

# AS MERKO EHITUS

## 9 months and Q3 2017 interim report

09 November 2017



The airport tram line in Tallinn



1. Key highlights
3. Financial position

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# Merko group key highlights

- ❑ Revenue EUR 86m in Q3 and EUR 215m in 9M up approx. 24% compared to 9M 2016.
- ❑ Revenue increased on all group's home markets, supported by large contracts in progress.
- ❑ Profitability from construction services remains under pressure. Shortage of workforce and stability of suppliers.
- ❑ Secured order book strong at EUR 396m (up 55% y-o-y). Increase in Latvia.
- ❑ 9M 2017 sold 286 apartments and launched construction of approx. 500 new apartments.
- ❑ The group continued to implement its long-term apartments development strategy by investing a total of EUR 48m, including EUR 9m in new land plots.



The Radisson Blu hotel extension in Vilnius

# Merko group key financial highlights

<b>EUR million</b>	<b>9M 2017</b>	<b>9M 2016</b>	<b>Variance</b>	<b>Q3 2017</b>	<b>Q3 2016</b>	<b>Variance</b>
Revenue	<b>214.8</b>	173.4	+23.9%	<b>86.0</b>	67.8	+26.8%
EBITDA	<b>11.0</b>	8.4	+30.7%	<b>5.0</b>	3.9	+28.6%
EBITDA margin (%)	<b>5.1</b>	4.9		<b>5.8</b>	5.7	
Operating profit	<b>8.8</b>	6.1	+44.9%	<b>4.1</b>	3.0	+36.5%
Operating profit margin (%)	<b>4.1</b>	3.5		<b>4.8</b>	4.4	
Profit before tax	<b>8.2</b>	5.7	+43.7%	<b>3.9</b>	3.0	+29.6%
Net profit, attr. to equity holders of the parent	<b>6.6</b>	4.7	+39.2%	<b>3.4</b>	2.9	+15.9%
Earnings per share (EPS), in euros	<b>0.37</b>	0.27	+39.2%	<b>0.19</b>	0.16	+15.9%
Secured order book	<b>396.4</b>	256.4	+54.6%	<b>396.4</b>	256.4	+54.6%
Employees	<b>770</b>	816	-5.6%	<b>770</b>	816	-5.6%

\* Variance calculated based on consolidated financial statements of interim reports.

