

CONSTI GROUP PLC

INTERIM REPORT
1 JANUARY – 30 SEPTEMBER 2019

CEO Esa Korkeela
CFO Joni Sorsanen



CONSTI

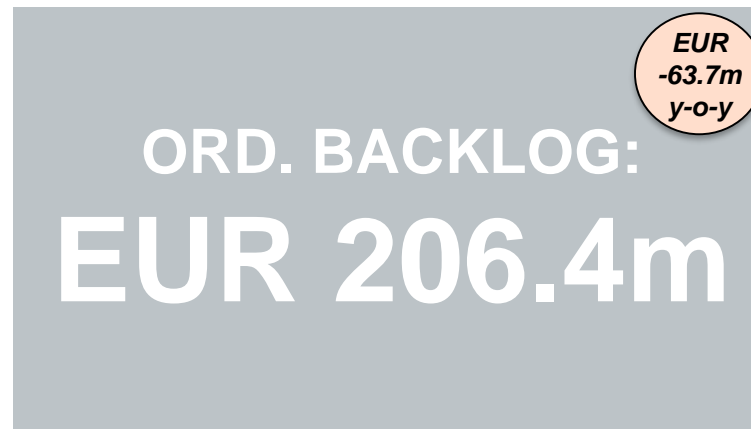
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- 2. Cash flow and financial position**
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Highlights of the third quarter of 2019

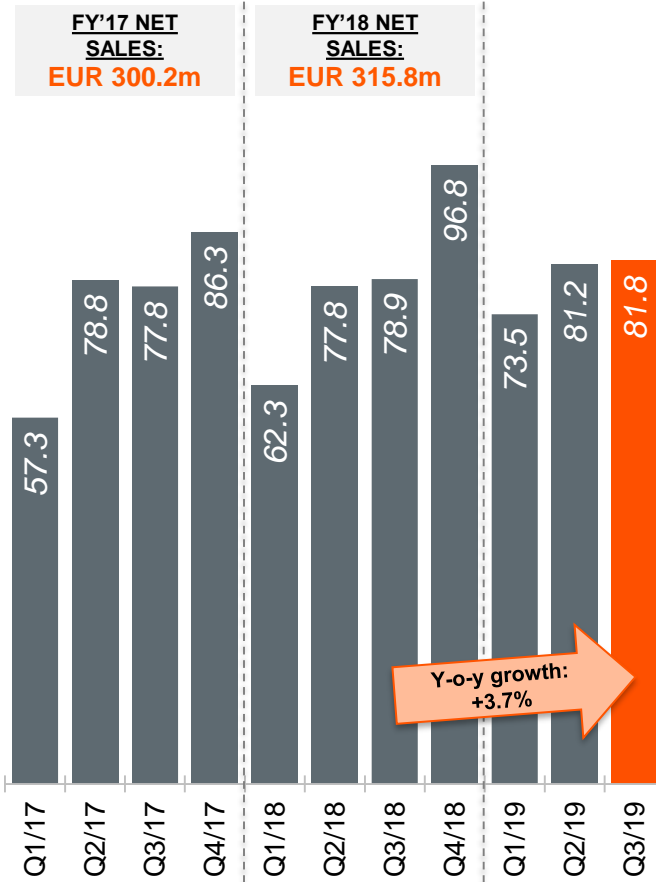
Net sales grew, profitability improved



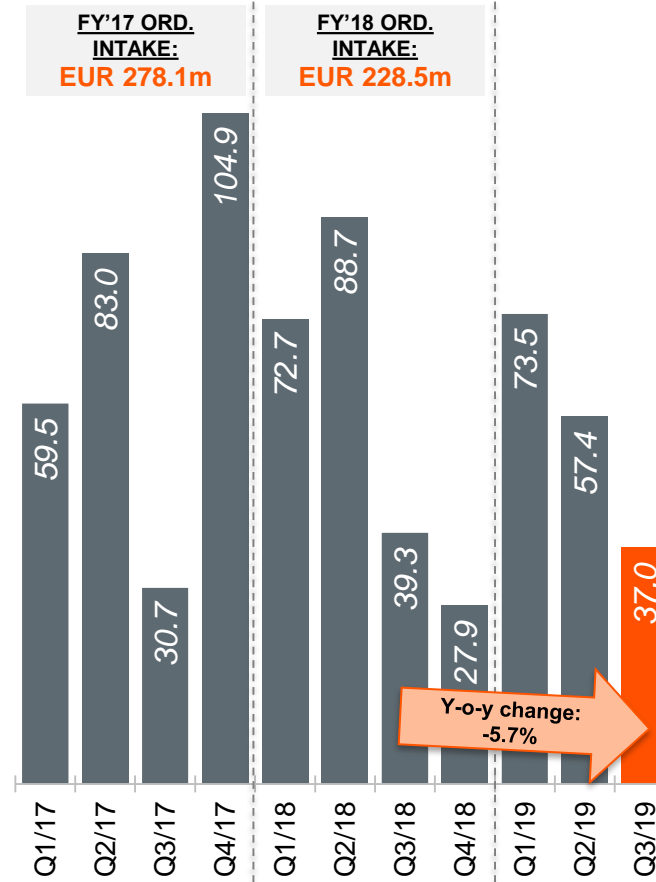
Quarterly performance overview

Net sales grew by 3.7%, order intake and order backlog declined year-on-year

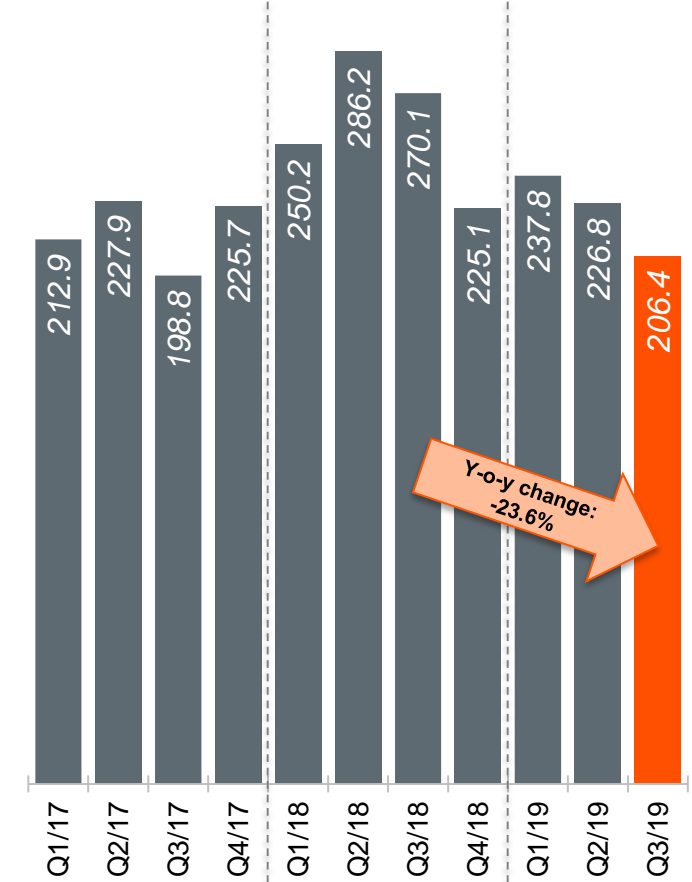
QUARTERLY NET SALES (EUR m)



QUARTERLY ORDER INTAKE (EUR m)



