

Q1 2022

First-quarter net sales down 6%, operating result EUR -9.8 million

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 2022

GROUP	1-3/2022	1-3/2021	1-12/2021
Net sales from continuing operations, EUR million	82.2	87.6	435.9
Change in net sales from continuing operations, %	-6.2%	-26.7%	-20.0%
Operating result from continuing operations, EUR million	-9.8	-1.4	-24.0
Operating result from continuing operations, % of net sales	-11.9%	-1.6%	-5.5%
Result from continuing operations, EUR million	-10.8	-2.2	-25.7
Result from discontinued operations, EUR million	0.0	-0.4	-6.9
Result for the period, EUR million	-10.8	-2.6	-32.6
Order backlog at period end, EUR million	429.6	392.7	474.1
Earnings per share, EUR	-0.12	-0.03	-0.37
Cash and cash equivalents, EUR million	9.5	70.5	32.8
Financial liabilities, EUR million	46.2	72.8	45.8
Lease liabilities, EUR million	90.0	58.4	90.4
Equity ratio, %	25.7%	37.7%	27.2%
Net gearing ratio, %	158.3%	50.2%	113.8%
Equity ratio, excl. IFRS 16 lease liabilities, %	36.1%	46.1%	37.3%
Net gearing ratio, excl. IFRS 16 lease liabilities, %	45.9%	1.9%	14.4%

- Net sales for the first quarter of 2022 experienced a year-on-year decline of 6.2% to EUR 82.2 (87.6) million. Net sales decreased in both service areas due to a reduction in the number of construction projects.
- The operating result from continuing operations was EUR -9.8 (-1.4) million. The main reasons behind the operating loss are business premises projects with loss-making results or weak margins as well as the low volume in the Housing service area in the first quarter.

- Construction of 106 (152) new apartments began during the review period. At the end of the period, there were 1,850 (1,448) apartments under construction, the majority of which are related to projects for institutional investors.
- At period-end, cash and cash equivalents stood at EUR 9.5 million (EUR 32.8 million on 31 December 2021) and interest-bearing liabilities excluding IFRS 16 lease liabilities amounted to EUR 46.2 (45.8) million. In addition to the loss-making result, cash and cash equivalents were reduced particularly by the increase of EUR 8.0 million in net working capital.
- The order backlog declined to EUR 429.6 million (EUR 474.1 million on 31 December 2021). The order backlog decreased in both service areas.
- After the review period Lehto has signed an agreement to sell its pipeline renovations business, updated the strategy, as well as implemented operational measures to improve profitability and financial position. For more information on the transactions, see the stock exchange release published on 28 April 2022.

NET SALES BY SERVICE AREA, EUR MILLION	1-3/2022	1-3/2021	Change	1-12/2021
Housing	49.4	53.0	-6.8%	286.1
Business Premises	32.8	34.6	-5.1%	149.8
Total	82.2	87.6	-6.2%	435.9

CEO Juuso Hietanen:



“During the first quarter of the year, we worked intensely towards the future of the company. In addition to ordinary business-related tasks, we have implemented operational changes, engaged in change negotiations with our personnel, prepared for the process of selling the pipeline renovations business, held negotiations on financing, and done preparatory work on issuing a convertible bond. All of these measures are intended to improve the company’s profitability and secure financing for the implementation of our strategy. We have made purposeful progress in several sectors at the same time.

Net sales for the first quarter were down 6% year-on-year and the operating result was weak, as expected. Our result and cash flow are still burdened by three strongly loss-making business premises projects and high material costs. Our heavily loss-making projects will be concluded this year.

The net sales of the Housing service area were low and no housing projects recognised as income upon delivery were completed during the review period. We have converted a number of housing projects that were originally intended for consumers into projects for investors – their net sales and margins will thus be recognised according to the degree of completion. As a result of this change, cash flows and income will be accrued more evenly throughout these projects.

As we announced in the stock exchange release published on 28 April 2022, we are strongly refocusing our operations in the Business Premises service area, and thus we expect that net sales in this service area will decrease significantly, especially in 2023. We will concentrate on projects in which we are genuinely competitive and the risks involved are more manageable.

