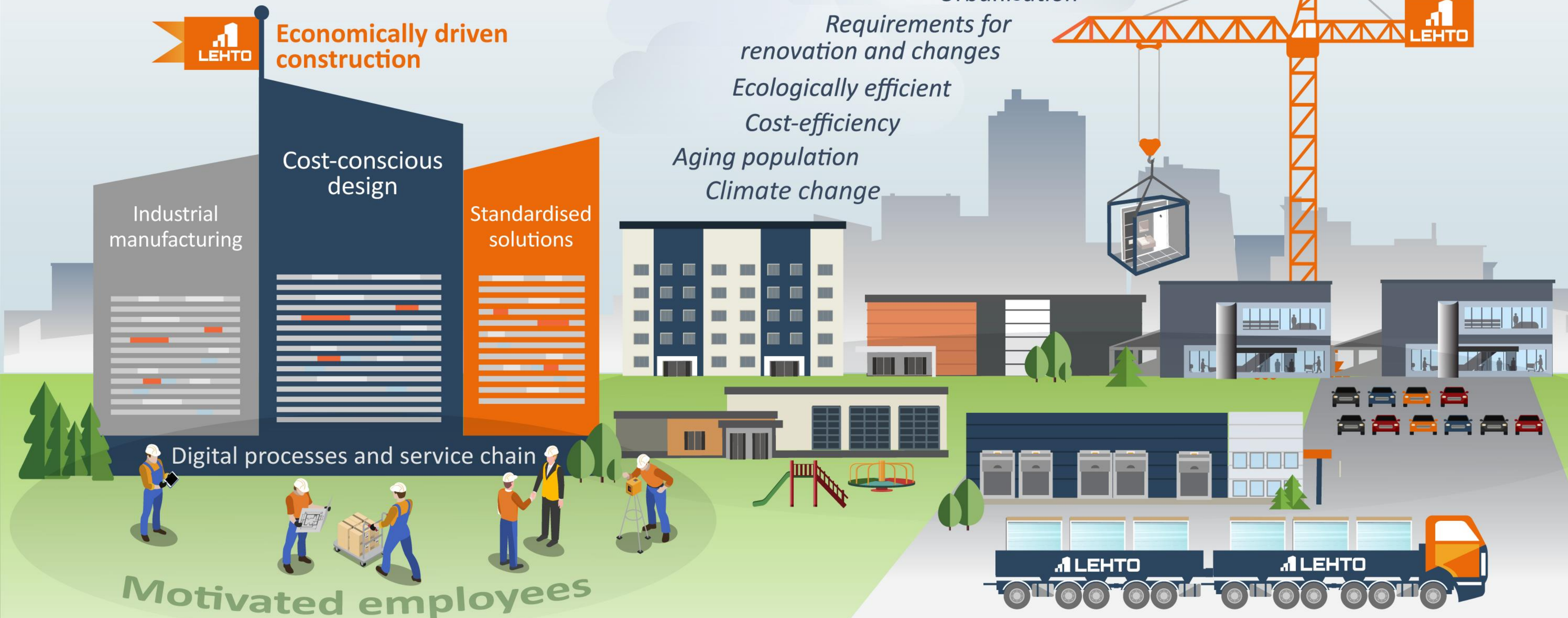


# Business Review January-September 2019



# Innovator in construction business



**Our customer promise: the most desired partner in the market**

- 1 One agreement
- 2 Fixed price
- 3 Agreed move-in date
- 4 Agreed content and quality



# January - September 2019 in brief

Net sales declined,  
operating loss as a result

Net sales grew in  
Housing, declined in  
Business Premises and  
Social Care and  
Educational Premises

Most of the losses from  
the complete renovation  
projects, Swedish  
operations and separate  
other projects

Most of our business is in  
a healthy and in a  
profitable state.

Housing sales  
developed well

Several corrective actions  
are ongoing, changes  
visible already in  
operations.

