



Business Review January-September 2020

Net sales

374.9 MEUR

Change in net sales

-5.8 %

Operating loss of the net sales

-2.1 %

January – September 2020 in brief

Net sales for January–September declined by 5.8% year-on-year.

Net sales decreased in both service areas.

The balance sheet position remained stable.

The order backlog increased in the Housing service area but declined in Business Premises service areas.

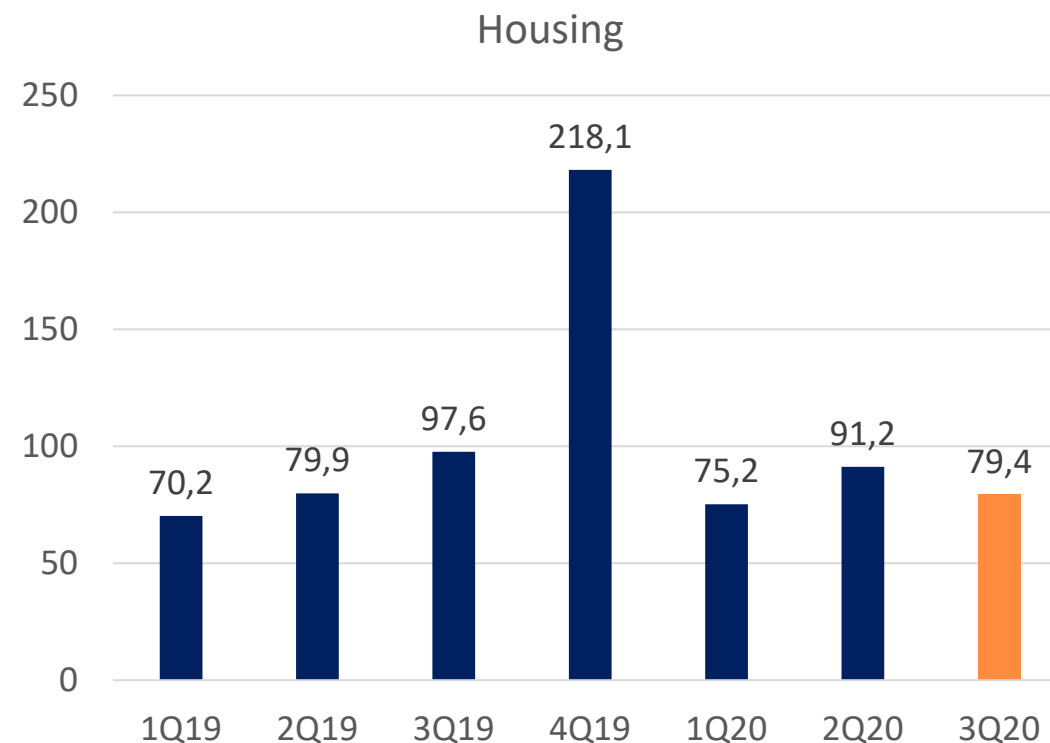
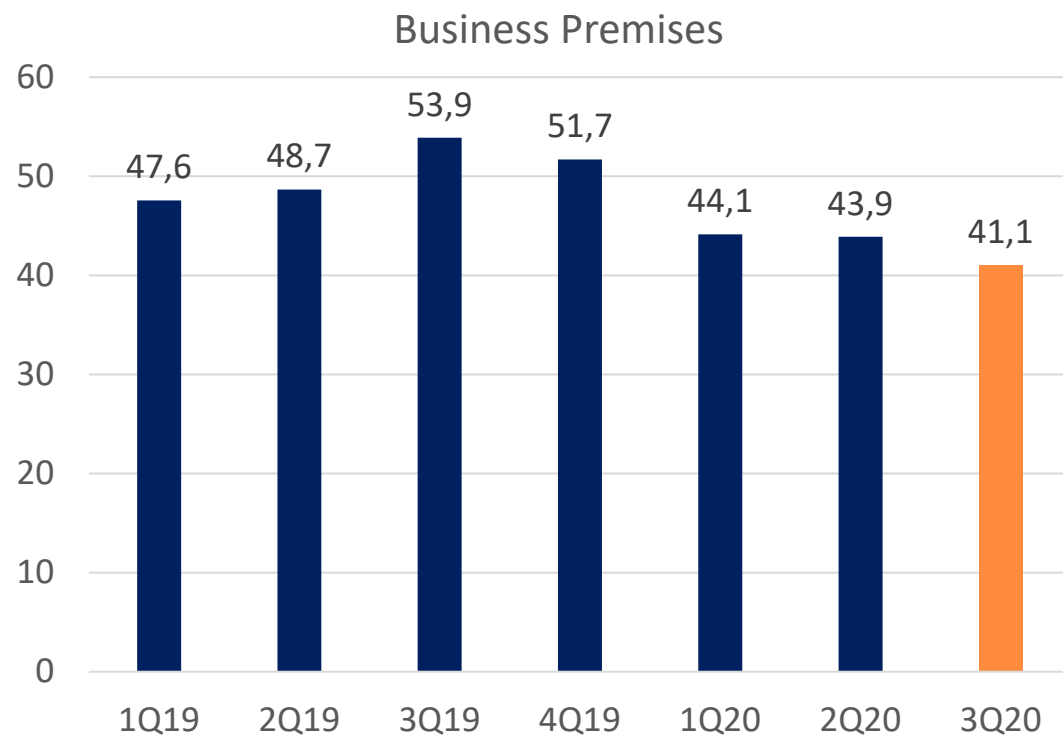
The result continued to be burdened by ongoing projects with low margins.

