



# MERKO EHITUS GROUP

9 months and III quarter 2014

November 2014



# Agenda



1. Key highlights
2. Business review at segment level
3. Financial position
4. Market outlook
5. Group in brief

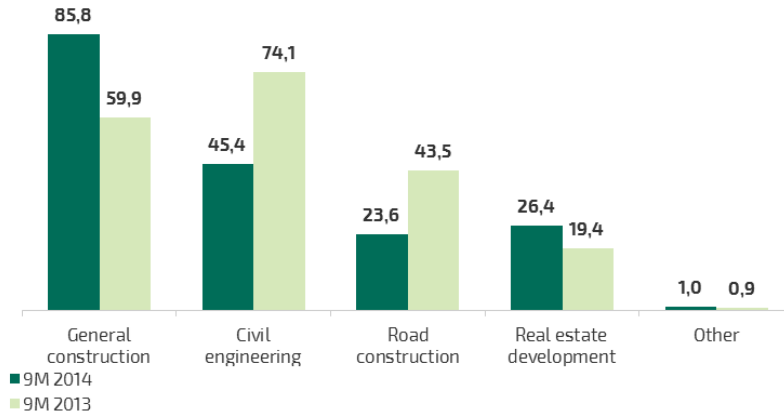
<i>EUR millions</i>	9M 2014	9M 2013	Var	Q3 2014	Q3 2013	Var	12M 2013
Revenue	<b>182.2</b>	197.8	-7.9%	<b>68.5</b>	84.1	-18.5%	262.7
Gross profit	<b>16.3</b>	17.4	-6.4%	<b>6.2</b>	7.5	-18.1%	22.7
Gross profit margin (%)	<b>8.9</b>	8.8	+1.6%	<b>9.0</b>	9.0	+0.6%	8.6
EBITDA	<b>10.2</b>	11.6	-12.2%	<b>4.1</b>	5.3	-23.3%	15.1
Net profit, attr. to equity holders of the parent	<b>7.6</b>	7.9	-4.1%	<b>3.3</b>	3.9	-16.3%	10.4
Earnings per share (EPS), in euros	<b>0.43</b>	0.45	-4.1%	<b>0.18</b>	0.22	-16.3%	0.59
Secured order book	<b>166.4</b>	218.1	-23.7%	<b>166.4</b>	218.1	-23.7%	213.7
Employees	<b>804</b>	902	-10.9%	<b>804</b>	902	-10.9%	860

\* Variance calculated based on interim consolidated financial reports

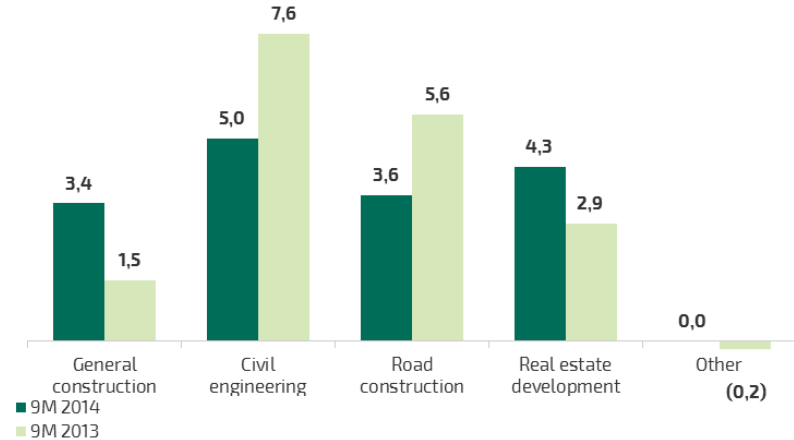
- ❖ Revenues supported with the strong residential sales in the declining construction services market.
- ❖ 1/3 of revenues outside Estonia, mainly Latvia.
- ❖ Profitability levels maintained with good performance from civil engineering and road construction.

