

Q3 21

Net sales and operating result declined. Order backlog and financial position remained stable.

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–September 2021

GROUP	1-9/2021	1-9/2020	7-9/2021	7-9/2020	1-12/2020
Net sales, EUR million	278.1	374.9	80.5	120.4	544.7
Change in net sales, %	-25.8%	-5.8%	-33.2%	-20.5%	-18.4%
Operating result, EUR million	-10.7	-7.8	-8.2	-2.6	-2.9
Operating result, % of net sales	-3.9%	-2.1%	-10.1%	-2.2%	-0.5%
Result for the period, EUR million	-12.1	-9.0	-7.8	-3.2	-8.2
Order backlog at period end, EUR million	503.2	512.8	503.2	512.8	426.3
Earnings per share, EUR million ¹⁾	-0.14	-0.13	-0.09	-0.05	-0.12
Cash and cash equivalents, EUR million	52.3	57.5	52.3	57.5	105.1
Financial liabilities, EUR million	63.3	106.5	63.3	106.5	80.4
Lease liabilities, EUR million ²⁾	93.4	55.3	93.4	55.3	33.3
Equity ratio, %	33.0%	31.3%	33.0%	31.3%	38.7%
Net gearing ratio, %	93.7%	101.3%	93.7%	101.3%	7.0%
Equity ratio, excl. IFRS 16 lease liabilities, %	45.7%	37.7%	45.7%	37.7%	43.2%
Net gearing ratio, excl. IFRS 16 lease liabilities, %	9.9%	47.5%	9.9%	47.5%	-19.9%

¹⁾ Earnings per share for 1-9/2020 have been adjusted for the share issue carried out in December 2020.

²⁾ Lease liabilities primarily relate to plots leased for the company's construction projects, in which the related lease obligation is recognised as a liability until the end of the lease period in accordance with IFRS 16.

- Net sales for January–September experienced a year-on-year decline of 25.8% to EUR 278.1 (374.9) million. Net sales decreased in both service areas due to a reduction in the number of construction projects.
 - The operating loss was EUR 10.7 million (operating loss of EUR 7.8 million). The reasons behind the operating loss were some loss-making business premises projects and their delayed execution, rising prices of the building materials and their weak availability, and delays in the starts of new projects and the company's currently high fixed costs in relation to volume.

- The balance sheet position remained good. At the end of the review period, financial liabilities (ie. interest-bearing liabilities excluding lease liabilities under IFRS 16) amounted to EUR 63.3 million (EUR 80.4 million on 31 December 2020) and cash and cash equivalents to EUR 52.3 million (EUR 105.1 million on 31 December 2020). The decrease in cash and cash equivalents was due to an increase in net working capital; in particular, cash was tied up in ongoing construction projects in which cash expenses were greater than cash income from customers.
- The order backlog rose to EUR 503.2 million (EUR 426.3 million on 31 December 2020). The order backlog grew in both service areas.

NET SALES BY SERVICE AREA, EUR MILLION

	7-9/ 2021	7-9/ 2020	Change Q3	1-9/ 2021	1-9/ 2020	Change	1-12/ 2020
Housing	39.9	79.4	-49.8%	164.2	245.8	-33.2%	372.9
Business Premises	40.6	41.1	-1.1%	113.9	129.1	-11.7%	171.7
Total	80.5	120.4	-33.2%	278.1	374.9	-25.8%	544.7

CEO Juuso Hietanen:



“The third-quarter result was a loss and the full-year result for 2021 will also be negative. The main factors behind this are some loss-making business premises projects and their delayed execution, rising prices of materials, weak availability of building materials, and delays in the starts of new construction projects. The exceptional rise in costs also impacts on several projects that have just been started or are about to begin, in which the contract price was set earlier and the higher costs cannot be offset in full.

In the third quarter, we focused on moving ahead with ongoing projects, but also put effort on developing our operating methods and culture. We have streamlined our project assessment, starting and approval practices as well as implemented changes in the organisation and promoted plans and operating methods for prefabricated wooden apartment buildings. However, the financial impact of these measures will only be seen in the longer term.

In the shorter term, the factors that will affect our result are the startup of 17 housing and care home construction projects and 8 pipeline renovation projects, the successful sale of the Kivistö shopping centre at the end of September and agreements for 12 new business premises projects. Our order backlog grew slightly from the previous quarter to EUR 503 million.