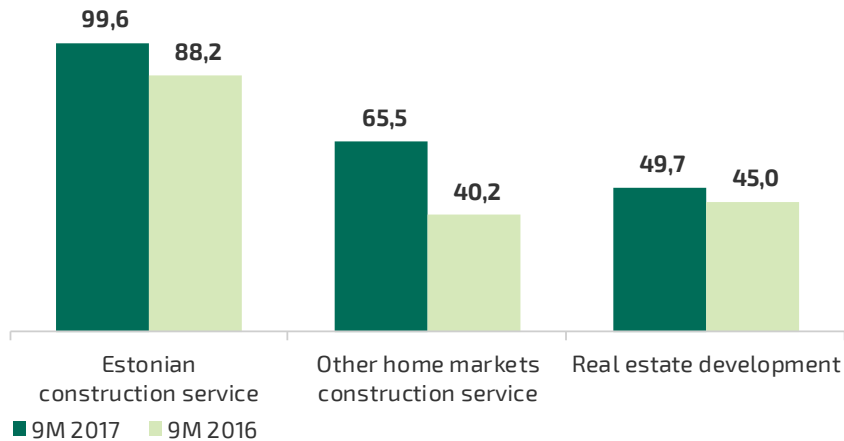


# Business review 9M and Q3 2017

## GROUP REVENUE BY SEGMENTS

in million euros

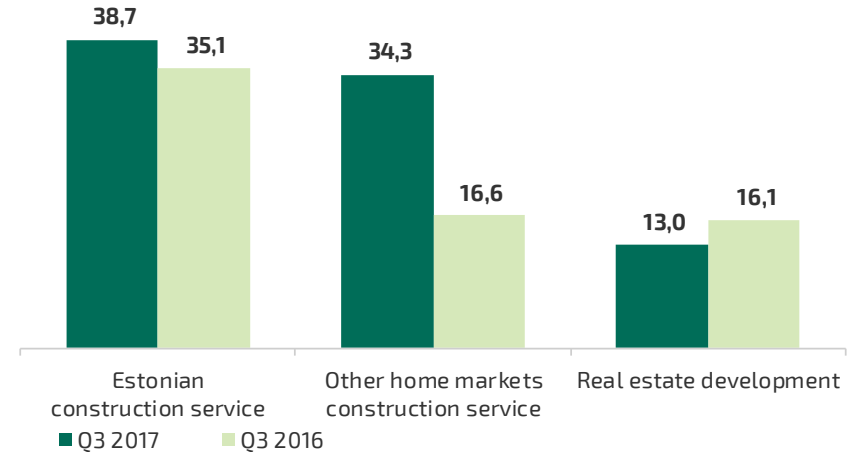
2017: EUR 214.8m  
2016: EUR 173.4m



## GROUP QUARTERLY REVENUE BY SEGMENTS

in million euros

2017: EUR 86.0m  
2016: EUR 67.8m



- ❑ The sales growth in all business segments increased total revenue level, but profitability from construction sector remains under pressure.
- ❑ The construction services revenue has been in line with managements expectations as several major projects are in progress. The developments of engineering construction have been below expectation.
- ❑ Profitability continues to be under pressure. Tight time schedule, shortage of resources in the form of design engineers and capable subcontractors are increasingly problematic.
- ❑ Rapid growth in Latvia, important to manage the risks.
- ❑ Organising the work process, finding optimum solution and adopting new technologies continues to be more and more important.

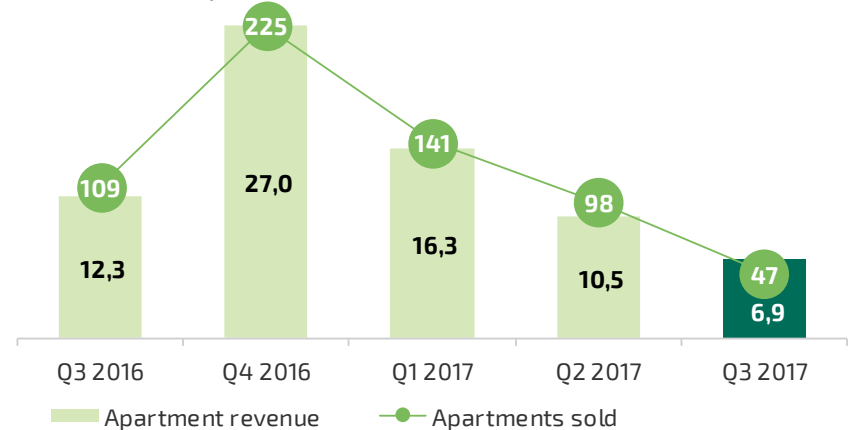
# Real estate development - apartments

**The rate of growth seen in Tallinn and Vilnius is settling down. Increased supply has led to longer sales periods. Riga still slow, expectations for growth remain.**

- ❑ Apartment sales as per expectations.
- ❑ 286 (incl. 1 in joint venture) apartments sold for EUR 34m in 9M (9M 2016: 268 and EUR 30m).
- ❑ Construction of 496 apartments launched during 9M 2017 (9M 2016: 284) and invested EUR 39m in apartment construction (9M 2016: EUR 39m).
- ❑ Land plot acquisition in Riga for EUR 4m in Q1 2017 (Rūpniecības street, approx. 350 apartments) and in Tallinn for EUR 4.5m in Q3 2017 (Paekalda, over 1,000 apartments).
- ❑ 450 apartments on active sale out of which approx. 54% in Estonia.
- ❑ Solid land plot portfolio of EUR 70m (30.09.2016: EUR 50m):
  - ❑ Estonia EUR 30m
  - ❑ Latvia EUR 32m
  - ❑ Lithuania EUR 8m

