

KREATE

Kreate's Interim Report January-March 2022: revenue increased and order backlog at a high level

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Kreate Group Plc Interim Report January-March 2022 27 April 2022 08:30 a.m. EEST

This release is a summary of Kreate Group's Interim Report January-March 2022. 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 January-March 2022: revenue increased and order backlog at a high level

January-March in brief

- Order backlog amounted to EUR 208.8 (158.3) million
- Revenue grew compared to the reference period, amounting to EUR 50.4 (38.3) million
- EBITDA was EUR 2.1 (1.7) million, amounting to 4.2 (4.4) per cent of revenue
- EBITA was EUR 1.1 (0.9) million, amounting to 2.2 (2.3) per cent of revenue
- Earnings per share were EUR 0.07 (-0.04)
- Free cash flow from operating activities was EUR -1.2 (0.1) million
- Interest-bearing net debt was EUR 23.1 (18.8) million
- Outlook unchanged: net sales and EBITA will increase compared to 2021

Operating environment in 2022

The war, which was started by Russia in Ukraine in February, also affected the operating environment of the construction industry. At the end of 2021, the Confederation of Finnish Construction Industries estimated that the construction industry would grow by a total of 2.5% in 2022. However, the war has made it more difficult to predict the economic fluctuations in the operating environment as well as within construction, and some estimates indicate that the growth of construction could even dwindle to near-zero figures.

According to the confidence indicator for March published by the Confederation of Finnish Industries, confidence is down in all main fields of business, including among construction companies. For the past seven years, the general sentiment in the construction industry has been mostly positive, but the sanctions on Russia mean that the industry will be impacted by the availability of materials and cost increases within energy, fuel and raw materials, among others.

Several construction projects were started in late 2021, which has resulted in a good order backlog for 2022 for companies within the industry. The existing order backlog will keep the construction industry at a good level for the first part of the year, but the Confederation of Finnish Construction Industries estimates that cumulative cost development may slow down the starting of new projects. In particular, the uncertainty will reflect on industrial investments in the private sector and investments in housing construction. As the situation drags on, it can be expected that investments will be postponed in a similar manner to the start of the COVID-19 pandemic in 2020.

In late 2021, the Confederation of Finnish Construction Industries estimated that infrastructure construction will decrease in 2022 by one per cent due to municipalities' weaker investment capacity and the concurrent completion of large projects. The effects of the sanctions on Russia and the war dragging on will also affect the infrastructure construction market. In April, RPT Byggfakta estimated that 17% fewer construction projects will be started during the second quarter of 2022 compared to the corresponding period of the previous year. It estimated that the value of repair construction will fall by 28% and the value of new construction by 13% compared to the corresponding time of the previous year.

During the early part of the year, the government and largest cities have launched projects as in previous years, but the cuts made in the Ministry of Transport and Communications' budget in April are estimated to affect investments in major transport projects already during the current year. Furthermore, the tendering and starting schedules for projects will face challenges due to the resource shortages seen on the design side; this will limit the operation of public clients and be visible to contractors in concrete terms as tighter schedules.

However, the National Transport System Plan is still expected to bring long-term developments exceeding individual governments' terms in office to the development of the transport network. 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, the municipalities' growing share of construction costs remains problematic; this may mean, at worst,

that projects are not executed and the condition of the road and street network and railways will continue to deteriorate. Furthermore, the planned 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 as well. Based on current information, a turn towards growth would be seen in 2025.

Any possible stimulus activities from the public sector and the transition away from Russian energy and raw materials 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. Despite the reduced visibility, Kreate estimates that the overall market for suitable structural construction and transport infrastructure construction in 2022 will remain around the level of the previous year.

Key figures

EUR million	1-3/2022	1-3/2021	1-12/2021
Order backlog	208.8	158.3	202.8
Revenue	50.4	38.3	237.6
Year-on-year change in revenue, %	31.6	-23.3	1.0
EBITDA	2.1	1.7	14.2
EBITDA, %	4.2	4.4	6.0
EBITA	1.1	0.9	10.5
EBITA, %	2.2	2.3	4.4
Operating profit	1.0	0.8	10.4
Operating profit, %	2.1	2.2	4.4
Result for the period	0.6	-0.3	6.9
Capital employed	64.9	56.3	62.0
Return on capital employed, %	17.4	17.4	17.8
Return on equity, %	19.9	17.6	20.4
Net investments in operating activities	-1.8	-0.8	-4.9
Free cash flow from operating activities	-1.2	0.1	4.0
Net working capital	0.5	-4.6	-0.0
Net debt	23.1	18.8	20.9
Net debt/EBITDA, rolling 12 months	1.6	1.4	1.5
Equity ratio, %	38.2	38.2	38.6
Earnings per share, €	0.07	-0.04	0.80
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Personnel at the end of the period	379	385	385
Personnel on average	378	382	392

President & CEO Timo Vikström:

“The strong order backlog brought Kreate’s revenue and operating profit above the reference period, as was to be expected. Revenue for the first quarter of 2022 was EUR 50.4 (38.3) million and operating profit was EUR 1.0 (0.8) million. Strengthened by projects that we were able to win during the early part of the year, our order backlog reached its highest

level to date at EUR 208.8 (158.3) million. Purchases made in order to ensure the availability of construction materials and the progress of projects had a front-end-weighted impact, negatively affecting cash flow for the early part of the year.