We have good and long experience of the implementation of wooden and concrete apartment buildings, hall-like buildings and pipeline renovations. These are our bread and butter – and we generally succeed well in them. Our latest care home and school projects have also gone according to plans.

We are going to focus on improving our project management in long and diverse business premises projects. When it comes to such demanding projects, our performance has been good in some of them, but in some of them our profitability has been weak. The major differences arise in the design and preparatory work carried

out prior to the start of construction site operations. The on-site phase is critical for generating earnings, but the potential for profits is created at the design stage.

In the last quarter, we plan operations in 2022 and sharpening the strategy of the Housing service area. We will work on the strategy of the Business Premises service area when its new EVP comes on board in early 2022.”

Outlook for 2021

Lehto revised its financial guidance for 2021 downward, as described in a stock exchange release published on 18 October 2021.

Lehto estimates that net sales in 2021 will be approximately 20% lower than in the previous year (EUR 544.7 in 2020) and that the operating result will be negative.

The main factors behind the declined outlook are some loss-making business premises projects and their delayed execution, rising prices of the building materials and their weak availability, and delays in the starts of new projects.

The main risks to the development of net sales and the operating result in 2021 concern the availability and rising prices of building materials and the completion of certain business premises projects according to the planned schedule and planned costs.

The previous guidance was as follows:

Lehto estimates that net sales in 2021 will be 15-20 % lower than in the previous year (EUR 544.7 million in 2020) and that the operating result will be positive. The accrual of the net sales and operating result is expected to be concentrated on the last quarter of the year.

Business development in the review period

HOUSING

The Housing service area’s net sales experienced a year-on-year decrease of 33.2% to EUR 164.2 (245.8) 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 1,265 housing units were sold during the review period, most of which were built through contract projects.

Sold housing units during the review period	1-9/2021	1-9/2020	1-12/2020
Contract	1,050	1,311	1,582
Developer contract	215	366	528
Sold housing units during the review period, total	1,265	1,677	2,110

During the review period, 641 (928) housing units were completed and the construction of 1,185 (1,282) new units was started. The start-ups were located in Southern Finland, Western Finland and Northern Finland. There were 1,988 (1,749) housing units under construction at the end of the review period.

Housing units under construction	1-9/2021	1-9/2020	1-12/2020
Under construction at the beginning of the period	1,444	1,485	1,485
+ started up during the period	1,185	1,282	1,508
- postponed project		-90	-90
- completed during the period	-641	-928	-1,459
Housing units under construction, total	1,988	1,749	1,444

At the end of the review period, 266 housing units were either under construction or completed yet unsold (361 on 30 September 2020). Of these, 27 (40) were completed, unsold apartments. Although housing will continue to focus on contract projects, efforts are being made to moderately increase the share of developer-contracted projects. In a contract project, all the housing units are considered to have been sold at the time of signing.

Unsold housing units	30 Sept 2021	30 Sept 2020	31 Dec 2020
Under construction	266	321	118
Completed	27	40	56
Unsold housing units, total	293	361	174
including DWS units	-	80	-

The Housing service area's order backlog stood at EUR 276.0 million at the end of the review period (EUR 232.1 million on 31 December 2020). During the review period, several properties were sold to institutional investors and developer contracting projects were started, especially in the Helsinki metropolitan area and Turku. 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 remained good in spite of the uncertainty arising from the coronavirus pandemic. Several agreements were signed during the review period for housing projects sold as contracts, and also for care homes and assisted living projects as part of a housing project. 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. Three (4) care homes were completed during the review period and two (3) was 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 7 (8) projects were completed during the review period. Eleven (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

pandemic. 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

The service area's net sales experienced a year-on-year decrease of 11.7% to EUR 113.9 (129.1) million. Net sales declined in the school and daycare centre business in particular, due to Lehto's more selective process for choosing projects.

Nine business premises projects were completed and handed over during the review period (15 sites 1–9/2020). At the end of the review period, 19 (14) projects were under construction, most notably a local service centre in Kivistö, Vantaa, three hotel projects in the Greater Helsinki Area, an office building for Fennovoima in Pyhäjoki and a pulp warehouse in the Port of Kemi. There will be incurred losses for 2021 from five business premises projects under construction.

