Conference Title: YIT Interim Report for Jan-Mar 2019

Date: Friday, 26th April 2019

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Hanna Jaakkola: Good afternoon, dear all. Welcome to YIT's Q1 2019 results info webcast and conference call. The agenda is traditional. We have presentation by our CEO and President, Kari Kauniskangas, and CFO, Ilkka Salonen, and questions after that, first from the audience here in Käpylä and then from the conference call line. All the material can be found online on our web pages and we still have some pro forma figures here, so comparison period is pro forma since YIT and Lemminkäinen merged last year 1st February. But without further ado, Kari, the stage is yours.

Kari Kauniskangas: Good afternoon also on my behalf. I can continue reporting broadly improving results compared to previous year. YIT's adjusted operating profit in Q1 was better than estimated, mainly due to three reasons. In paving, great result improvement was due to lower than expected winter planning costs. Secondly, in Russia we were able to hand over two projects ahead of schedule and result realised already in Q1 instead of Q2. Also, synergies are realising faster than we have estimated and fixed cost level has been lower than we estimated. Overall, as I said, we have had broadly improving performance in several segments.

Good cash flow considering the seasonality. As you remember, and taking into account Lemminkäinen's first month last year, the comparison period cash flow was negative €200 million.

In Housing, Finland and the CEE, we sold 600 apartments completed or close to completion for the established fund, which strengthened the cash flow and also supported Partnership property's strategy to create profitable real estate portfolios enabled by the market situation. In addition to cash flow, that deal had €40 million impact to revenue and zero impact to gross margin level.

During the quarter, we were quite successful and competitive in several segments and we were able to strengthen our backlog of orders from the end of last year by 2%. In addition, there were several positive decisions, including Jokeri Ratikka, Vuosaari, Pudasjärvi and that kind of lifecycle projects which we won and those projects will be recorded later to our backlog of orders. New projects, new startups, are giving already positive visibility to the year 2020.

Adjusted operating profit was still loss making due to normal seasonality in Paving and Infrastructure projects and also due to low number of handovers in residential segments. Adjusted items compared to last year were also clearly smaller. They are mainly related – merger related fair value cost effects and costs related to synergy targets. Revenue increased by 16% and it grew in all segments, especially in Business premises and its renovation services division. Order backlog has been stable, even as I said, we have had good success in several segments, especially in Infrastructure projects. In Paving, the starting point for the season is better than a year ago in all Nordic countries.

Then if we look at development segment by segment, in Housing Finland and CEE the revenue as such was around on the same level as a year ago, but €40 million of that revenue came from selling the apartments to the established fund. The sale had only revenue impact but no result impact. Another reason was that the main part of the completed projects during the quarter in Finland located outside Helsinki region where the average profitability of project is lower than in Helsinki region. In CEE, sales as such was one of the best ever, but we had no handovers during the quarter in those countries. In Housing Russia, the main improvement came from contracting, where we didn’t have any significant project write-off as we had a year ago. In residential side, two projects were completed and that was a small improvement compared to what we estimated three months ago. In Business premises, revenue and operating profit improved mainly due to good volumes, profit in renovation services division. Also the start of Tripla offices’ revenue and profit recognition after the sale in December had a positive impact.

In Infrastructure projects, profitability was still low due to seasonality and due to that significant amount of gross margin still from first quarter came from old projects with low margin level. Those projects are coming closer to completion and will be complete during this year. Strengthening in backlog of orders in that segment starts to be seen in both revenue and operating profit in the second quarter. In Paving as said, the result improvement came from the winter planning costs, which were clearly lower level, especially in Norway and Sweden as it has been in the past.

Synergies are coming through faster than we have expected. So far, we have already taken actions, signed agreements which will lead to savings of €45 million during the agreed period. Of those already is realised in profit and loss statement cumulatively €25 million, of which €6 million more are recorded during the first quarter of this year. This year the expected new synergies are still coming from IT and finance platform simplification.

Market outlook is widely unchanged. We have changed only one bullet here. It's outlook of Paving in Finland and it's due to cuts in government spending. Government is planning to pave only 1,500km during this year overall which is around as much as one road from Hanko to Utsjoki. So that figure is very small and leading to declining market during this year. Despite of that, our situation has been quite good. We have been able to secure good backlog of orders, actually even a bit better than a year ago for Finland in Paving. Other red flag is in Housing Finland. There, activity among consumers improved in the latter part of the quarter and it has stayed on the same level as it was last autumn, as we expected three months ago. Also, this Federation of Construction Industry announced their market forecast a few days and also they shared the same opinion that we have given already several months ago, that number of start-ups in housing will be back on a normal level, around 30-35,000 units during this year and we feel also that this is more healthy and sustainable level in the long run. For YIT's point of view, this decline is positive point. We expected our volumes overall will stay around on the same level as earlier but of course we will have more projects for institutional investors than a year ago.

