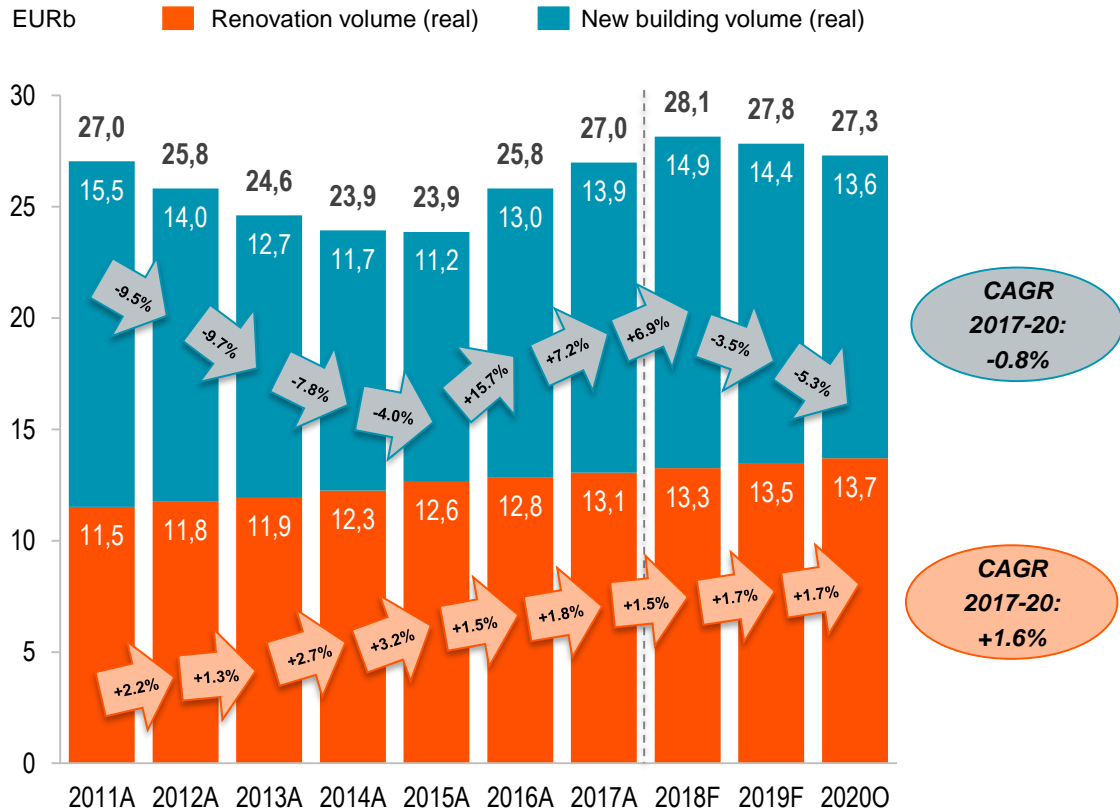
- During the past few years Economic sentiment and Construction confidence in Finland have steadily remained above the long-term average
- Both lead indicators have stayed at a good level during January – September 2018

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

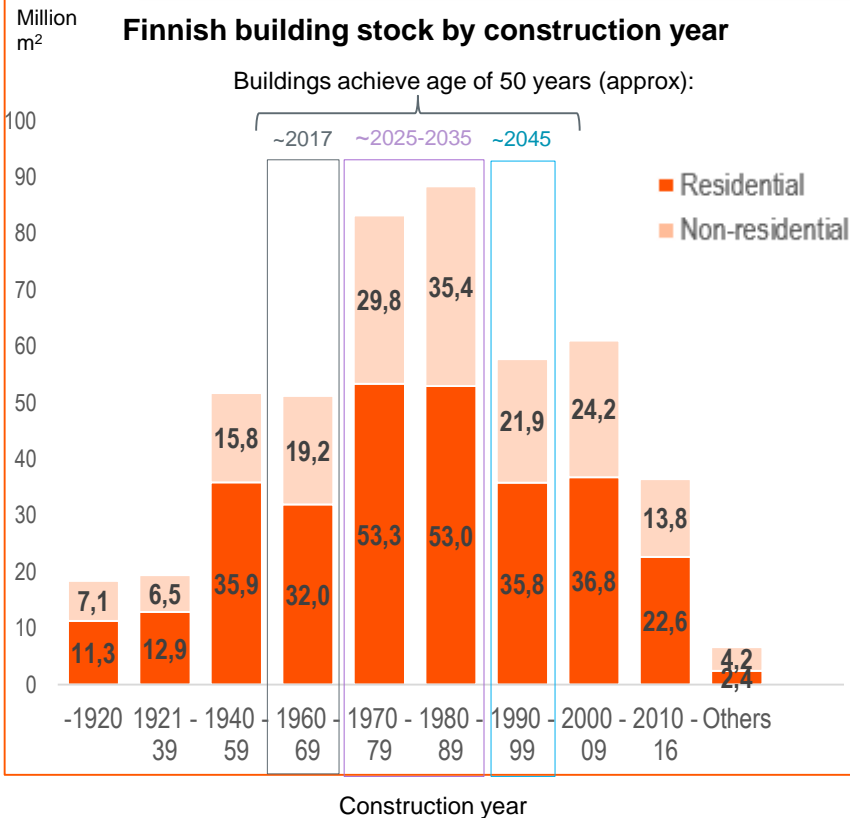
## Comments

- The peak of the economic cycle in construction sector currently on-going
  - Challenges in availability of building technology and renovation professionals
  - However, recent statistics show that although the volume of building production is still growing, the number of issued building permits during the spring and summer 2018 have declined compared to previous year
- Total building market forecast for 2018: Euroconstruct +4.3% and CFCI +4.0%
- New building forecast for 2018: Euroconstruct +6.9% and CFCI +6.3%
- Renovation forecast for 2018: Euroconstruct +1.5% and CFCI +1.5%

# 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

# Guidance for financial year 2018

*“The Company estimates that its operating result for 2018 will grow compared to 2017.”*



# Summary

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1. Net sales grew but Q3 EBIT negative due to lower-than-expected profitability in a limited number of projects launched in 2016 and early 2017
2. Corrective actions have been steps in the right direction but have not yet been fully put into practice in all Consti Group's business areas
3. Targeted actions to restore the performance of low-profitability units were immediately began and are ongoing
4. Market environment continued to be predominantly good, outlook positive also for the future
5. Strong order backlog together with profitability-improving actions to support performance in the last quarter of 2018
6. FY2018 operating result to grow compared to 2017

# Appendix

## 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**

**INTERIM REPORT**  
**1-9/2018**  
**CONSTI GROUP PLC**

**Q3**

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