

17.8.2022

PRESENTATION

1.1 Minttu Vilander

Welcome to our Q1 interim report presentation. My name is Minttu Vilander and I'm the Head of Communications and Sustainability here at Sitowise. It's my pleasure to be here today with our new CEO, Heikki Haasmaa, and with our CFO, Heidi Karlsson.

Here is the agenda for today and we will shortly go to the presentation. I have just a couple of things that I need to explain to you before we go. So you can ask questions during this presentation. You can do it via the chat box there under the presentation and you can use English, Swedish, or Finnish when asking the question. And after the presentation, I will ask the questions from Heikki and Heidi. If you wish to ask a question in person, you can do that also, but then you need to call the conference call and you can find the number and the pin code in the release published today in the morning. And you can then call there and then you can ask the question yourself.

And without any other information, we can start the presentation. Go ahead, Heikki. Please start.

1.2 Heikki Haasmaa

Thank you a lot, Minttu. I'm really eagerly looking forward to the Sitowise journey. My background is from KONE. I've had several leadership roles there during the last 19 years. Recently, I was leading globally the maintenance business, and before that I was the managing director of Finland and Baltics. Those roles have helped me to understand how to grow profitably international business. We also are the forerunner in digitalization and lead organisation professionals, and I'm sure this will be helping me now with Sitowise. We aim to be a significant player in the business during the coming years.

What are my first impressions about Sitowise? I would say that Sitowise has a very good foothold overall in Finland. We have great opportunities for further growth in Sweden and then [? 00:02:31] other Nordic countries. Overall, the business performance is a solid one and we have a strong ambition for growth.

And about our people: I'm really impressed. Our people are very committed, open, and also really passionate about what they are doing. And this is a big asset for us going forward. So, I really would like to thank all of our people for the great work during the last year and also during the first quarter. So, thank you. Also, I'd like to thank Pekka Eloholma, the previous CEO, for his very good contribution in the past. So thank you, Pekka.

And then, we move on to see how the first quarter went. Here is the first quarter in a nutshell. Net sales developed well in both Finland and Sweden, and we continued strong organic growth. Demand was solid in the quarter, and also our order book is very strong, and profitability remained on a good level. We had two successful acquisitions that we already have started to integrate. They also made a customer satisfaction survey in the beginning of the year, and we learned that we have a strong trust from our customers.

The war in Ukraine really increased general uncertainties in the market; however, we see that the direct impacts on our business will be limited. Now I'll hand over to Heidi to tell a little bit more about the details of the financial performance. So, Heidi, please.



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1.3 Heidi Karlsson

Thank you, Heikki. Looking at our first quarter, we can conclude that we have had a good first quarter. Our top line was €49 million. It means a growth of 15% compared to the first quarter last year. The strong growth was a combination of organic and acquired growth. Looking at our profitability, it remained on a good level. The adjusted EBITDA was €5.2 million, which means an increase of 11%, or €500,000, compared to year on year. I.e. compared to Q1 last year.

The difference between the adjusted EBITA and EBITA are the items that relate to comparability, or the so-called one-offs. This year in Q1, they were higher than last year. And they include, amongst other things, write-downs of projects related to Russian-owned entities. Historically, we have had a strong cash flow – at the end of the year, in the last quarter, as well as in the first quarter. And this year was no exception. The increase in cash flow that we had in Q1 was mainly due to the positive changes in the working capital. Our leverage that we measure by net debt divided by adjusted EBITA stayed approximately on the same level as last year or at the end of the year.

Heikki just told that we completed two acquisitions in the first quarter and those we did by our own cash, so we didn't have to raise any new debt.

Let's next take a closer look at our order book, net sales and profitability. Once again, we can inform that our order book was at record high at the end of the quarter. With an order book of €172 million, what it means is that we have had a growth of 30% compared to last year and also a growth of 6% compared to the year end.