Net sales, MEUR

**397.8**

Change in net sales

**-18.8%**

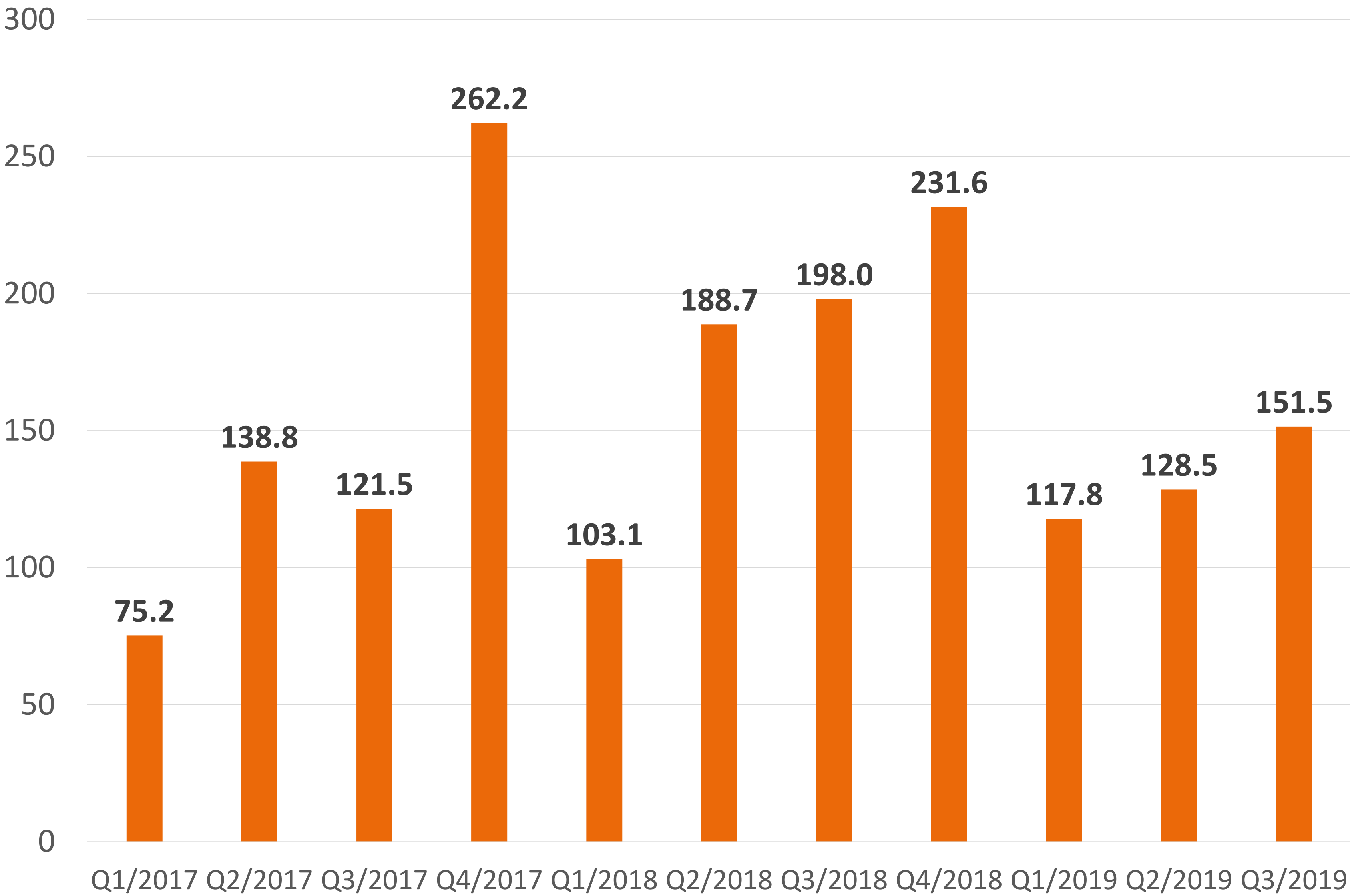
Operating loss of  
the net sales

**-10.5%**

# Net sales by service area (EUR million)

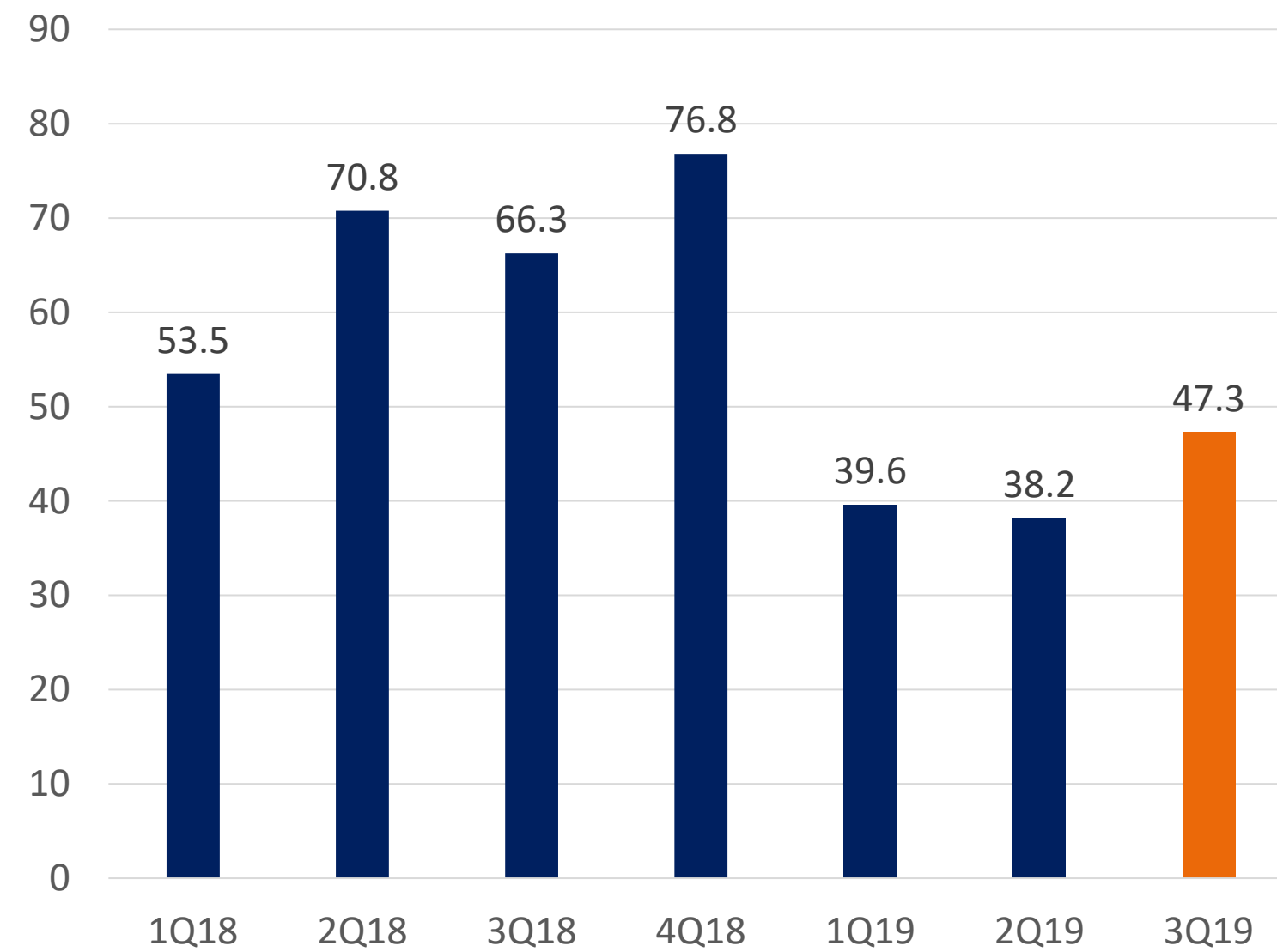
Service area	1-9/2019	1-9/2018	Change
Business Premises	125.0	190.5	-34.4 %
Housing	228.7	218.9	4.5 %
Social Care and Educational Premises	44.1	80.5	-45.2 %
TOTAL	397.8	489.9	-18.8 %