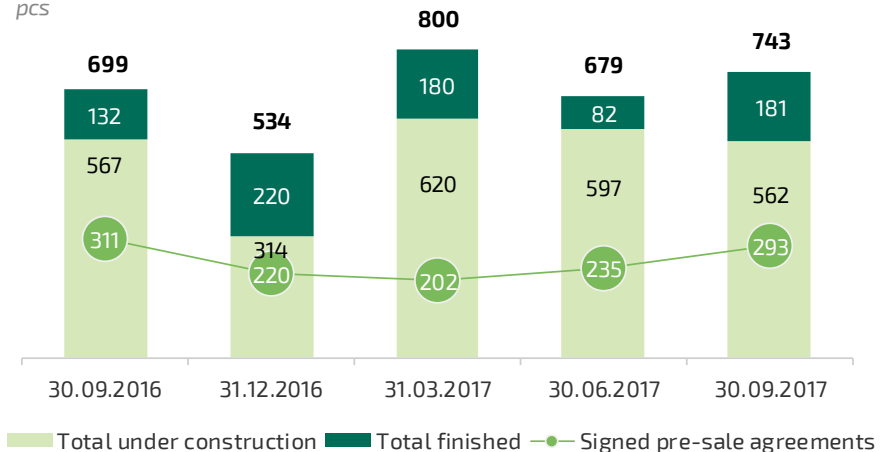
## APARTMENT REVENUE AND APARTMENTS SOLD

in million euros / pcs



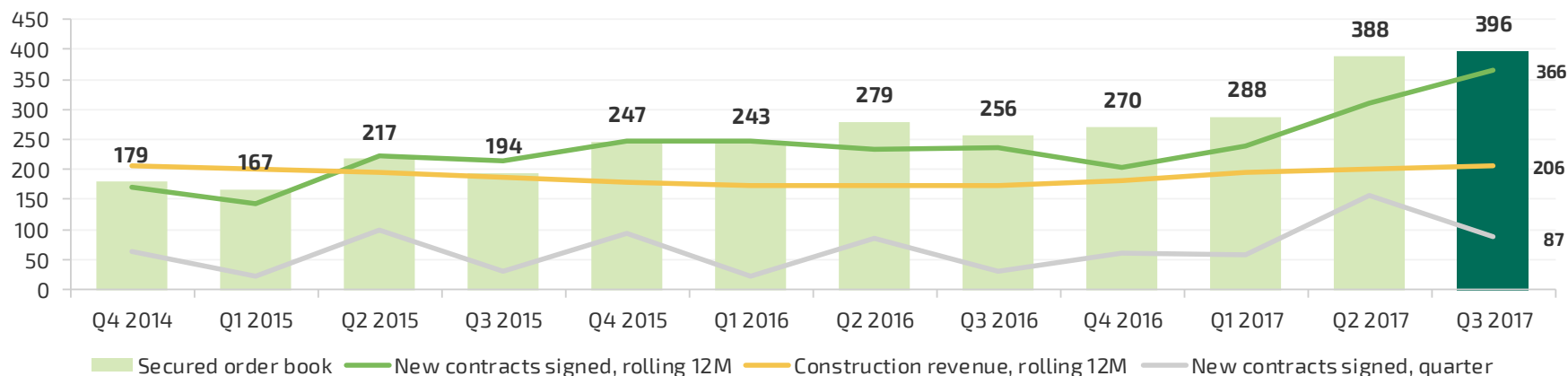
## GROUP APARTMENTS INVENTORY

pcs



## SECURED ORDER BOOK

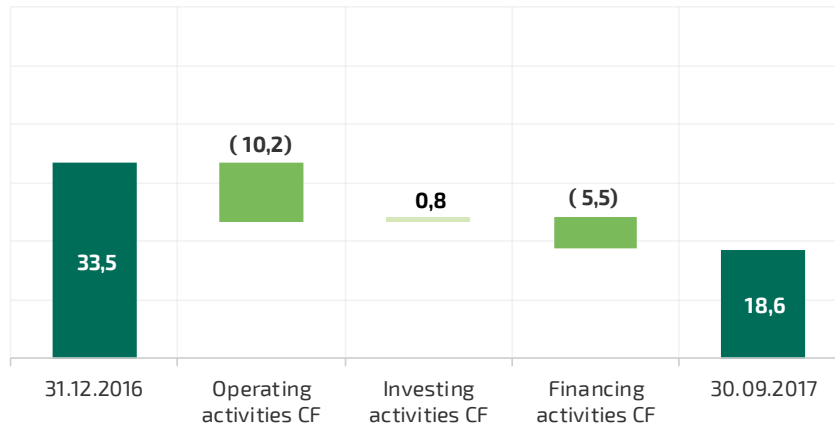
in million euros



- ❑ Secured order book strong at EUR 396m (30.09.2016: EUR 256m). A very good level of new contracts in Latvia.
- ❑ Total new contracts signed 9M 2017 EUR 304m (9M 2016: EUR 141m), incl. EUR 100m Multifunctional Centre Akropole contract in Latvia.
- ❑ The construction volumes of new commercial buildings in Tallinna and Vilnius are stabilising. Individual larger construction sites in retail and industry are being planned in Estonia; in Lithuania we expect industrial and logistics buildings in the private sector and schools, hospitals and national defence sites from public sector. In Latvia many large-scale engineering works are still being planned, including railway infrastructure; Norway large-scale public sector investments into infrastructure are planned.

