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# Net sales down, operating result improves year-on-year, financial position remains good

*This is not an interim report as specified in the IAS 34 standard. The company complies with half-yearly reporting according to the Finnish Securities Markets Act and discloses regular business reviews for the first three and nine month periods of the year, in which key information regarding the company's financial situation and development will be presented.*

## Summary January–March 2021

GROUP	1-3/2021	1-3/2020	1-12/2020
Net sales, EUR million	87.6	119.4	544.7
Change in net sales, %	-26.6%	1.3%	-18.4%
Operating result, EUR million	-1.8	-3.5	-2.9
Operating result, % of net sales	-2.1%	-3.0%	-0.5%
Result for the period, EUR million	-2.6	-3.8	-8.2
Order backlog at period end, EUR million	392.7	502.6	426.3
Earnings per share, EUR million <sup>1)</sup>	-0.03	-0.05	-0.12
Cash and cash equivalents, EUR million	70.5	69.4	105.1
Interest-bearing liabilities, EUR million	131.2	183.8	113.7
Lease liabilities in interest-bearing liabilities, EUR million	58.4	57.0	33.3
Equity ratio, %	37.7%	29.9%	38.7%
Net gearing ratio, %	50.2%	106.3%	7.0%
Equity ratio, excl. IFRS 16 lease liabilities, %	46.1%	35.5%	43.2%
Net gearing ratio, excl. IFRS 16 lease liabilities, %	1.9%	53.4%	-19.9%

<sup>1)</sup> Earnings per share for 1-3/2020 have been adjusted for the share issue carried out in December 2020.

- Net sales for January–March declined by 26.6% year-on-year to EUR 87.6 (119.4) million. Net sales decreased in both service areas. The reasons behind the decline were the smaller average size of construction projects and the lower number of projects.

- The operating loss was EUR 1.8 million (operating loss of EUR 3.5 million). The decrease in projects with weak margins had a positive effect on the operating result. The operating result was burdened by high fixed costs in relation to current business volume and the fact that no projects recognised as revenue upon delivery were completed during the review period.

- The balance sheet position remained good. At the end of the review period, interest-bearing liabilities excluding lease liabilities under IFRS 16 amounted to EUR 72.8 million (EUR 80.4 million on 31 December 2020) and cash and cash equivalents to EUR 70.5 million (EUR 105.1 million on 31 December 2020). Cash and cash equivalents declined due to growth in net working capital and especially plot investments.
- The order backlog declined to EUR 392.7 million (EUR 426.3 million on 31 December 2020).

#### NET SALES BY SERVICE AREA, EUR MILLION

	1-3/2021	1-3/2020	CHANGE	1-12/2020
Housing	53.0	75.2	-29.6%	372.9
Business Premises	34.6	44.1	-21.6%	171.7
<b>Total</b>	<b>87.6</b>	<b>119.4</b>	<b>-26.6%</b>	<b>544.7</b>

## Lehto's CEO:

Juuso Hietanen started out as the new CEO of Lehto Group Plc at the beginning of May 2021. The shareholders' nomination committee will propose to the General Meeting convening on 28 May 2021 that the company's previous CEO, Hannu Lehto, would be elected to the Chairman of the Board of Directors. In addition, he will work on the company's development tasks in the role of consultant.



#### Hannu Lehto:

"Business was steady in the first quarter. Our net sales were lower than in the previous year, but in terms of earnings performance the rising trend that began in 2020 continued, with the result for the quarter, for the fifth time in a row, improving on the corresponding period of the previous year. Our financial situation is good and in our view the availability of project-specific financing has improved during the first months of the year.

We have continued to make outlays on the development of wooden apartment buildings and intend to increase the share of our housing production accounted for by them. We also seek to utilise prefabricated space elements in areas other than housing production.

Over the years, Lehto has sought to improve productivity in the construction industry by standardising construction elements and methods as well as transferring phases of construction from sites to factories. We have achieved a lot – but we still have plenty of work and opportunities ahead of us. The company gained new energy for implementing its strategy for driving development and harnessing opportunities when Juuso Hietanen stepped in as CEO at the beginning of May.

During my own career, I have grown from a builder to an entrepreneur and the CEO of a listed company. I am most grateful about everything I have learned and the energy with which Lehto's employees have tackled challenges and overcome difficult times. For me, it's important that Lehto has successfully kick-started the reinvention of the construction industry. Although there is still much to be done, Lehto is ahead of the competition, as we have worked to modernise the industry for years."