# Business review – 9 months

GROUP REVENUE BY SEGMENT  
in million euros



GROUP GROSS PROFIT BY SEGMENT  
in million euros



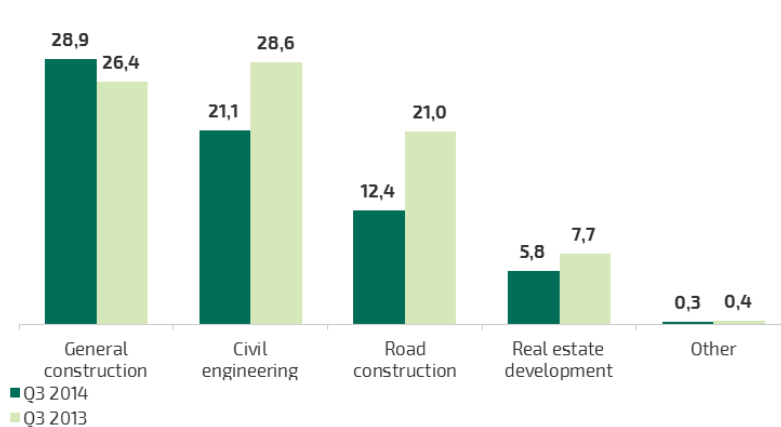
## REVENUES

- ❖ Strong performance from general construction (revenues up by 43.3% y-o-y) and real estate development segment (up by 36.3%).
- ❖ Decrease of revenues in road construction (down by 45.7%) and civil engineering segment (down by 38.8%). No comparable amount of EU funded projects compared to last year. Segments largely dependent on EU funding.
- ❖ Revenues outside Estonia increase up to 31.5% (9M 2013: 17.4%). Mainly attributable to the share of Latvian revenues, an increase from 14.9% to 26.2%.

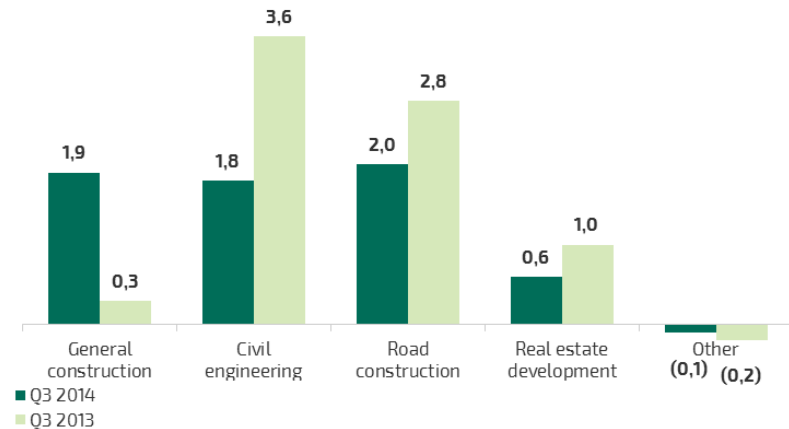
## GROSS PROFIT

- ❖ Gross margin up from 8.8% to 8.9% y-o-y.
- ❖ Main contribution from civil engineering (30.4%) and real estate development segment (26.7% of total).
- ❖ Good performance from civil engineering and road construction, mainly related to effective project management (risk not realised and quicker completion periods).

GROUP QUARTERLY REVENUE BY SEGMENT  
in million euros



GROUP QUARTERLY GROSS PROFIT BY SEGMENT  
in million euros



## REVENUES

- ❖ Increase in general construction segment revenues (up by 9.5% y-o-y).
- ❖ Decrease of revenues in road construction segment (down by 40.7%), civil engineering segment (down by 26.4%).
- ❖ Private sector orders have not increased for the group at the volumes anticipated at the beginning of the year.

