

Webcast transcript: Interim Report Jan-Sep 2023

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PRESENTATION

Essi Nikitin

Good morning, everyone, and welcome to YIT's third quarter 2023 results webcast. My name is Essi Nikitin, and I am the Head of Investor Relations at YIT. Together with me here are our CEO Heikki Vuorenmaa and CFO Tuomas Mäkipeska.

At this point, I will hand over to Heikki.

Heikki Vuorenmaa

Thank you, Essi, and I'm very pleased to have you also on board with YIT. But welcome also to this webcast from my behalf. Third quarter for us was a clear step forward. Positive development continued in Housing Central Eastern European countries in which we had overall strong sales during the quarter. Housing market continued in Finland, similar as on the first half. However, we were capable to increase sales with our own actions compared to previous quarter. We continue to improve profitability of our contracting segments which represents more than 50% of our revenue at the moment. Both segments also maintained strong order books while keeping our selective approach with project tendering. Significant progress were made also in a robust cost management and we succeeded again on the third quarter with our capital efficiency measures. This is an excellent result by the team.

Let's then double click on a few successful initiatives that our team has delivered. Let's talk first about the cash flow. Compared to the previous year, our cash flow improved close to €150 million euros. Under the current circumstances, cash is king, and it gives us opportunity to balance our inventory on housing units over the period of time and select the best options from our shareholders' point of view. Our transformation continued to progress ahead of schedule and with the lower-than-planned costs. Actions taken supports our profitability already by now. Going forward, we will be more competitive across the three segments on tendering as well as capable to provide high quality projects on time to our customers.

I'd like to also emphasize the ongoing €400 million capital release program and plans to reallocate capital and deliveries to the company. We announced already first transactions and several positive discussions are ongoing despite the overall market sentiment. I also want to bring up that we are building competencies for the future. For example, more than 1,200 YIT employees has been on the training during this year to improve our overall project management capabilities.

Let's then move to the key metrics from the quarter. Our revenue remained on a similar level, being €500 million. Adjusted EBIT was at €60 million and EBIT margin 2.9% during the third quarter. When we look at the picture from the segments' perspective, changes on the absolute EBIT and the relative margin is connected to the housing segment and sales in Finland. Both of the contracting segments improved performance year-on-year basis, both in absolute EBIT and relative profitability as well.

Let's walk through each segments a bit more in detail, and we start from housing. As I mentioned, the housing segment demand increased in the Central Eastern European countries and that supported the overall segment profitability. We also mentioned that 350 apartment completions were shifted from September to October in CEE and that also impacted the absolute profitability of the segment during the third quarter, but not on a full-year basis. We continued our careful approach on new construction startups and total of 108 apartments restarted during the third quarter, of which, 32 in Finland. Our stock of unsold apartments increased during the quarter. However, maturity of the consumer units under construction in Finland is close to completion, which is up the pressure of additional capital tied to complete such apartments.

When we then double click on the apartment sales, we see that the CEE increased close to 50% over the comparison period and more than 10% compared to the previous quarter. This development is extremely positive and just highlights the importance of the CEE operations as part of our business mix on housing segment. In Finland, our sales increased 12% to previous quarter and overall segment had second consecutive quarter of improved sales to consumers. The increase in Finland is driven by our own actions to boost the sales and consumer activity, for example, through successful campaigns we have had. Our Net Promoter Score remained high during the quarter, which is another clear signal of consumers' trust towards YIT and our high-quality products. The carefulness of the start-up decisions and current investor market sentiment is clearly visible on our production as well. Apartments under construction is now below 5,000 units with sales rate of 52%. That reflects the lower portion of the investor sales on our portfolio. While our overall production is declining in the housing segment, we have taken measures to balance the workforce through engaging actions as well as shifting resources between the business segments, so we can maintain our capability to accelerate start-ups as market cycle turns. It's also good to note that this approximately 50%-60% market volume decline will affect the industry supply chain during the coming year. And for us, it's important to partner with the industry top players and secure best pricing and availability for our construction sites.

I've already now a couple of times mentioned the importance of CEE for our housing segment performance, and we can also see from this picture that the majority of the completions are in CEE during the fourth quarter. What we can also see here are the results of our actions to balance the supply in Finland as the next year of completions are clearly lower than this year. This balancing is connected to the overall market sentiment and also our actions to balance the inventory of unsold apartments in Finland. What comes to the portfolio of unsold apartments. We continue actively to manage that as well as from our viewpoint, it remains well balanced in terms of location and size. For example, current market has relatively high supply for small apartments in certain parts of the capital area. During the first half of the year, we already took actions and shifted hundreds of small apartments to our partially-owned rental company and have now less than 30% of such apartments on our portfolio. The maturity of the portfolio are high-quality family-sized sites apartments on attractive locations in which we believe are attractive as market gradually recovers.