During the reporting period, we were able to win contracts and start several projects in structural construction and transport infrastructure construction. Main road 19 between Seinäjoki and Lapua, executed as a joint project venture, moved to the execution stage in mid-February, and the development stage for the Kirkkonummi overpass contract, worth in excess of EUR 10 million, started in March. There are also three railway bridges during 2022 that will be executed with the skidding method. The massive Kupittaa-Turku rail project, of which our railway construction unit won the first contract worth more than five million euros, started in late March. At the end of March, we also completed the connecting tunnel between terminals T1 and T2 at Helsinki Airport, which was executed in a very challenging environment; by leveraging innovative solutions in construction, we were able to catch up in terms of both schedule and budget.

However, the year that got off to an excellent start took an unfortunate turn in late February as Russia invaded Ukraine. This resulted in financial sanctions that very soon could be felt in the construction industry as well, in terms of cost increases and challenges related to the availability of materials. At the end of the first quarter, the war started to become visible in the private side investments, as the confidence and cost situation resulted in increased uncertainty in starting projects. In terms of private investments, the situation seems to have returned to a similar state as in the early days of the COVID-19 pandemic, when investments were not started as expected. Indecisiveness and the possible continued postponement of projects will have impacts on the foundation construction market in particular.

The construction industry cost increases that started in 2021 were further reinforced in February of this year. Since the start of the war in Ukraine, the increase in cost levels has been unprecedented and our visibility into its development has been very poor. At the same time, we have started to see problems with the availability of certain key raw materials, in particular. Kreate has continued its tendering and the execution of projects, taking the impacts of these into account in its pricing to the best of its ability. Kreate's order backlog is at a high level and it has a flexible cost structure. This is why no unnecessary or uncontrollable risks will be taken when acquiring projects, and the cost level increases will be transferred to the costs of execution whenever possible. This may affect order backlog accumulation later in 2022, if Russia's war in Ukraine and the uncertainties concerning cost level development and material availability continue.

In terms of the fluency of operations, however, Kreate is in a good position because its personnel and subcontractors are mainly Finnish and we have very few employees from Eastern Europe or Russia. Furthermore, Kreate has no projects or investments in Russia, and we have not identified any of our clients on the lists of sanctioned parties. Furthermore, we have protections within our processes which we have implemented even before the war started. Various types of index conditions, advance purchases and price negotiations with customers and subcontractors are the means that we are employing in order to find sustainable solutions in this difficult situation.

Every coin has its flipside, and the transition to alternative energy sources and reducing the dependence on Russian energy and raw materials, for example, will create markets and opportunities in the field of infrastructure construction. Developing the public transport infrastructure is especially visible on the rail construction side, where the market is growing with large-scale rail projects both within urban centres and between key provincial cities. Furthermore, the government's willingness to discontinue the use of fossil fuels and to generate an emissions-free constructed environment will increase sustainability within the construction industry and offer opportunities for growth. Kreate already has several worksites aiming at low emissions, where the use of electric machinery and the consideration of the circular economy are already everyday features. In the field of infrastructure construction, we will certainly be seeing new developments in sustainability already in the near future.

Despite the unstable situation in the world and our degraded short-term outlook, our goal is to remain on the profitable growth track pursuant to our strategy in 2022 as well. Our order backlog, which is at a good level, gives us a good opportunity to achieve this."

Outlook for 2022 (published on 26 January 2022)

Kreate estimates that its revenue (2021: EUR 237.6 million) and EBITA (2021: EUR 10.5 million) will grow compared to 2021.

Guidance rationale:

Kreate's strong order backlog and specialisation in demanding construction as well as the stable infrastructure construction market support the company's strategic growth forecast.

Kreate Group's financial reporting

Kreate Group Oyj will publish the financial reports for 2022 as follows:

- Half-year report for January-June 2022: 27 July 2022
- Interim report for January-September 2022: 26 October 2022

Webcast event for analysts and media

A live webcast for analysts and media will be held today, 27 April 2022, at 11:00 a.m. The event will be 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/2022-q1>. 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/>.

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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 238 million in 2021 and the company has over 400 employees. Kreate Group is listed on Nasdaq Helsinki.

Attachments

- [Download announcement as PDF.pdf](#)
- [Kreate Group Interim Report January–March 2022.pdf](#)