In the first quarter our growth – we had a couple of good bigger orders, but the growth in our order book was mainly driven by small- and medium-sized projects. If you look at our net sales, we have pointed out already that the growth, we are very pleased with the strong growth that we had in it – 15% growth. And this growth was particularly driven by the 7% organic growth. If you recall in Q4, the organic growth was a little bit lower; it was 6%. The organic growth that we had in the first quarter was composed of three factors: we had an increase in our average number of personnel, our utilisation rate improved, and we also had higher average price.

In the first quarter this year, we did have one working day more compared to last year, but unfortunately due to the increased sick leaves, there was no positive impact of that additional working day. The positive impact was unfortunately offset by the increased sick leave.

Moving to our profitability. When we look at our adjusted EBITA where we could see the increase by 11%, which was driven by the higher net sales. Our profitability was weakened by the increased sick leave. And in addition, we also had some higher operating expenses due to the fact that we have had to gradually transition to the post coronavirus period and are having more activities. We could also add that in Q1 last year, the operating expenses were not burdened by any costs related to being a listed company, which we have this year.

All in all, or overall, we can see that our financial foundations remain very solid and we will continue focussing on our profitability as we keep on growing.



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So let's move on to look at our business area-specific development. In the first quarter, we are pleased to see that we had a strong top line growth in all of our business areas. In those business areas where we had double-digit growth, the organic growth has been particularly strong. We are talking about buildings, digital solutions and Sweden.

In infrastructure, the growth was lower, but I would like to point out that Infra still grew faster than the market. I also would like, and I think it's important to note, that the Digital Solutions and Sweden's share of the Group's net sales keep increasing, which is totally in line with our strategy.

To summarise, the net sales development was strong in all of our business areas. And next, Heikki you will tell a little bit more about the development in our business areas.

1.4 Heikki Haasmaa

Thank you, Heidi. Firstly, I think we can be very happy about the order book being at a really high level across all the business areas due to continued market recovery, but also our own active sales efforts. Secondly, we had two major projects: planning of the Liminka-Oulu railway in northern Finland and then the design of the Västerås hospital in Sweden.

And as Heidi said earlier, we also received a significant number of small- and medium-sized orders. Thirdly, we announced one new acquisition in Sweden where we expanded our infrastructure business with the acquisition of Mavacon Mark company. Earlier this year, we also completed the acquisition of VRT Finland business regarding 3D construction inspection.

And the final highlight is that we also launched now Sitowise brand in Sweden and will integrate the daughter company brands to become one big Sitowise. So, we now have a strong foothold in all our business areas also in Sweden. This is again a great foundation for the future growth.

I mentioned earlier about the customer survey. Our customer survey conducted in the beginning of the year confirmed that Sitowise expertise is highly appreciated. And as you can see, our customers trust us. All of them, or nearly all of them, would reselect Sitowise as their supplier. And during last years, we have steadily strengthened our image as an industry leader and developed new and innovative solutions. I would say, we have a great foundation for further developing our customer loyalty and customer experience. Now I'll hand over to Heidi to tell a little bit more about the impact of the Ukraine war.

1.5 Heidi Karlsson

The war in Ukraine is, of course, a very big tragedy and it is changing the world. On Sitowise, the direct short-term impacts of the war are limited as we didn't have any subsidiaries in Russia, Ukraine or Belarus, and nor did we export to those countries. After the war broke out, our business has continued as normal and the demand has remained strong during Q1. In early March, we decided that we will not begin any new projects with Russian owned entities. We also went through our current projects. We found a couple with such ties and we suspended them. This resulted in the write-down that we had in Q1 which was related to this project with the Russian-owned entity.



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If you look mid and long term, we anticipate that there might be impacts on our client projects due to the increased inflation and material costs. Energy availability as well as the general uncertainty in the economy. We might experience delays in projects, schedules and also starting of new projects of our clients. Therefore, it is important that we will continue focussing on balancing the increase in costs with price increases, as well as focussing on growth opportunities which, for example, the green transition could bring. And of this, Heikki will tell more about next.