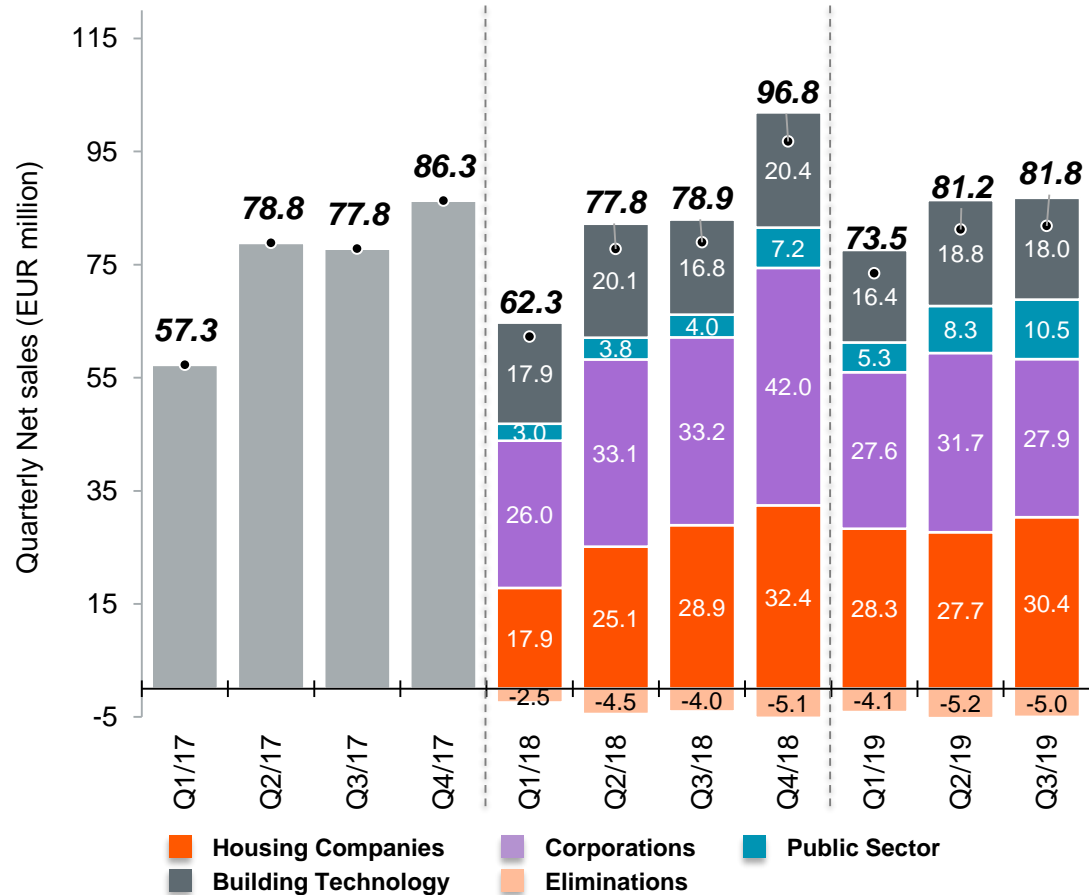
QUARTERLY ORDER BACKLOG (EUR m)



Quarterly net sales development

Q3 net sales EUR 81.8m, growth of 3.7% year-on-year

Quarterly net sales development Q1/2017 – Q3/2019 (EUR m)



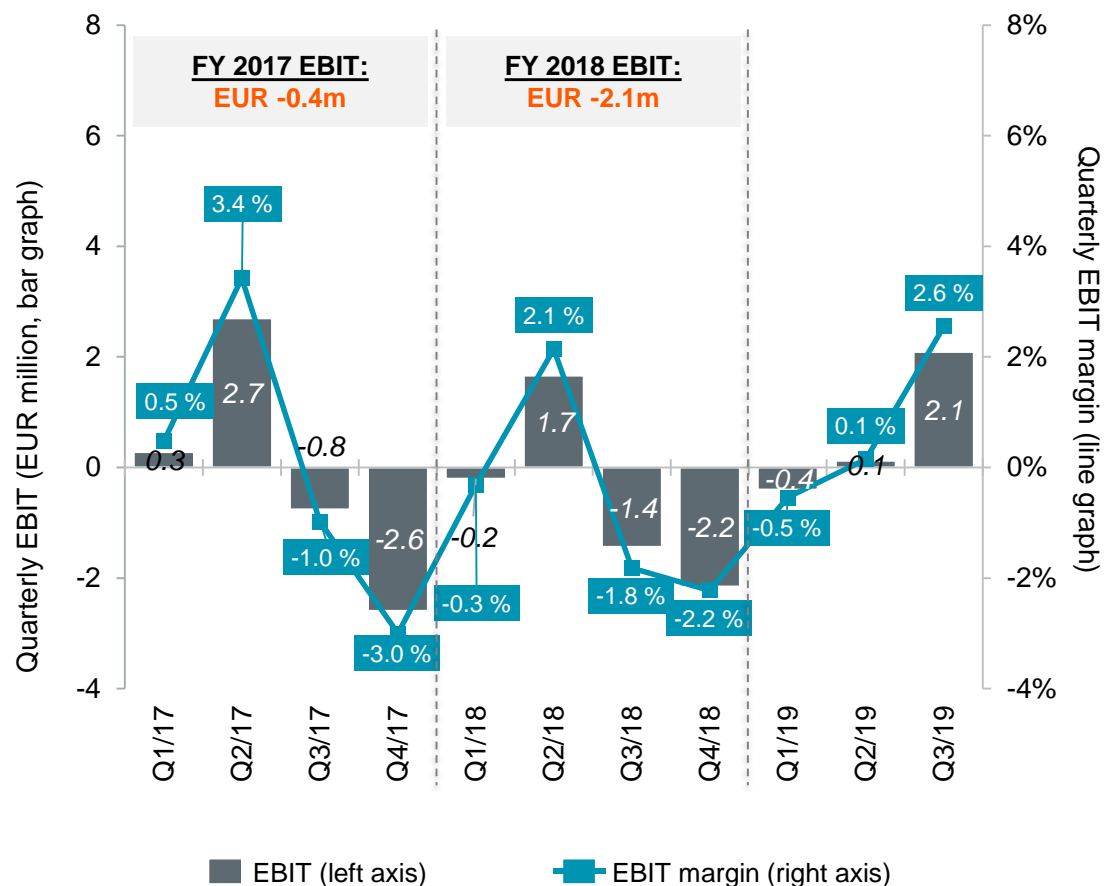
Comments

- Q3/2019 net sales EUR 81.8m (78.9m)
 - Year-on-year growth 3.7%
 - Housing Companies net sales EUR 30.4m (28.9m) → growth was strong in Oulu and Greater Helsinki area
 - Corporations net sales EUR 27.9m (33.2m) → net sales generated from non-residential renovation grew but net sales from residential renovation declined due to reorganisation of Housing repair unit initiated in late 2018
 - Public Sector net sales EUR 10.5m (4.0m) → growth in line with expectations in relation to low comparison period
 - Building Technology net sales EUR 18.0m (16.8m) → growth was strong particularly in technical installations in Tampere area
- 1-9/2019 net sales EUR 236.5m (219.0m)

EBIT development

Q3/2019 EBIT improved from previous quarter and was clearly better than in comparison period

Quarterly EBIT development Q1/2017 – Q3/2019 (EUR m)

