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Kreate's Interim Report: in July-September, revenue increased by 20% and cash flow was strong

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Kreate Group Plc, interim report for January - September 2023, 25 Oct 2023 at 8:30 am

This release is a summary of Kreate Group's Interim Report January-September 2023. The complete Interim Report is attached, and also available on the company's website at <https://kreate.fi/en/investor/releases-and-reports/reports/>.

Kreate's Interim Report: in July-September, revenue increased by 20% and cash flow was strong

July - September in brief

- Order backlog amounted to EUR 221.8 (284.2) million, a decrease of 22.0%
- Revenue grew compared to the reference period, amounting to EUR 88.3 (73.3) million
- The year-on-year change in revenue was 20.4% (3.9%)
- EBITDA was EUR 4.0 (4.2) million, amounting to 4.6% (5.7%) per cent of revenue
- EBITA was EUR 2.9 (3.0) million, amounting to 3.3 (4.1) per cent of revenue
- Earnings per share were EUR 0.16 (0.23)
- Free cash flow from operating activities was EUR 8.0 (-10.1) million
- Interest-bearing net debt was EUR 32.9 (46.8) million
- Guidance unchanged: Kreate estimates that its revenue (2022: EUR 273.9 million) will be EUR 300–325 million. EBITA (2022: EUR 8.8 million) is estimated to be at the level of EUR 7.0–8.5 million.

January - September in brief

- Revenue grew compared to the reference period, amounting to EUR 239.8 (190.8) million
- The year-on-year change in revenue was 25.7% (17.9%)
- EBITDA was EUR 9.1 (9.8) million, amounting to 3.8 (5.2) per cent of revenue
- EBITA was EUR 5.1 (6.5) million, amounting to 2.1 (3.4) per cent of revenue
- Earnings per share were EUR 0.26 (0.49)
- Free cash flow from operating activities was EUR 6.4 (-11.7) million

Development of the operating environment

The construction market in Finland has weakened significantly during 2023, and the decline has been particularly steep in the summer and autumn. The Confederation of Finnish Construction Industries believes that the reason for this is the high cost level and the fast rise in interest rates, as a result of which the financing for consumers and companies has been severely tightened and confidence is weak. The Confederation estimated at the end of September that the volume of construction in Finland will decrease by 10 per cent this year.

However, there is variation within the construction market. The volume of housing construction, which is a strongly cyclical segment, is estimated to fall by 38 per cent in the current year, while the decline is estimated at 2 per cent in other building construction and 4 per cent in repair construction. Kreate operates in the infrastructure construction market which is more stable than building construction market. The volume of infrastructure construction market is estimated to decrease by 5 per cent this year and an annual change for next year is estimated to be around zero. In addition, the delay in the start-up of infrastructure construction projects is significantly shorter than in building construction, which means that projects can be launched quickly if necessary.

The total construction market in Finland amounted to approximately EUR 42 billion in 2022, of which the share of infrastructure is more than EUR 9 billion when interpreted broadly. In addition to civil engineering, the broad interpretation includes, for example, outdoor area maintenance and foundation work in building construction. Kreate estimates that the market which suits it in Finland amounts to approximately EUR 5 billion.

Housing construction is cyclical and its short-term outlook is weak. The Confederation of Finnish Construction Industries estimates that there will be a total of 16,000 new housing projects started in 2023, which is around a third of the peak in 2021, when 47,200 new housing projects were started. New housing construction is estimated to also remain at a low level in 2024. The decline in housing construction has brought operators and competition to infrastructure construction, however, to the less demanding basic infrastructure construction.

Kreate specialises in demanding infrastructure construction, which continues to offer a stable and safe business environment despite the turbulence of the construction market. Kreate's dependence on cyclical housing construction is low. Kreate's revenue linked to building construction consists mainly of other building construction, such as foundation work for public construction, trade, logistics or industrial buildings. Counter to the cycle, these projects are being executed as normal in the construction industry at the moment – the more demanding the infrastructure construction project is, the less sensitive the investment decision is to the transient level of inflation and interest rates.

The bleak development of the operating environment has led to several bankruptcies of operators in the construction industry this year. Kreate estimates that the bankruptcies do not pose a significant financial risk to the company. More than half of the company's revenue comes from projects commissioned by the state and municipalities, and private sector customers are very solvent, large companies operating in sectors such as trade, logistics and industry. In terms of bankruptcies within the subcontracting chain, Kreate's financial risks are quite limited, and preparations have also been made for risks when drafting contract terms.

Despite the downcast state of the construction market, the long-term outlook for infrastructure construction is bright and large-scale projects can be expected, for example, with regard to the government's transport investment programme and the green transition. Finland's NATO membership and the prevailing geopolitical situation also increase the need for and importance of railway, road and port infrastructure towards the north and the western border as well as airport infrastructure, for example, from the point of view of Finland's security of supply and accessibility. Finland is able to make use of the CEF project funding for military mobility in its projects. Although the long-term outlook is strongly positive, it is difficult to estimate the size and timing of the projects.

With regard to Kreate's Swedish business, the development of the operating environment has been favourable. Although construction is experiencing a strong downward trend in Sweden, the market for rock engineering and concrete construction, which is essential for Kreate, is also expected to develop strongly in the Greater Stockholm area in the coming years.