1.6 Heikki Haasmaa

Thanks, Heidi. So clearly, the green transition is the positive impact here. And why it's seen as a positive one is that overall, the green transition will be accelerated and it's in the core of Sitowise vision. We want to be the most responsible partner of a prosperous living environment. And here you can see a couple of examples of areas how we enable the green transition: minimising carbon footprint, designing new energy solutions and also optimising movement of people and material. We enable a sustainable urban life. And the world of tomorrow is planned today as the societies in Nordics are well functioning, we can be the pioneers of developing solutions for complex problems, and there can be demand worldwide for the expertise we've been developing.

At Sitowise, we can contribute to this by making the buildings and infrastructure to support people's lives in a sustainable and cost-efficient way. A great opportunity.

Then let's have a look at the market outlook. The stable growth in the demand of design and also consulting services to create sustainable societies is supported by the megatrends such as urbanisation, renovation backlog, sustainability, and then also digitalisation, and demand in all of the business areas has remained strong, but the uncertainty in the market brought by the war in Ukraine can impact decision making of our customers.

When it comes to guidance, it's unchanged. We estimate that both net sales and adjusted EBITDA in euros will increase compared to last year. And also, our long-term financial targets remain the same.

So that concludes my first quarterly presentation and our presentation. During the forthcoming weeks, I'm going to meet actively our customers, investors, and also employees to understand well our strengths and also opportunities for further growth in the Nordics. I really strongly believe in our ambition to be a significant Nordic player. And it is it's just great to be part of the next phase of Sitowise journey

And about the way forward: we will continue to build on the solid foundation and the good company culture, and I see that there are a couple of areas where we need to focus on. Firstly, accelerating further our growth in the Nordic countries. Secondly, driving digitalisation, the increasing impact of our own operations, but also creating new businesses. And then thirdly, sustainability being an essential part of our culture, mindset, and way of working, and that we are really supporting our customers with their sustainability target.

Now it's time for the Q&A. So, any questions, please?



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Q&A

1.7 Operator

Thank you. And if you wish to ask a question, please press 01 on your telephone keypad. If you wish to withdraw your question, you may do so by pressing 02 to cancel. There'll just be a brief pause while any questions are being registered. And just as a reminder, that was 01 on your telephone keypad if you wish to ask a question.

And there seems to be no audio questions, so I hand back to the speakers.

1.8 Minttu Vilander

Thank you. We have questions here in the chat, so I will ask those now. First we have a couple of questions from Olli Koponen from Inderes and here is the first one: 'Your costs have increased in materials and services and also other operating expenses have risen. Can you explain a bit more this cost structure changes compared to the comparison period? And can we expect this to continue?'

1.9 Heikki Haasmaa

Thanks for the question. I could start. I would at least say that what we also pointed out earlier. Now of course, we are moving to more post-COVID environment where we have more activities, internal activities, so that had an impact on the cost basis. But other than that, maybe I'll ask Heidi to complement a bit.

1.10 Heidi Karlsson

What Heikki was mentioning, those were things that were impacting our other operating expenses, which was one part of the question. And the first part of the question related to the higher material and services cost. I would say that these are always things that – it's a combination of the projects that we are having. It's a little bit, what is our project mix? And that has a very big impact on our material and services cost, i.e. the subcontracting costs. And then I would say that there is also seasonality in our costs as we have seasonality on our top line.

1.11 Minttu Vilander

Thank you. Then there is another question from Olli too, 'Are there projects delayed because of market uncertainty? And do you see that the situation's changed?'

1.12 Heikki Haasmaa

There are some postponements. We are also seeing that there is an increased risk of some postponements. So in that sense, market has been a bit changing. Again, Heidi, any further thoughts about this?



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1.13 Heidi Karlsson

Yeah, I would say that when it comes to the ongoing projects, I wouldn't say that strongly that there has been delays in the ongoing projects. Here the current projects are developing and are progressing according to plans. But where we do see a small decline is of the incoming tenders.

1.14 Minttu Vilander

Thank you. Then there is also a question about the order backlog, 'How is it like, okay, the order backlog is really good, but what about the realisation of the order back log, how it is progressing? And is there any differences if we compare it to a normal situation?'