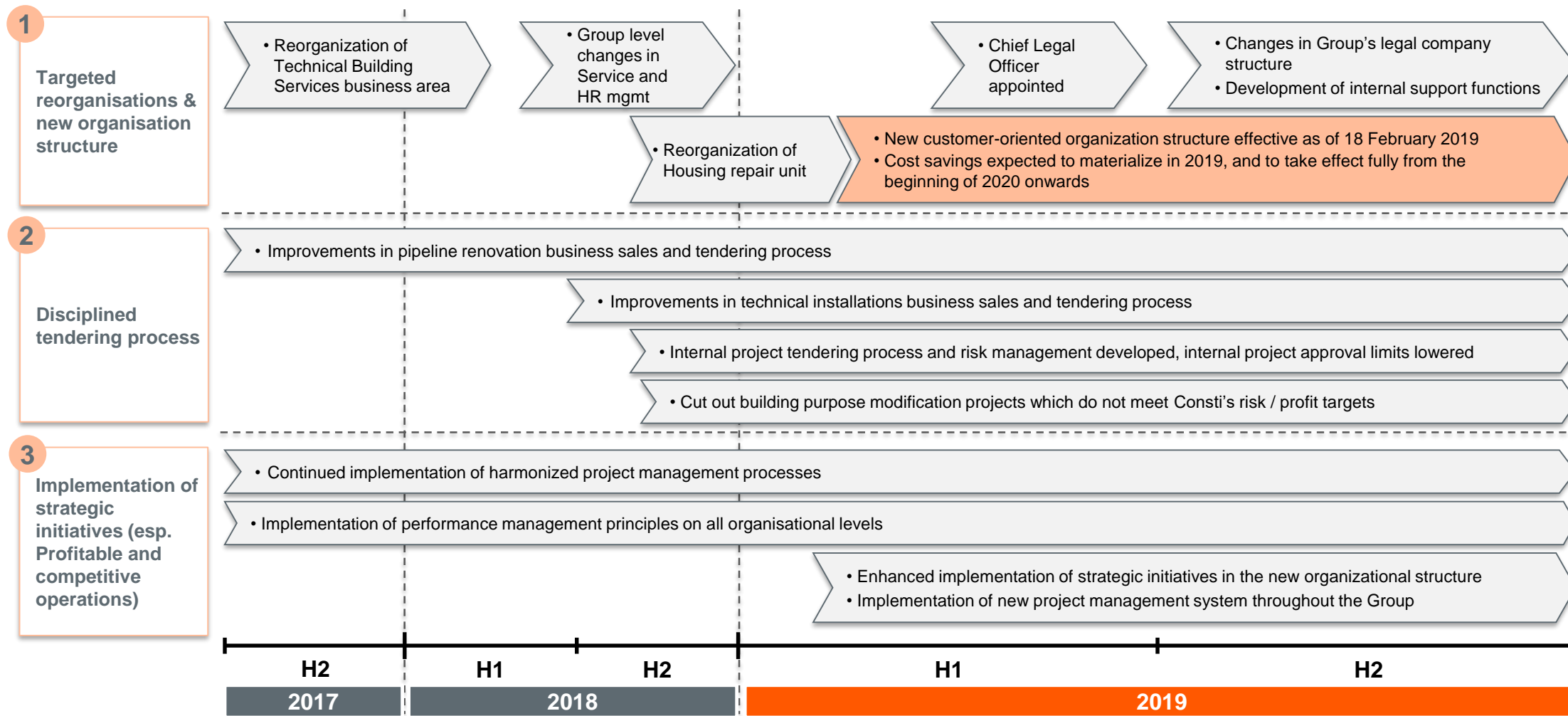


Comments

- Q3/2019 EBIT amounted to EUR 2.1 (-1.4) million, or 2.6% (-1.8%) of net sales
 - EBIT improved from previous quarter and was clearly better than in comparison period
 - Profitability development mostly positive during Q3
 - Although the old projects of already discontinued housing repair unit continued to have a negative impact on EBIT in Q3, the impact was clearly smaller than in H1/2019 and in the comparison period
 - All business areas were profitable in Q3/2019
- 1-9/2019 EBIT amounted to EUR 1.8 (0.0) million, or 0.8% (0.0%) of net sales

Actions to improve profitability ongoing

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



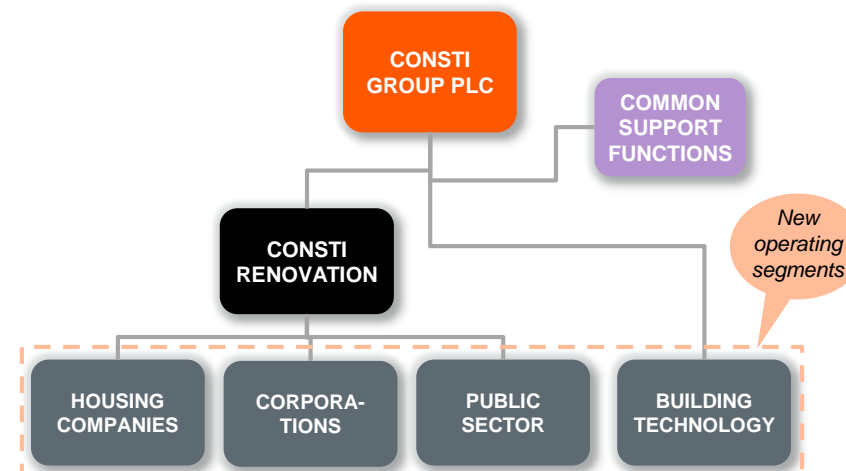
Implementation of new organisation structure progressing

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

UPDATE ON THE PROGRESS IN IMPLEMENTATION

- Implementation work progressed according to plan during the third quarter
 - Targeted benefits of the new organisation structure and change program are already visible in daily operations
 - Through the implemented measures, Consti has systematically built a stronger foundation for future development and growth of the business
 - Consti is on track to achieve the targeted annual cost savings of EUR 2 million as of FY2020
 - Legal structure of the Group changed at quarter-end as a result of merger between two of the subsidiaries (Consti Julkisivut Oy and Consti Korjausurakointi Oy)
 - At the same time, Consti's internal support functions were combined to effectively and efficiently serve the business throughout the Group
- Implementation work to be continued in the fourth quarter

CONSTI'S NEW ORGANISATION AND TARGETED BENEFITS



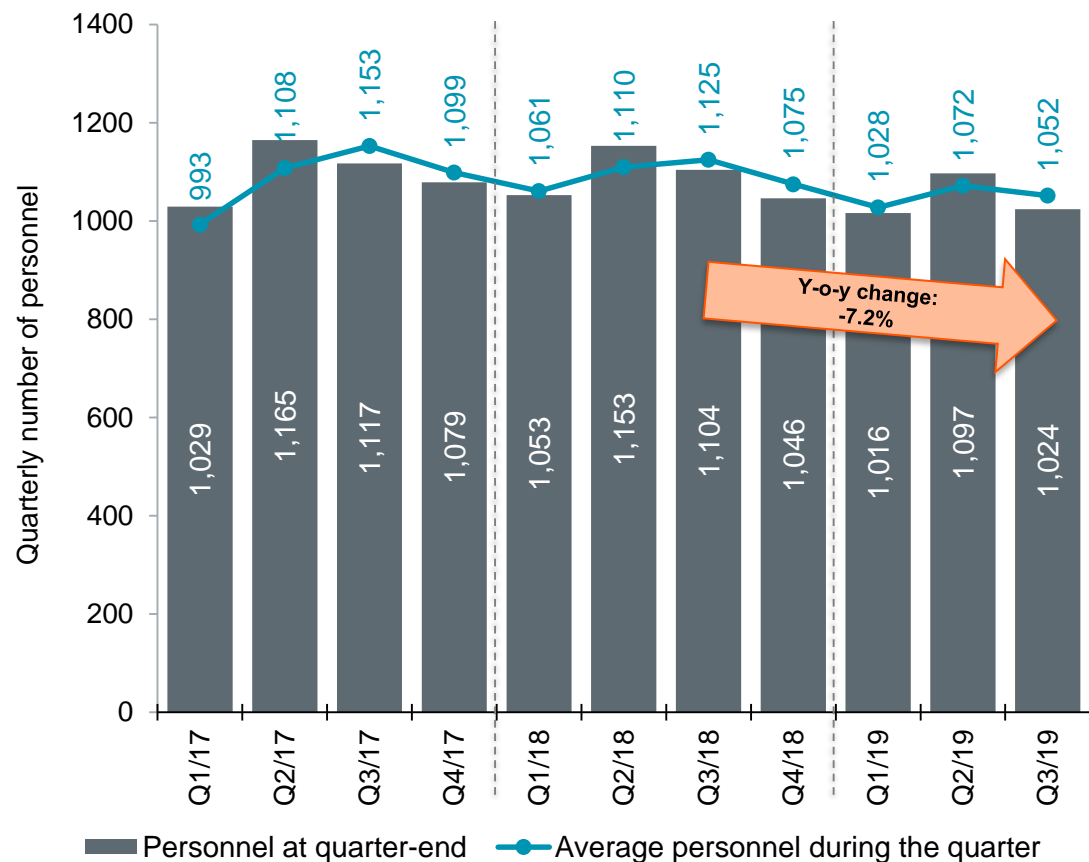
TARGETED BENEFITS OF THE NEW ORGANISATION AND CHANGE PROGRAM:

- 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 Q3/2019 decreased by 80 year-on-year