Net sales by service area (EUR million)

Service area	1-9/2020	1-9/2019	1-12/2019
Business Premises	129.1	150.1	201.8
Housing	245.8	247.7	465.9
TOTAL	374.9	397.8	667.7

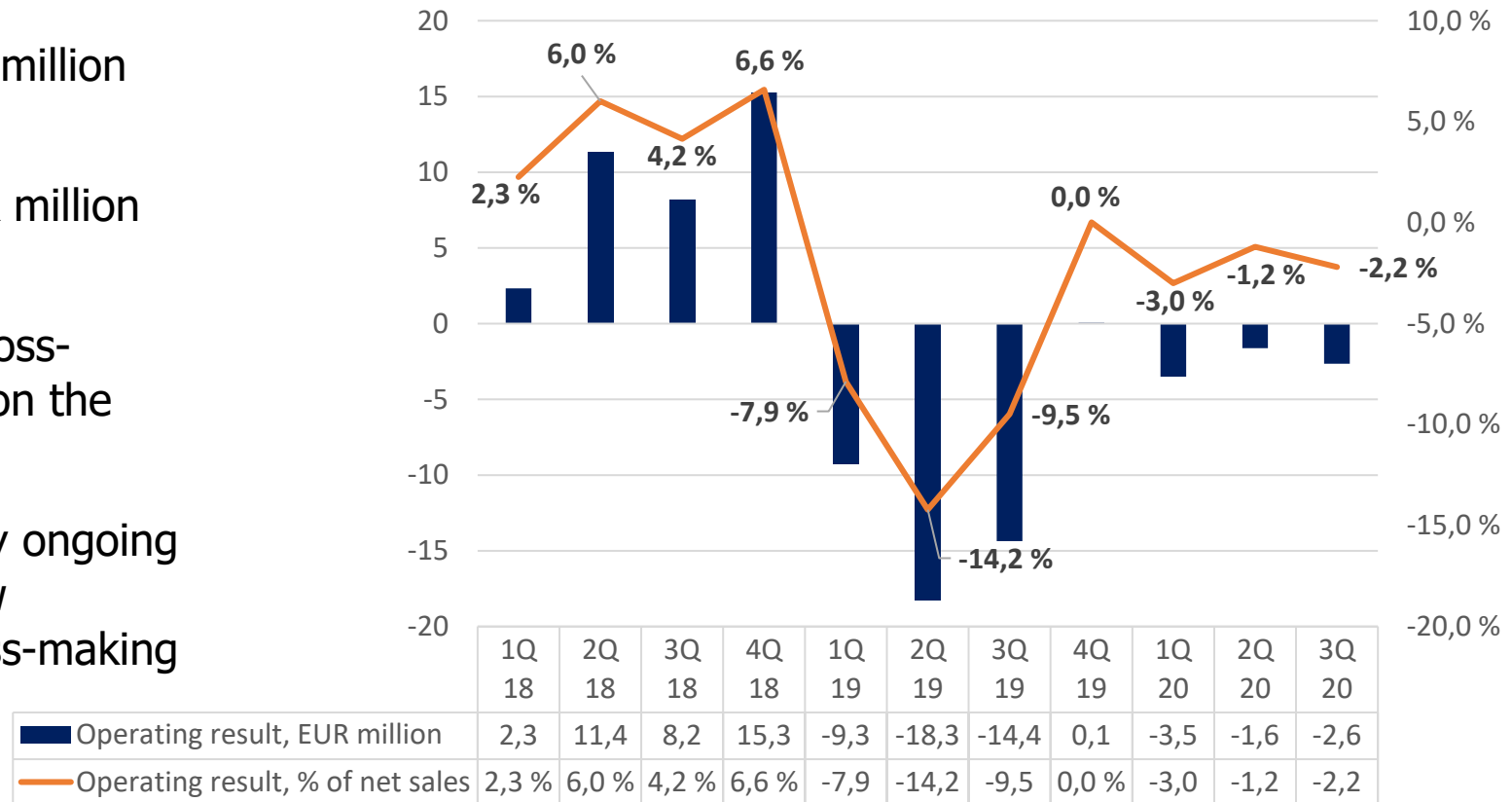


Net sales by quarter and service area, EUR million



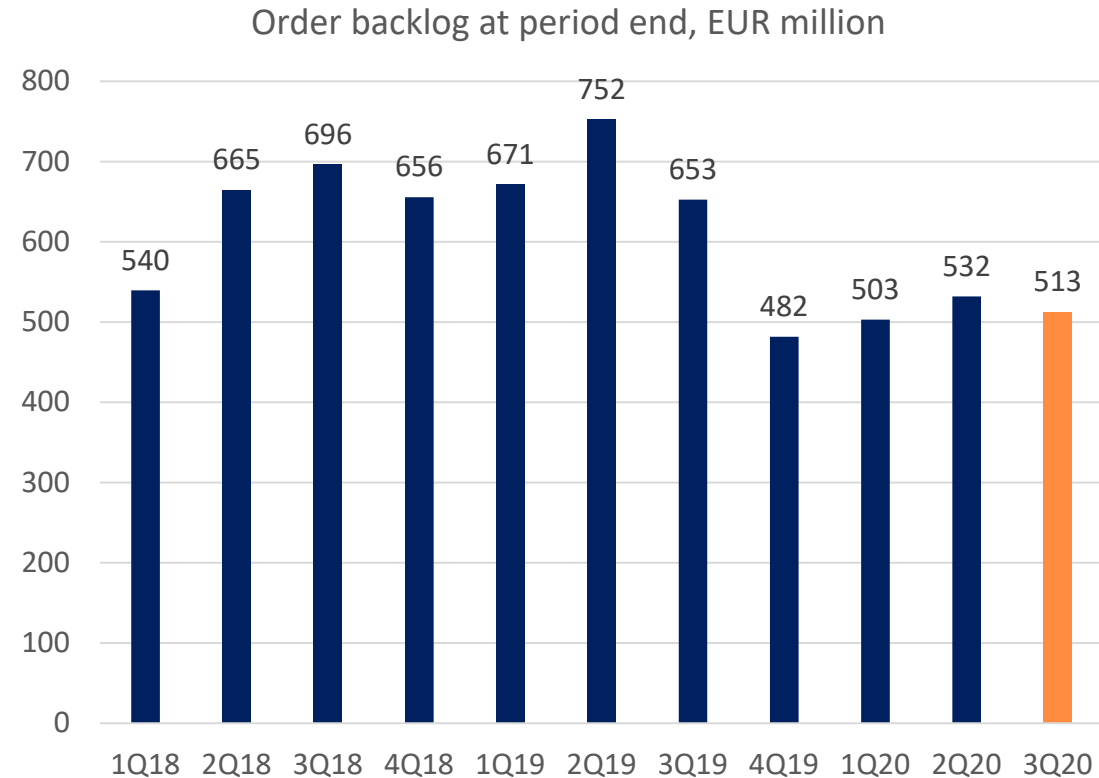
Q3 operating result better than in previous year

- The operating loss in 3Q was -2.6 EUR million (-14.4 EUR million 3Q/2019)
- The cumulative operating loss -7.8 EUR million (-41.9 EUR million 1-9/2019)
- The completion of the previous year's loss-making projects had a positive impact on the operating result.
- The result continued to be burdened by ongoing social care and school projects with low margins, losses in Sweden, and one loss-making complete renovation project.



The order backlog increased

- The order backlog rose to EUR 512.8 million (EUR 481.8 million on 31 December 2019).
- The order backlog increased in the Housing service area but declined in the Business Premises service area.