# Group's net sales / quarter, EUR million

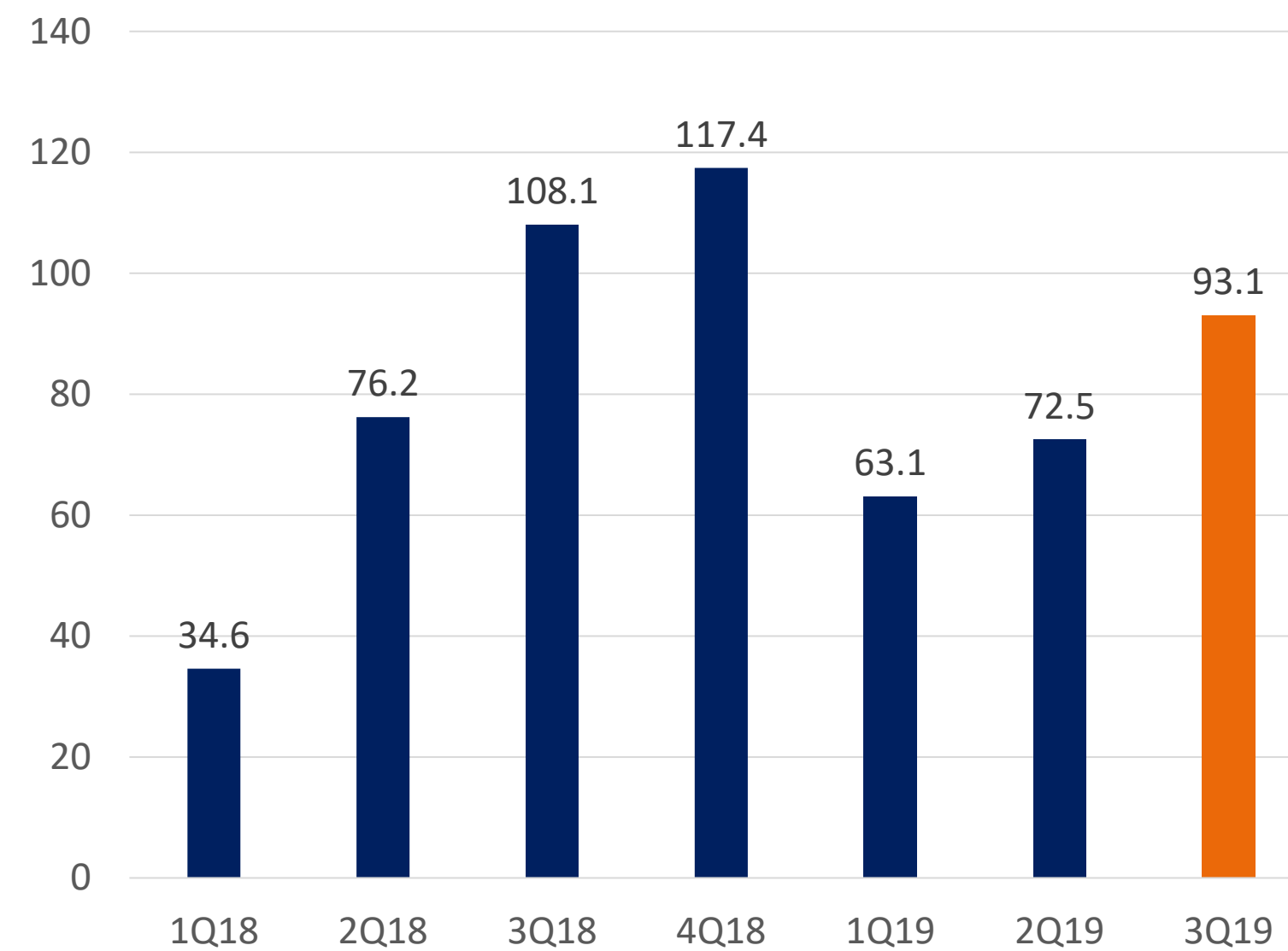


# Net sales by quarter and service area, EUR million

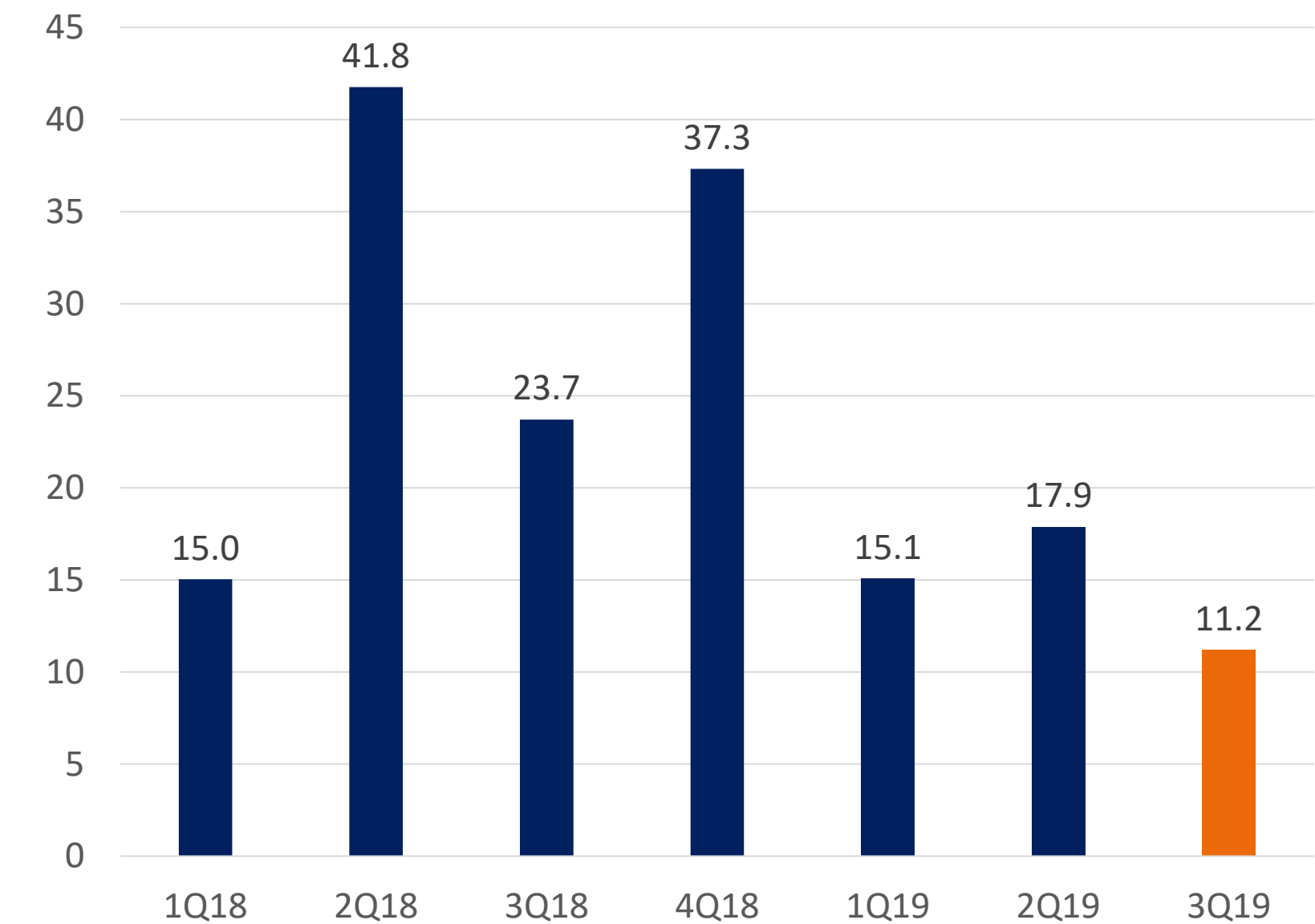
## Business Premises



## Housing

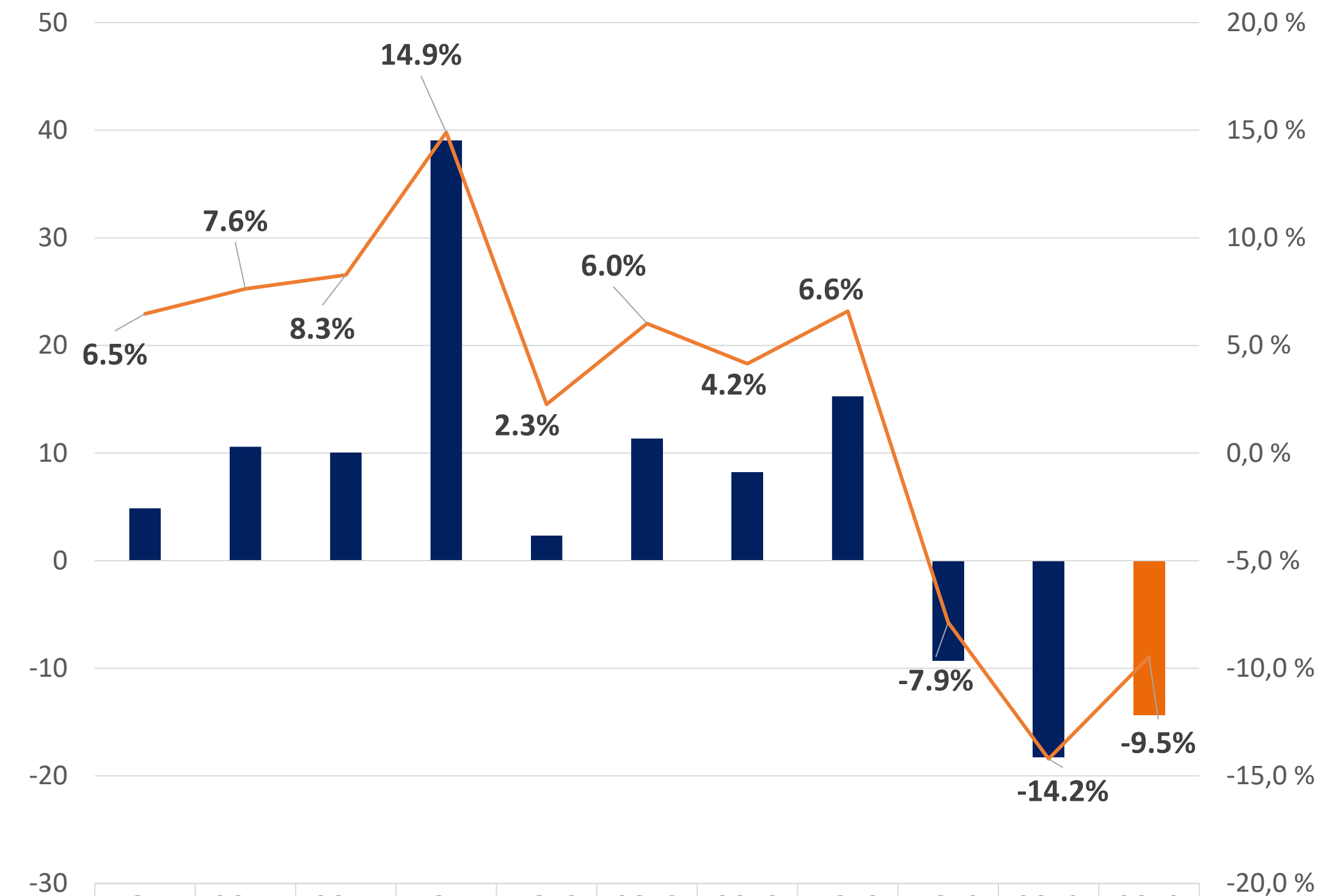


## Social Care and Educational Premises



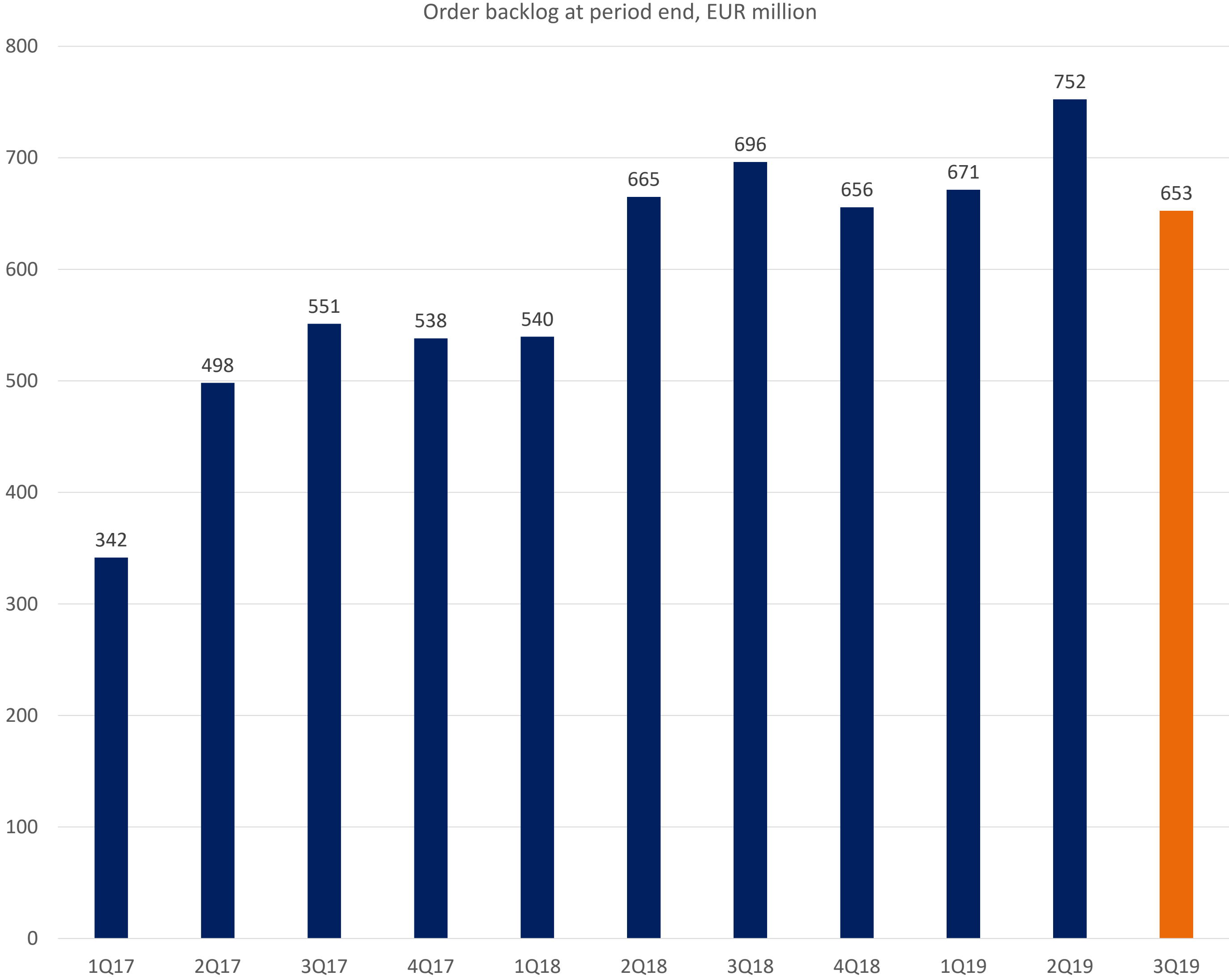
# Operating loss -9.5% of the net sales

- Operating loss in Q3 was -14.4 MEUR i.e. -9.5% of the net sales.
- The main factors contributing to the operating loss were the complete renovation operations, the Swedish operations and some separate projects in Social Care and Educational Premises.