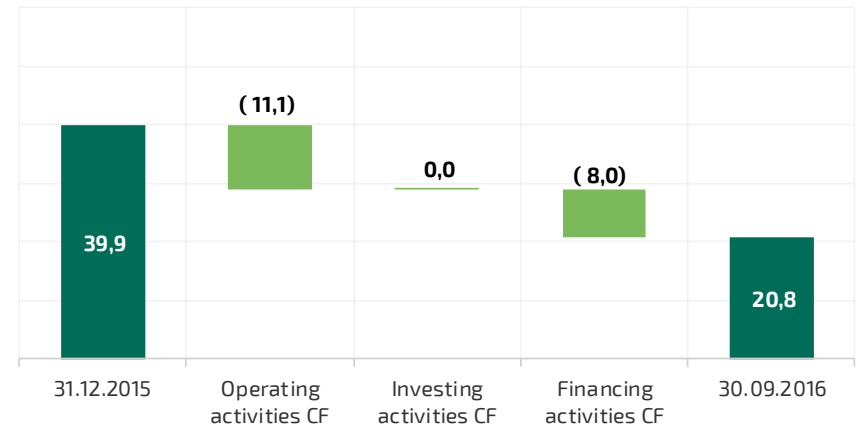
## CHANGE IN CASH AND CASH EQUIVALENTS

in million euros



## CHANGE IN CASH AND CASH EQUIVALENTS

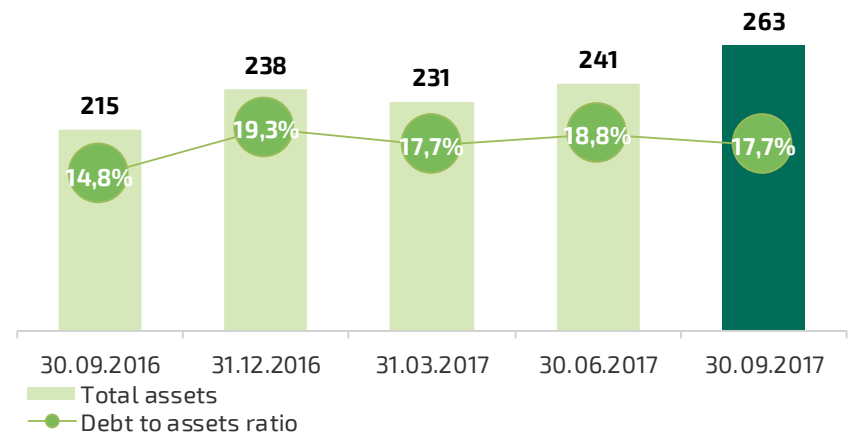
in million euros



- ❑ Liquidity position maintained strong, cash at EUR 19m (30.09.2016: EUR 21m).
- ❑ Net debt amounted to EUR 29m and debt ratio at 18% (30.09.2016: EUR 11m and 15%). Group is self-funding a large proportion of its own development projects construction activities and has not used any overdraft facilities.
- ❑ Current assets are at 2.8x current liabilities (30.09.2016: 3.1x).
- ❑ Equity at 46% (30.09.2016: 57%).