In the first months of the year, we also completed work on the company's strategy. Lehto now has a well focused and defined strategy based on our competitiveness – in designing the strategy, ensuring implementation was also a major priority. We present our strategy in the stock exchange release published on 28 April 2022. Once the strategy work was completed, action programmes have been launched on a rapid schedule.

The primary objective for this year is to improve profitability, in which the key element is the management of project risks in all units. We will continue to carry out the measures we have launched in project risk management and stepping up efficiency. We will also focus on stepping up efficiency in the implementation of wooden apartment buildings. We expect that demand for wooden apartment buildings will remain strong in the future.”

Outlook for 2022

Lehto updated its financial guidance in a stock exchange release published on 28 April 2022 as follows:

Lehto has signed an agreement to sell its pipeline renovation business. Lehto will report pipeline renovation business as discontinuing operation in the financial reports that lowers the net sales and operating result of continuing operations.

The sale of pipeline renovation business will decline Lehto's net sales from continuing operations by approximately EUR 36 million and operating result from continuing operations by approximately EUR 5 million.

In addition to effects caused by the sale of pipeline renovation business Lehto estimates that the war in Ukraine has caused risks related to the general market demand and material prices. These risks cannot be exactly estimated but Lehto is taking these into account in 2022 financial guidance.

Lehto estimates that Net Sales from continuing operations in year 2022 will be slightly lower than in 2021 (EUR 404.1 million in 2021) and operating result from continuing operations will be EUR 15-20 million negative (EUR -24.0 million in 2021).

Previous outlook published on 17 February 2022

According to Statistics Finland building cost rose by 10.2% in December 2021 from one year back and the costs of materials went up by 14.8%. Lehto has ongoing or starting projects with fixed sales price and the significant increase of construction costs will have negative effect on projects' profitability also in year 2022. Lehto has changed its pricing, purchasing and contractual practices so that the company can better mitigate cost risks.

Lehto is converting some consumer housing projects to investor projects where net sales and margins are booked according to percentage of completion. This causes some net sales, margins and cash flows from the projects to accumulate earlier in year 2022 instead of 2023.

The most important target for the year 2022 is to improve profitability where the project risk management in all entities is the key thing. The company will continue the earlier commenced actions of managing the project risks and improving the operative efficiency. These actions are estimated to have positive effect on profitability, starting from the second half of 2022, but especially on year 2023.

Lehto estimates that Net Sales from continuing operations in year 2022 will be at level of 2021 (EUR 435.9 million in 2021) and operating result from continuing operations to be EUR 5-10 million negative (EUR -24.0 million in 2021).

Business environment and business development in the review period

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.

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 business primarily comprises developer-contracted housing projects, in which 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.

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. Care home projects are either separate wooden or concrete buildings or partly ordinary apartment buildings.

Business development in the review period

The Housing service area's net sales experienced a year-on-year decrease of 6.8% to EUR 49.4 (53.0) million. No projects in which income is recognised upon delivery were completed in either the review period or comparison period.

Consumer demand for housing weakened at the end of February when the war started in Ukraine, but no changes were seen in investor demand. 134 (643) apartments were sold in the review period. The number of apartments sold to consumers was at the same level as in the comparison period, but significantly fewer apartments were sold to investors than in the comparison period. Lehto is currently in negotiations to sell numerous projects to institutional investors.

Sold housing units during the review period	1-3/2022	1-3/2021	1-12/2021
To investors	51	564	1,529
To consumers	83	79	319
Sold housing units during the review period, total	134	643	1,848

During the period, 258 (148) housing units were completed and the construction of 106 (152) new units was started. The start-ups were located in Southern and Northern Finland. There were 1,850 (1,448) housing units under construction at the end of the review period.

Housing units under construction	1-3/2022	1-3/2021	1-12/2021
Under construction at the beginning of the period	2,002	1,444	1,444
+ started up during the period	106	152	1,835
- completed during the period	-258	-148	-1,277
Housing units under construction, total	1,850	1,448	2,002

At the end of the review period, 375 (98) housing units were either under construction or completed yet unsold. Of these, 21 (40) were completed, unsold apartments. In an investor project, all the housing units are considered to have been sold at the time of signing the contract agreement.