## GROSS PROFIT

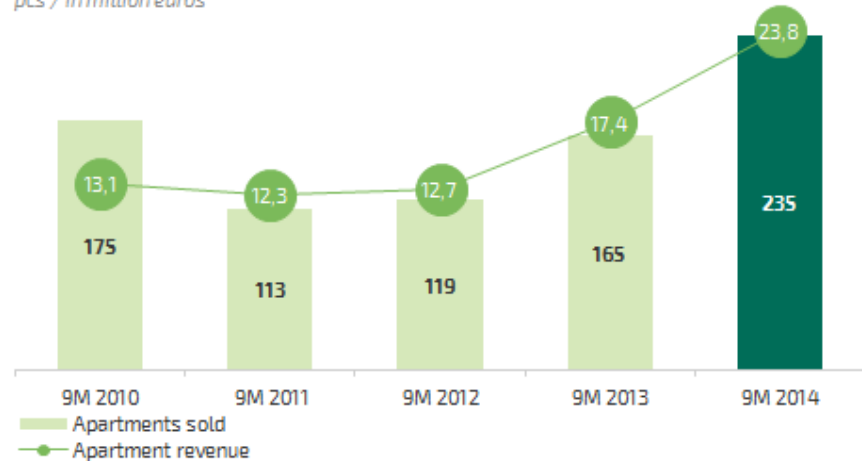
- ❖ Gross profit margin 9.0% kept, despite declining revenues.
- ❖ Main contribution from civil engineering segment (32.6% of total) and general construction segment (30.5%), where certain project risks for projects in final stages have not materialised, having one-off positive effect in the quarter.

**Objective to keep the adequate level of inventory to meet the market demand, new project launch depending on market conditions at the time.**

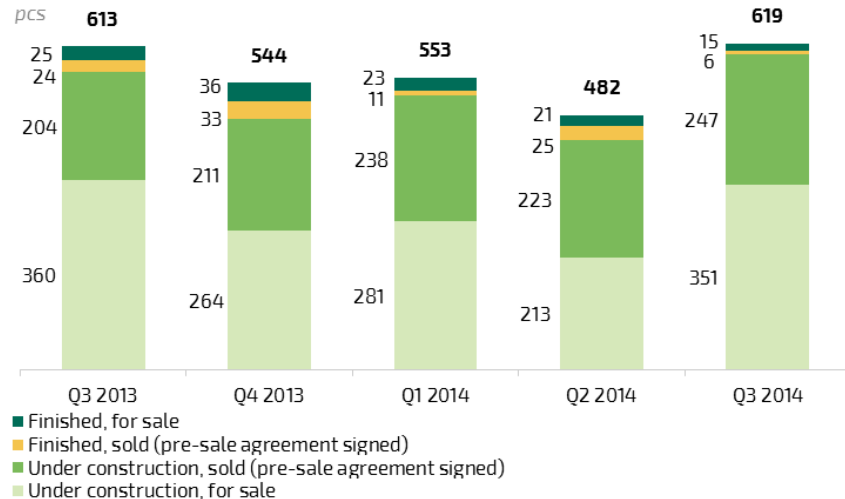
## REVENUES

- ❖ 36.3% increase of revenues compared to 9M 2013. Increased focus on our own developments.
- ❖ Q3 37 apartments (EUR 5.2m) compared to 71 (EUR 6.6m) during Q3 2013. Relates to timing of completion of construction works and finally handing over the apartments (completing the sales).
- ❖ 366 apartments on active sale (30.09.2013: 385).
- ❖ Construction of 310 apartments launched during 9M 2014, including 174 in Q3 (9M 2013: 396; 12m 2013: 409).
- ❖ At the beginning of the year indicated as a target to start construction of 500-550 new apartments during 2014. Currently Tartu mnt II stage (185 apartments in Tallinn city centre) under consideration in Q4.
- ❖ During 9 months new land plots for development in amount of EUR 4.4m acquired in Lithuania and Estonia (9M 2013: EUR 1.2m).

