

KREATE

Kreate's financial statement bulletin: A strong performance in a challenging operating environment

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This release is a summary of Kreate Group's Financial Statement Bulletin 2022. The complete Financial Statement Bulletin is attached, and also available on the company's website at <https://kreate.fi/en/investor/>.

Kreate's financial statement bulletin: A strong performance in a challenging operating environment

October-December in brief

- Order backlog amounted to EUR 306.9 (202.8) million
- Revenue grew compared to the reference period, amounting to EUR 83.1 (75.8) million
- The year-on-year change in revenue was 9.6% (22.3%)
- EBITDA was EUR 3.8 (4.1) million, amounting to 4.5 (5.4) per cent of revenue
- EBITA was EUR 2.3 (3.1) million, amounting to 2.8 (4.1) per cent of revenue
- Earnings per share were EUR 0.14 (0.28)
- Free cash flow from operating activities was EUR 15.2 (7.7) million
- Interest-bearing net debt was EUR 33.4 (20.9) million

January-December in brief

- Revenue grew significantly compared to the reference period, amounting to EUR 273.9 (237.6) million
- The year-on-year change in revenue was 15.3% (1.0%)
- EBITDA was EUR 13.6 (14.2) million, amounting to 5.0 (6.0) per cent of revenue
- EBITA was EUR 8.8 (10.5) million, amounting to 3.2 (4.4) per cent of revenue
- Earnings per share were EUR 0.64 (0.80)
- Free cash flow from operating activities was EUR 3.5 (4.0) million
- The Board of Directors proposes to the General Meeting on 29 March 2023 that, based on the balance sheet verified for 2022, a dividend of EUR 0.46 be issued per share for shares held outside the company at the time of dividend distribution. The dividend will be paid in two installments of EUR 0.23, the first installment in April 2023 and the second in October 2023.

Development of the operating environment

Due to the strong start of the year and the strengthening of companies' order backlogs at the end of 2021, the Finnish construction sector grew in 2022, as forecast, by two per cent, with infrastructure construction experiencing a slight decline. Starting from the second quarter, growth was slowed down by the impacts of the Russian invasion of Ukraine, the rapid high inflation and the rise of the interest rates. With the changes in the operating environment and the degraded outlook, construction is expected to decline in 2023. Construction market research company Forecon expects the construction volume to decline by approximately 5 per cent in the current year, whereas the Confederation of Finnish Construction Industries expected a 2 per cent decline in its October economic assessment.

The slowing down of housing construction, delays in infrastructure investments and the downturn in the economy of the government and municipalities will, in particular, contribute to the decline. In Finland and Sweden, construction investments have been at a higher level than the rest of Europe for a long time, and an estimated decrease of 10% in housing construction in 2023, for example, will bring this area closer to the longer-term normal level. Starting from Q2 2022, the number of building permits, quotation requests and orders has declined, which supports the assessments of construction and, in particular, housing construction, declining in volume in 2023.

Due to the changes in the operating environment that can even occur rapidly, it is challenging to make long-term forecasts concerning infrastructure construction, and the developments may vary from negative to positive between the different infrastructure segments. The decline in housing construction according to the forecasts will be particularly reflected in the foundation construction market. On the other hand, growth is expected in the repair construction sector, which is presumed

to boost the foundation and special foundation construction market. The possible start of many industrial investments planned for this year will balance out the infrastructure construction market, where a slight decline is expected. In railway construction, the number of smaller projects has grown in 2022, and the railway construction market which is suitable for Kreate is expected to remain near the reporting period level or even grow in 2023. Despite the decline in infrastructure construction forecast for 2023 by the Confederation of Finnish Construction Industries, there is a strong long-term trend of infrastructure construction in Finland experiencing stable growth and low volatility.

Favourable developments continue in the Swedish infrastructure market in spite of the reductions in total volume; in particular, the rock engineering and concrete construction market, which demands special expertise and suits Kreate, will continue to be very strong in the next few years.

In the public sector, early in the year, the government and largest cities continued to launch projects in the infrastructure construction market as in previous years, but the cuts made in the Ministry of Transport and Communications' budget affected investments in major transport projects already in 2022. Furthermore, scheduling challenges in projects led by the government have created pressure in the activity planning of construction companies. The cuts will have a limited impact on the total market, however, since government projects amount to about 20% of the entire infrastructure construction market.