Balance sheet

- The balance sheet total fell compared with the 2019 closing date.
- Decrease in inventories and interest-bearing liabilities
- Cash and cash equivalents were at the same level as at the beginning of the year

Consolidated balance sheet, EUR million	30 Sep 2020	30 Sep 2019	31 Dec 2019
Non-current assets	67.5	55.4	55.8
Current assets			
Inventories, excluding IFRS 16 assets	154.4	329.6	210.3
Inventories, IFRS 16 assets	49.3	73.5	40.1
Current receivables	94.5	117.8	86.3
Cash and cash equivalents	57.5	31.0	59.2
Total assets	423.2	607.3	451.8
Equity	103.0	112.2	112.1
Financial liabilities	106.5	182.1	142.4
Lease liabilities	55.3	80.7	46.8
Advances received	94.3	142.4	73.2
Other payables	64.1	89.9	77.3
Total equity and liabilities	423.2	607.3	451.8



Business Premises

Net sales experienced a year-on-year decrease of 14.0% to EUR 129.1 (150.1) million.

15 business premises were completed and handed over during the review period (19 in 1-9/2019), the largest of which was a commercial building in Vantaa. At the end of the review period, 14 projects were under construction, most notably three hotel projects in the Greater Helsinki area and an office building for Fennovoima in Pyhäjoki.

The order backlog decreased to EUR 188.3 million (EUR 210.9 million on 31 December 2019).

School business was operatively transferred to the Business Premises service area on 1 May 2020. Three schools (3) and two daycare centres (0) were completed and handed over during the review period. Three schools (5) and one daycare centre (2) were under construction at the end of the period.



Housing

Net sales in the Housing service area, including the care home business, decreased by 0.8% on the comparison period to EUR 245.8 (247.7) million.

A total of 1,677 housing units were sold during the review period, 1,157 in contract project and 366 in developer contracting projects. 322 of the sold units were related to the DWS portfolio.

During the review period, 928 (1,487) housing units were completed and the construction of 1,282 (835) new units was started.

During the review period Lehto made two portfolio agreements. On June 30 Lehto and Kojamo Oyj signed a cooperation agreement to build 392 Lumo rental apartments. Additionally, Lehto and NREP Oy signed a project agreement on September 30 under which a total of more than 300 wooden apartment buildings for rent will be created in Finland.

The pipeline renovation business has remained stable and eight projects were completed during the review period. Eleven properties were under construction at the end of the review period.

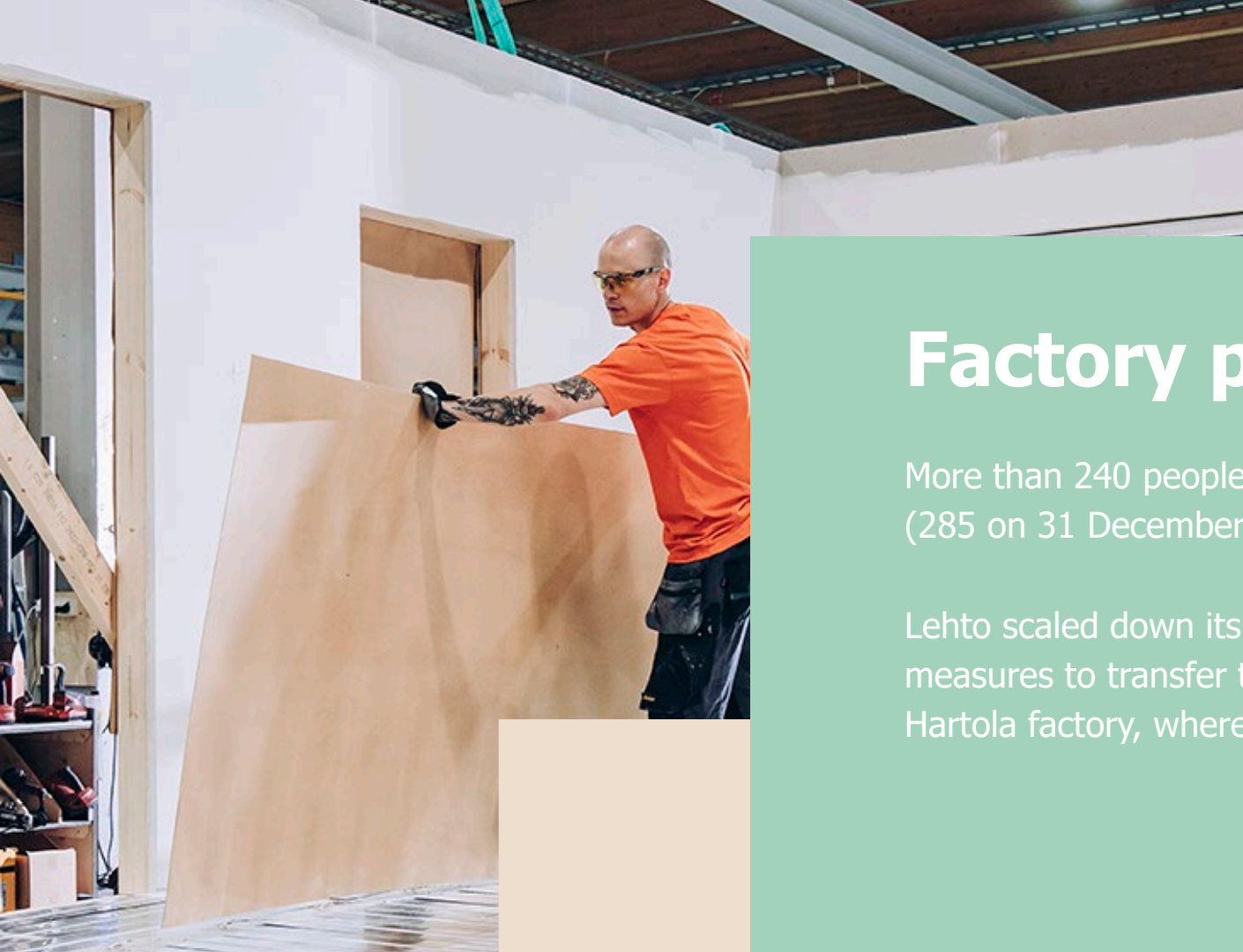
Four (6) care homes were completed during the review period and three (12) were under construction at the end of the period.