## TOTAL ASSETS AND DEBT TO ASSETS RATIO

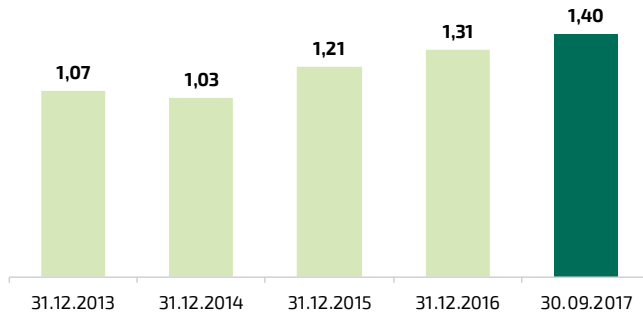
in million euros / percentages



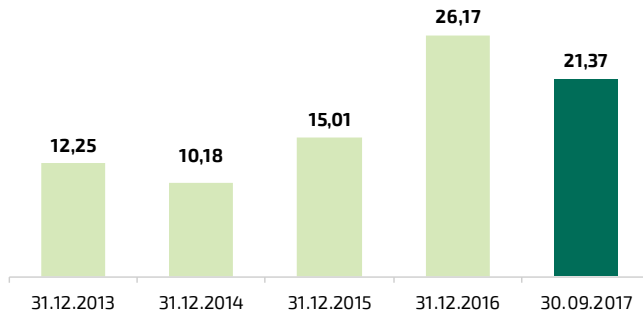


# Stock Exchange overview

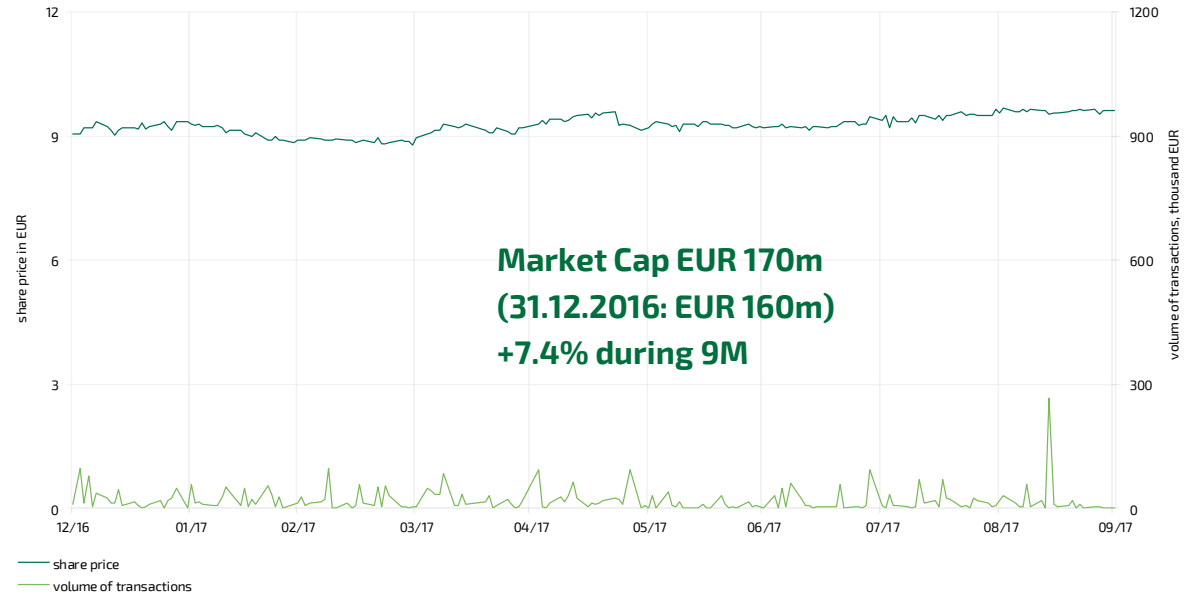
**P/B RATIO**  
times



**P/E RATIO**  
times



**2,002 shareholders**  
**+10.0% from 31.12.2016**

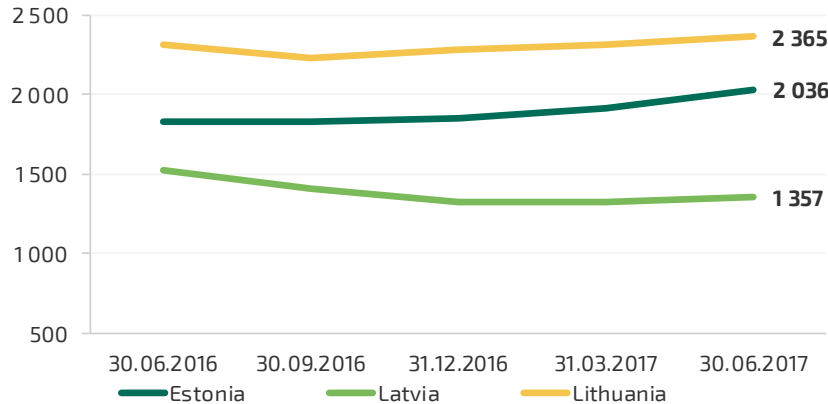


## Shareholders

	Number of shares	% of total 30.09.2017	% of total 30.06.2017	Variance
AS Riverito	12 742 686	71,99%	71,99%	-
ING Luxembourg S.A. AIF Account	974 126	5,50%	5,50%	-
Firebird Republics Fund Ltd	363 094	2,05%	2,05%	-
SEB S.A. UCITS client assets	232 222	1,31%	1,31%	-
Firebird Avrora Fund Ltd	220 519	1,25%	1,25%	-
Skandinaviska Enskilda Banken AB, Swedish customers	211 260	1,19%	1,22%	(4 400)
State Street Bank and Trust Omnibus Account at Fund No OM01	153 018	0,86%	0,86%	-
SEB Elu- ja Pensionikindlustus AS	143 887	0,81%	0,81%	-
Firebird Fund L.P.	131 331	0,74%	0,74%	-
OÜ Midas Invest	125 525	0,71%	0,84%	(24 000)
<b>Total largest shareholders</b>	<b>15 297 668</b>	<b>86,43%</b>	<b>86,59%</b>	<b>(28 400)</b>
Total others shareholders	2 402 332	13,57%	13,41%	28 400
<b>Total</b>	<b>17 700 000</b>	<b>100%</b>	<b>100%</b>	-

