Webcast transcript: Half-Year Report January-June 2025

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PRESENTATION

Essi Nikitin
Hi, everyone. Welcome to YIT's Second Quarter 2025 Results Webcast. My name is Essi Nikitin and I'm Heading the Investor Relations at YIT. Together with me today are our CEO, Heikki Vuorenmaa; and CFO, Tuomas Mäkipeska.

But now, without further ado, I will hand over to Heikki to go through the latest developments in the company. Please go ahead, Heikki.

Heikki Vuorenmaa
Yes. Good morning, all and thank you, Essi, for opening the second quarter investor call. Second quarter was a positive quarter for YIT. Overall, we delivered a solid performance amid company results were largely driven by contracting segments as both residential segment had zero completions during the quarter.

The Finnish residential market recovery continued. Mortgage drawdowns are up by 18% year-on-year in the first five months, and we are launching new projects with good reservation rates. Markets in Central Eastern Europe are, on the other hand, already in a full swing. Number of apartments under construction exceeded 3,000 units, which will support our coming year profits.

Today, we will highlight three main areas. I will start with detailed performance of each segment and market conditions. Tuomas then will cover our financials and strength of our balance sheet, and then I will close with the view on how are we actually progressing as we implement our strategies.

Let's get going. And we start with our financials for the second quarter. Our second quarter group adjusted operating profit increased to €10 million. Revenue declined to €412 million, and our adjusted operating profit margin increased to 3.4%. As there were no completions in the residential segments, revenue and profit were muted accordingly. Also, both segments operating performance was solid during the quarter.

Contracting segments, infrastructure, and building construction, improved operating performance and delivered solid results for the quarter. The building construction top line is still impacted by the selectiveness of tendering, while the infra segment recorded a solid 36% year-on-year growth in revenue.

And let's get to the segment deep dive and we will start with the Residential Finland. We are gradually moving towards improving market conditions and back to new project starts. Over the past two years, we have taken actions to improve our operational efficiency, customer insights and supply chain capabilities across the organization. As we eventually are now ramping up new production, we see our actions have been effective. It is still a long way to our strategic targets. However, segment is moving in the right direction, and the team is really excited about it. At the same time, our capabilities in terms of plot portfolio and our internal competencies and capabilities are in place to scale up the production according to market demand.

Our inventory of apartments continues to decline. This is due to successful work with the customers to help them identify suitable high-quality YIT home as their next new home. Inventory has reached normal level already outside of the capital area. We still have approximately 450 apartments in the Helsinki metropolitan area. Situation is gradually normalizing towards end of the year. Inventory is not a factor anymore as we consider new project starts, not even in the capital area. We have leaned on this asset, our inventory portfolio for some time already and we continue to do so as there are limited completions in the markets in the coming quarters.

We started one project in Q2 which took place in Kuopio and announced also another project in Helsinki during the third quarter after that pre-marketing period. As you can see, this was already a third consecutive quarter for us to ramp up our production in Finland. We are quite excited about the consumer feedback and the interest towards our projects in pre-marketing. With those refreshed customer insights have been taking to our project designs, the products resonates well with consumers expectations.

So far, we have started projects in Finland according to our internal plans. Pre-reservations rates have been up of 50% and financing in place. We are optimistic to see further project starts during second half of the year as the market recovery continues.

As I stated already in the key highlights, there were no completions during the quarter in Finland. The remaining completions during this year will take place in Q4. Same situation is also true for our operations in Central Eastern Europe, which we will go through next. Of course, from the group perspective, this is not optimal for profit distribution within the year as the segment profits are recorded mostly in Q4.

But as promised, now we move to Residential CEE, and the second quarter was quite muted quarter due to zero completions. Profit for the segment are expected in Q4 as there were no completions and the same situation continues in Q3 as well. The segment's rolling 12 months revenue is now at €300 million, and I propose we keep that number in mind until the next page. Our quarterly adjusted operating profit declined from previous year and was negative €2 million. On a rolling 12-month basis, segment margin looks to decline. However, the reason is the uneven completions between the years. Operatively, the segment is executing as planned and the project margins are under control.

During the quarter, we announced changes in the leadership as Justyna Filipczak will take the position as the head of the segment starting 4th of August. Actually take this opportunity to thank you Tuomas for taking the interim role. And as we can see from the numbers, you have really boosted the center of our capital efficiency within the past six months. Results are visible when we look at the year-on-year decline of €70 million on – on capital employed while we have been gearing up the volumes in all markets.

We have really focused now on launching new projects across our operating countries in the first part of the year. By now, the projects valued in total at almost €400 million, are in production and estimated to be completed in 2026 and the sales is progressing well. And as we all remember from the previous slide, the rolling 12 months revenue number of €300 million, one could expect clear growth from this segment on coming years. Market is favorable. We have plots with the building rights. We actually have amazing product and dynamic team, which is focused on execution.

