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Kreate's Half-year report January-June 2021: the recovered market strengthened the order backlog higher than the reference period

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Kreate Group Plc Half-year report January-June 2021 28 July 2021 08:30 a.m. EEST

This release is a summary of Kreate Group's Half-year report January-June 2021. 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 Half-year report January-June 2021: the recovered market strengthened the order backlog higher than the reference period

April-June in brief

- Order backlog amounted to EUR 157.5 (144.4) million
- Revenue decreased to EUR 52.9 (58.0) million
- EBITDA was EUR 3.4 (3.9) million, amounting to 6.3 (6.7) per cent of revenue
- EBITA was EUR 2.5 (3.0) million, amounting to 4.7 (5.1) per cent of revenue
- Earnings per share were EUR 0.20 (0.28)
- Free cash flow from operating activities was EUR -3.7 (2.5) million
- Interest-bearing net debt was EUR 27.4 (18.4) million

January-June in brief

- Kreate Group Plc's shares were listed on Nasdaq Helsinki, and the company received more than 18,600 new shareholders. Trading in Kreate's shares started on the pre-list of Nasdaq Helsinki Ltd on 19 February 2021 and on the stock exchange list on 23 February 2021.
- Revenue decreased to EUR 91.2 (108.0) million.
- EBITDA was EUR 5.1 (6.0) million, amounting to 5.5 (5.6) per cent of revenue.
- EBITA was EUR 3.4 (4.3) million, amounting to 3.7 (3.9) per cent of revenue.
- The company's IPO expenses were EUR 2.3 million. Of this sum, EUR 0.9 million encumber the result before tax for the reporting period.
- Earnings per share adjusted with IPO expenses were EUR 0.28
- Earnings per share were EUR 0.17 (0.40)
- Free cash flow from operating activities was EUR -3.6 (0.3) million

Operating environment in 2021

In March 2021, the Confederation of Finnish Construction Industries estimated that the entire construction cluster will decrease by 2 per cent during the present year. Concurrently, there is clear upward pressure on construction costs due to the high increase in the market prices for essential construction materials, including lumber, oil products and steel. The delivery times for materials are also longer due to the limited production capacity.

Historically, the Finnish infrastructure construction market has grown steadily. In 2020, the total size of the market was approximately EUR 7 billion, and it is estimated to decrease by 1.5 per cent in 2021. Between the different infrastructure construction segments the development varies from normal to positive, and the housing construction volume remains at a high level, which particularly boosts the foundation construction market. The bridge construction market continues to strengthen, and the number of smaller projects continues to grow in the railway construction segment. Despite the short-term outlook and impacts of COVID-19, there is a very strong long-term trend of infrastructure construction experiencing strong growth and low volatility.

In 2020, the COVID-19 pandemic postponed the start of certain infrastructure construction projects, which also affected the development of Kreate's 2021 order backlog. The normalisation of request for quotation volumes and customer activity in Q4 2020 is particularly seen in the growth of the number of quotation requests in bridge construction, which is part of structural engineering. Q2 2021 also saw a recovery in the railway construction and transport infrastructure construction segments. The large, future railway investments that have received lots of publicity will not yet be reflected on the construction volume, but smaller railway construction projects are expected in the market. Investments planned in the private sector, including the repurposing of old buildings and making investments in business premises, are slowly showing signs of progress. On the other hand, the continued rise of material costs and a shortage of materials and labour may limit

housing production in the near future. However, in the short term, particularly urbanisation, the infrastructure maintenance backlog and public sector projects are expected to drive growth and further strengthen Kreate's position in executing demanding projects.

The National Transport System Plan is expected to bring long-term developments exceeding individual governments' terms in office to the development of the transport network, which will also have positive impacts on the infrastructure construction market. The Plan involves a 12-year action programme, which includes actions by the government and municipalities and a government funding programme for the transport system. However, one problem with the plan is the municipalities' growing share of construction costs, which may mean, at worst, that projects are not executed and the condition of the road and street network and railways deteriorates, for example. Furthermore, the budget cuts affecting the development of the transport system and basic transport infrastructure maintenance proposed during the government's mid-term policy review would reduce the funding for 2023 and 2024.

The supplementary budget published by the government in June 2020 included more than EUR 400 million allocated for transport network development projects as well as investments in public transport development, infrastructure and repair construction.

Despite the slight reduction in the overall market forecasted for 2021, Kreate believes that the applicable structural engineering and transport infrastructure markets will at least remain on the 2020 level.

Result guidance for 2021 (remains unchanged)

Kreate estimates that the company revenue (2020: EUR 235.3 million) will decrease in 2021 compared to 2020.

On 31 Dec 2020, Kreate's order backlog amounted to EUR 134.9 million (31 Dec 2019: EUR 177.2 million). Of this sum, approximately EUR 111 million are expected to be realised during 2021 (31 Dec 2019: EUR 130.3 million during 2020). In the past three years, Kreate has generated, on average, a revenue of EUR 107 million during the financial year in addition to the order backlog at the beginning of the financial year. Kreate estimates that, on 31 Dec 2020, the order backlog profitability was at a normal level.

President & CEO Timo Vikström:

"The market picked up in Q2, which raised our order backlog higher than the reference period to EUR 157.5 million. In addition, we won several important projects during the review period, which will be reflected on our order backlog only after the signing of the contracts in the coming quarters. Our revenue decreased, as expected, and our relative profitability remained close to the reference period, and it was still above the average of the infrastructure construction industry, which is seasonal in nature. Overall, in H1, we proceeded according to plans, focusing on our strategic growth areas of railway, bridge and special foundation construction.