## BALTIC STATES CONSTRUCTION MARKETS (WITH OWN FORCES) ROLLING 12 MONTHS

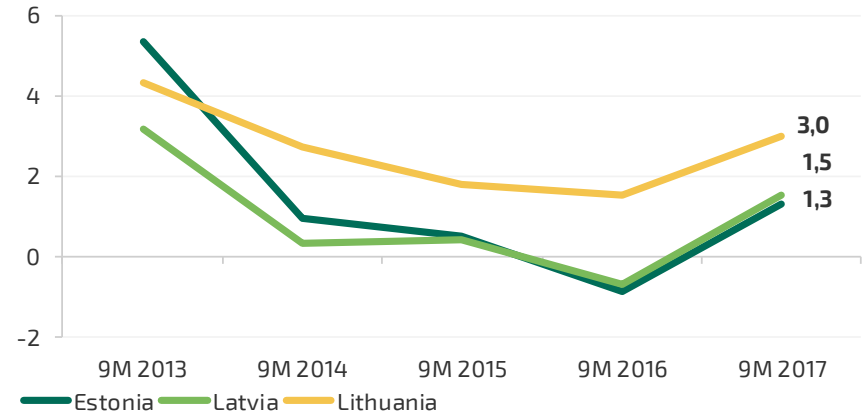
in million euros



Source: Local national statistical offices

## 9 MONTHS CHANGE IN CONSTRUCTION PRICE INDEX

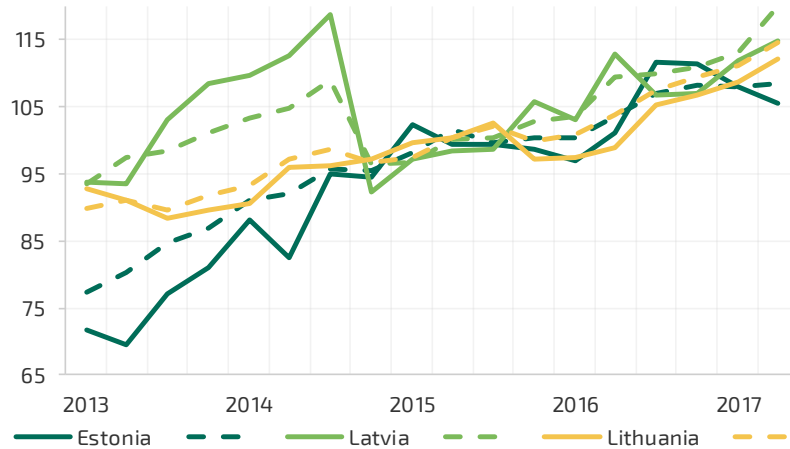
percentages



Source: Local national statistical offices

- ❑ **Estonia:** residential construction is still active due do favourable real estate market cycle. Development of new commercial buildings is stabilising. Public procurements for buildings at a moderate pace. Larger construction projects in the industrial and retail sectors, and in roads.
- ❑ **Latvia:** a number of construction procurements for office buildings and public sector buildings are on the market. The residential real estate remains passive. Several large-scale engineering works are still being planned, including railway infrastructure construction.
- ❑ **Lithuania:** demand for new commercial buildings is stabilising. Many new industrial and logistic buildings in the private sector are in planning stage. Public sector buildings are coming to tender. The apartment building market in Vilnius continues to be active, transaction activity is stabilising.
- ❑ **Norway:** market is moderately active. The price correction and lengthening sales period in housing market. Public sector investments into infrastructure.

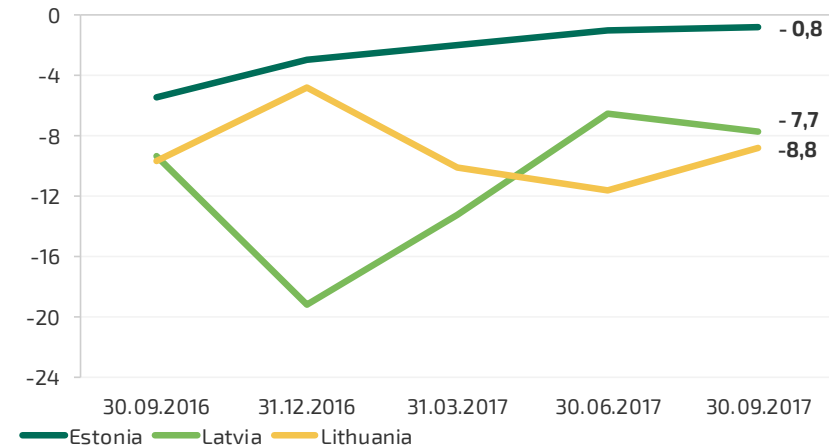
**NEW AND ALL (dotted line) DWELLINGS QUARTERLY HOUSE PRICE INDEX (2015=100)**



Source: Eurostat

**CONSUMER CONFIDENCE INDICATOR**

*difference between percentages of pos. and neg. responses*



Source: European Commission Directorate-General for Economic and Financial Affairs

- ❑ The rate of growth in Tallinn and Vilnius apartment markets is settling down. Riga's apartment market still less active, but with potential increasing demand.
- ❑ Increased supply levels in Tallinn and Vilnius have lengthen of sales periods in some projects.
- ❑ Prices for new apartments has started decrease in Estonia. The price level has been more stable in Lithuania and has shown steady increase in Latvia.