	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19
Operating profit, EUR million	4,9	10,6	10,1	39,1	2,3	11,4	8,2	15,3	-9,3	-18,3	-14,4
Operating profit, % of net sales	6,5 %	7,6 %	8,3 %	14,9 %	2,3 %	6,0 %	4,2 %	6,6 %	-7,9 %	-14,2 %	-9,5 %

# Order backlog stayed in a good level





# Balance sheet and financing

Consolidated balance sheet, EUR million	30 September 2019	30 September 2018	31 December 2018
Non-current assets	55.4*)	34.3	37.7
Current assets			
Inventories without IFRS16	329.6	230.2	238.2
IFRS16 Land lease agreements	73.5	-	-
Current receivables	117.8	133.9	139.0
Cash and cash equivalents	31.0	48.0	53.4
<b>Total assets</b>	<b>607.3</b>	<b>446.5</b>	<b>468.3</b>
Equity	112.2	151.5	162.4
Financial liabilities	182.1	122.2	115.9
Lease liabilities	80.7		
Prepayment received	142.4	85.5	88.3
Other payables	89.9	87.3	101.8
<b>Total equity and liabilities</b>	<b>607.3</b>	<b>446.5</b>	<b>468.3</b>

\*) Includes IFRS 16 assets of EUR 7.2 million



# Financial position

- Cash reserves at the end of periode amounted to EUR 31.0 million (22.8M€ June 30, 2019). Additionally Lehto had conditionally available EUR 15.0 million credit facilities (33.8 M€ June 30, 2019).
- Financial liabilities amounted to EUR 182.1 million at the end of period (174.8 M€ June 30, 2019 and 115.9 M€ Dec 31, 2018)
- Financial liabilities have grown because of operational losses and increase in net working capital.
- Net Working Capital amounted to EUR 160 million at the end of period, representing increase of EUR 12 million during the period.
- Main item in net working capital is inventories that have grown by approximately EUR 100 million during the period.
- Inventories have grown because of big amount of own developed housing projects under progress, especially building of DWS-housing portfolio.
- Inventories are decreasing when housing projects are finished and delivered to the customers.



