

# KREATE

## Kreate's Interim Report: Strong growth in the order backlog - Q3 revenue and operating profit grew higher than the reference period

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Kreate Group Plc      Interim Report January-September 2021      27 October 2021 08:30 a.m. EEST

This release is a summary of Kreate Group's Interim Report January-September 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 Interim Report: Strong growth in the order backlog - Q3 revenue and operating profit grew higher than the reference period

### July-September in brief

- Order backlog amounted to EUR 202.8 (149.0) million
- Revenue grew compared to the reference period, amounting to EUR 70.6 (65.4) million
- EBITDA was EUR 5.1 (4.9) million, amounting to 7.2 (7.5) per cent of revenue
- EBITA was EUR 4.1 (4.0) million, amounting to 5.8 (6.1) per cent of revenue
- Earnings per share were EUR 0.34 (0.41)
- Free cash flow from operating activities was EUR -0.2 (2.2) million
- Interest-bearing net debt was EUR 28.1 (16.5) million

### January-September in brief

- Kreate Group Plc's shares were listed on Nasdaq Helsinki, and the company gained 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 161.8 (173.3) million
- EBITDA was EUR 10.1 (10.9) million, amounting to 6.3 (6.3) per cent of revenue
- EBITA was EUR 7.5 (8.2) million, amounting to 4.6 (4.7) 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 0.63
- Earnings per share were EUR 0.52 (0.81)
- Free cash flow from operating activities was EUR -3.8 (2.4) million

## Operating environment in 2021

The construction sector has grown more than expected in 2021. In its March 2021 economic assessment, the Confederation of Finnish Construction Industries still anticipated a two per cent decrease in construction. However, along with economic growth, the construction sector has also started to grow. In its October assessment, the Confederation of Finnish Construction Industries estimated that the entire construction sector would grow more than one per cent this year. Overall, growth remains moderate due to the weak beginning of the year.

The growth in infrastructure construction has also been better than expected in 2021, and railway and road projects have contributed to the growth as well as municipal investments. The economic assessment states that industrial and public sector investments will continue at a high pace, but foundation work for housing construction will decrease in the long term. 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.

Factors threatening the positive development in construction include the high increase of the costs for essential construction materials, including lumber, oil products and steel. The delivery times for materials are also longer due to the limited production capacity. The continued rise of material costs and a shortage of materials and labour may limit housing production, in particular.

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 grow by one per cent in 2021. Between the different infrastructure construction segments the development varies from normal to positive. Particularly housing construction, which has reached record levels due to the low supply of new apartments, and the construction of business premises starting to grow

late in the year boost the foundation construction market. Repair construction and the repurposing of old buildings have finally started to grow, which should be reflected in the special foundation construction market in the infrastructure segment. Furthermore, industrial investments important to infrastructure construction are estimated to grow. The bridge construction market continues to strengthen. In the railway construction segment, the number of smaller projects continues to grow, even though large rail investments cannot yet be seen in the railway construction volume. Overall, there is a very strong long-term trend of infrastructure construction experiencing stable growth and low volatility.

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 planned by the government would reduce the funding for 2023 and 2024. The current forecasts indicate that the company could get on the growth track after this.

All in all, Kreate believes that, in 2021, the applicable structural engineering and transport infrastructure markets will at least remain on the 2020 level or grow.

## **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:**

"In Q3, we continued our very strong performance as the improvements in the market situation gave us a further boost. In tender calculation, we systematically placed increasing focus on infrastructure projects that suit our strategy. We exhibited the best competitiveness performance in company history – competent tender calculation and successful collaboration contracts brought our order backlog EUR 54 million higher than the reference period.

As expected, our January–September revenue was lower compared to the reference period. However, in July–September, revenue reached EUR 70.6 million, whereas the year before, revenue for the same period had been EUR 65.4 million. The COVID-19 pandemic has had a limited impact on Kreate's business, and the anticipated turn in the market and our operations has now been realised in accordance with our earlier communication.

Similarly, the increase of construction costs has only had a very limited impact on Kreate's operations. Some of our projects are bound on the customers' part to an index that evens out risks and cost changes. In addition, in the past few years, we have established processes for considering cost changes in tender calculation as well as during project execution. With the combination of these measures, we have been able to encapsulate the witnessed increase in costs so that their impact has remained minimal.

After a long wait, the recovery of the market has also accelerated the starting of property investments, which has reflected positively on Kreate's foundation and concrete construction business, which is part of Structural engineering. At the end of Q3 we won several foundation and concrete construction contracts that require strong technical expertise, and we will start their construction by the end of this year.