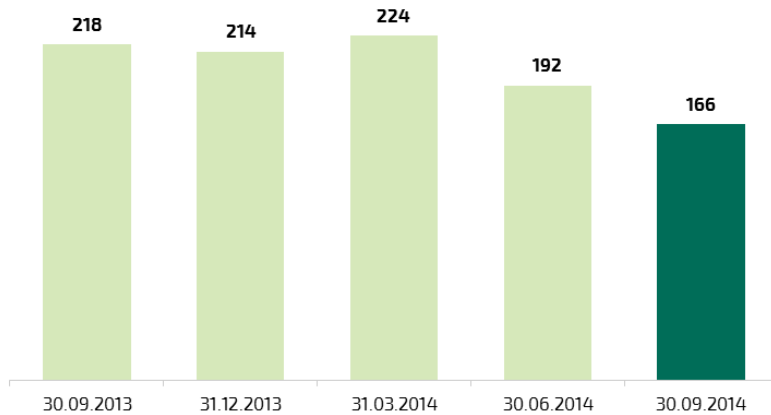
APARTMENTS SOLD AND APARTMENT REVENUE  
pcs / in million euros



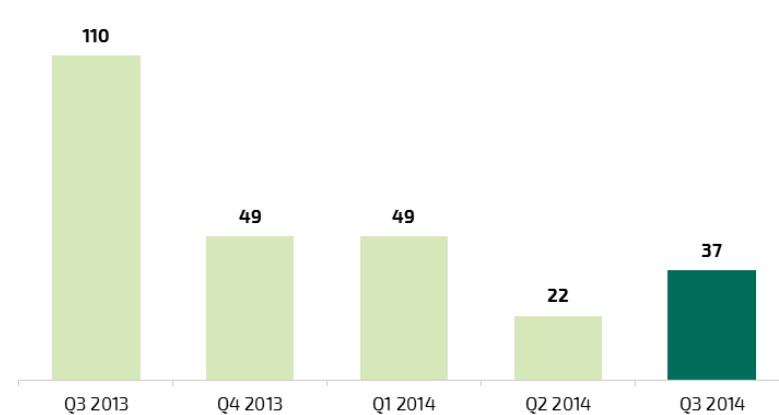
GROUP APARTMENTS INVENTORY  
pcs



SECURED ORDER BOOK  
at the end of the period, in million euros

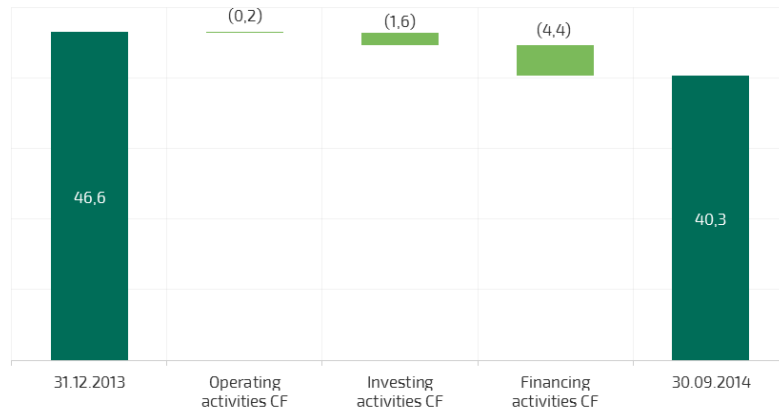


NEW CONTRACTS SIGNED  
during the period, in million euros

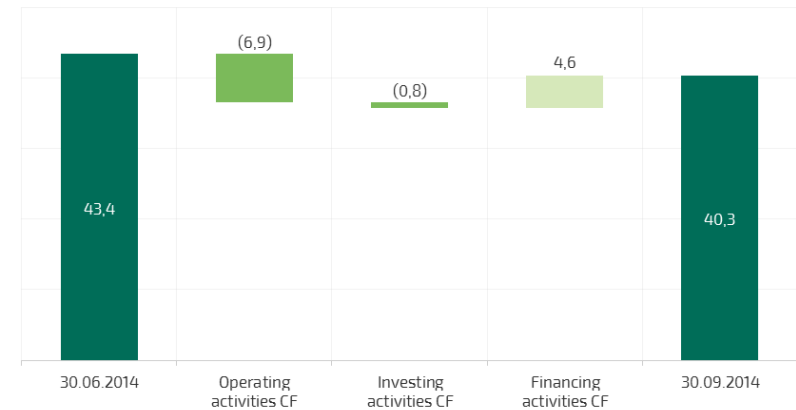


- ❖ Secured order book 23.7% lower compared to last year.
- ❖ EUR 37.2m worth of new contracts signed in Q3 2014 compared to EUR 109.8m during Q3 2013. 9M 2014 new contracts value amounted to EUR 107.5m vs EUR 205.7m in 9M 2013. Q3 2013 includes very large contracts signed in Estonia and Latvia: Hilton EUR 31m, Liepaja EUR 28m, Polipaks EUR 18m.
- ❖ Continuing decrease in the volume of public tenders due to expiry of the previous EU budget period. However the new contracts signed relate mainly to public orders in Q3 and signing of private sector orders has not been at the expected level.
- ❖ Challenge for next 12 months to keep the current volume of new contracts.