Swedish operations

During the review period, the focus of Swedish operations was on completing an ongoing daycare centre project and starting up the construction of wooden blocks of flats.

Lehto has developed a type of wooden block of flats based on prefabricated space elements that is especially suitable for the Swedish market. Lehto is currently negotiating with customers and financiers on the implementation of the first pilot project.



Factory production

More than 240 people worked in factory operations at the end of the review period (285 on 31 December 2019).

Lehto scaled down its factory capacity during the review period and started measures to transfer the manufacture of large roof elements from Humppila to the Hartola factory, where the company has a large factory unit measuring 20,000 sqm.



Outlook for 2020

Lehto estimates that the significant uncertainties affecting net sales and operating profit in the last quarter of this year are identifiable and Lehto provides financial guidance for the last quarter.

Lehto estimates that its fourth-quarter net sales will amount to about EUR 150-170 million and that the operating result for the quarter will be positive.

This outlook is based on the company's current views on the progress of ongoing construction projects and the trend in sales of developer contracted housing units.

The main uncertainty factor affecting the net sales and operating profit is the completion schedule of one developer-contracted housing project at the turn of the year. The project is expected to be completed in the last week of the year and the entire turnover and margin of the project will be recognized at the time of its completion.

Lehto's strategy for 2021-2023

Lehto's strategy extends until the end of 2023. The focal points for this strategic period are design and productisation, manufacturing and productive construction site, sustainable construction, active sales, conceptualised products and services, digitalisation, development of customer experience as well as development of the workmanship and positive workplace atmosphere.

During the strategy period, Lehto primarily seeks to achieve **a strong improvement in profitability** and aims to significantly increase the relative share of the company's housing production accounted for by **wooden apartment buildings**.

During this strategic period, the company will be investigating possibilities for utilising its prefabricated space elements more extensively in areas other than housing construction, leasing out temporary modular premises, and expanding its offering to lifecycle services.

Long-term financial objectives

Lehto has set the following long-term financial objectives that extend beyond the current strategic period:

- Average annual net sales growth 10–20%
- Average operating profit approximately 10% of net sales
- Equity ratio at least 35% (excl. IFRS 16 lease liabilities)
- Distribution of dividends approximately 30–50% of the result of the financial year.

Lehto estimates that the company's net sales and operating profit will be lower than the long-term targets during the strategic period ending in 2023, as the company is primarily focusing on developing its core processes and the construction market is expected to decline in the years ahead. In the beginning of the strategic period ending in 2023, the company will not pursue growth in net sales, but will instead concentrate on improving profitability. The company will seek net sales growth and further improvement in profitability in 2022 – 2023.