Sustainable development is one of the key drivers in development of the whole construction industry in coming years. To gain benefit on that trend, we decided to establish a Group-wide development programme Green Growth last autumn to support our steps in that area according to our strategy. In order to determine key themes of sustainable development from the perspective of Group business and stakeholders, we conducted a materiality assessment process last year and created ourselves a materiality matrix, showing where are the key topics where we have to put more effort to improve the sustainable impact of YIT. So, as you can see, city development, urban development, is one of the key topics. In addition, there are several topics connected to personnel and their - respect of personnel in several ways.

Then few comments concerning segments. In Housing Finland and CEE, the profitability of the quarter was exceptionally low due to significant sale of apartments to new fund, but this is not a new normal level. In second quarter we expect to recover also with profitability. Number of unsold completed apartments declined to a healthy level, being around 200 in Finland and below 100 in CEE countries. Number of new start-ups for consumers in Finland was 510 and we are now gradually starting to increase the amount of start-ups from last autumn’s level. We have shifted the focus towards institutional investors according to our normal business model. As a proof of that, we announced the beginning of April quite a big deal with Icecapital, to whom we sold almost 800 units worth €160 million. Those projects will be started during the coming months.

As I said earlier, in CEE countries we had extremely strong consumer sales during the quarter, 260 units, which was 50% more than in the comparison period a year ago. But we didn’t have any handed over projects in the last quarter.

In Russia, the result was low, but the performance overall was better, especially in contracting. We didn’t have any write offs as we had a year ago. Also, this year it’s good to notice that the majority of completions will be in Q4, so in this segment the expectations for profit are in the last quarter of this year. Cash flow from Russia continued to be positive and the target to reduce capital there is proceeding.

In Business premises, we signed several remarkable lease agreements, for instance in Tripla. The leasing rate of mall of Tripla exceeded 90% in April and also in Tripla offices the leasing rate is over 80%. In the comparison period, Tripla offices were constructed into our own balance sheet so now that had a positive impact on both revenue and profit. And as I said, renovation services is strongly developing and proceeding in all big cities in southern Finland.

In Infrastructure projects, the main topic during the quarter, or actually during the winter, has been that we have been successful in getting new projects with healthy margins. So, we are quite confident that the development of this segment continues now to the right direction and there will be seen a clear turn around compared to very weak results during last year. Profitability of the segment in Q1 was still here the reason that the main part of the revenue and profit came still from those old projects with low margins.

In Paving, sizeable reorganisation measures taken during the winter and spring 2018 start now to be visible in the segment's results. As you noticed last autumn, the profit improved already €8 million compared to 2017. Now we saw the impact in winter planning costs and the proceeding is positive. We have also been successful in public tenders for 2019 season in all Nordic countries and our market share has increased especially in Norway and Sweden. Also, the average price of asphalt tonnes has increased in those countries. So overall, the starting point for this season is clearly better than a year ago. In road maintenance area this year, government in Finland has organised 17 competitions on those long-term maintenance contracts and YIT won 7 – sorry, 6 of those, which means that our market share has stayed on the same level than it has been during the last few years, being around 35%.

In Partnership properties, this new residential fund was established, and the objective of the portfolio is to give YIT steady cash flow and to create potential for value increase by optimising the sale timings. So, we didn't lose anything by making this, actually we created an opportunity to make money later through this portfolio. Those apartments are rented by YIT and a partners-renting organisation and we will divest these apartments later after some years' time. The transaction strengthened the investments of the segment in rental housing generating this cash flow, it enables also YIT to speed up capital turnover while keeping its value upside on the portfolio. We have during last year and this year, gradually built the portfolio of projects in Partnership properties and this is the first timeline to show how we expect those projects to be realised and constructed. In addition to these projects, we have several projects in initial states, which we have not yet published. In addition to projects we have also three established funds and we are preparing new ones focusing on housing and the CEE countries.

Then Ilkka continues with the financial figures, which I think are more and more important in the coming quarters and years.

Ilkka Salonen: Yes, good afternoon everyone. In this section there are actually two key topics in this presentation. One is that the cash flow was very good, if we look at that we were living Q1, which is usually heavily negative. The other one is the implementation of IFRS16 standard.

If we start with the IFRS changes in what comes to lease agreements, on the left-hand side you can see the estimated impact for the full year this year. It means that roughly about €45 million EBITDA positive impact, operating profit about plus €10 million, and then finally profit for the period about €6 million lower than without the changes in the standard. The major impacts are in the balance sheet side, so the total impact is roughly about €300 million, so €306 million in assets and liabilities and over there in the asset side there are two parts. One is related for the property, plants and equipment and the other one is leased inventories, which is actually the rented plots from the plot funds. And then in the liabilities side it is divided for the short and the long-term liabilities. But the major thing is that roughly about €300 million came to our assets and liabilities.