Quarterly development in number of personnel Q1/2017 – Q3/2019



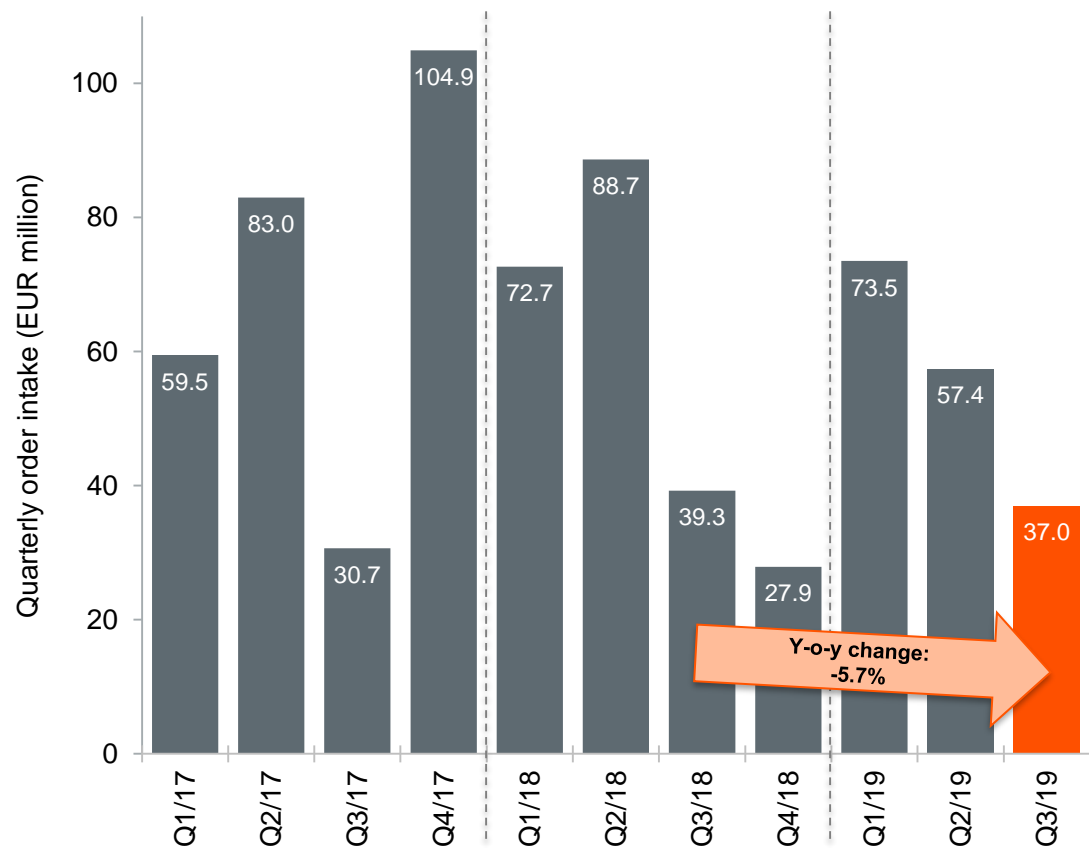
Comments

- Number of personnel at the end of Q3/2019 1,024 (1,104), reduction of 80
- Average number of personnel during Q3/2019 1,052 (1,125), reduction of 73
- Average number of personnel during 1-9/2019 1,050 (1,099), reduction of 49, or 4.4% year-on-year

Quarterly order intake development

Total Q3/2019 order intake EUR 37.0 million (39.3m)

Quarterly order intake development Q1/2017 – Q3/2019 (EUR m)



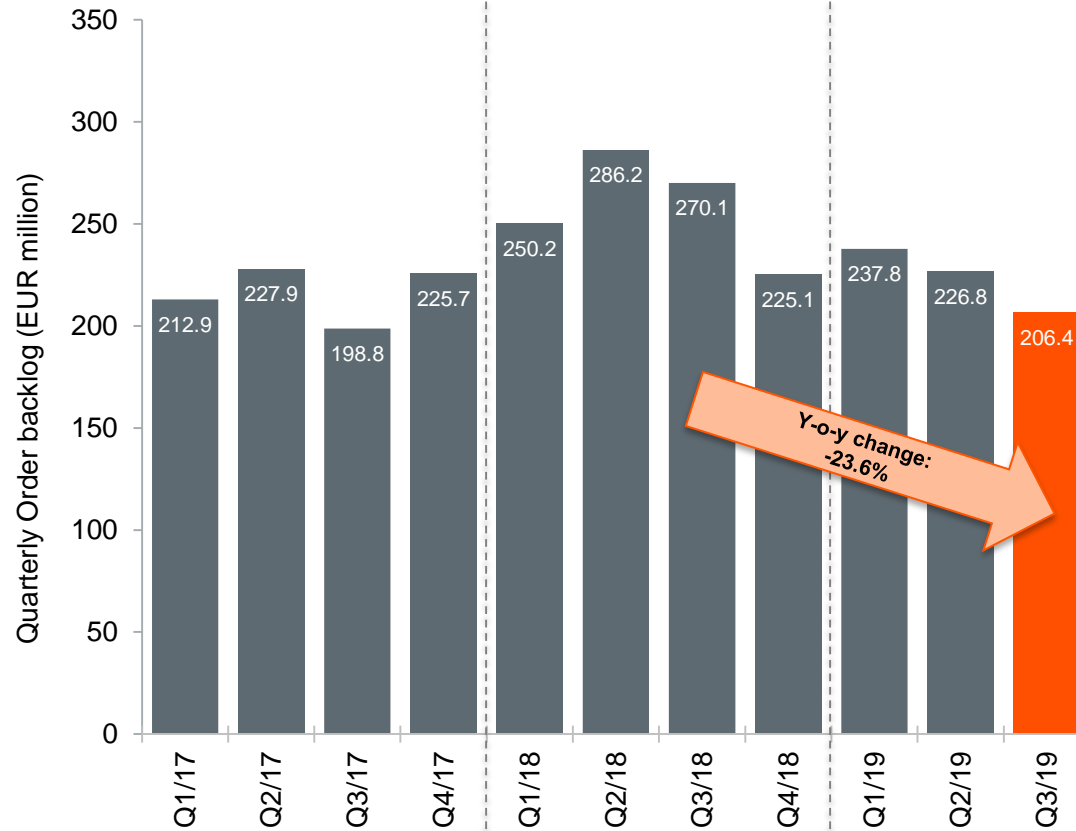
Comments

- Q3/2019 order intake EUR 37.0m (39.3m)
 - Year-on-year change -5.7%
 - Examples of new orders received in Q3:
 - Radisson Blu, complete renovation of hotel property and renewal of technical building systems in Oulu
 - Sivakka, Tuulimylynkatu 20-24, facade and roof renovation in Oulu
 - As Oy Tasatuomo, pipeline renovation in Tampere
 - HOAS HIMA, renovation of small student apartments in Helsinki
 - Urhea Campus, HVAC installation in Helsinki
- 1-9/2019 order intake EUR 168.0m (200.6m)
 - 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

Quarterly order backlog development

Q3/2019 order backlog at EUR 206.4 million (270.1m), down by 23.6% y-o-y

Quarterly order backlog development Q1/2017 – Q3/2019 (EUR m)



Comments

- Q3/2019 order backlog at EUR 206.4m (270.1m)
 - Year-on-year change -23.6%
 - Order backlog development reflects the new, more disciplined bidding procedures that were taken into use in the entire Group in 2018, and ongoing large comprehensive renovation projects, which tie up resources