#### Juuso Hietanen:

"We are all aware of the current challenges facing the construction industry, which have an impact on individuals, society and the environment alike. Many of these challenges are understandable, as our industry is neither easy nor simple. I think that it is important for the construction industry to be able to renew itself going forward in the same way as other industries.

Lehto boldly started reinventing the construction industry years ago. That sparked my interest in the company, its objectives and its strategy. I wanted to join up and contribute to reinventing our industry.

Lehto's strategic cornerstones already respond to important megatrends in construction, such as industrial prefabrication, digitalisation and ecology. I feel that Lehto has made the right choices in its strategy, which is quite distinctive in this field.

The renewal of the construction industry is not an easy task – and the changes are not carried out quickly. At Lehto, our long-term vision for reinvention is clear – but we must currently also focus our energies on bolstering our operational business. This will enable us to ensure that going forward we will be able to invest in further steps to reinvent the industry.

As CEO, it is important for me to build effective and good cooperation with our partners, customers, investors and the authorities. I believe that cooperation and dialogue will play an important role in building the future of the industry.”

## Outlook for 2021

The outlook Lehto published in its financial statement bulletin on 18 February 2021 remains unchanged.

Lehto estimates that net sales in 2021 will be lower than in the previous year and that the operating result will be positive. The accrual of the operating result is expected to be concentrated in the second half of the year.

The outlook is based on the current assessment by the company's management of progress on ongoing construction projects, the trend in sales of housing and business premises, and the start-up schedules of new projects.

The main risks to the development of net sales and operating result in 2021 concern the trend in sales of housing and business premises, potential interruptions of construction site operations due to the coronavirus pandemic, availability of raw materials/supplies and rising prices.

## Business development in the review period

### DEVELOPMENT OF THE BUSINESS ENVIRONMENT

In its outlook report published in February 2021, the construction trends group of the Ministry of Finance (RAKSU) estimated that the development of construction in 2020 was significantly better than expected, especially in housing production. Although the coronavirus pandemic temporarily slowed down sales in the spring, housing sales saw year-on-year growth. However, housing production is expected to decline both this year and the next. Housing start-ups in 2020 are estimated to have amounted to around 40,000 units. Start-ups are expected to amount to 34,000–36,000 in 2021 and 31,000–34,000 in 2022.

Start-ups of business premises and other production facilities were down by slightly less than one-tenth last year. In particular, start-ups of industrial buildings decreased significantly, while start-ups of warehouse buildings increased compared to the previous year.

The RAKSU group estimates that construction as a whole will decrease by one to three per cent this year, less than previously forecast. This is due to the moderate coronavirus situation in Finland and the start-up of many new construction projects in the latter part of 2020.

In its business cycle review published in March 2021, the Confederation of Finnish Construction Industries RT estimated that construction contracted by about one per cent in 2020, and will decline further by around 2 per cent this year. Start-ups of apartment buildings are expected to decline from last year's level of 30,700 units to around 26,300 units this year. However, slight growth is anticipated in start-ups of terraced and single-family houses. Thus, it is expected that the construction of a total of 37,000 units will be started in 2021. RT also forecasts that housing start-ups will see a further year-on-year decline in 2022.

Construction of business premises remained at a good level last year due to long construction periods. On the other hand, the number of building permits declined significantly. Start-ups of non-housing construction projects are expected to decrease by around 5 per cent this year.

## HOUSING

In the Housing service area, Lehto builds new blocks of flats in growth centres, carries out pipeline renovations, largely in the Helsinki metropolitan area, and implements care homes and assisted living facilities around Finland. The Housing service area seeks to produce "ingenious urban homes for everyone".

Operations focus on growing university towns, where Lehto wants to enable households with low and medium incomes to live in high-quality housing. Affordably priced and comfortable urban homes are the result of diligent housing design and standardised construction solutions created through long-term development efforts. In spite of Lehto's standardised approach to production, the residential properties are architecturally diverse. Residential projects are implemented using the PUU (WOOD) and KIVI (STONE) concepts developed by the company. Low-carbon solutions are considered to be an even more important competitive factor in the development of the concepts going forward.

The Housing service area is divided into developer-contracted production and contracting projects. In Lehto's developer-contracted housing projects, the company designs and builds properties on land areas that it has purchased and then sells the completed apartments to customers. These customers include private persons, private and institutional investors and funds.