In Q2, we announced the "Crown Bridges" project, the largest in Kreate's history, which we won in a joint venture with YIT. Kreate's share, half of the EUR 123 million project, will be recognised in our order backlog later in autumn after the contract is signed. Strategically, executing the technically demanding project of building the longest bridge in Finland involves our solid core competence, and the project strengthens our company as a specialist delivering demanding projects. Other projects that build our special expertise include the "Veturitie ja Ratapihakorttelit" contract in Pasila and the foundation and earthworks contracts related to the Kemi bioproduct mill investment. Our strategic goal is to focus especially on such complex projects that require special expertise, as we have the strong competence and ambition to execute them.

In addition to the Crown Bridges project, I would like to highlight two other significant projects in whose tendering we have succeeded after the review period, but they are not yet recorded in the order backlog. We won a contract of approximately EUR 72 million for construction engineering work related to the new Sulkavuori central wastewater treatment plant project in Tampere in a joint venture with Aki Hyrkkönen Oy. The development stage agreement will be signed during Q3 and the execution stage agreement during Q4. Furthermore, we are modernising National Road 19 between Seinäjoki and Lapua as an ECI project in a joint venture with the local company Maansiirto Veljekset Rinta Oy. The value of the contract is approximately EUR 20 million, and it will be recorded in the Q3 order backlog.

In the coming years, the Crown Bridges, Sulkavuori treatment plant and National Road 19 projects will have an impact of approximately EUR 110 million on the company revenue. These projects, executed in joint ventures, also demonstrate well that Kreate is a favoured project partner.

This year, we have further strengthened our market-leading position in railway bridge construction projects. We have already signed contracts for six bridges, which are built by using the skidding method. We completed the first demanding construction and relocation operation under a very tight schedule already in June. Our skilful tender calculation, own equipment and experienced employees have helped us win contracts and complete them on time. In order to strengthen our organisation even further, we continued hiring new experts. This will also benefit us in the coming years as expertise in railway and track construction and structural engineering becomes more significant in projects.

In the review period, we also conducted a personnel survey that describes the status quo and provides guidelines for further improving our personnel well-being and group operations. Investing in our employees is a priority for us because a good employee experience impacts both the effectiveness of our operations and the customer experience. Accordingly, the personnel survey results highlighted our employees' commitment and high standards of quality. Kreate Group's Net

Promoter Score (NPS), which indicates how likely our employees would recommend our products and services, had once again increased from an already excellent level to 68. Moreover, our employees find it positive that we focus on what matters: completing projects efficiently, with high quality and minimal bureaucracy. Our success factors include a strong project focus and project management.

The positive developments in the market together with Kreate's strong competitiveness, particularly in demanding construction, lay a solid foundation for our strategic growth and success. We are facing the future with confidence, as the infrastructure market is developing at a stable pace, we have retained our accounts and have a clearer visibility into the market."

Key figures

EUR million	4-6/2021	4-6/2020	1-6/2021	1-6/2020	1-12/2020
Order backlog			157.5	144.4	134.9
Revenue	52.9	58.0	91.2	108.0	235.3
Year-on-year change in revenue, %	-8.8	12.3	-15.5	34.1	6.4
EBITDA	3.4	3.9	5.1	6.0	14.0
EBITDA, %	6.3	6.7	5.5	5.6	6.0
EBITA	2.5	3.0	3.4	4.3	10.5
EBITA, %	4.7	5.1	3.7	3.9	4.5
Operating profit	2.4	2.9	3.3	4.2	10.4
Operating profit, %	4.6	5.0	3.6	3.9	4.4
Result for the period	1.8	2.1	1.4	2.9	7.8
Capital employed			63.0	57.7	54.5
Return on capital employed, %			15.7	21.6	19.2
Return on equity, %			16.6	29.0	24.7
Net investments in operating activities	-2.1	-1.0	-2.8	-2.1	-4.6
Free cash flow from operating activities	-3.7	2.5	-3.6	0.3	9.7
Net working capital			-0.3	-1.0	-5.4
Net debt			27.4	18.4	27.9
Net debt/EBITDA			2.1	1.1	2.0
Equity ratio, %			33.4	35.8	26.3
Earnings per share, €	0.20	0.28	0.17	0.40	0.88
Earnings per share adjusted with IPO expenses, €			0.28		
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Personnel at the end of the period			412	441	383
Personnel on average	396	427	390	413	407

Kreate Group's financial reporting in 2021

The planned publication dates for Kreate Group Plc's financial reports in 2021 are as follows:

- Interim report for January–September 2021: 27 October 2021

Webcast event for analysts and media

A live webcast for analysts and media will be held today, 28 July 2021, at 11:00 a.m. The event will be in Finnish. President & CEO Timo Vikström and Chief Financial Officer Antti Heinola will host the event.

The webcast can be followed live in Finnish at kreate.videosync.fi/2021-q2-tulos. A recording of the webcast will be made available later at kreate.fi/sijoittajille/tiedotteet-ja-raportit/raportit-ja-esitykset/ and a summary in English will become available at 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 235 million in 2020 and the company has over 400 employees. Kreate Group is listed on Nasdaq Helsinki.

Attachments

- [Download announcement as PDF.pdf](#)
- [Kreate Group Half-year report 1-6-2021.pdf](#)