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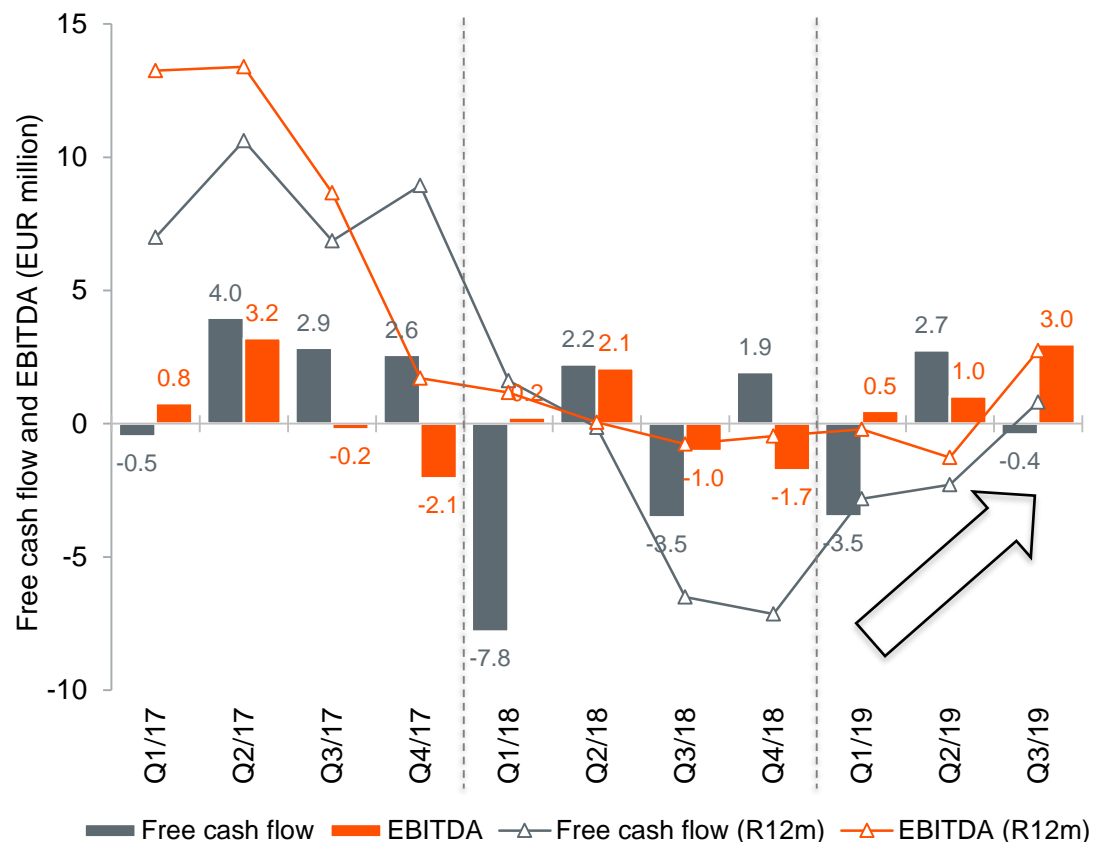
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Quarterly free cash flow development

Q3 cash flow impacted by the improvement of operating result as well as tied up working capital

Quarterly free cash flow¹⁾ and EBITDA Q1/2017 – Q3/2019 (EUR m)



Comments

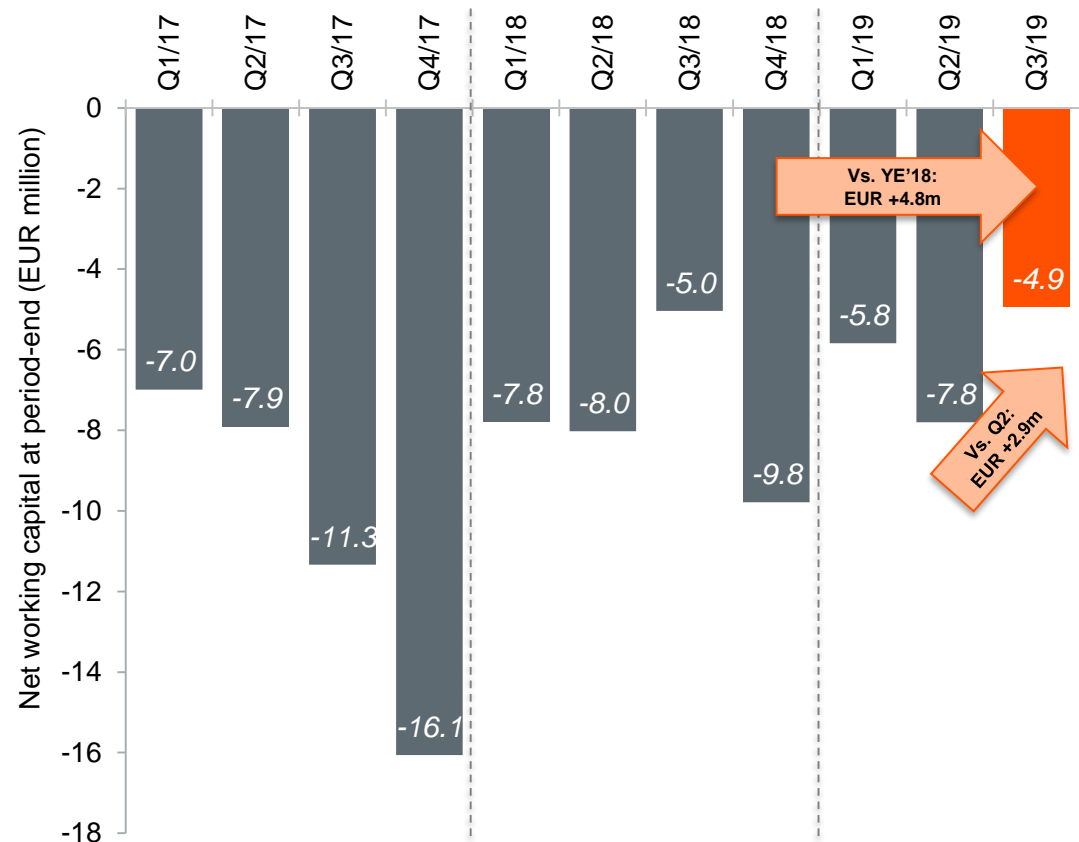
- Q3/2019 free cash flow EUR -0.4m (-3.5m)
 - EBITDA amounted to EUR 3.0m (-1.0), of which impact from adoption of IFRS 16 EUR 0.6m (0.0m)
 - Cash flow impact from change in NWC was EUR -3.2m (-2.3m)
 - Cash flow from investments in tangible and intangible assets amounted to EUR -0.2m (-0.2m)
- 1-9/2019 free cash flow EUR -1.1m (-9.1m)
 - EBITDA amounted to EUR 4.5m (1.3), of which impact from adoption of IFRS 16 EUR 1.7m (0.0m)
 - Cash flow impact from change in NWC was EUR -5.0m (-9.6m)
 - Cash flow from investments in tangible and intangible assets amounted to EUR -0.6m (-0.8m)
- Rolling 12-month free cash flow and EBITDA turned positive in the third quarter

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 -4.9 million at the end of Q3/2019

Quarterly net working capital¹⁾ Q1/2017 – Q3/2019 (EUR m)