New contract agreements valued at EUR 146.9 million were signed during the review period and the order backlog rose to EUR 227.2 million (EUR 194.2 million on 31 December 2020). In March, Lehto won a tender for a multi-space office building for the City of Vantaa, which will be built in Tikkurila. This turnkey project is valued at about EUR 58 million and its construction is currently estimated to begin in the spring 2022. At the end of September, Lehto sold the real estate company of the Kivistö local service centre, a project it had developed, to eQ Commercial Properties. Both projects have been included in the order backlog during the review period.

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

Lehto has developed the Hippos2020 project with the City of Jyväskylä since 2018. Further progress was made on the project during the review period. Discussions were held with both equity and debt investors and potential tenants of the property in the third quarter. The implementation of this project involves the typical uncertainties faced in property development projects, such as the availability of financing and its terms as well as the acquisition and commitment of tenants.

The school and daycare centre business performed in line with plans during the review period. During the period, daycare centre in Pieksämäki was handed over (3 schools and 2 daycare centres 1-9/2020), and at the end of the period school projects were under construction in Ivalo and Kouvola (3 schools and 1 daycare centre 1-9/2020). 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 Sarkola School in Kouvola will be implemented as a turnkey project.

At the end of the review period, the Business Premises service area had two ongoing complete renovation projects. 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 slightly positive and it is expected to be completed in January 2022. The other project is a contract valued at about EUR 16 million that was handed over to the client after the end of the review period in October. In this project, old teaching facilities were renovated and converted for use as housing. This project was loss-making and most of the loss had already been recognised as an expense in the 2020 financial statements. 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 has signed a preliminary agreement for a wooden apartment building to be implemented as a contract in northern Stockholm. The building permit application is currently being processed by the authorities.

The first project will be carried out as a pilot project, after which Lehto will assess and decide on the continuation of operations in Sweden.

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 m². At the end of the review period, 249 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

	30 Sept 2021	30 Sept 2020	31 Dec 2020
Non-current assets	55.4	67.5	63.4
Current assets			
Inventories, excluding IFRS 16 assets	129.9	154.4	107.7
Inventories, IFRS 16 assets	89.2	49.3	28.0
Current receivables	97.7	94.5	79.7
Cash and cash equivalents	52.3	57.5	105.1
Total assets	424.5	423.2	383.8
Equity	111.4	103.0	123.6
Financial liabilities	63.3	106.5	80.4
Lease liabilities	93.4	55.3	33.3
Advances received	87.5	94.3	64.4
Other payables	69.0	64.1	82.1
Total equity and liabilities	424.5	423.2	383.8

The balance sheet total grew slightly from the 2020 closing date to EUR 424.5 million. The key figures for financial standing and indebtedness weakened compared to the turn of the year, as shareholders' equity decreased due to the loss-making result and funds were tied to growth in working capital.

The equity ratio (taking lease liabilities into consideration) stood at 33.0% (38.7% on 31 December 2020) and the net gearing ratio was 93.7% (7.0% on 31 December 2020). The equity ratio without the lease liabilities under IFRS 16 stood at 45.7% (43.2%) and the net gearing ratio was 9.9% (-19.9%).

Cash and cash equivalents totalled EUR 52.3 million at the end of the review period (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 63.3 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 and costs were accrued to projects in progress. 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 period, EUR 37.0 million of the credit facility was in use and no funds were available to be drawn. During the review period, the covenant terms of the financing agreement were renegotiated.

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 8.2 million.

Personnel and remuneration

The average number of Group personnel during the review period was 1,044 (1,115 on 31 December 2020). The number of personnel at period-end was 1,044 (1,034 on 31 December 2020). About half of the Group's personnel are salaried employees and about half work at construction sites.

Events after the review period

On 18 October 2021, Lehto announced that its financial outlook for 2021 has weakened.

Vantaa, 3 November 2021

*Lehto Group Plc
Board of Directors*

*Juuso Hietanen, CEO
+358 50 343 4023
juuso.hietanen@lehto.fi*

*Veli-Pekka Paloranta, Chief Financial Officer
+358 400 944 074
veli-pekka.paloranta@lehto.fi*