Most of Lehto's current housing projects are concrete apartment buildings and are built using the kitchen/bathroom modules developed and manufactured by Lehto. These modules include the main electricity, water, heat, ventilation and sewerage solutions for the apartment and building. The modules are completely prefabricated at Lehto's own factories and transported to the construction site, where they are lowered into the building through the roof and connected to each other. This patented building method speeds up construction, improves quality and produces cost savings.

An increasing share of Lehto's housing production comprises apartment buildings that are constructed using wooden elements. Apartments in this product family are manufactured as space elements in the company's own factories in Finland – the interior surfaces of the apartment are fully finished when it leaves the factory. Space elements are self-supporting modules that are built at the factory and assembled on site. Wooden apartment buildings involve significantly more industrial prefabrication than concrete apartment buildings. Thanks to this, the on-site schedule can be significantly shorter than in concrete construction. During the 2021-2023 strategy period, Lehto seeks to increase the share of its production accounted for by wood construction.

In its care home business, Lehto designs and builds care homes and assisted living units for both care operators and municipalities. These construction projects are implemented either under ordinary construction contracts or as investment transactions, where Lehto signs a lease agreement with the service operator and sells the completed property to a party that invests in properties in the sector. The majority of care homes are 1–2-storey concrete or

wooden buildings. Going forward, care homes and assisted living units will expand Lehto's offering in larger project packages in city centres and suburban areas.

### ***Business development in the review period***

The Housing service area's net sales experienced a year-on-year decrease of 29.6% to EUR 53.0 (75.2) million. In particular, the number of developer contracting projects recognised as revenue declined during the period. The volume of projects sold as contracts was also lower than in the comparison period. A total of 643 housing units were sold during the review period, most of which were built through contract projects.

<b>Sold housing units during the review period</b>	<b>1-3/2021</b>	<b>1-3/2020</b>	<b>1-12/2020</b>
Contract	564	660	1,582
Developer contract	79	123	528
<b>Sold housing units during the review period, total</b>	<b>643</b>	<b>783</b>	<b>2,110</b>

During the review period, 148 (428) housing units were completed and the construction of 152 (514) new units was started. The started projects were located in the Turku region and Northern Finland. The number of housing units under construction at the end of the review period was 1,448 (1,481).

<b>Housing units under construction</b>	<b>1-3/2021</b>	<b>1-3/2020</b>	<b>1-12/2020</b>
Under construction at the beginning of the period	1,444	1,485	1,485
+ started up during the period	152	514	1,508
- postponed project		-90	-90
- completed during the period	-148	-428	-1,459
<b>Housing units under construction, total</b>	<b>1,448</b>	<b>1,481</b>	<b>1,444</b>

At the end of the review period, 98 housing units were either under construction or completed yet unsold. Of these, 40 were completed, unsold apartments. This is due not only to the ongoing good trend in sales, but also the fact that the focus in housing projects has shifted from developer contracting to contract projects. In a contract project, all the housing units are considered to have been sold at the time of signing.

<b>Unsold housing units</b>	<b>31 Mar 2021</b>	<b>31 Mar 2020</b>	<b>31 Dec 2020</b>
Under construction	58	262	118
Completed	40	170	56
<b>Unsold housing units, total</b>	<b>98</b>	<b>432</b>	<b>174</b>
including DWS units	-	192	-

The Housing service area's order backlog declined to EUR 201.7 million by the end of the review period (EUR 232.1 million on 31 December 2020). The housing production order backlog includes the proportion of developer contracting projects that have been started but have not yet been recognised as net sales. A developer contracting construction project is included in the order backlog once the decision to start construction has been made and the contract for the project has been signed.

Demand for housing construction has remained good in spite of the uncertainty caused by the coronavirus pandemic. Several agreements were signed during the review period for housing projects sold as contracts and for one care home and assisted living project as part of a housing project. The construction of these projects will largely begin during the second quarter. The company seeks to moderately increase the share of the project portfolio accounted for by developer contracting projects. The availability and price of financing still affect start-ups of developer contracting projects.

The volume of care home construction was slightly lower than in the comparison period due to the small number of projects. Zero (4) care homes were completed during the review period and three (0) were under construction at the end of the period. Care home and assisted living projects are in the negotiation phase as both individual sites and as part of larger projects in city centres and suburban areas. Lehto expects demand for care homes and assisted living to rise in the longer term.