Comments

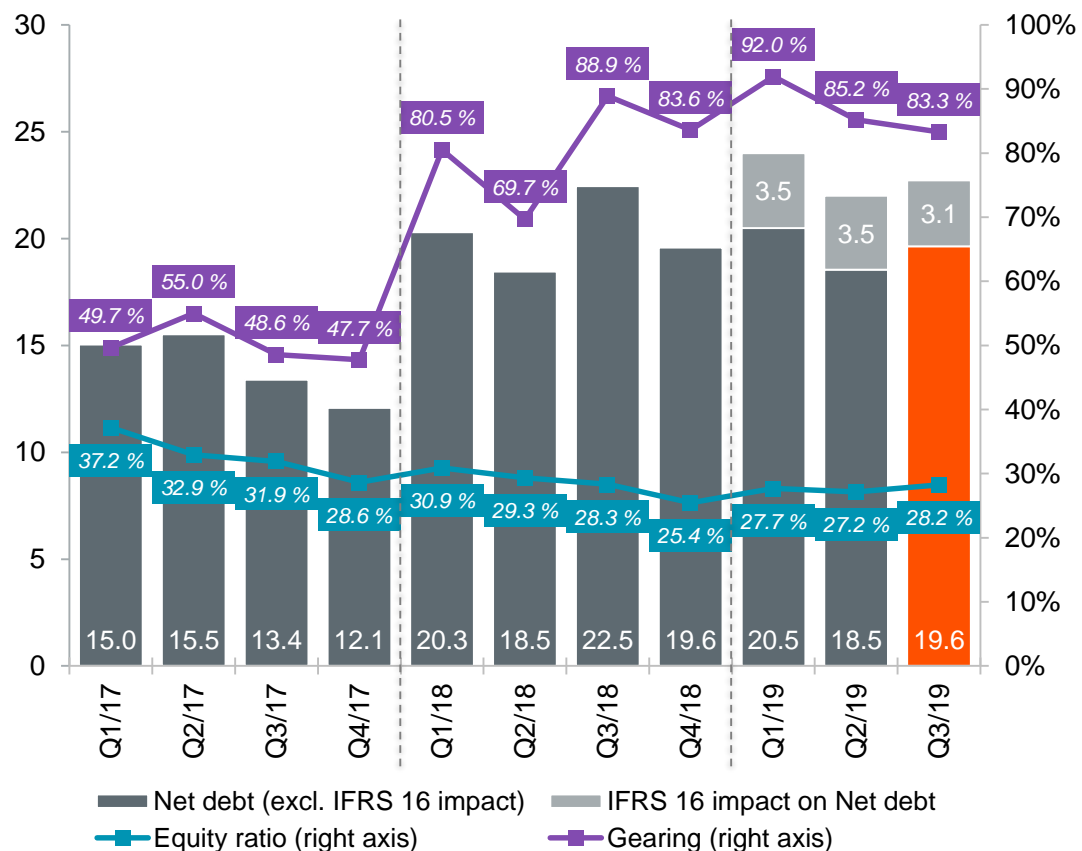
- Net working capital EUR -4.9m (-5.0m) at the end of Q3/2019
 - NWC tied up during Q3/2019 amounted to EUR 2.9m
 - NWC tied up during 1-9/2019 amounted to EUR 4.8m
 - NWC was impacted by volume increase in 1-9/2019 in projects where invoicing is not based on typical payment schedules
 - Moreover, NWC was tied up due to a few large renovation projects progressing towards the hand-over phase during 1-9/2019
 - 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

Q3 financial position strengthened y-o-y as well as compared to previous quarter

Quarterly net debt, equity ratio and gearing Q1/2017 – Q3/2019



Comments

- Financial position as per 30 September 2019 strengthened y-o-y as well as compared to previous quarter
- Q3/2019 net debt at EUR 22.7m (22.5m), of which EUR 3.1m is attributable to IFRS 16 related lease liabilities
- Q3/2019 equity ratio at 28.2% (28.3%)
 - Adoption of IFRS 16 decreased Q3/2019 equity ratio by 1.0 percentage points
- Q3/2019 gearing at 83.3% (88.9%)
 - Adoption of IFRS 16 increased Q3/2019 gearing by 11.4 percentage points
- Excluding IFRS 16, Q3/2019 financial position improved compared to Q3/2018

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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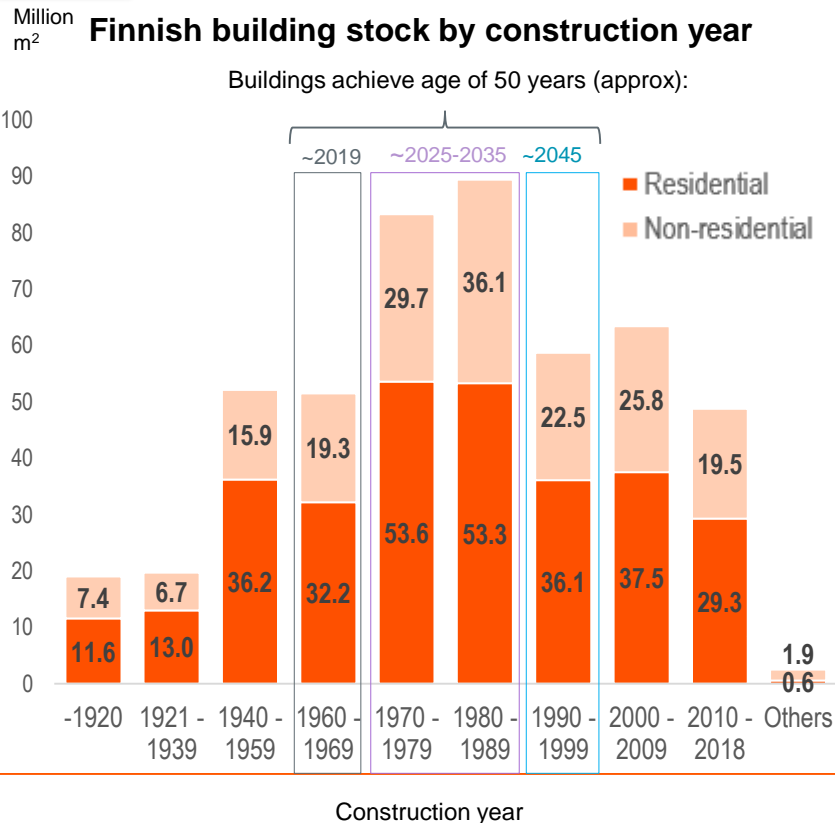


Renovation market supported by a number of key structural growth drivers

Ageing building stock the single most important growth driver



Ageing building stock



- Owners of dwellings and housing companies renovated with EUR 6.3 billion in 2018, increase of 1.5% y-o-y
 - Blocks of flats accounted for EUR 2.2b, of which EUR 1.7b were attributable to renovations made by housing companies
 - The housing companies estimate the volume of renovation to increase annually by 1.5%–2.0% during the next ten years
- In 2018, EUR 4.7 billion was spent on renovating non-residential buildings, increase of 6.5% y-o-y
 - Office buildings EUR 1.1b (+11.6%)
 - Commercial buildings EUR 0.6b (+2.7%)
 - Public service buildings EUR 1.6b (-1.7%)
 - Industrial buildings and warehouses EUR 1.3b (+16%)