Our sales team is also doing excellent work. Our rolling 12-months sales rate has doubled since Q2 2023 and amounts now close to 1,200 homes. Inventory is under control and the segment profitability is healthy also in new projects. This is all well in line with the strategy, and we will continue to boost our residential operations outside of Finland also going forward.

The key insights here is quite repetitive. Completions will take place in Q4 this year. The total completions within the year is expected to exceed previous year and be slightly over 1,000 apartments.

The situation is similar in the project as we – that we also executed under the associated companies and joint venture structures. Sales is increasing, inventory is under control, and operations are progressing well. Completions are again Q4 this year, although overall completions for the year are down over 50% compared to 2024.

But now it's time to leave the Residential segments and move to the Infrastructure segment. Our Infrastructure segment is in good shape. Revenue growth continued with solid profitability. Our rolling 12-months revenue is up €450 million and trending upwards. On a year-to-date basis, our revenue has increased over 30% in this segment and our adjusted operating profit exceeds 4%. Capital – our capital employed is negative and the projects are under control. What I'm especially pleased with is that we have done investments and upfront recruitments towards the future growth as planned while keeping good care of our profitability. YIT Infra is an attractive employer among the professionals and we are capable to attract the best talent from the industry to our team.

We have also a positive future ahead of us. We have probably one of the strongest order books among the industry players with approximately 20 months of work. We are really thankful that customers are placing their trust on us with highly complex and demanding projects. This trust needs to be earned every day, hence, the elements such as that work, safety and timely execution of projects are critical for us. Market outlook is favorable, especially in defense, industrial investments, and data centers in which we actively work with potential customers.

Moving on to Building Construction. The Building Construction segment continued to improve profitability during the quarter. The transition from the self-developed project to preferred partner in contracting sector is in progress. As a result, our underlying operating profitability is now at 2.4% on rolling 12-months basis, despite the decline in the revenue. Segment's quarterly profit improved to €6 million. Systematic work within the segment starts to be gradually visible on the numbers as well. Capital employed still continues to be impacted by historical reasons and burdens our profitability. Tuomas will talk about this more later.

Our order book in our building construction segment has stabilized now around to around €1 billion. Typical projects we win are complex with a strong emphasis on sustainability and joint development project. A few examples from the quarter Aleksanteri School in Tampere and total of seven daycare centers in Turku, which we are executing with lifecycle agreement.

But now we move on to our – and look our group supply chain status. So, as a result of our accelerated production, apartments under construction for consumers and investors increased by 30% and close to 4,000 units at the end of the quarter. To put that into perspective, the same number was approximately 9,000 units at the end of 2021. Average sales rate has remained solid at 50%, even though some of the new projects did not achieve readiness of sale during the quarter. Contracting segment projects are under control and rolling 12-months project margin met deviation positive for both segments during this year. Material availability continues on the good or normal level. We continue carefully to monitor supply and price development across the categories, and we will react if there are any material changes on this picture.

Then finally, before handing over to Tuomas, an update on the overall market. We upgrade our view on CEE market from normal to good. No other changes since previous quarter. Finnish residential market recovery continues. However, market is still weak in the short from our perspective.

Thank you for your attention for the first section. And, Tuomas, now it's time to hand over to you to cover the group's financial development.

Tuomas Mäkipeska
Yes. Thank you, Heikki. Let's go through our financial development in the second quarter and I will start with a summary of our key metrics. Two important KPIs in our financial targets, the return on capital employed and gearing, both developed positively. Return on capital employed improved from the previous quarter as well as from the comparison period and amounted to nearly 4%, while the gearing decreased to 84% at the end of the second quarter. Our key assets amounted to over €1.6 billion, while net debt decreased to €670 million euros at the end of the second quarter. Our underlying net asset base continues to be very strong and amounts to over 2 times the net debt. Cash flow amounted to minus €29 million for the second quarter. We changed our guidance, and we now expect the adjusted operating profit for the year to be between €30 million to €60 million. But let's look at these topics in more detail in the following slides.

Our return on capital employed continued to improve and it is on a positive trend as we reached approximately 4% level at the end of the quarter. The increased adjusted operating profit and successful capital release measures, as well as capital efficiency in the business operations, are all actually contributing to the ROCE improvement. We will continue to drive profits and capital turnover to reach our financial target of at least 15% by the end of 2029.

A couple of key highlights regarding capital employed from the segments. In Residential CEE, capital employed has been on a downward trend despite accelerated starts and higher production volumes, as you mentioned, Heikki. This is mainly thanks to our strong plot portfolio, solid apartment sales and other capital efficiency measures in the segment. The Infra segment continues to operate with negative capital employed, supporting the whole group's financial performance. In Building Construction, capital employed increased during the quarter as a part of normal business cycle.