The pipeline renovation business has remained stable and 4 (5) projects were completed during the review period. Nine (11) properties were under construction at the end of the review period. Work on construction sites has continued to go well in spite of the exceptional circumstances resulting from the state of emergency. The required communication with housing companies and their shareholders has been carried out remotely. Demand has remained good and in the company's opinion the need for pipeline renovations will continue to be steady in the future.

## **BUSINESS PREMISES**

In the Business Premises service area, Lehto builds office and retail premises; logistics, warehouse and production facilities; leisure facilities; large shopping and activity centres; and schools and daycare centres.

Business premises are designed according to customers' needs and are built using the structural and spatial solutions that have been developed or tried and tested by Lehto. This area serves local, national and international customers; and also municipalities and cities, especially in the case of schools and daycare centres.

Business Premises conducts most of its operations using a 'design and implement' model in which Lehto is responsible for both the design and actual construction. Lehto also builds some business premises in the form of developer contracting, which means that Lehto acquires the plot and then designs and builds the property either wholly or partly at its own risk.

Following the strategy update in autumn 2020, the Business Premises service area will focus more closely on selecting projects that are in line with the strategy and concept as well as enhancing planning control. In addition, the company seeks to bolster ecological friendliness in construction.

### ***Business development in the review period***

The service area's net sales experienced a year-on-year decrease of 21.6% to EUR 34.6 (44.1) million. Net sales declined especially in the school and daycare centre business due to Lehto's more selective process for choosing projects. In addition, one developer contracted retail location project was recognised as revenue upon delivery in the comparison period.

One business premises project was completed and handed over during the review period (4 sites 1–3/2020). At the end of the review period, 17 (17) projects were under construction, most notably three hotel projects in the Greater Helsinki area, an office building for Fennovoima in Pyhäjoki and a pulp warehouse in the Port of Kemi.

New contract agreements valued at EUR 31.3 million were signed during the period and the order backlog decreased to EUR 191.0 million (EUR 194.2 million on 31 December 2020). During the review period, Lehto won a tender for a multi-space office building to be built in Tikkurila in the city of Vantaa. It is estimated that the turnkey contract price, around EUR 58 million, will be recognised in the order backlog in the second quarter, when the final implementation agreements are signed.

Due to the coronavirus crisis, customers have cancelled and delayed investment decisions, which has slowed down the intake of new orders. A project that was on hold due to the crisis was restarted after the review period.

Lehto has developed the Hippos2020 project with the City of Jyväskylä. Uncertainties related to the project have increased due to the coronavirus crisis, but Lehto and the City of Jyväskylä are still developing the project.

The school and daycare centre business performed in line with plans during the review period. One (2) project was handed over during the review period and two school projects are under construction: in Ivalo and Kouvola. The Ivalo educational centre is being implemented as a lifecycle project that includes not only construction, but also demolition of the old school building and maintenance and user services for a period of 20 years. The construction of the Sarkola school in Kouvola was started up towards the end of the review period.

The Business Premises service area is carrying out two complete renovation projects based on earlier commitments. One of the projects is a complete renovation contract valued at about EUR 30 million in which an old office property is being renovated and converted for use as a hotel. The margin of the project is at the target level and it is expected to be completed in October 2021. The other project is a contract valued at about EUR 16 million in which old teaching facilities will be renovated and converted for use as housing. This project is loss-making and the estimated loss has been recognised as an expense in the 2020 financial statements. It is expected that the project will be completed in October 2021. In the future, new complete renovation projects will only be undertaken selectively on condition that the renovation is related to new construction projects or when it is a significant part of a larger commercial entity.

## **SWEDISH OPERATIONS**

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. In the first phase after the pilot project, the intention is to carry out the projects as fixed-price contracts, with the construction phase being implemented with local partners.

## **FACTORY PRODUCTION**

The use of prefabricated products lies at the core of Lehto's business. Lehto manufactures a variety of building modules and elements at its own production facilities, primarily for its own use. Products are also sold in small quantities outside the Group.

The major share of the factory production comprises kitchen-bathroom modules for concrete-frame apartment buildings, space elements for wooden apartment buildings and large roof elements for large business premises. In addition, Lehto manufactures external wall elements, aluminium doors, windows as well as kitchen and other fixtures at its factories.