Key figures

EUR million	7-9/2023	7-9/2022	1-9/2023	1-9/2022	1-12/2022
Order backlog			221.8	284.2	306.9
Revenue	88.3	73.3	239.8	190.8	273.9
Year-on-year change in revenue, %	20.4	3.9	25.7	17.9	15.3
EBITDA	4.0	4.2	9.1	9.8	13.6
EBITDA, %	4.6	5.7	3.8	5.2	5.0
EBITA	2.9	3.0	5.1	6.5	8.8
EBITA, %	3.3	4.1	2.1	3.4	3.2
Operating profit	2.8	2.9	4.9	6.3	8.6
Operating profit, %	3.2	4.0	2.1	3.3	3.2
Result for the period	1.4	2.1	2.3	4.4	5.6
Capital employed			76.3	88.0	75.9
Return on capital employed, %			8.8	12.1	12.5

Return on equity, %			8.4	17.0	13.8
Net investments in operating activities	-0.9	-0.8	-5.2	-3.7	-4.2
Free cash flow from operating activities	8.0	-10.1	6.4	-11.7	3.5
Net working capital			2.8	17.0	4.7
Net debt			32.9	46.8	33.4
Net debt/EBITDA, rolling 12 months			2.6	3.4	2.5
Net debt/EBITDA, rolling 12 months pro forma*				3,1*	2,4**
Equity ratio, %			30.0	29.7	31.6
Earnings per share, diluted, €	0.16	0.23	0.26	0.49	0.63
Earnings per share, undiluted, €	0.16	0.23	0.26	0.49	0.64
Personnel at the end of the period			494	450	447
Personnel on average	499	428	449	403	416

*) The pro forma for the reporting period includes the EBITDA of the acquisition from 1 October 2021 to 31 August 2022

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

President & CEO Timo Vikström:

“We have performed well in what has been a generally difficult market situation in the construction industry. Although the infrastructure market has declined in 2023, we managed to make EUR 88.3 million in revenue in the third quarter, which is 20% more than in the reference period. This success has been supported by well-run large projects that have progressed with planned pace.

Tendering has picked up after the summer holiday season. In August, we published the contracts that we had won in Nihti, Helsinki as well as in Kaarina valued at nearly EUR 18 million. In Nihti, we are preparing the old port authority area for residential use, and in Kaarina, we are building a new Kuusistonsalmi bridge to replace the old one. The high level of costs and interest rates can be clearly seen in the tendering, however, in that there are more smaller projects which add up instead of large projects. The clients’ need for large projects has not gone anywhere, but the timing of the projects may be moved. We are pleased that the first part of the Espoo City Rail Link has finally progressed to the tendering phase and that the Government Programme includes several infrastructure projects that are expected to start as soon as possible. Kreate’s order backlog is still high at EUR 221.8 million, but lower than in the reference period (EUR 284.2 million).

All in all, we have succeeded in implementing the strategy quite well. Our revenue has grown at a rapid pace and last year we got a foothold in Sweden’s attractive market. During the period of strong growth, we have also been able to keep our financial position stable despite the challenging market. In terms of profitability, the EBITA target has not been reached, but going forward, we will be better prepared against cost inflation.

At Kreate, we focus on taking care of our own business as well as possible and we do what we promise. On worksites, we handle things with a high level of technical skill and strong competence, and in Group, we concentrate on the efficient management of working capital and cash, for example. Our cash flow in the third quarter is very strong, which shows that our actions are working. Projects not bound to an index from previous years will come to an end during the last quarter of the year, and the predictability of construction costs is at a good level with our current practices and in the current market situation.

At the beginning of July, we revised our revenue guidance upwards and our EBITA guidance downwards for the full year. This guidance is still in force. Despite the bleak operating environment, we see light at the end of the tunnel. Several megatrends – from the green transition to urbanisation – support infrastructure construction, and we see that there is work for competent and strong operators in both the Finnish and the Swedish infrastructure markets. In the short term, visibility

and the planning of operations are weakened by the fact that public clients in particular have postponed the start of large projects. However, the investment programmes of the big cities located in growth centres show no signs of slowing down, and they are for their part carrying the infrastructure sector during the general downturn in construction.

The plans of the government, municipalities and, for example, the green transition have a lot of positives for the infrastructure sector, but it remains to be seen at what point the projects will move to the tendering and construction phases. There is light at the end of the tunnel in the industry, but it is still unclear how long the tunnel will be.”

Result guidance for 2023 unchanged (published on 6 July 2023)

Kreate estimates that its revenue (2022: EUR 273.9 million) will be EUR 300–325 million. EBITA (2022: EUR 8.8 million) is estimated to be at the level of EUR 7.0–8.5 million.

Justifications: The strong order backlog and systematic execution of projects, in some cases even faster than predicted, have increased Kreate’s revenue in the first half of the year. The same trend is expected to continue in the second half of the year as well, with which revenue is estimated to grow to a higher level than previously estimated.

At the same time, the persistently high level of inflation during the first part of the year, wage development in the industry as well as changes in the total construction market have affected profitability. Moreover, in contrast to the previous estimate, projects not bound to an index from previous years resulted in negative margin effects, weakening profitability in 2023. In railway construction, the postponement of projects estimated to start early in the year has strained the market and that has had a weakening effect on the estimated volume and profitability of this business.

Kreate Group’s financial reporting

The planned publication date for Kreate Group Plc’s financial statements bulletin in 2024

- Financial statement bulletin for 2023: 31 January 2024

Webcast event for analysts and media

A live webcast for analysts and media will be held today, 25 October 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/2023-q3-tulosjulkistus>. A recording of the webcast will be made available later at <https://kreate.fi/en/investor/releases-and-reports/reports/> and a summary in English will become available at <https://kreate.fi/en/investor/releases-and-reports/reports/>.

Kreate Group Plc
Board of Directors

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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](#)
- [Interim report Q3 2023.pdf](#)