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Minttu Vilander [00:00:01]: Welcome to Sitowise Q3 2022 presentation. My name is Minttu Vilander, and I am the Head of Communications and Sustainability here at Sitowise. I am here today with our CEO Heikki Haasmaa, and we have a new face here: our CFO Hanna Masala. And they will shortly start the presentation. But before that, I will briefly give you some technical instructions. Here is our agenda for today. If you wish to comment, you can do it via the chat box under the presentation. I will go through the questions you've sent, after the presentation, together with Heikki and Hanna. We also kindly ask you to provide your whole name when you ask the question. Now, we continue to the presentation. And I will hand over the stage to Heikki and Hanna. But first, Hanna will introduce herself. She started working here at Sitowise in the beginning of October. So, Hanna, the stage is yours.

Hanna Masala [00:01:07]: Thank you, Minttu. Yes, it's a very nice day and a great pleasure to represent Sitowise now for the first time when we report our third quarter. And very nice to do it with Heikki who has already done this a few times during the past quarters. As Minttu said, I started in Sitowise in the beginning of October. And it's been a speedy start. After the end of the quarter we've done one acquisition in Sweden. We needed to update our full-year guidance. And, obviously, then we've done a little bit of number crunching to finalise this quarter. And then other things as well. But it's been really nice to begin learning to know Sitowise with its dynamic and entrepreneurial culture. There is a very broad expertise in the company. I am, obviously, only starting to scratch the surface with this fifth week that's ongoing. But the team has welcomed me very warmly. And it's really great to continue the journey with them. What I bring along with me to Sitowise is a broad history and experience from different companies and industries. In addition to finance, I have worked a lot with mergers and acquisitions, and also with strategy which, I believe, will be beneficial for the further development of Sitowise. Now, it's time for us to get going on the quarter. So, over to you, Heikki.

Heikki Haasmaa [00:02:37]: Thank you, Hanna, and welcome to Sitowise! Great to have you on board. So, overall, we had a good quarter. We can be very happy with our net sales which increased by 16% and the organic growth which was 6%. Our order book hit the new record being at 175 million. The adjusted EBITA was in line with the last year, third quarter. We had some negative factors burdening the margin, and I'll explain them in more detail today. Market outlook has changed lately quite a lot. Uncertainty has increased significantly in the construction sector, and this has impacted part of our business as well. This is also the reason why we have revised our guidance for the full year, and I'll come back to that one soon. After the end of the quarter, we strengthened our expertise in Sweden by the acquisition of Convia company, as Hanna said. I want to welcome the 23 new experts to join Sitowise family. Back to you, Hanna.

Hanna Masala [00:03:59]: Thanks. I am very happy to say that we clearly continued on this growth path: our net sales increased in all of our business areas. Some examples of especially fast-growing businesses include the renovation business which report under the Buildings business area. And also, the team in Sweden has achieved strong growth. In Sweden, this was coming both organically as well as from acquisitions. The highest growth in percentages is shown for digital solutions. There, the growth is boosted among others by the acquisition carried out in Sweden last year. So, this is also showing that Swedish market is becoming more and more important for us. The numbers tell it, we are on this growth path. When we then look at the growth on the whole Sitowise level, we continued on double-digit growth figures, and this is in line with our target. In the third quarter of the year, our net sales increased by 16%. And, as



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Heikki mentioned, our organic growth amounted to 6%. Our order book hit the new record, EUR 175.000.000 in the third quarter. The order book includes several sizeable long-term projects that contribute to the stability and predictability of our business. When we compare to the previous quarters, the order book growth is mainly driven by the acquisitions. However, we are very happy to see that even with some uncertainty in the market increasing, the order book development was solid also on an organic basis. Back to Heikki.

Heikki Haasmaa [00:05:50]: Thanks, Hanna. So, about the EBITA. So, our adjusted EBITA was at last year's level, at 4.9 million. Then, considering the very good top-line growth we had, we could have done better with the EBITA. And there are three main reasons behind this one. So, firstly, the uncertainty in the construction industry. That has already led to delays in some of our customers' projects. And for us, this means that we need to re-organise the work of some of our people, and that has an impact on utilisation rate and thus profitability. Secondly, we still see higher than normal sick leave absences due to COVID, even though the level is smaller than what it was during the first half of the year. This has an impact on less than planned working hours and thus impacts profitability. Thirdly, we've had to use more subcontracting than planned, as there has been lack of resources, especially in the digital solutions business. The employee market has been hot, and there is competition of skilled labour. We've already taken actions to improve the situation, and I can say that we are on a good path there. In addition to these, we had a couple of isolated project overruns. We consider them to be part of normal business. However, we've taken actions to minimise similar ones in the future. Hanna, would you then summarise the whole third quarter?

