

HLRE Holding Group

Financial Report 1 February – 31 October 2023

Comparison figures in brackets refer to the corresponding period previous year.

Brief Look at August – October 2023

- Q3 revenue decreased by 12% to EUR 35,4 EUR million (EUR 40,3 Million).
- Q3 gross profit decreased to EUR 14,3 million (EUR 18,2 Million).
- Q3 adjusted EBITDA was EUR 4,9 million (EUR 6,9 million).
- Q3 net cash from operating activities was EUR 8,5 million (EUR 7,2 Million).

Brief Look at February – October 2023

- Q1-Q3 revenue decreased by 13% to EUR 87,8 EUR million (EUR 101,0 Million).
- Q1-Q3 gross profit decreased to EUR 41,4 million (EUR 52,3 Million).
- Q1-Q3 adjusted EBITDA was EUR 7,0 million (EUR 10,5 million).
- Q1-Q3 net cash from operating activities was EUR 10,5 million (EUR 5,0 Million).

Key Figures

HLRE HOLDING GROUP	Aug-Oct 23	Aug-Oct 22	Feb-Oct 2023	Feb-Oct 2022	Feb 22-Jan 23
EUR Million	Q3	Q3	Q1-Q3	Q1-Q3	Q1-Q4
Revenue	35,4	40,3	87,8	101,0	129,4
Gross profit	14,3	18,2	35,2	41,4	52,3
Gross margin,%	40,4 %	45,2 %	40,1 %	41,0 %	40,4 %
Adjusted EBITDA	4,9	6,9	7,0	10,5	10,8
EBIT	2,6	5,0	0,2	4,2	2,5
Net cash from operating activities	8,5	7,2	10,5	5,0	4,7

Company description

HLRE Holding Group (commonly known as Vesivek Group) is a leading provider of roof and roof product renovations offered primarily to detached and row houses in Finland and Sweden under the brand name Vesivek. In addition to roof and roof product installations, Vesivek provides underground drain renovations in eight locations in Finland. The Group also develops, manufactures, and sells high quality rainwater systems and roof safety products.

HLRE Holding Group operated in 14 locations in Finland and three locations in Sweden in October 2023 and employs around 790 employees currently on average. The Group has two in-house manufacturing facilities in Finland, steel roofing profile production in Pirkkala and manufacture of rainwater systems and roof safety products in Orimattila.

Management Overview of the third quarter

Q3 financial performance in all business areas in Finland and Sweden were below forecasted. Low sales volumes in general and short order backlog in both countries led to inefficiency in installations and to weaker profitability.

Due to downturn also in direct product sales, Vesivek Tuotteet Ltd. in Orimattila issued a change negotiation initiative on 12th of October 2023. The negotiations concerned all employees of Vesivek Tuotteet Ltd. The purpose of the change negotiations was to discuss the adaptation and reorganization of the operations to better reflect the economic situation and weakened demand. Negotiations were concluded at the end of October 2023. The decisions that were made based on the negotiations led to the dismissal of 12 people and the temporary lay-offs of 60 people during Q4/2023. Temporary lay-offs could be prolonged in Q12024 if demand won't be changed for the better.

Third quarter August 2023 - October 2023

Q3 revenue decreased by close to 12 % to EUR 35,4 Million (40,3 Million). Low sales volumes and short order backlog in roof installations in both Finland and Sweden and underground drain renovations in Finland led to inefficiency in installations and to weaker profitability. Gross profit was EUR 14,3 million (18,2 Million) in Q32023.

Q3 reported EBITDA was EUR 4,8 Million (6,9 Million) and adjusted EBITDA EUR 4,9 Million (6,9 Million). Reported adjustments totaled to EUR 0,1 Million including one-offs regarding restructuring costs in the businesses in Finland. Impact of the adjustments to the operating cashflow in Q3 amounted to EUR 0,1 Million.

Q3 net cash from operating activities was EUR 8,5 Million (7,2 Million) mainly resulting from more effective management of working capital throughout the all Group businesses.

February - October 2023

Q1-Q3 revenue decreased by 13% to EUR 87,8 Million (EUR 101,0 Million). Q1-Q3 gross profit decreased to EUR 35,2 million (EUR 41,4 Million). Q1-Q3 reported EBITDA decreased to EUR 6,2 Million (10,0 Million) and adjusted EBITDA to EUR 7,0 Million (10,5 Million). Reported adjustments totaled to EUR 0,8 Million including one-offs regarding restructuring costs in the businesses in Finland of EUR 0,5 Million and other non-recurring costs of EUR 0,3 Million. Impact of the adjustments to the operating cashflow in Q1-Q3 amounted to EUR 0,55 Million (EUR 0,5 Million).