Lehto has production facilities in Oulainen, Hartola, Siikajoki and Ii, totalling about 50,000 m<sup>2</sup>. At the end of the review period, 244 people worked in factory operations (236 on 31 December 2020). Lehto's current factory and equipment capacity enables the company to produce larger quantities as industrial manufacture increases during the strategy period.

## Balance sheet and financial position

CONSOLIDATED BALANCE SHEET, EUR MILLION	31 Mar 2021	31 Mar 2020	31 Dec 2020
Non-current assets	58.6	56.5	63.4
Current assets			
Inventories, excluding IFRS 16 assets	122.3	196.2	107.7
Inventories, IFRS 16 assets	53.5	50.0	28.0
Current receivables	93.9	76.9	79.7
Cash and cash equivalents	70.5	69.4	105.1
<b>Total assets</b>	<b>398.7</b>	<b>448.9</b>	<b>383.8</b>
Equity	121.0	107.7	123.6
Financial liabilities	72.8	126.9	80.4
Lease liabilities	58.4	57.0	33.3
Advances received	77.9	88.5	64.4
Other payables	68.5	68.9	82.1
<b>Total equity and liabilities</b>	<b>398.7</b>	<b>448.9</b>	<b>383.8</b>

The balance sheet total grew slightly from the 2020 closing date to EUR 398.7 million. The key figures for financial standing and indebtedness weakened compared to the turn of the year, as funds were tied to growth in working capital, particularly inventories and receivables. The equity ratio (taking lease liabilities into consideration) stood at 37.7% (38.7% on 31 December 2020) and the net gearing ratio was 50.2% (7.0% on 31 December 2020). The equity ratio without the lease liabilities under IFRS 16 stood at 46.1% (43.2%) and the net gearing ratio was 1.9% (-19.9%).

Cash and cash equivalents at the end of the review period were EUR 70.5 million (EUR 105.1 million on 31 December 2020). The decrease in cash and cash equivalents was due to not only growth in net working capital, but also the repayment of financial liabilities. Financial liabilities declined to EUR 72.8 million during the review period (EUR 80.4 million on 31 December 2020).

Inventories grew as the company acquired rented and owned plots for housing construction projects. Receivables grew especially in the case of trade receivables and percentage-of-completion receivables. Growth in both inventories and receivables was largely financed with cash reserves.

### Key financing agreements

Lehto has a Revolving Credit Facility (RCF) with a bank syndicate comprising OP Corporate Bank plc, Nordea Bank plc and Swedbank AB. The agreement is for EUR 54 million and will remain in force until 31 December 2022.

According to the agreement, some of the credit will be paid back before the end of the contractual period and part of the credit will fall due at the end of the agreement. The agreement includes both partial guarantees and financial covenants on EBITDA, interest-bearing net debt and net gearing. These covenants may also impact the distribution of dividends while the credit facility agreement is in force. At the end of the review year, EUR 39.0 million of the credit facility was in use and no funds were available to be drawn.

In July 2020, Lehto made a payment arrangement with the Tax Administration for VAT liabilities amounting to around EUR 21.0 million. The VAT payment arrangement was made when the Tax Administration offered companies the possibility to prepare for any potential impacts of the coronavirus pandemic by loaning back VAT paid in spring 2020. The repayment period under the payment arrangement is 22 months and the first instalment was paid in September 2020. The interest rate on the payment arrangement is 2.5%. At the end of the review period, the obligation related to the payment arrangement was EUR 14.2 million.

## Personnel and remuneration

The average number of Group personnel during the review period was 1,020 (1,115 on 31 December 2020). The number of personnel at year end was 1,026 (1,034). About half of the Group's personnel are salaried employees and about half work at construction sites.

On 31 March 2021, Lehto carried out a directed share issue related to the share-based employee incentive program based on year 2018 earning period. In the share issue, Lehto Group Plc granted 69,544 company's shares to key employees of the Lehto Group in accordance with the terms of the incentive plan.

## Events after the review period

No such events have occurred after the end of the reporting period that would have a significant or exceptional effect on the company's result, financial position or business development.

May 3, 2021 Juuso Hietanen started out as the new CEO of Lehto Group Plc. The shareholders' nomination committee will propose to the General Meeting convening on 28 May 2021 that the company's previous CEO, Hannu Lehto, would be elected to the Chairman of the Board of Directors.

### **Kempele, 5 May 2021**

*Lehto Group Plc  
Board of Directors*

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