1.15 Heidi Karlsson

Maybe you can also elaborate on this one.

1.16 Heikki Haasmaa

Starting from the end. Our order backlog, and if we look at the development that we have had that it has been increasing, there is no big difference in the development and what is included in our order backlog. So, we can see that we have a strong order backlog in all of our business areas. We can say that a big part of our order backlog will be realised as sales within the next 12 months. But of course, our order backlog includes also firm orders that are of those big projects which run over several years.

1.17 Minttu Vilander

Thank you. Then there is a question from Robin Nyberg from Carnegie, 'The second half of the year tends to be stronger for you in terms of profits. Do you expect that to be the case in 2022 as well, or is it too early to say because of the uncertainty?'

1.18 Heikki Haasmaa

Yeah. I think we can clearly say that it's too early to say at this moment. But what we have said earlier, of course, that what comes to our guidance, so that remains unchanged.

1.19 Minttu Vilander

Thank you. Then from Robin also, 'You have done a limited amount of acquisitions recently. What kind of M&A pipeline do you have and which areas do you aim to acquire?'

1.20 Heikki Haasmaa

Yeah. So, what about the pipeline overall? So of course, as we've said, our aim is to be a significant player in the Nordics. So of course, we are covering that market and looking at opportunities there. I would say that we have a solid pipeline there and we have been progressing with those ones pretty well. Heidi, anything to add maybe?



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1.21 Heidi Karlsson

I think it was quite a good answer, and I think we can say that we have quite an active pipeline.

1.22 Minttu Vilander

Then there is a question about EBITA margins and how much the sick leave has impacted EBITA margin.

1.23 Heikki Haasmaa

So the amount of sick leave was basically €700,000 during the first quarter.

1.24 Minttu Vilander

And then one question about the pricing and order backlog. We have a high order backlog, but do we see any risk for mispricing because of the inflation?

1.25 Heikki Haasmaa

If you, Heidi, can comment this one.

1.26 Heidi Karlsson

As I said, our order backlog is a mixture of very many different orders and from different kinds of clients, but we do have the possibility to adjust in many of the cases. We do have a possibility to negotiate and adjust the prices as well as to sell also additional services. So as the message has been that we are actually very pleased of having going into this kind of uncertain time with such a high order backlog, because we know from the past, that when the times do get uncertain, there will be a very, very tough competition for the upcoming orders.

1.27 Minttu Vilander

Then there was also a question about the prices. Do we see that there is pressure to increase the pricing?

1.28 Heikki Haasmaa

I would say there's an opportunity definitely here for us also to proactively drive price increases overall in the market. And of course, we see that there's increased risk of the cost base increasing next year. So of course, now we are looking at opportunities this year to improve overall pricing.

1.29 Minttu Vilander

Thank you. Then about the write-downs caused by Ukraine, do we tell how much are the write-downs caused by the Ukraine war?



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1.30 Heidi Karlsson

It's about half a million, which can be seen actually in our interim report in the notes information that we have there, as we are disclosing our items, our one-offs in different groups. It is under the group Other, so that information can be found in the interim report as well. So, half a million.

1.31 Minttu Vilander

Thank you. And then the last question. 'Utilisation rate remained on a decent level despite higher sick leave rates in Q1. What level of utilisation rate do you believe to be achievable in a normalised market situation?'

1.32 Heikki Haasmaa

I think, Heidi, you are more the expert now at this stage.

1.33 Heidi Karlsson

In Q1 our utilisation rate was a little bit below 70. And our target is – when it's on a good level we think it should be 78%. And of course, everything above that is very good, but that is our [? 00:30:26].

1.34 Minttu Vilander

Thank you. That was all the questions that we have for today. And now we can wrap up. Heikki, please.

1.35 Heikki Haasmaa

Thank you, all. Thank you, all, for the questions. And as we described, there is a great solid foundation. We had a very good first quarter and now I'm looking, we are looking, forward to the next phase of Sitowise journey. Thank you.

1.36 Minttu Vilander