- ❑ The macroeconomic environment continues to be favourable for supporting apartment buyers' position – growth of income and savings, low interest rates and relatively good availability of bank loans.
- ❑ The prices of land plots have increased, which hampers the addition of new developments.

## Estonian construction service

- ❑ Internal efficiency
- ❑ Road and other infrastructure tenders
- ❑ Close cooperation with private customers

## Other home markets construction service

- ❑ In Latvia active participation in both private and public sector tenders in buildings segment. Large projects risk management.
- ❑ In Lithuania actively enter the public tenders market
- ❑ In Norway increase revenue and develop new buildings general contracting capability

## Real estate development

- ❑ Real estate development continuingly a strategic business area
- ❑ 2017 plan to launch construction of 650 (incl. joint ventures) new apartments and the investment in apartment construction in the range of EUR 45m
- ❑ Product development



*Multifunctional Centre Akropole (2019): EUR 100m*

# Merko Group in brief



**The largest listed construction company in the Baltics**

## Wide scope of construction services:

- General construction
- Engineering construction
- Road construction
- Real estate projects

**Home markets: Estonia, Latvia, Lithuania and Norway**



**Share quoted on Nasdaq OMX Tallinn since 1997**

## Competitive advantages:

- Broad range of construction services and products, comprehensive solutions offered to clients
- Experienced project managers and engineers
- Longstanding experience on the subcontractors and suppliers market
- Innovative technological approaches and construction solutions
- Strong financial capability
- Inventory of residential development projects



**Revenue in 2016  
€252 mln**



**31.12.2016:  
797 employees**



**Net Profit 2016:  
€6.1 mln**

**EBITDA 2016:  
€11 mln**





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