Capital release from the balance sheet and capital efficiency are top priorities in our strategy. On group level, we identify potential to release approximately €200 million of capital from our current apartment inventory and up to €300 million through divestments of non-core assets in line with our strategy communicated for the years to 2025 to 2029. The non-core assets include real estate, plots, and ownerships in associated companies that are not at the core of our current strategy. The released capital will be reallocated to fund residential segments profitable growth, and reduce indebtedness of the company, which will consequently lower the financing costs and support net profit generation.

Let's move on to the cash flow development. Cash flow after investments for the second quarter was €29 million negative affected by the usual business cycle. If we then observe a longer time period, the 12-months rolling cash flow was €70 million positive at the end of the quarter and has now been positive for the last six quarters. We will continue the work to improve cash conversion across the operations to generate positive cash flow. Increasing volumes in residential and contracting segments will strongly support the cash flow going forward. Also, only a limited need for plot acquisitions will also support the cash flow over the coming quarters.

Net interest bearing debt decreased both from the previous quarter and from the comparison period, amounting to €670 million at the end of the second quarter. The net interest bearing debt included IFRS 16 lease liabilities of €265 million, as well as housing company loans of €158 million related to the unsold apartments. The housing company loans have decreased by some €60 million from the comparison period, along with our decreasing inventory of unsold apartments. When excluding the IFRS 16 lease liabilities and long maturity housing company loans, the adjusted net debt amounted to some €250 million.

Gearing decreased to 84% at the end of the period. In addition to the positive 12 months rolling cash flow, the decrease was supported by a successful hybrid bond transaction, which took place in the second quarter. The transaction was part of our proactive management of financing position and highlights the capital markets continued confidence in YIT and the outlook for our business. We remain determined to reduce indebtedness of the group and operate within the set financial framework of 30% to 70% gearing.

When comparing the interest-bearing debt to our key assets, we can see that our underlying asset base continues to be very strong and amounts to well over 2 times the net debt. I would like to highlight that we continue to have a strong plot portfolio which amounted to some €720 million at the end of the quarter. This portfolio enables us to construct approximately 16,000 new homes in Finland and 13,000 new homes in CEE countries. This is a critical platform for future profitable and capital efficient growth in our both residential segments.

Completed apartments and real estate in our inventory amounted to €355 million and investments to €272 million. As communicated, we see potential to release significant amount of capital from these balance sheet items. In maturity structure of interest bearing debt, having only limited amortization scheduled for this and next year allows us to focus on improving the financial performance of the businesses.

Then a few words about the change in our guidance. So, we have narrowed the range for the adjusted operating profit guidance. We now expect group adjusted operating profit for continuing operations to be between €30 million to €60 million in 2025. Previously, we expected the adjusted operating profit to be between €20 million to €60 million. The guidance update is a result of solid financial performance of the businesses during the first half of the year. Our outlook, however, remains intact.

So, to summarize the Q2 financial development before handing over back to you, Heikki. YIT’s financial performance is on a positive track and strong financial position enables the targeted profitable growth. Our operational and financial performance have improved, which is demonstrated in the positive development in return on capital employed. We will reallocate a significant amount of capital to fuel profitable growth in the residential business and reduce indebtedness to lower financing costs and support the net profit generation. And finally, we have a strong plot portfolio to enable starts and consequently profitable capital efficient growth in the residential segments.

Heikki Vuorenmaa
Yes. Thank you, Tuomas, very much. So, as promised in the opening, we would also like to share a few insights on how we track against our strategic targets before we are then opening for Q&A.

First on our financials. We are making progress against the strategic targets that we have set for ourselves. Our rolling 12-months operating profit margin continues to improve and is at 3.2% targeting over 7% by end of 2029. Consequently, our return on capital is on an improving trend like Tuomas, you mentioned as our capital is reallocated from investments to our residential business growth. The revenue development is still impacted by the market conditions and not yet on the growth trend, despite the fact that we have seen a strong growth already in Infrastructure segment during the first half of the year.

Now, let's peek at our operative highlights from the quarter, and that is coming from our strategic priority to generate targeted growth and improve our resilience through diversified sources of revenue. Markets, which we are today, including through our Residential CEE segment includes Baltic countries, Poland, Czech Republic, and Slovakia. Altogether, in those growing economies, the combined population is 60 million people, and the cities are growing at a fast pace.

By now, we have already launched worth of nearly €400 million of projects scheduled to be completed in 2026. Window for new project starts is still open. The project that can be completed in 2026, and with prevailing market conditions, we look forward to launch more new projects in near future. Plot Portfolio supports the construction of our over 13,000 homes with healthy margins. Driving the growth in the residential CEE segment has been a clear strategic decision for the company, and that decision will see the group to be more European based company and reduce our historical dependency on one single market.