- ❖ Given the weak growth outlook of Baltic construction market, the group has started to follow developments and opportunities near abroad. Although the growth prospective are not as good in Scandinavia, Merko has selectively and on a project basis started to participate in Sweden, Finland and Norway on construction tenders to acquire the experience and knowledge to qualify on tenders, as well as understanding the risk profiles.

9M CHANGE IN CASH AND CASH EQUIVALENTS  
in million euros

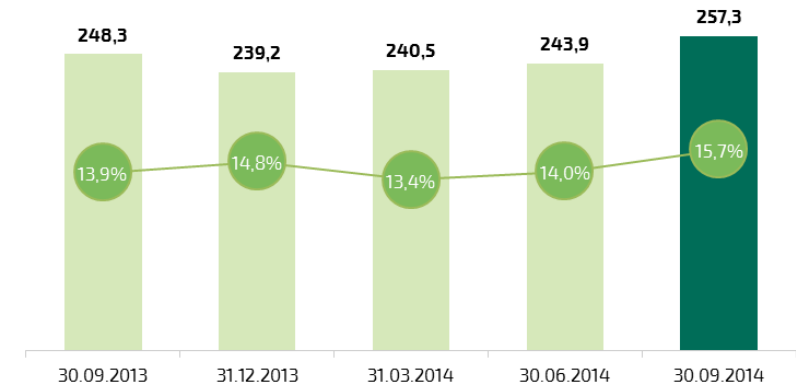


QUARTERLY CHANGE IN CASH AND CASH EQUIVALENTS  
in million euros



- ❖ Group's strong liquidity position maintained, cash at EUR 40.3m.
- ❖ The net debt almost nil (EUR 0.1m) and debt ratio is at a modest level of 15.7% (30.09.2013: EUR -4.5 and 13.9%). Group has drawn more loans to support own developments in Q3.
- ❖ Current assets are at 2.2x current liabilities (30.09.2013: 2.0x; 31.12.2013: 2.0x).
- ❖ Equity at 47.5% (30.09.2013: 48.1%; 31.12.2013: 50.9%).

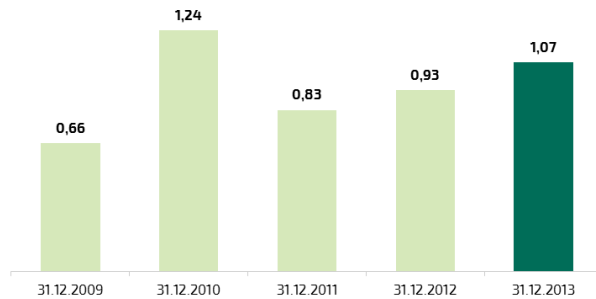
TOTAL ASSETS AND DEBT TO ASSETS RATIO  
in million euros / percentages