Despite the weaker government economy and outlook of infrastructure construction in the short term, the National Transport System Plan is expected to continue bringing long-term developments that exceed individual governments' terms in office to the development of the transport network. However, the municipalities' growing share of construction costs remains problematic; this may mean that projects are not executed and the condition of the road and street network and railways as well as the light rail network will continue to deteriorate. An economic downturn does not support the rapid increase of construction needs or the reduction of the maintenance backlog. The construction industry remains ready to drive economic growth, but the demand for construction is also largely affected by the stakeholders' ability to renew their operations and the tolerance of the government's economy.

The industry continued to prepare major future investments, and several significant industrial investments had moved to the implementation stage during the past year, which brought the industrial investments in 2022 to a level 20 per cent higher from the year before. According to the most recent investment survey by the Confederation of Finnish Industries, industrial investments are expected to grow by 7 per cent this year, amounting to EUR 9.6 billion. The forest industry, energy industry, mining industry and various projects related to the green transition will keep the infrastructure construction volume high and bring continuity to the related market.

Any possible stimulus activities from the public sector and the transition away from fossil fuels towards renewable energy alternatives will also create markets and opportunities for infrastructure actors. The infrastructure projects subjected to cuts in the near future are likely to start in the longer term, as the maintenance backlog keeps growing. Urbanisation, the infrastructure maintenance backlog and public sector projects are expected to continue to drive growth.

In its strategy, Kreate has chosen its business functions according to areas of structural engineering and transport infrastructure construction that will grow in the long term in line with the megatrends. Specialisation in demanding and versatile infrastructure is significantly more sustainable across business cycles and downturns than focusing on basic infrastructure construction. Furthermore, Kreate's expansion into Sweden, which has an infrastructure market twice the size of Finland's, offers opportunities for growth in the technically demanding infrastructure construction projects in the Greater Stockholm area, for example.

Overall, Kreate believes that the structural engineering and transport infrastructure construction markets that are relevant for demanding infrastructure construction will decline slightly in 2023 compared to the level in 2022.

Key figures

EUR million	10-12/2022	10-12/2021	1-12/2022	1-12/2021
Order backlog			306.9	202.8
Revenue	83.1	75.8	273.9	237.6
Year-on-year change in revenue, %	9.6	22.3	15.3	1.0
EBITDA	3.8	4.1	13.6	14.2
EBITDA, %	4.5	5.4	5.0	6.0
EBITA	2.3	3.1	8.8	10.5
EBITA, %	2.8	4.1	3.2	4.4

Operating profit	2.3	3.0	8.6	10.4
Operating profit, %	2.8	4.0	3.2	4.4
Result for the period	1.3	2.4	5.6	6.9
Capital employed			75.9	62.0
Return on capital employed, %			12.5	17.8
Return on equity, %			13.8	20.4
Net investments in operating activities	-0.5	-1.5	-4.2	-4.9
Free cash flow from operating activities	15.2	7.7	3.5	4.0
Net working capital			4.7	-0.0
Net debt			33.4	20.9
Net debt/EBITDA, rolling 12 months			2.5	1.5
<i>Net debt/EBITDA, rolling 12 months pro forma**</i>			2.4	
Equity ratio, %			31.6	38.6
Earnings per share, diluted €	0.14	0.28	0.63	0.80
<i>Earnings per share, undiluted €</i>	0.14	0.28	0.64	0.80
Earnings per share adjusted with IPO expenses, €				0.90
Dividend per share, €			0.46*	0.45
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Personnel at the end of the period			447	385
Personnel on average	449	389	416	392

*) Board of Directors' proposal to the Annual General Meeting

**) The pro forma includes the EBITDA of the acquisition from January 1 to August 31, 2022

President & CEO Timo Vikström:

“The construction industry is facing the third crisis in two years. The first crisis started in spring 2020 with the COVID-19 pandemic taking its toll on the economy and the operations at construction sites through different restrictions. By reacting quickly and modifying operations, the construction industry managed to deal with the impacts of the pandemic relatively quickly, and it had reached good growth rates by the end of 2021. A new crisis emerged already in February 2022, as the Russian invasion of Ukraine caused the sudden problem concerning the availability of construction materials and the unprecedented growth and fluctuation of construction-related costs. Just as the second half of 2022 started to show signs of the price fluctuations of construction materials evening out, we faced inflation accelerated by the energy shortage and a forecasted economic downturn.