Energy efficiency



Urbanisation and concentration of renovation in growth centers



Modifications of the use of buildings

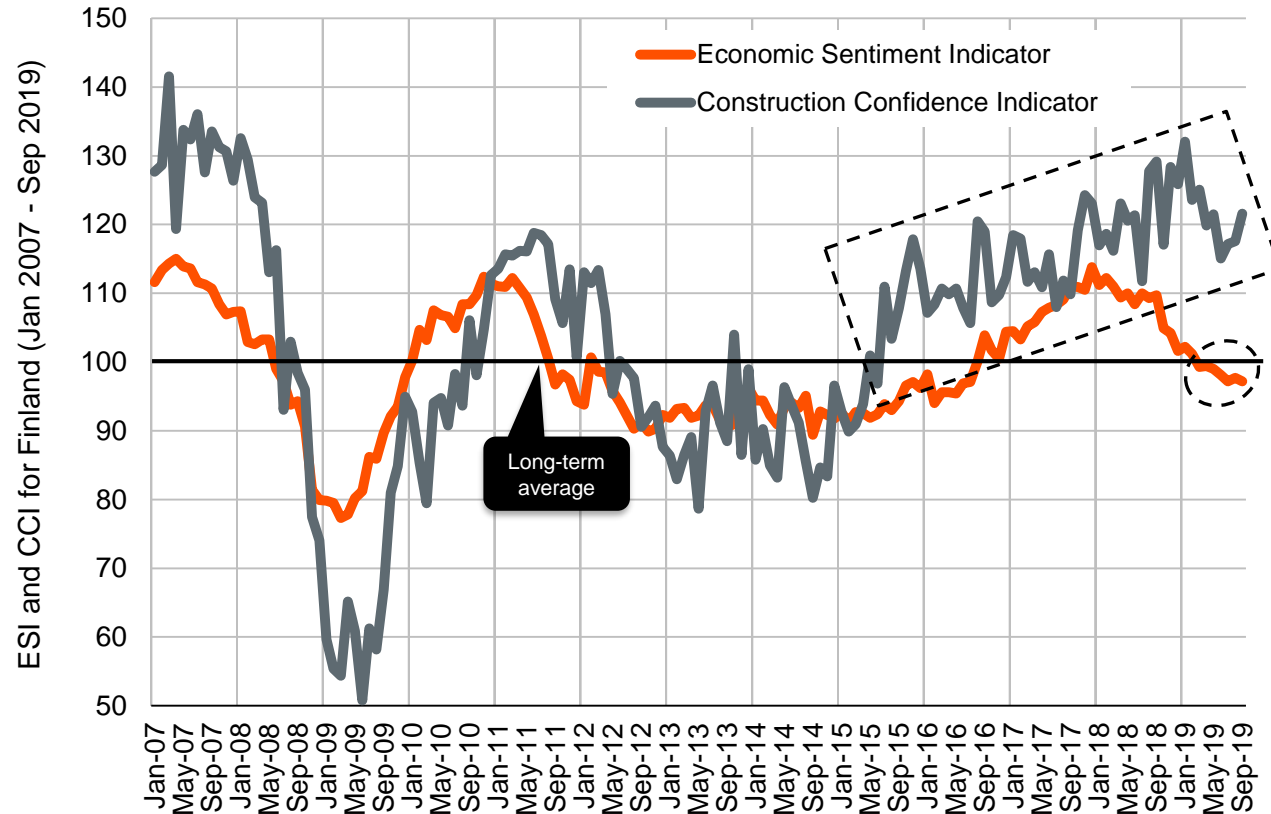


Increased need for building technology and automation

Source: Statistics Finland, October 2019

Construction confidence in Finland still above long-term average, economic sentiment has remained below long-term average since March 2019

Economic Sentiment and Construction Confidence / Finland (2007 – 09/2019)



Note: Mean-adjusted figures

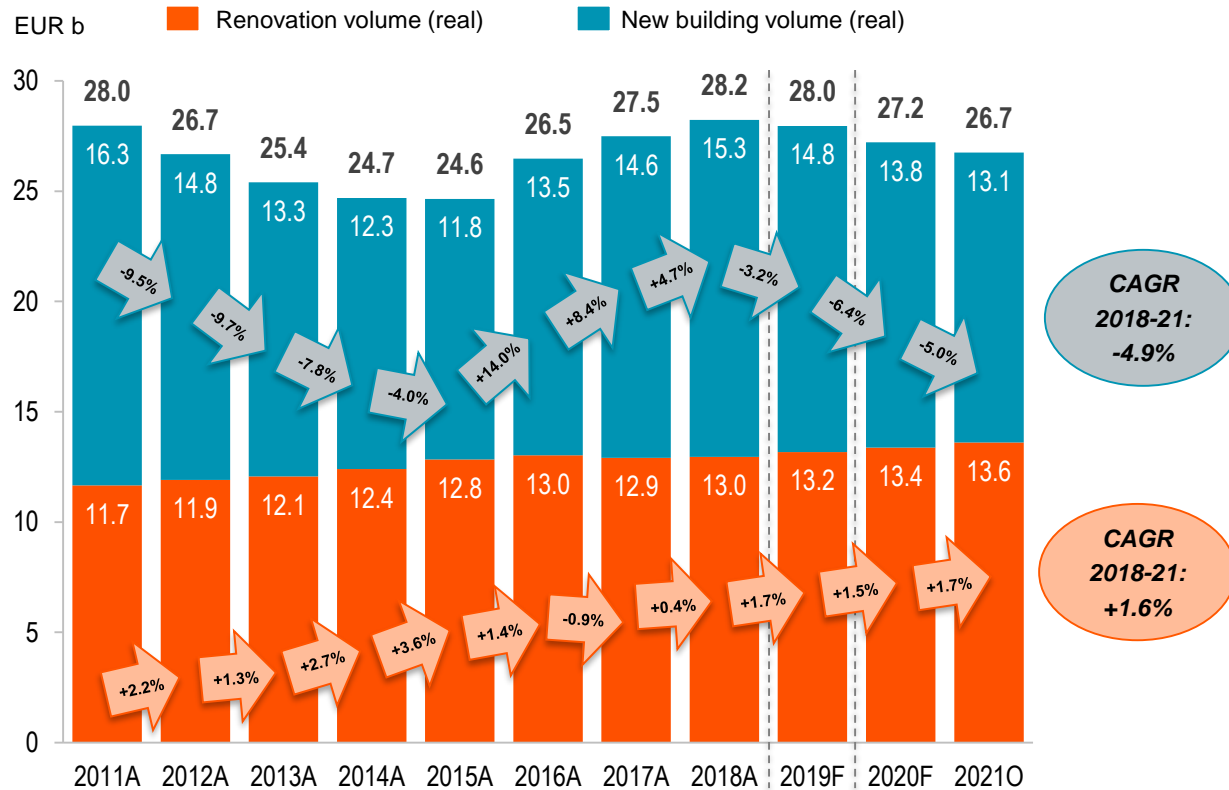
Source: European Commission, September 2019

Comments

- Since summer 2015, construction confidence in Finland has strengthened and remained above the long-term average
- 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 noted in its October 2019 report that the outlook for construction market has weakened due to the recent downward trend in building permits