Hanna Masala [00:07:32]: Thanks, surely. So, this is the page with a lot of numbers. And, obviously, we've already covered net sales and EBITA. So, no reason to go through them again. Just picking a few other numbers from the page, net result improved somewhat from the level a year ago. And there were quite a small amount of items affecting comparability as was also the case a year ago in the same quarter. As you may remember, we record costs mainly related to acquisitions and internal restructurings in this category. Another figure I want to pick from the table is our net debt to EBTDA ratio. As you can see, we are a bit above our long-term target level of 2.5. The increase comes from the strategic acquisitions we've decided to conclude, and it's worth noting that our cash flow generation is typically, seasonally, strongest around the year end, while during the third quarter the cash flow is impacted by the holiday period. So, we pay, obviously, salaries, but there is less invoicing, and that's burdening the working capital during the third quarter. All in all, we are comfortable with the current balance sheet structure. Now, Heikki will continue with our actions to ensure the strong profitability development also going forward.

Heikki Haasmaa [00:09:01]: Yes. Our ambition is to remain the most profitable player in the industry. We have four main priorities to improve our profitability further. So, firstly, as the inflation is high, we look carefully at all the levers to improve pricing further. At the same time, we've already increased cost awareness in all parts of our organisation. Secondly, there is a clear focus to improve further billable project work. And in practice, this means that we need to stay very close to our customers and ensure that our work truly adds value to our customers. At the same time, we are selective at our internal activities and events going further as well. Thirdly, we also continue to look at new ways of working. And what I mean with this one is that we believe that our unique digital platform, Voima, is really helping us there. And we want to use it to full extent. We have some further opportunity with that one. Also, we see that our motivated employees and also the strong leadership culture create a solid foundation for further updating the ways of working. We also expect to see positive contribution to the margin from the recent acquisitions. And I also want to remind here that, of course, our decisions are guided by the long-term target of having over 12% adjusted EBITA. Then, let's dive deeper into our business areas. Starting at the buildings. The growth was there boosted by the acquisition of Rakennuttajakaari in June. Also, the renovation market continued to develop well. However, the new development



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market was hit by the growing global economic uncertainty, as discussed. And some projects have been delayed. In infra-business, we had a strong organic growth and we outpaced the market. So, that's a really great achievement. We saw lower market activity in the new tenders. However, we had a good rate. Hit rate, I mean. In digital solutions, the growth was driven by the acquisition of Bitcomp Company in June, which is a pioneer in software-service type of solutions for the forest and natural resources sector. Market demand for digital services remained overall strong. Recruitments were more successful than during the previous quarter, and this has been helping us to now continue with the strong growth. Demand in the Swedish market remained stable overall. The order book fell a bit, but remained at the healthy level overall. And looking at the Swedish market, the general uncertainty has also increased there. But it looks, still, overall good and better than in Finland. As has been already said, what comes to M&A part, in October we strengthened our constructing and infrastructure expertise in Sweden by the acquisition of Stockholm-based Convia Company. The company provides expertise within constructing consultant services. And it employs 23 people. Lately, we've been searching for a strong market entry opportunity within infrastructure in Sweden. And now, Convia's capabilities will certainly support us in taking a clear position in breach and tunnel construction, and also maintenance part there. And this will make us a true partner to the infrastructure sector in Sweden as well. And looking at the past a bit, we've been actually growing in a fast pace in Sweden over the last couple of years and have made overall eight successful acquisitions. This acquisition, Convia, strengthens our portfolio in Sweden, and I'm truly happy about that one. Then, looking at the updated guidance, the market outlook remains solid in Sweden. But the uncertainty in the construction market in Finland has increased during the third quarter. The impact on the technical consulting business is not quite as significant but the risks of somewhat lower activity levels are visible in some of our market segments. And that's the reason why we have updated our guidance. And the new guidance is that the net sales in euros will increase compared to last year and that the adjusted EBITA in euros will be at the same level or slightly below the adjusted EBITA last year. So, we trimmed down our guidance slightly, reflecting the impacts of uncertainty in the market. That said, overall we continue to see a very positive long-term need for the technical services we are providing. This growth is supported by the four megatrends. So, firstly, urbanisation. So, overall, what we see is that the constructing is more and more complex, and this requires more technical planning. Secondly, the built environment maintenance backlog increases all the time, providing us opportunities. Digitalisation. So, collecting, managing and using data to optimise movement of people and goods will just increase. And, as the fourth item, the climate change. There is a need to find energy-efficient solutions and to manage the whole life cycle. And those kind of demands increase. So, these are the challenges that the whole society faces. And we see that we are in a good position, as we provide solutions for this one. So, let me give you a couple of examples how these megatrends convert to our opportunities. Firstly, the growing maintenance backlog creates more demand for renovation business, and we are strong there. Secondly, many of our customers are increasingly looking at more sustainable solutions, and we are the most advanced in our industry, challenging our customers to think about alternative sustainable solutions. Thirdly, we already have a good foundation with our SaaS business. And we foresee that there is a clear customer demand for this kind of services in our industry. As the fourth item, we continue to accelerate the growth in Sweden where, also, the market seems to be more stable than in Finland. So, then let's wrap up. So, what has been said: our ambition is to remain the most profitable player in our industry, and we have clear drivers and ongoing actions to support that. Even though the market overall is uncertain, there are several cornerstones for growth, and we want to catch them. We continue to manage actively our M&A pipeline with a very selective approach we've had. So, here was our third quarter in a nutshell. Thank you. And we are now ready for questions.