Unsold housing units	31 Mar 2022	31 Mar 2021	31 Dec 2021
Under construction	354	58	430
Completed	21	40	26
Unsold housing units, total	375	98	456

The Housing service area's order backlog stood at EUR 254.2 million at the end of the review period (EUR 272.1 million on 31 December 2021). The housing production order backlog includes the proportion of investor projects that have been started but have not yet been recognised as net sales. A consumer 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.

The volume of care home construction was lower than in the comparison period due to the decrease in the number of projects. One (0) care home was completed during the review period. At period-end, no (3) traditional care homes were under construction, but assisted living units were under construction as part of housing construction projects. 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 (4) projects were completed during the review period. Fourteen (9) properties were under construction at the end of the review period. On 28 April 2022, after the end of the review period, Lehto announced that it will divest its pipeline renovations business in its entirety.

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.

Business development in the review period

The service area's net sales experienced a year-on-year decrease of 5.1% to EUR 32.8 (34.6) million. Net sales declined due to the decrease in the number of projects.

One business premises project was completed and handed over during the review period (1 site 1-3/2021). At the end of the period, 15 (17) projects were under construction, most notably a local service centre in Kivistö, Vantaa; a twin tower in Malmi, Helsinki; an office building for Fennovoima in Pyhäjoki; a pulp warehouse at the Port of Kemi; and school projects in Ivalo and Kouvola.

New contract agreements valued at EUR 6.2 million were signed during the period and the order backlog decreased to EUR 175.4 million (EUR 202.0 million on 31 December 2021). Lehto is negotiating with customers on the cancellation of certain business premises projects due to a significant increase in material costs.

The school business progressed in line with plans during the review period. No (1) projects were handed over during the review period and two (2) projects were under construction at the end of the period: 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 Sarkola School in Kouvola will be implemented as a turnkey project. In accordance with its strategic guidelines published on 28 April 2022, Lehto will discontinue its life-cycle business.

In 2021, the company incurred significant losses from six business premises projects. At the end of the review period, three of these projects were still in progress. The projects will be completed in 2022.

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.

Lehto has implemented operational changes to improve project risk management in the Business Premises service area, and these will be implemented in early 2022 under the leadership of the service area's new EVP. When evaluating prospective projects, the company will pay particular attention to their suitability with respect to the company's resources and strategy. The company is also implementing structural and operational changes aimed at reducing its cost level.

SWEDISH OPERATIONS

On 31 December 2021, Lehto announced the discontinuation of its operations in Sweden. The reason for this decision is Lehto's need to focus on developing the competitiveness of its business in Finland, coupled with low business volumes in Sweden. The Swedish operations are reported in the result under discontinued operations.

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, 251 people worked in factory operations (253 on 31 December 2021). 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 2022	31 Mar 2021	31 Dec 2021
Non-current assets	48.1	58.6	49.2
Current assets			
Inventories, excluding IFRS 16 assets	125.5	122.3	108.3
Inventories, IFRS 16 assets	86.5	53.5	86.6
Current receivables	87.8	93.9	90.1
Cash and cash equivalents	9.5	70.5	32.8
Total assets	357.4	398.7	367.0
Equity	80.1	121.0	90.9
Financial liabilities	46.2	72.8	45.8
Lease liabilities	90.0	58.4	90.4
Advances received	45.5	77.9	32.4
Other payables	95.4	68.5	107.4
Total equity and liabilities	357.4	398.7	367.0

The balance sheet total fell slightly from the 2021 closing date to EUR 357.4 million. The key figures for financial standing and indebtedness weakened during the year, as shareholders' equity and cash and cash equivalents decreased due to the loss-making result. The equity ratio (taking lease liabilities into consideration) stood at 25.7% (27.2% on 31 December 2021) and the net gearing ratio was 158.3% (113.8% on 31 December 2021). The equity ratio without the lease liabilities under IFRS 16 stood at 36.1% (37.3%) and the net gearing ratio was 45.9% (14.4%).