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), October 2019

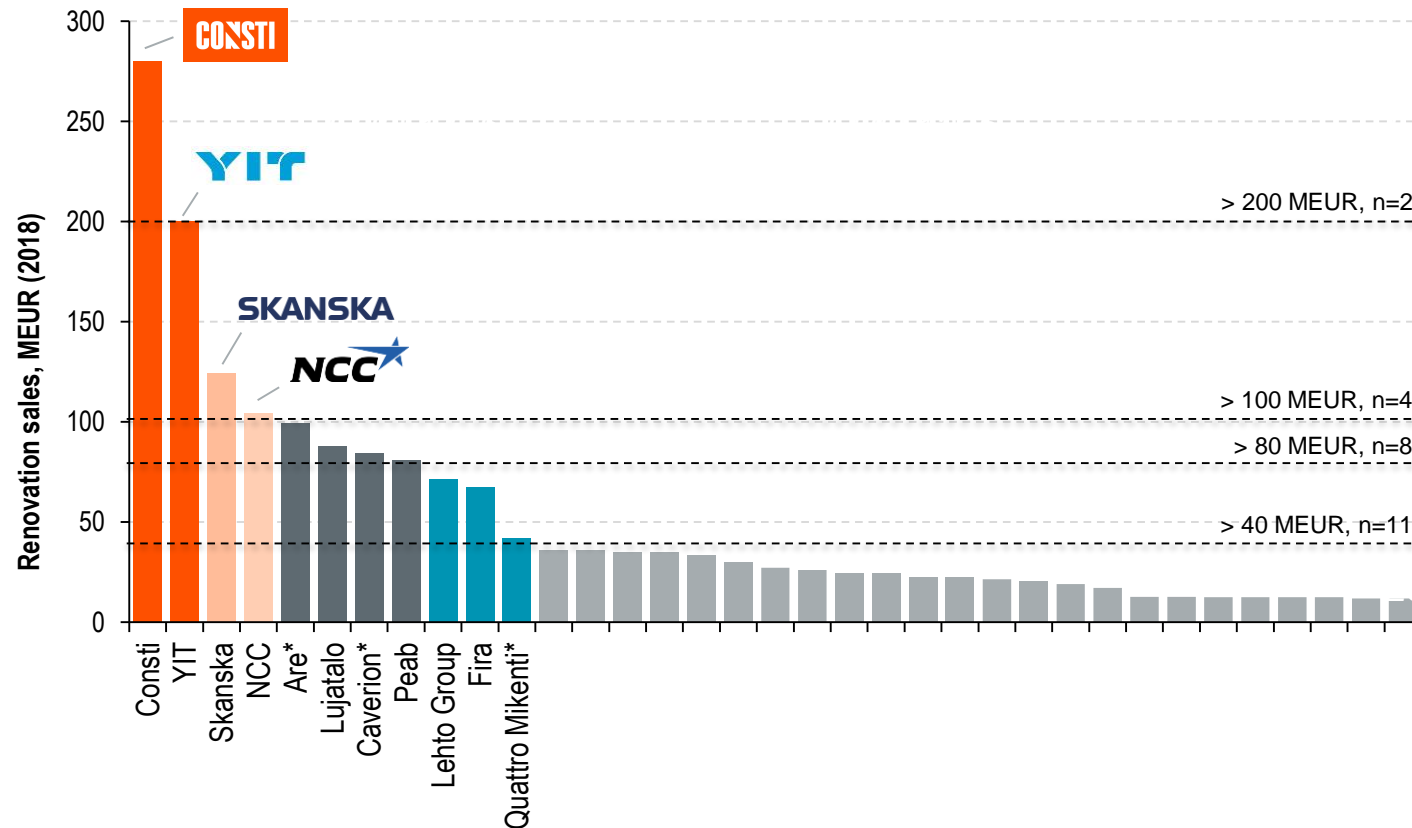
Comments

- According to Euroconstruct, the value of building renovation amounted to approximately EUR 13.0 billion in 2018
- The Confederation of Finnish Construction Industries RT (CFCI) estimates that renovation will continue to grow by approximately 1.5 percent in 2019 while Euroconstruct estimates growth of 1.7 percent
- Renovation growth is expected to be seen especially in residential buildings in growth areas
- The growth of professional renovation is expected to gain some speed as the new building starts to slow down going forward
- According to the CFCI's October 2019 report, new building is expected to decline by 2.5% in 2019 while the forecast for 2020 shows decline of 10.2%
- According to Statistics Finland, cubic volume of granted residential building permits declined by 17% year-on-year in January-July 2019
- However, the development in building permits has been relatively flat in greater Helsinki area while clearly negative in other parts of Finland

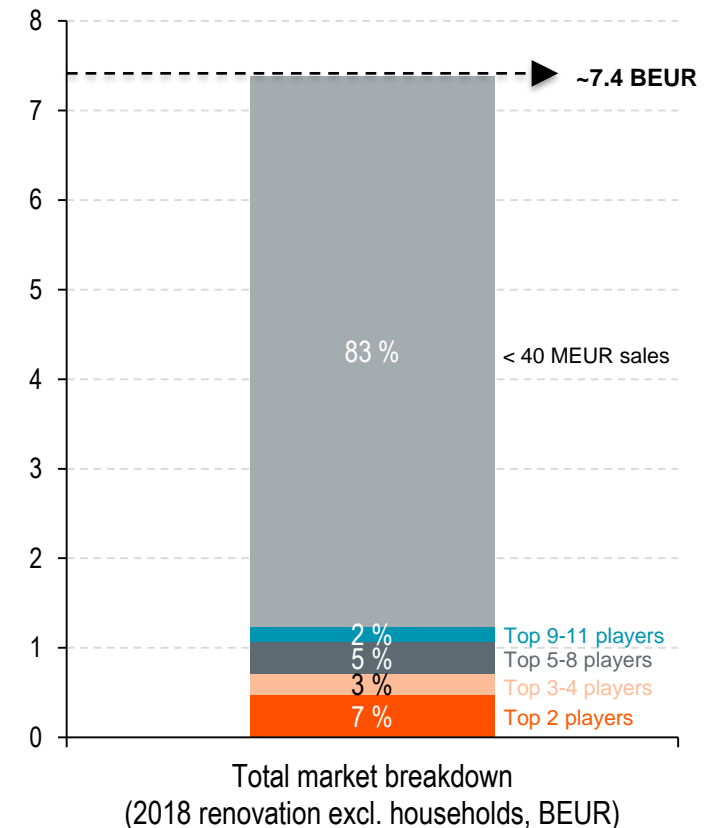
Finnish renovation market highly fragmented

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

- 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 1.5% (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 profitability improved in Q3/2019
2. Profitability development mostly positive. Although the projects of already discontinued housing repair unit continued to have negative impact on EBIT, the impact was clearly smaller than in H1/2019
3. Comparable financial position strengthened as a result of improved profitability
4. The key targeted benefits of turnaround programme already visible, Consti also on track to achieve the targeted annual cost savings of EUR 2 million as of FY2020
5. Market environment at moderate level during the third quarter of 2019, outlook moderate also for Q4/2019 in Consti's market areas
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.

A photograph of three workers in orange safety vests. A woman in the center is smiling and holding a white coffee cup. Two men are on either side of her, also holding coffee cups and looking towards her. The background is a blurred outdoor setting.

CONSTI

WAY

THE CONSTI WAY IS CONSTI PEOPLE'S WAY OF WORKING AND LEADING

CONSTI

We are all aiming at the same goal


The Consti Way is Consti people's way of working and leading.

Consti Way directs its whole personnel towards shared goals. In this, we build on the values that are important to us. The Consti Way is part of our every working day and client meeting. It lives on all our building sites and is felt in every meeting we have. The Consti Way guarantees our high quality and is the basis for our occupational welfare. It means respect and competitiveness. It means professional pride, openness and a pioneer spirit.

We are all Consti people – regardless of our field, skills or position.

We cooperate seamlessly across barriers and walls, and between building sites, in jointly agreed, functional and efficient ways.

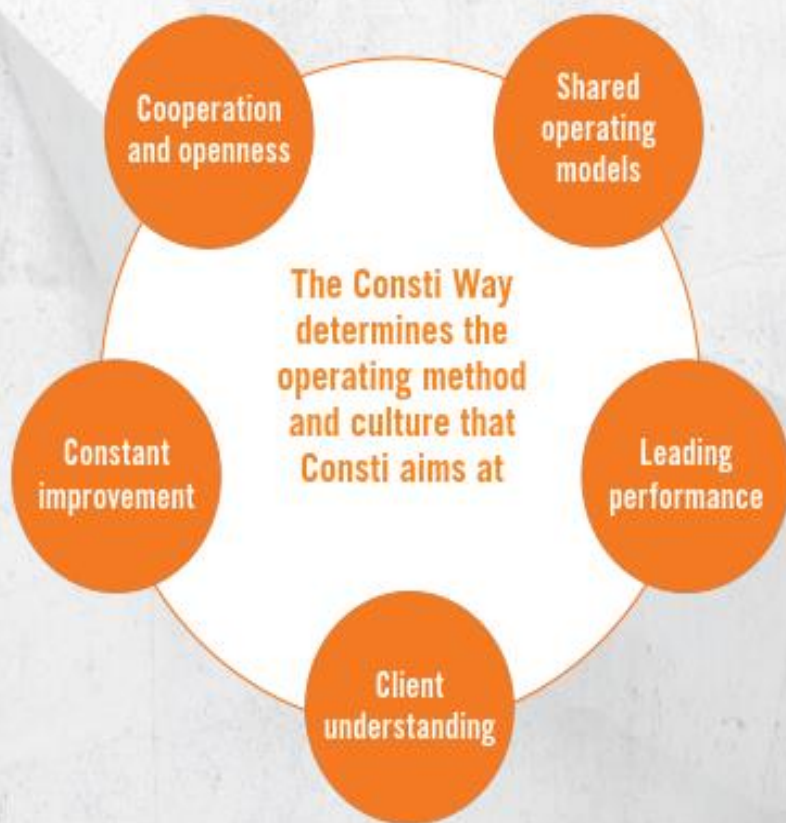
We know how we work, we know our strengths and we always work in our clients' best interests.

A man and a woman are looking at a tablet together. The man is wearing a grey cap and a plaid shirt. The woman is wearing a white hard hat, glasses, a black scarf, and an orange safety vest with 'CONSTI' written on it. They are both smiling and looking at the tablet.

*“ We are all Consti people
– regardless of our field,
skills or position.*”

CONSTI

The five elements of the Consti Way



Improve people's living environment

MISSION

We improve the value of the building stock and people's quality of life through excellent renovation work. The basis for our operations is our clients' and cooperation partners' satisfaction and our employees' welfare.

VISION 2021

Consti employees are passionate about nimbly and rationally renovating and developing the built environment. That is why we are Number 1 in renovation. The Consti vision is to be a pioneer in renovation.

WE HAVE FULFILLED OUR MISSIONS WHEN....

...Consti is Finland's Number 1 in renovation.

...Consti offers all services for renovating, maintaining and developing a building across its life cycle.

...our expert employees, who are committed to constant improvement, are the guarantor of efficient renovation and quality.

...the sector and the wider public know us for our best, most famous innovations.

...Consti exists for its clients and offers them the best customer experience.



CONSTI

INTERIM REPORT

1-9/2019

CONSTI GROUP PLC

Q3

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