Q1-Q3 net cash from operating activities was EUR 10,5 Million (5,0 Million) thanks to continued effective management of working capital.

Outlook for the financial year 1 February 2023 – 31 January 2024

The Group commenced preparations for extending the maturity date of the bond that expires in February 2024. The Group has since initiated discussions with its largest bondholders to explore the possibility of amending certain clauses in the terms and conditions of the bonds.

The Management has carefully evaluated the Group business performance for the financial year 1 February 2023 - 31 January 2024. Based on the increasing market uncertainty, economic downturn and ongoing, extensive restructuring changes in the Finland Group companies, there is a significant risk the financial Maintenance Covenant defined in the Bond Agreement dated 10 February 2021 (ISIN: SE0015530712) will be breached as per 31 January 2024.

Risks and uncertainties

The Group's revenues and operating profit are affected by general economic conditions, which are, in turn, influenced by many factors beyond the Group's control. The Group currently operates in Finland and Sweden. Currently, the majority of the Group's operations are located in Finland but growth in both markets, for example, by way of increasing market share and/or expanding the Group's product and service offering is an important factor in fulfilling the Group's strategic objectives. Respectively, the Group's revenue and operating profit are particularly susceptible to general economic conditions and perception of future general economic conditions in the Finnish and Swedish markets.

Uncertainty or adverse trends in general economic conditions could affect the Group's business and demand for the Group's products and services through, inter alia, affecting consumer confidence as well as through adverse impacts on the business activities of the Group's corporate clients purchasing the Group's rainwater systems and roof safety products. Importantly, the general economic conditions may adversely affect the level and cost of financing available to the Group's consumer and corporate clients to make investments in renovations and refurbishments. Moreover, increases in the costs of financing and decreases in the level of available financing may adversely affect the Group's ability to make investments and fulfil its strategic objectives and may have a material adverse effect on the Group's business, financial position and results. Through its manufacturing operations, the Group is furthermore exposed to the risk of fluctuations in certain commodity prices (such as steel, aluminium and wood) and energy prices (especially through fuel costs for vehicles) and increases in prices due to economic disruptions and changes in general market conditions may have an adverse effect on the Group's business, financial position and results. All of the factors mentioned above could harm the Group's operations and the Group cannot predict the ways in which the future economic environment and market conditions may affect the Group's operations.

In general, the frequency of accidents at construction sites is worth noticing and the Group operates in a business segment subject to extensive laws and regulations regarding the work environment. Despite required health and safety measures and, for example, the use of scaffoldings on its construction sites improving the safety of the personnel, the Group is exposed to the risk of, possibly even fatal, accidents at the workplace especially on its roof renovation sites but also at its manufacturing facilities. In addition to physical injuries, employees of the Group are exposed to risks related to hazardous substances as certain of the Groups renovation sites contain asbestos. Respectively, the Group must also comply with specific environmental regulations with respect to asbestos. Finnish legislation includes particularly stringent requirements for any activities involving asbestos and the safety requirements for such activities. Any failure to comply with the regulations concerning health and safety or asbestos related activities may result in liability for the Group and/or the Group's permit being revoked. For example, if Group's permit to handle asbestos would be revoked, the Group would need to stop all business activities relating to handling of asbestos and acquire the work through subcontractors. Moreover, all potential accidents and health impacts have an adverse effect on its personnel's well-being. The Group as an employer is exposed to the risks related to health and safety issues of its employees possibly resulting in reduced working capacity of employees.

The Group may, in the future, become in breach of financial covenants and other obligations in its financing agreements that constitute grounds for termination or acceleration. A failure by the Group to obtain necessary capital in the future, or obtaining financing on less favourable terms, may have an adverse effect on the Group's business, financial position and results. The Group issued a three-year senior secured bond in an amount of SEK 300 million (approximately EUR 28-30 million) in February 2021 including EUR 2 million Super Senior RCF matured 6 months prior to the bond termination date in August 2023. A failure by the Group to refinance the bond and the SSRCF, or obtaining financing on substantially less favourable terms, have an adverse effect on the Group's business, financial position and results.