Cash and cash equivalents totalled EUR 9.5 million (EUR 32.8 million on 31 December 2021). The decrease in cash and cash equivalents was due especially to the loss-making result and growth in net working capital. Financial liabilities excluding lease liabilities were at the same level as on the closing date, EUR 46.2 million (EUR 45.8 million on 31 December 2021).

Key financing agreements

Revolving credit facility (RCF)

Lehto has a Revolving Credit Facility (RCF) with a bank syndicate comprising OP Corporate Bank plc, Nordea Bank plc and Swedbank AB. The RCF is in force until 31 December 2022 and EUR 25.1 million of the facility is in use. No further funds can be withdrawn from the RCF. 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 as well as other covenant terms. These covenants may also impact the distribution of dividends while the RCF is in force.

As described in the stock exchange release published on 11 March 2022, Lehto and its financier banks have been in negotiations during the early months of 2022 on a financing solution that will enable the company to implement its strategy. At the time of publication of this interim report, the negotiations were still ongoing. The company will announce the outcome of these negotiations immediately when they have been concluded.

VAT payment arrangement

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 remaining commitments under the payment arrangement amounted to EUR 4.9 million.

Personnel and remuneration

The average number of Group personnel during the review period was 1,035 (1,043 in 2021). The number of personnel at period-end was 1,022 (1,042 on 31 December 2021). About half of the Group's personnel are salaried employees and about half work at construction sites.

On 24 March 2022, Lehto launched change negotiations with its personnel to find ways to streamline Lehto's operations and to reduce the cost pressure of rising construction costs. The negotiations sought to achieve savings totalling approximately 150 person-years, which are estimated to have an impact of approximately EUR 3 million in 2022. The negotiations applied to all units of the Group, with the exception of Remonttipartio Oy (pipeline renovation business) and Insinööritoimisto Mäkeläinen Oy. The outcome of the change negotiations has been announced in a stock exchange release published on 28 April 2022.

On 25 March 2022, Lehto carried out a directed share issue related to payments under the incentive program for key personnel. In the share issue, Lehto Group Plc transferred 151,842 company's own shares to key employees of the Lehto Group in accordance with the terms of the incentive program.

Events after the review period

Sale of the pipeline renovations business

On 28 April 2022, Lehto signed an agreement to sell its pipeline renovations business to Renevo Group Oy ("Sale"). The Sale comprises the entire share capital of Remonttipartio Oy, a wholly owned subsidiary of Lehto, at a preliminary purchase price of EUR 30.0 million. The final purchase price will be determined on the basis of the amount of interest-bearing liabilities, cash and cash equivalents and net working capital at the time the transaction is completed. In addition to the fulfilment of the normal contractual terms of acquisitions, approval from the competition authorities is required. It is expected that this will be granted in June 2022. The purchase price will be paid in cash at the time of sale. For more information on the transaction, see the stock exchange release published on 28 April 2022.

The following table shows Lehto's net sales, operating result, assets and liabilities for 2021 and 1-3/2022 excluding the pipeline renovation business:

CONTINUING OPERATIONS	Without pipeline renovation business		Pipeline renovation business		Total (reported previously)	
	1-3/2022	1-12/2021	1-3/2022	1-12/2021	1-3/2022	1-12/2021
EUR million						
Net sales	72.0	404.1	10.2	31.8	82.2	435.9
Operating result	-11.3	-28.3	1.5	4.2	-9.8	-24.0
Assets	345.6	352.3	11.8	14.7	357.4	367.0
Liabilities	270.1	264.5	7.2	11.6	277.2	276.0

Conclusion of the change negotiations

At the end of April Lehto has completed the change negotiations with the personnel. The target of the negotiations was to find ways to streamline Lehto's operations and to reduce the cost pressure of rising construction costs. The company announced the start of negotiations in a stock exchange release on March 24, 2022. As a result of the negotiations, cost savings of approximately EUR 3 million will be achieved in 2022. The savings will be achieved through personnel reductions, redundancies and layoffs, with a combined effect of approximately 134 person-years.

Strategy update

On 28 April 2022, Lehto released information about updated strategy with a separate stock exchange release.

28 April 2022
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