If we look at the operating cash flow, last year the reported one was €153 million negative and then if we add Lemminkäinen January, negative cash flow roughly about €50 million, we ended up €200 million. And now in this quarter we ended up to about breakeven. And then two items where we are investing. One is for the plots and then the investments for the associated companies. Both were on a lower level than last year.

In our presentation we use the adjusted net debt figures, which means that the IFRS16 impact has been deducted from there, and that shows quite nicely how the interest-bearing net debt is coming steadily down especially from the beginning of last year. Maturity; we haven't done any major transactions since last May. We have two items expiring this year. One ex-Lemminkäinen bond in this summer. At the moment if we look at our cash position and liquidity, there is no plans for refinancing that one from the market, but of course we look at that what is the maturity and there is one slot over there which is 2022 and in the coming quarters probably we are working with that one.

Also, the key figures, they are presented without the IFRS16 impact, and the reason is that all our covenants are based on these figures. There is a clear trend seeing from the beginning of last year towards the targeted level of 30% to 50% gearing and that is with IFRS16. If you add IFRS impact it's roughly about 30% till to the figure. So, we still have some journey to go towards the range of 30% to 50%. Equity ratio in a good level and adjusted net debt / adjusted EBITDA, we are now around 3 over there. So quite a lot done during the last one year. I would say that the base for the operations is clearly more most solid that the company has seen in the past years.

How the capital employed have been divided by the segments and as this describes the deviation between the beginning of the year until the end of March and there it's quite easy to see the

Housing Finland CEE over there, the amount has declined roughly about €80 million. Then on the right-hand side you can see the table where is the difference between the time before IFRS16 and the time after IFRS16 and the deviation is in the grey boxes in the middle. In Housing Finland and CEE that's clearly the biggest impact over there, €170 million. That is driven by the rented plots. Housing Russia it's quite small. The other big figure is €71.5 million in the others and that's mainly related for the premises where we are operating about their rent agreements, and Paving is just about the leasings related to the machines and equipment.

That was shortly the financial part and now I let to Kari to continue.

Kari Kauniskangas: So, in IFRS world the number of handovers per quarter in different segments is quite an important figure and you can see here our current estimates. As you remember, in Finland there will be around 1,000 completions less than a year ago. Also, it's good to notice that during the first quarter the number of apartments sold and under construction for institutional investors has increased by 1,000 units, up to 2,400, and these apartments the revenue and profit is recognised according to percentage of completion.

So, we had a better than estimated start for the year and there is no reason to change the guidance. Group revenue for this year is estimated to be in the range of plus 5% to minus 5% compared to revenue last year and the adjusted operating profit is estimated to be from €170 to €230 million. Also, we estimate that the adjusted operating profit for the second quarter of 2019 will improve slightly from the comparison period.

So that was our presentation. Good start and positive outlook. Thank you and now if you have any questions, please don't hesitate to ask.

Svante Krokfors: Svante Krokfors, Nordea. I have a couple of questions. Regarding your larger projects that you have, Trigoni and Helsinki Garden, how long have you come in negotiation with possible co--investors there? Can you comment anything on that? And do you have any plans for how much you will own?

Kari Kauniskangas: Yes, both projects has good demand among the potential co-investors. Yes, we have started, still I would say, discussions. In Helsinki Garden we have even some papers signed but the final stage of those negotiations will start a bit later when the design stage is a bit longer than it is now.

Svante Krokfors: Have you seen a change in investor demand after the success of the whole Tripla project?

Kari Kauniskangas: At least it is not declining, so it has been quite good. And one topic that I have to say, that this kind of deal flow is also clearly improving the confidence towards the company, and that's of course a good thing from our point of view when considering those new projects.

Svante Krokfors: Then one other question, perhaps Ilkka can answer on that, but when you'll have more joint ventures also this residential fund but also the large projects, how much off balance sheet liabilities do you have and how high can you take them? Will you report them in any way or…?

Ilkka Salonen: Yes. There is a mention what are the commitments that we have that come to the financing of those joint ventures. We are not committed to give any – or we are not committed, giving commitment for external money. I mean, the commitment that you can see over there is the commitment that we are committed.

Svante Krokfors: Okay. Thank You.

Kari Kauniskangas: If no more questions from Käpylä, then if there any questions from on lines, please.

Operator: If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speaker phone, please make sure your mute function is switched off to allow your signal to reach our equipment. Again, please press star one to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal. Again, it is star one to ask a question. There are no questions signalled from the phone.

Kari Kauniskangas: There are several similar events at the same time from construction companies. If there are no more questions, then I thank you and wish you a warm spring and a hot summer. Thank you.