For more information

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Condensed financial statements for the period ended 31 October 2023

HLRE Holding Group
2611405-7

Consolidated Statement of Comprehensive Income 1000 EUR

	1.8.-31.10.2023	1.2.-31.10.2023	1.8.-31.10.2022	1.2.-31.10.2022	1.2.2022-31.1.2023
REVENUE	35 420	87 838	40 362	101 039	129 455
Other operating income	633	1 469	249	878	1 064
Material and services	-13 225	-31 743	-14 849	-37 527	-47 702
Employee benefits expense	-12 648	-35 484	-12 831	-37 002	-49 747
Depreciation and amortisation	-2 228	-6 004	-1 890	-5 764	-7 757
Other operating expenses	-5 349	-15 914	-6 070	-17 428	-22 844
OPERATING PROFIT	2 603	162	4 970	4 196	2 469
Finance income	41	1 279	1 049	1 076	2 018
Finance cost	-1 185	-3 485	-1 053	-2 999	-4 450
Finance income and expense	-1 144	-2 206	-4	-1 923	-2 432
PROFIT/LOSS BEFORE TAX	1 459	-2 044	4 966	2 273	36
Tax on income from operations	-241	350	-805	-566	-374
PROFIT/LOSS FOR THE PERIOD	1 217	-1 694	4 161	1 708	-338
Profit attributable to:					
Owners of the parent company	1 027	-1 814	3 862	1 414	-458
Non-controlling interests	190	120	299	293	120
	1 217	-1 694	4 161	1 708	-338
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translating foreign operations	-59	-92	-88	-79	-147
	-59	-92	-88	-79	-147
TOTAL COMPREHENSIVE INCOME	1 158	-1 786	4 073	1 628	-484
Total comprehensive income attributable to:					
Owners of the parent company	973	-1 897	3 782	1 342	-591
Non-controlling interests	185	112	291	286	107
	1 158	-1 786	4 073	1 628	-484

Consolidated Statement of Financial Position
1000 EUR

	31.10.2023	31.10.2022	31.1.2023
ASSETS			
NON-CURRENT ASSETS			
Goodwill	40 304	40 304	40 304
Intangible assets	955	858	976
Property, plant, equipment	22 598	25 952	26 261
Other non-current financial assets	48	48	48
Loan receivables	15	22	17
Non-current prepayments and accrued income (from others)	0	0	0
Deferred tax assets	823	168	235
NON-CURRENT ASSETS	64 744	67 352	67 841
CURRENT ASSETS			
Inventories	13 802	17 137	15 756
Trade and other receivables	9 756	9 494	9 494
Loan receivables	52	625	625
Income tax receivable	393	287	158
Cash and cash equivalents	9 890	5 342	3 557
CURRENT ASSETS	33 893	35 509	29 394
ASSETS	98 637	102 861	97 235
EQUITY AND LIABILITIES			
Owners of the parent company			
Share capital	80	80	80
Reserve for invested unrestricted equity	18 002	18 002	18 002
Translation differences	-234	-114	-151
Retained earnings	7 616	11 407	9 511
Owners of the parent company	25 549	29 375	27 442
Non-controlling interests	184	250	71
EQUITY	25 733	29 625	27 512
NON-CURRENT LIABILITIES			
Finance and lease liabilities	22 304	50 538	50 349
Employee benefit obligation	427	422	427
Deferred tax liabilities	101	106	150
NON-CURRENT LIABILITIES	22 831	51 066	50 926
CURRENT LIABILITIES			
Finance and lease liabilities	29 921	4 755	4 742
Other current liabilities	17 978	15 952	12 433
Derivatives	1 930	969	1 461
Income tax liabilities	244	494	161
CURRENT LIABILITIES	50 073	22 170	18 797
Liabilities	72 904	73 236	69 722
EQUITY AND LIABILITIES	98 637	102 861	97 235