One of the most significant wins in bridge construction, which is also part of Structural engineering, was the contract for renewing the Kirjalansalmi and Hessundinsalmi bridges. A development stage agreement has been signed for the project. The project execution is based on the alliance model, and the negotiations required strong commitment from the contractor and demonstration of competence already at the tendering stage. The agreement is proof that Kreate's technical expertise and capabilities for collaboration are valued. During the approximately one-year development stage, the project's technical scope, quality level and target costs will be defined. After the project plan is finished, the client will make an investment decision on the implementation. Then, the project is added to Kreate's order backlog. The tentative cost estimate for the project is more than EUR 100 million.

Our collaboration projects that are in the development stage are the transport infrastructure project National Road 19 between Seinäjoki and Lapua and the Sulkavuori central wastewater treatment plant, where we are responsible for the technical construction of bedrock facilities and overground premises. It is estimated that both of the projects will transition to execution at the turn of the year, and their combined impact on Kreate's revenue is nearly EUR 50 million. Our third collaboration project, the Crown Bridges, has advanced to the execution stage and been recorded in our Q3 order backlog.

In railway construction, we continued our determined efforts to strengthen our organisation in order to be able to deliver even large rail projects. However, large railway investments did not progress during this reporting period, but smaller rail

projects were executed as planned.

In the reporting period, we significantly strengthened our competence in special foundation construction as our joint venture KFS Finland Oy acquired NordPile Oy. The companies' specialisations complement each other and make KFS Finland the leading provider of geotechnical solutions in Finland. This supports Kreate's strategic growth and success, as dense urban construction increases the need for strong expertise in special foundation construction.

Overall, we have made good progress with the strategy and objectives that we presented in connection with the company's IPO. We have focused more strongly on demanding infrastructure construction projects while reinforcing our broad and specialised offering. Our grown order backlog and project profitability demonstrate our staff's ability to calculate competitive tenders and execute projects with cost-efficiency and quality. We are well on our way to grow our revenue to EUR 300 million by 2024.

As our order backlog grows, we will continue strengthening our team by recruiting new professionals and maintaining closer collaboration with our customers and partners. We still see many opportunities for growth and expansion in various areas of the market and are making an effort to pursue them."

## Key figures

EUR million	7-9/2021	7-9/2020	1-9/2021	1-9/2020	1-12/2020
Order backlog			202.8	149.0	134.9
Revenue	70.6	65.4	161.8	173.3	235.3
Year-on-year change in revenue, %	8.0	-4.5	-6.6	16.3	6.4
EBITDA	5.1	4.9	10.1	10.9	14.0
EBITDA, %	7.2	7.5	6.3	6.3	6.0
EBITA	4.1	4.0	7.5	8.2	10.5
EBITA, %	5.8	6.1	4.6	4.7	4.5
Operating profit	4.1	3.9	7.3	8.1	10.4
Operating profit, %	5.8	6.0	4.5	4.7	4.4
Result for the period	3.1	3.0	4.5	5.9	7.8
Capital employed			66.7	58.8	54.5
Return on capital employed, %			15.3	21.1	19.2
Return on equity, %			15.6	25.3	24.7
Net investments in operating activities	-0.6	-0.8	-3.5	-2.9	-4.6
Free cash flow from operating activities	-0.2	2.2	-3.8	2.4	9.7
Net working capital			3.8	1.0	-5.4
Net debt			28.1	16.5	27.9
Net debt/EBITDA, rolling 12 months			2.1	1.0	2.0
Equity ratio, %			32.3	38.7	26.3
Earnings per share, €	0.34	0.41	0.52	0.81	0.88
Earnings per share adjusted with IPO expenses, €			0.63		
Personnel at the end of the period			392	404	383

Personnel on average	398	414	392	413	407
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## Kreate Group's financial reporting

The planned publication date for Kreate Group Plc's financial statements bulletin in 2022

- Financial statement bulletin for 2021: 26 January 2022

## Webcast event for analysts and media

A live webcast for analysts and media will be held today, 27 October 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 <https://kreate.videosync.fi/2021-q3-tulos>. A recording of the webcast will be made available later at <https://kreate.fi/sijoittajille/tiedotteet-ja-raportit/raportit-ja-esitykset/> and a summary in English will become available at <https://kreate.fi/en/investor/releases-and-reports/reports/>.

Kreate Group Plc  
Kirsi-Marjut Dickman  
Communications Manager

Distribution: Nasdaq Helsinki, media ja [kreate.fi/en](https://kreate.fi/en)

## Contacts

- Antti Heinola, CFO, Kreate Group Oyj, +358 40 352 1033, [antti.heinola@kreate.fi](mailto:antti.heinola@kreate.fi)
- Timo Vikström, President & CEO, Kreate Group Oyj, +358 400 740 057, [timo.vikstrom@kreate.fi](mailto:timo.vikstrom@kreate.fi)

## 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 Interim Report Q3 2021.pdf](#)