# Business Premises

- Net sales declined by 34.4% on the comparison period to EUR 125.0 (190.5) million.
- A total of 19 (25 in 2018) projects were completed during the review period, the largest of which was the Retail Park in Laajalahti, Espoo. At the end of the review period, 16 projects were under construction, most notably Ideapark in Seinäjoki and an logistics centre in Kerava.
- Lehto and Fennovoima signed a contract for the design and construction of an administrative building and plant office for the Hanhikivi 1 nuclear power plant. The contract is valued at about EUR 30 million.
- The order backlog of the Business Premises service area at the end of the review period was EUR 179.5 million (EUR 167.6 million on 31 December 2018).
- In June, Lehto and Fennovoima signed a contract for the design and construction of an administrative building and plant office for the Hanhikivi 1 nuclear power plant.
- Lehto and the City of Jyväskylä will continue developing Hippos-project and are seeking a new main financier.
- Four loss-making complete renovation projects have a significant impact on the result for the review period.





# Housing

- Net sales rose by 4.5% on the comparison period to EUR 228.7 million.
- Sales in Housing has developed well, sales periods were longer than last year and the greater supply of housing in the market has reduced housing prices somewhat. The average margin on housing projects saw a slight year-on-year decline
- During the review period, a total of 1,434 (1,204) housing units were sold, 1,157 in developer contracting projects and 277 in contract projects.
- During the review period 1487 (1517) new housing units were completed. The number of unsold housing units under construction declined.
- The largest housing construction projects currently in progress are in Kaivoksela in Vantaa and in the centre of Oulu.
- Lehto and German DWS Real Estate GmbH (part of Deutsche Bank Group) signed an agreement according to which Lehto will build and sell a portfolio of 542 apartments for DWS.
- The Housing service area has taken over the well-organized and profitable pipeline renovations previously carried out by the now-discontinued Building Renovation service area. Demand for pipeline renovations remained good, with seven pipeline renovation projects completed during the review period, and 9 under construction at period end.





# Social care and Educational Premises

- Net sales in this service area decreased by 45.2% year-on-year, to EUR 44.1 (80.5) million.
- Net sales for the period under review were fairly evenly divided between care home and school / daycare centres.
- Six care and service units and three school were completed during the review period.
- There were 12 care and service units, two daycare centre, five schools and one healthcare centre under construction at the end of the review period.
- Demand for schools has remained at a good level.
- There was a decline in care home construction during the review period.
- Lehto has put a great deal of work into improving the project preparatory phase and management in this service area, and operations are now more clearly targeted at developing Lehto's own product concepts and more efficient use of the company's own manufacturing. During the review period, there were indications that the profitability of projects that have undergone the new project assessment process is improving.





# Factory production

- Lehto's own factory production is the cornerstone of our strategy, which is constantly being developed
- As part of the employee cooperation negotiations launched in September, company decided to adjust Lehto Components' factory and personnel capacity to the current need.
- Lehto aims to move construction from the construction site to the factories and aims to increase the share of factory production in construction.





# Swedish operations

- The Swedish unit focused on the completion of the ongoing modular daycare centre project.
- There have been significant problems in coordinating factory production and on-site work phases and fulfilling the requirements of the customer.
- As a result, the project will post a loss. Swedish operations had a negative impact of EUR 8.6 million on the Group's operating result for January-September.
- The project is expected to be completed in November 2019.





# Corrective actions to improve profitability visible already in operations

- **The company has performed several corrective actions to improve the profitability:**
  - Development of preparation and design of projects
  - Development of implementation phase in projects
  - Adjusting the personnel and factory capacity for the needs
- **Corrective actions are already visible in results and in the quality:**
  - The margins of ongoing projects seem to be stabilizing at a healthy level.
  - Actions visible also in quality: several zero-defect deliveries during the autumn.





# Outlook for 2019

(updated 1 November, 2019)

Lehto estimates that the Group's net sales in 2019 will be lower than in 2018 (2018 net sales EUR 721.5 million). Although the company estimates its fourth-quarter operating profit to be positive, the second-half operating profit is expected to be negative due to the third-quarter operating loss (operating loss January-June 2019 EUR -27.5 million).



# Lehto is on the way

As we modernize the industry,  
we pay back for the strong growth.





# The goal of the future is clear



**More affordable, higher  
quality, faster construction**





**Innovator  
in the construction business**