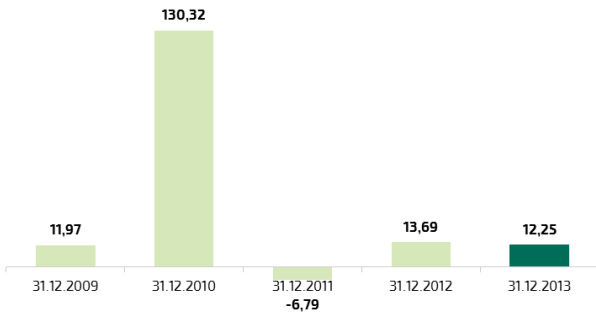


# Stock Exchange overview

P/B RATIO  
times



P/E RATIO  
times

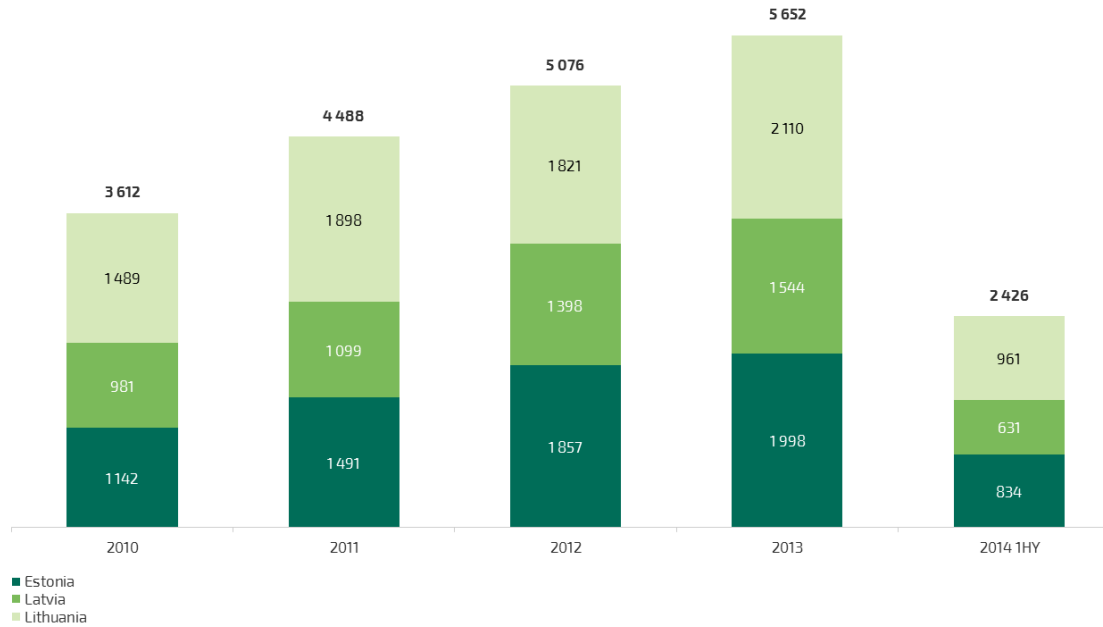


- ❖ Market Cap at EUR 126.6m.  
Down by 2.1% y-o-y basis.
- ❖ More than 1,400 shareholders.



Shareholders	No of shares	% of total 30.09.2014	% of total 30.06.2014	Variance
AS Riverito (management)	12 742 686	71,99%	71,99%	-
ING Luxembourg S.A. AIF Account	974 126	5,50%	5,50%	-
Skandinaviska Enskilda Banken S.A.	469 378	2,65%	2,71%	-10 149
Firebird Republics Fund Ltd	375 704	2,12%	1,71%	73 309
Skandinaviska Enskilda Banken AB, Swedish clients	293 660	1,66%	1,72%	-11 400
Firebird Avrora Fund Ltd	190 519	1,08%	0,96%	20 519
Skandinaviska Enskilda Banken AB, Finnish clients	154 804	0,87%	0,74%	23 112
State Street Bank and Trust Omnibus Account a Fund No OM01	153 018	0,86%	0,86%	-
SEB Elu- ja Pensionikindlustus AS	148 020	0,84%	0,84%	-
Clearstream Banking Luxembourg S.A. clients	143 652	0,81%	0,81%	-
<b>Total largest shareholders</b>	<b>15 645 567</b>	<b>88,38%</b>	<b>87,84%</b>	<b>95 391</b>
Other shareholders	2 054 433	11,62%	12,16%	-95 391
<b>Total shares</b>	<b>17 700 000</b>	<b>100,00%</b>	<b>100,00%</b>	