Consolidated Statement of Cash Flows, indirect

1000 EUR	1.8.-31.10.2023	1.2.2023-31.10.2023	1.8.-31.10.2022	1.2.2022-31.10.2022	1.2.2022-31.1.2023
Cash flows from operating activities					
PROFIT/LOSS FOR THE PERIOD	1 217	-1 694	4 161	1 708	-338
Adjustments to the profit/loss for the period	0		0		
Depreciation, amortisation and impairment	2 228	6 004	1 890	5 764	7 757
Financial income and expenses	960	2 836	878	2 466	3 437
Tax on income from operations	241	-350	805	566	374
Other adjustments	-211	-1 111	-892	-611	-1 051
Adjustments total	3 219	7 379	2 682	8 184	10 517
Working capital changes			0		
Increase / decrease in inventories	370	1 894	1 989	-1 719	-394
Increase / decrease in trade and other receivables	-348	-14	-1 381	-3 181	-429
Increase / decrease in trade payables	4 862	5 506	567	2 636	-934
	0		0		
Interest paid	-756	-2 220	-608	-1 808	-2 483
Interest received	53	115	14	24	65
Other financial items	-9	-14	-83	-94	-203
Income taxes paid	-88	-440	-137	-747	-776
Net cash from operating activities	8 520	10 511	7 204	5 002	5 026
Cash flows from investing activities	0	0	0	0	0
Purchase of tangible and intangible assets	-273	-1 041	-776	-1 445	-1 987
Proceeds from sale of tangible and intangible assets	-347	516	59	277	245
Disposal of subsidiaries	0	0	8	8	8
Loans granted	0	-9	-16	-16	-18
Proceeds from repayments of loans	4	11	4	8	21
Addition / deduction of cash equivalents	-44	-39	-21	-21	0
Net cash used in investing activities	-660	-562	-742	-1 190	-1 731
Cash flows from financing activities	0	0	0	0	0
Proceeds from sale of treasury shares	0	0	9	9	9
Proceeds from current borrowings	0	0	-411	0	0
Repayment of current borrowings	0	0	0	-6	-6
Addition / deduction of current borrowings	0	0	-5	-7	0
Proceeds from non-current borrowings	0	0	0	0	0
Repayment of non-current borrowings	0	0	2	1	0
Payment of lease liabilities	-766	-3 616	-1 195	-3 668	-4 942
Dividends paid	0	0	0	0	0
Equity related bond issue	0	0	0	0	0
Repayment of equity related bond	0	0	0	0	0
Equity related bond interests and expenses	0	0	0	0	0
Group contribution received and paid	0	0	0	0	0
Net cash used in financing activities	-766	-3 616	-1 600	-3 671	-4 938
Net change in cash and cash equivalents	7 093	6 333	4 862	141	-1 644
Cash and cash equivalents, opening amount	2 796	3 557	481	5 201	5 201
Net increase/decrease in cash and cash equivalents	7 093	6 333	4 862	141	-1 644
Effects of exchange rate fluctuations on cash held	0	0	0	0	0
Cash and cash equivalents	9 890	9 890	5 342	5 342	3 557
Cash and cash equivalents, other arrangements	0	0	0	0	0

Consolidated statement of changes in equity

HLRE Holding Group

2611405-7

1000 EUR	Share capital	Reserve for invested unrestricted equity	Translation differences	Retained earnings	Total	Non-controlling interests	Total equity
EQUITY 1.2.2023	80	18 002	-151	9 511	27 442	71	27 512
Comprehensive income							
Profit/loss for the period				-1 814	-1 814	120	-1 694
Other comprehensive income:							
Translation differences	0	0	-84	0	-84	-8	-92
TOTAL COMPREHENSIVE INCOME	0	0	-84	-1 814	-1 897	182	-1 715
Other changes	0	0	0	4	4	2	6
TOTAL EQUITY 31.10.2023	80	18 002	-234	7 616	25 549	184	25 733

1000 EUR

	Share capital	Reserve for invested unrestricted equity	Translation differences	Accumulated earnings	Total	Non-controlling interests	Total equity
EQUITY 1 Feb 2022	80	18002	-17	9935	28000	-37	27963
Comprehensive income							
Profit/loss for the period				-458	-458	120	-338
Other comprehensive income:							
Translation differences			-133		-133	-13	-147
TOTAL COMPREHENSIVE INCOME			-133	-458	-591	107	-484
Transactions with owners							
Acquisition of treasury shares							
Other changes				23	23	9	31
Total transactions with owners				23	23	9	31
Changes in ownership interests in subsidiaries							
Changes of non-controlling interests without change in control				10	10	-7	3
TOTAL EQUITY 31 Jan 2023	80	18002	-151	9510	27442	71	27512

Use of Alternative Performance Measures

Alternative Performance Measures (APM) are financial measures of historical or future financial performance, financial position, or cash flows, other than financial measures defined or specified in the applicable financial reporting framework. HLRE Group reports the financial measures [Gross profit], [Gross margin] and [Adjusted EBITDA] in its quarterly reports, which are not financial measures as defined in IFRS. The Group believes that the alternative performance measures provide significant additional information on HLRE's results of operations, financial position and cash flows. The APMs are used consistently over time and accompanied by comparatives for the previous periods.

Gross profit = Revenues – cost of goods sold

Gross margin (%) = Gross profit in relation to Revenue

EBITDA = Operating profit (EBIT) + Depreciation + Amortization

EBITDA % = EBITDA in relation to Revenue

Adjusted EBITDA = EBITDA - EBITDA Adjustments

Adjusted EBITDA % = (EBITDA - EBITDA Adjustments) / Revenue

Operating profit (EBIT) % = Operating profit in relation to Revenue

EBITDA adjustments = One-offs regarding restructuring costs and other non-recurring costs