Minttu Vilander [00:17:52]: Okay, thank you, Heikki and Hanna. We have questions here, Firstly, let's start with the outlook. Regarding your outlook, in which areas are you seeing demand possibly slowing and how much?



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Heikki Haasmaa [00:18:18]: Yes. Thinking about the demand, clearly in the new-build sector there is less demand. And how it applies to us is that we can say that in our building segment, especially in the structural engineering which has a direct link to the new-build market size, there is the biggest impact on us.

Minttu Vilander [00:18:45]: How many projects have you seen being postponed or cancelled and how much have these affected you during 2022?

Heikki Haasmaa [00:18:59]: Yes. During the third quarter, there were a few projects, roughly 20, which were postponed. However, the impact on us was quite modest when it comes to the net sales but it had some impact on our utilisation said. As I said, we had to re-allocate the work a bit in a new manner, and that resulted in an impact on the utilisation rate. But it's only for this structural engineering.

Minttu Vilander [00:19:41]: Okay. About the utilisation rate, it has been going down. Do you expect this to continue? For how long? And what would you say is a normal level for you going forward?

Heikki Haasmaa [00:19:56]: So, the billable working hours is really the key focus area for us. And we are already taking actions, and we are seeing that we are going to the right direction there. So, I'm sure that the actions we have taken will be impactful.

Minttu Vilander [00:20:23]: You mentioned project overruns, that those also affected your profitability during Q3. Did it have a large effect? And how many projects do you have ongoing that could be affected like this?

Heikki Haasmaa [00:20:46]: As I said, there were only a couple of isolated projects which had overruns. And, of course, we feel that it's a part of business. So, of course, we want to minimise those ones. Unfortunately, some might also appear in the future. But we have good actions now ongoing to improve the situation.

Minttu Vilander [00:21:15]: Then there is a question about the cost base. What can you do with the cost base to support margins and improve efficiency?

Heikki Haasmaa [00:21:28]: So, lately, we have been looking at basically all the elements that we have. And we have already ongoing actions there. And, as I also said, we have been now increasing the cost awareness in the whole organisation. So, I'm sure that this will be helping us go forward with the profitability.

Minttu Vilander [00:21:52]: Then there is a couple of questions about Bitcomp and about the high growth and margins that we expect from Bitcomp. How has Bitcomp performed, relatively, to your expectations and how the profitability has been developing?

Heikki Haasmaa [00:22:15]: Yes, Bitcomp performance has been as expected. And, of course, as we have said, we also expect Bitcomp to clearly contribute to the profitability next year as well. But we are on a good path, I would say.

Minttu Vilander [00:22:35]: And then there is a question about the competition for the skilled labour and employees. Do you have a plan in place on how to stay competitive in the future, when the competition of skilled employees is expected to tighten?



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Heikki Haasmaa [00:22:59]: Yes, of course, how we retain our people is a key thing for us, of course, especially in our business model it's the biggest and the only asset that we basically have. So, we've already done a lot of work lately. And also, thinking about the way forward, of course talent retention is a key thing for us. And there are several actions that we are doing already. And we see that they are providing, also, clear impact to have a well-maintained turnover.

Minttu Vilander [00:23:41]: Then there is a question for the CFO. How does the CFO see growth potential in new geographical market areas?

Hanna Masala [00:23:51]: Thanks for the question. Yes, I think, as Heikki said, Sweden is a key focus area for us. And there, I think, we have still a lot to do. We are kind of a newcomer there and we can gain a lot of market share. Obviously, when it comes to other markets beyond Finland and Sweden, we keep our eyes open, we are not excluding anything. But I think, especially with this current market situation, Finland and Sweden are the priorities. And then let's see if there is something else at some point of time.

Minttu Vilander [00:24:29]: Thank you, Hanna. Then we have the last question about the organic growth rate. It has been growing significantly lately. Do you think that it's possible to maintain such rates despite the market decline?

Heikki Haasmaa [00:24:50]: Yes. Overall, of course, we are very happy about the organic growth lately. Last year, we suffered a bit with that one, and now it's at the 6% level. So, of course, it's very good. Then, of course, thinking about what has been said today, about the market uncertainty and also impacts on us, it's a tough target to have the similar one in the future. But we are on a good path here. So, we see that there will be organic growth going forward as well.

Minttu Vilander [00:25:31]: We don't have any more questions. So, Heikki, you can probably give the ending words.

Heikki Haasmaa [00:25:39]: Yes. So, thank you. Maybe I'll just wrap up. So, of course, profitability remains our top priority here, and not just for the fourth quarter, but also when going forward. And we want to be... Our ambition is to remain the most profitable company in the industry. So, that's really guiding our decisions, clearly. So, thank you!