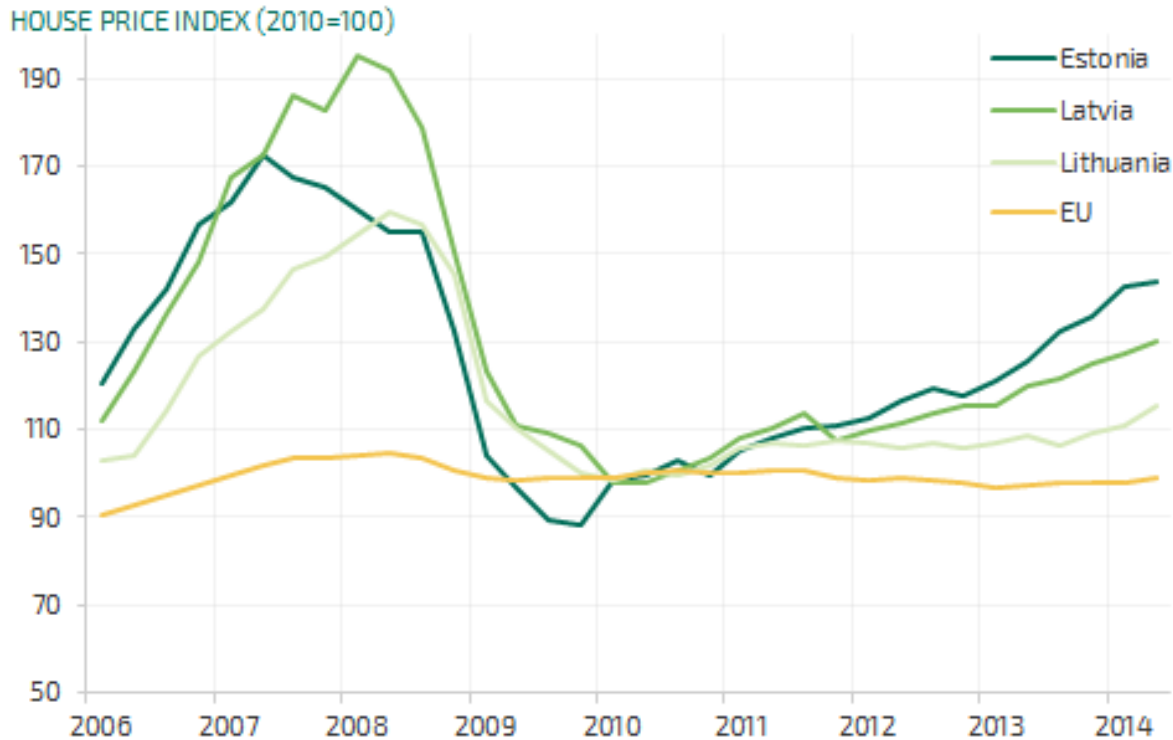
# Market outlook: construction



**We are forecasting a continuing decline in the volume of Baltic construction contracts for general contractors.**

- ❖ Continuing decrease of public sector procurements due to the switchover to the new EU funding period and uncertainties around allocation of funds by sectors and projects. Somewhat less funding expected for construction and infrastructure projects, but overall EU funding in Baltics is ok compared to previous EU budget:
  - Estonia, growth of EUR 2.5 billion to EUR 5.9 billion;
  - Latvia, contraction of EUR 0.1 billion to EUR 5.6 billion;
  - Lithuania, growth of EUR 1.8 billion to EUR 8.4 billion.
- ❖ The number of projects launched by private sector shows a positive trend. Nevertheless the private sector will not be able to compensate in the full reduction in procurement by the public sector (specially external networks).
- ❖ Market has become more competitive and aggressive on margins, especially in buildings segment. This leads to a challenging position to win contracts and keep the profitability levels.