Looking back at the rapid changes in the global situation and the events in the past two years, we can say that Kreate has managed to maintain its performance and focus on strengthening the company strategically. Tendering activity clearly slowed down in late 2022. However, our order backlog for 2022 is historically high at EUR 306.9 million. We are also pleased that we have been able to win more strategically important demanding infrastructure construction contracts for our order backlog. In 2022, we reached a record-high revenue of EUR 273.9 million, slightly above our forecast, with EBITA following our forecast at EUR 8.8 million. Over the course of the year, our profitability was impacted by the cost inflation with unexpected scope and duration as well as the turmoil in the global situation. However, in line with Kreate's history, the degree of project management remained high in terms of projects' tendering and execution phases, which limited the impact that the increase in costs had on our performance.

Despite the changes in the operating environment, Kreate had a strong 2022, and we systematically furthered our strategy: We participated in several top infrastructure construction projects, grew our railway construction business in new areas, expanded our operations to Sweden where the infrastructure market is twice as large compared to Finland and strengthened our organisation with new skilled professionals. Over the course of the year, we started and finished several projects demanding special technical expertise. The most unique of these were perhaps the Lillholmen lifting bridge, which we completed on schedule, and the second phase project for improving the E18 Turku Ring Road, which we delivered six months ahead of schedule. The concurrent large-scale projects, such as Crown Bridges, the Sulkavuori central wastewater treatment plant and the construction of the Kirjalansalmi and Hessundinsalmi bridges, will bring continuity for the coming years as well.

In Q4, our order backlog was strengthened by a significant contract that we signed with Kesko concerning the earthmoving and foundation construction work for a logistics centre that will serve Onninen and K-Auto as well as by an 8-million euro tunnel contract in Western Sweden that was awarded to our Swedish subsidiary. Furthermore, at the end of the year, we signed a contract valued at 10 million euros on the construction of the Syrjäsalmi railway bridge, which is part of the Karelian track. The versatile bridge project combines our strategically important expertise as the market leader in bridge and special foundation construction with our strengthened railway project competence.

The most important things for us to remember about 2022, a year of many changes, is how we succeeded in bolstering our technical special expertise as well as our organisation and how we expanded our operations to new business functions and geographical areas. This has required everyone to work hard and give it our all. I am immensely proud of our personnel whose high professional skill and commitment to our mutual success have enabled us to perform well in the currently tighter competitive landscape and the ever changing operating environment.

We are in a good position to start another year despite the weak visibility into the infrastructure market: We have a strong order backlog, we have made strategic choices to secure future growth and our competent, professional organisation is in even better shape than before.”

Result guidance for 2023

Kreate estimates that its revenue is at the level of 2022 (2022: EUR 273.9 million) and EBITA (2022: EUR 8.8 million) will grow compared to the year 2022.

Justifications:

Kreate's high order backlog at the beginning of 2023 supports the positive development of turnover, but the general economic situation may affect the accumulation of new order backlog during the year. In addition to the order backlog, Kreate's specialisation in demanding construction and the stable infrastructure construction market will support EBITA growth in 2023.

Kreate Group's financial reporting

Kreate Group Plc will publish the financial reports for 2023 as follows:

- Interim report for January–March 2023: 28.4.2023
- Half-year report for January–June 2023: 19.7.2023
- Interim report for January–September 2023: 25.10.2023

Webcast event for analysts and media

A live webcast for analysts and media will be held today, 31 January 2023, at 11:00 a.m. The event will be held in Finnish. President & CEO Timo Vikström and Chief Financial Officer Mikko Laine will be presenting at the event. The webcast can be followed live in Finnish at <https://kreate.videosync.fi/q4-2022-results>. A recording of the webcast will be made available later at <https://kreate.fi/en/investor/releases-and-reports/> and a summary in English will become available at <https://kreate.fi/en/investor/releases-and-reports/reports/>.

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About Kreate Group Oyj

Kreate Group is one of the leading infrastructure construction companies in Finland. The company offers solutions for bridges, roads and railways, environmental and ground engineering, circular economy and geotechnical needs. As a specialist in demanding projects, Kreate focuses on comprehensive quality and cost-effectiveness. The group's revenue was approximately EUR 274 million in 2022 and the company has over 450 employees. Kreate Group is listed on Nasdaq Helsinki.

Attachments

- [Download announcement as PDF.pdf](#)
- [Kreate Group Plc Financial Statement Bulletin 2022.pdf](#)