I thank you for your attention. And, operator, I believe it starts to be – it's time for the questions.

Operator
The next question comes from Anssi Raussi from SEB. Please go ahead.

Anssi Raussi
Yes. Hi, all. And thank you for the presentation. Few questions from me and as usual, one by one. First, maybe just to double check that was this positive, fair value change of €2 million in Tripla Mall included in your €10 million of adjusted EBIT during this quarter?

Tuomas Mäkipeska
Thank you, Anssi. Yes, it is included.

Anssi Raussi
Okay. Yeah. Just double checking because it was not mentioned on the front page. Then on your capital in working progress, this figure increased quite significantly quarter-on-quarter. So, can you disclose what was the driver here? And also, was there something other drivers worth highlighting which impacted your operating cash flow?

Heikki Vuorenmaa
So just maybe, Anssi, to clarify, are we in a building construction segment or on a group level on this question?

Anssi Raussi
On group level, capital in inventories and work in progress items.

Tuomas Mäkipeska
Yeah. Okay. Thank you, Anssi. I'll take this one. So our work in progress – progress increased really due to the accelerated volume of production in the CEE countries. So that's the main driver there. And then regarding to cash flow, your second part of the question, so that's really related as mentioned – so, related to the normal business cycle.

Anssi Raussi
Okay. And maybe continuing on the cash flow, so your plot investments were €8 million. So, were there

something opportunistic or did you have commitment in place to acquire these? And also your – I think your investment commitments increased a bit quarter-on-quarter. So, can you disclose or give any additional comments on this?

Tuomas Mäkipeska
Just briefly, the comment that that was part of normal plot acquisition operations and – and building the future profitable growth for the residential segments. So, not – it's actually quite a low number for the quarter, but no drama there.

Anssi Raussi
Okay. Clear. And maybe finally, there was some really good, you know, development in your inventory of completed unsold apartments. And I think you mentioned that in Finland your new start-ups are not, you know, linked to the inventories anymore. So, is it just that you're already happy with the level at the end of Q2 or has there been like accelerating momentum in early Q3?

Heikki Vuorenmaa
Thank you, Anssi. Yes. So, the inventory is developing as there are no completions and we continue to sell – sell from the inventory. What I meant with the statement there is that we have a – we have a good results for the pre-marketing and as we kind of forecast our – our future – future outlook. So, we don't think that the amount of inventory in capital area is any more a factor in that consideration. The inventory is in decline. All inventory outside of – outside of capital area is already on the on the normalized level. We, however, continued the inventory to decline in the capital area. It's a 458 I believe was the end of the quarter number. And we would like to see, of course, a somewhat lower number there.

Anssi Raussi
Okay. Thank you. That's all from me and congrats on a great quarter.

Heikki Vuorenmaa
Thank you.

Operator
The next question comes from Svante Krokfors from Nordea. Please go ahead.

Svante Krokfors
Yes. Good morning. Svante from Nordea. Thank you, Heikki, Tuomas and Essi for the presentation. First question regarding Residential Finland. You sold 133 apartments, up from 118 in Q1 I think it was. Could you elaborate a bit on – on measures that you have taken to accelerate the sale of unsold apartments in Finland in particular.

Heikki Vuorenmaa
At the moment the sales is – is quite, quite much connected to the consumer demand in Finland. And we have been running a couple of campaigns, promotional activities in order to boost that especially – especially in the in the capital area. So, those have been the activities there.

Svante Krokfors
Okay. Thank you. And then – then on – on new starts, what kind of pre-reservations rates do the banks – banks require, especially in Finland, but perhaps you could touch the subject also on CEE?

Heikki Vuorenmaa
In Finland, it differs, of course, between the different the banking partners. Our internal – internal approach is to be over 50%. I think in that the most recent was actually 55%. So – so – and in the Q1, we already reached 70% before starting. So, there are – there are differences there what is the banking requirements as well as then what we – what we internally want to achieve. If you want to Tuomas on CEE, I think the...

Tuomas Mäkipeska
Yes, I can continue with the CEE. So basically no – no requirements for – for the pre-reservations exist in the CEE countries. So basically, that's not the consideration factor there regarding new starts.

Svante Krokfors
Okay. Thank you. That is all from me.

Heikki Vuorenmaa
Thank you, Svante.

Operator
There are no more questions at this time, so I hand the conference back to the speakers.

Essi Nikitin
As there are no more questions, we thank you all for participating and wish you all a great rest of the summer.

Thank you.

Heikki Vuorenmaa
Thank you.

Tuomas Mäkipeska
Thank you.