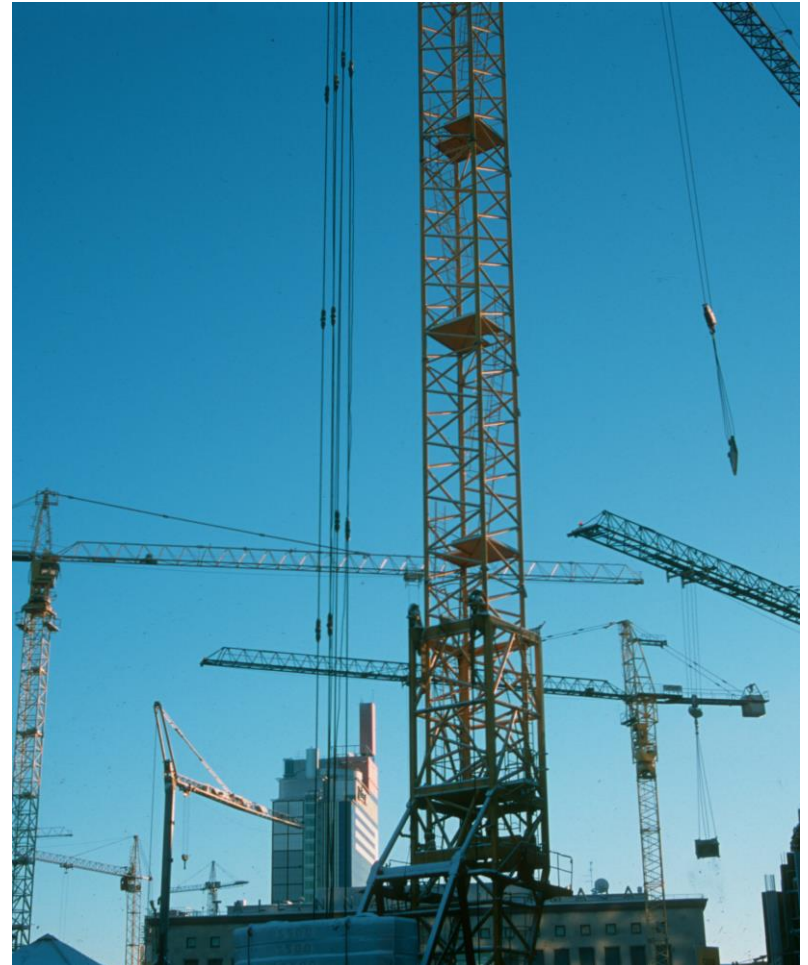
# Market outlook: real estate



- ❖ Number of transactions and price per m2 have shown growth trend up until 1H 2014 due to low interest rates and limited supply of new flats during the last few years.
- ❖ Still good potential to start new developments in all Baltic capitals, however clients are increasingly selective by location, quality and price. Supply of new apartments on sale to increase during 2014-2015.
- ❖ Increased apartment offering is likely to cause price stabilisation and the prolongation of sales periods.

# Focus going forward

- ❖ Key challenge to increase and also keep the 2013 level of secured order book.
- ❖ Active positioning in residential real-estate.
- ❖ Closely following the developments in the nearby markets and new opportunities. Aim to identify non-Baltic revenue potential at acceptable risk level.
- ❖ Mitigation of project management risks and improvement of control systems.
- ❖ A greater focus on costs. Optimization of group legal structure. Keeping and recruiting the best employees.





The largest listed construction company in the Baltics

### Construction services:

- General construction
- Engineering construction
- Road construction

Own developed real estate projects

Operates in Estonia (81% of revenue), Latvia (17%), Lithuania (2%)



Revenue in 2013  
€262.7 mln



31.12.2013:  
860 employees



Net Profit 2013:  
€10.4 mln

EBITDA 2013:  
€15.1mln

Share quoted on Nasdaq OMX Tallinn since 1997





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