If we then zoom out a bit, even the unsold portfolio has developed quickly compared to the situation year ago. We are not on an exceptional level on a historical terms, despite the exceptional market conditions that we are experiencing in Finland. It's good to also note that in Finland, the urbanization continues and we have seen strong growth on the major cities during the year. From our viewpoint, we are managing the situation and our portfolio is an asset for us.

If we then move our eyes to, already, the next year and what would be the estimated market supply during 2024. On this picture, we have now summarized completions from all the players, not only YIT, but all the players of self-developed housing units in a Finnish market. We have been using multiple data sources to put this data together. Picture is not 100%, but it provides representative enough projection of the next year supply to the market. The range is between 3,000 and 4,000 units, of which, 45% are already sold. If we then expect industrial typical lead times being 12 to 16 months, no major increases to the supply is expected. Actual numbers may also be lower as we have seen some of the projects being canceled to hold it to the insufficient financial position of the construction companies.

So, what are the key takeaways here? Key takeaways are: There is a clear drop in supply during 2024 for new self-developed apartments. Q4 2023 supply is almost the same as the full next year. If we look to rolling 12 months' demand, it has declined from approximately 8,000 units to 2,000 units, and we are seeing the unmet demand on the market. Low level of the startups by the industry players will create consequences to the overall market already during 2024. We also estimate that our market share on the third quarter was approximately on a 30% level, which is up from the historical levels. So, let me repeat, we believe that our portfolio is an asset and we have products on the market as the cycle turns.

Let's move then to the performance of the other segments. Our business premises segment revenue was supported by the sales of self-developed office property here in Helsinki. Segment profitability increased both in absolute euro terms and profitability compared to comparison period. Our order book remains strong and we continue to see good activity level on the projects that we have strong competencies to deliver. We have been really successful, especially with the lifecycle projects, for example in Siilinjärvi and won several

contracts in Baltic countries from the industry customer segment as well during the quarter. Our team is showing capabilities to create competitive solutions for our customers and they are selecting us as their trusted partner to deliver, which is a great news for us. Construction material prices on earlier taken fixed projects are still burdening our profitability. However, we start to observe opportunities in the market to negotiate lower prices driven by the overall softness of the industry.

On the infrastructure segment, Finland continues to be a solid performer while operation in Sweden burdened segment profitability. As announced, we continue our strategic evaluation of our operations in Sweden. Operatively, the segment is performing on a very good level in Finland with a clear focus and engaged team. Result of our work is visible. For example, the new tram line started to operate here in the capital area of Helsinki, Raide-Jokeri, and tram line that we have been building in the city of Tampere. We are also building together with our partner the largest bridge in Finland which will change the landscape of Helsinki, a demanding project that only few companies has capabilities to execute.

On the industrial customer segment, we are constructing new production facilities for a customer in the city of Kirkkonummi, an investment that is strongly connected to green transition. We believe that the segment is on a strong position to be selected as a trusted partner for similar projects going forward. For example, during the third quarter, we were selected as a partner for the third phase for Tampere tram line. Such projects are really important for YIT. We have a proven track record of delivering the solution faster than anticipated schedule and on or below agreed budget level.

If I then summarize, the main message of the market outlook for our three segments. Much has not changed since last quarter. Demand on the real estate and infra market remains on the normal level and major cities are communicating need for investment also in coming year. Housing market in the Central Eastern Europe remains on a normal level, as Finland market situation highlights the importance of our own actions to navigate through the cycle. But now, it's my time to hand over to you, our CFO, Thomas Makipeska, he will run through the company financials and balance sheet in more detail. Over to you, Tuomas.

Tuomas Mäkipeska

Thank you, Heikki. Good morning, everyone, on my behalf as well. The third quarter of the year was a step-forward for YIT. It was about adapting to market conditions and taking determined actions to improve our financial performance, both in short and long term. We made progress in releasing capital from our operations, and our net debt remained at the same level as in Q2. Here, we have an overview of the key performance indicators for the third quarter. Order book developed steadily despite the market situation in housing and our selective approach in tenderings. Adjusted EBIT decreased from the strong comparison period. Operating cash flow was stabilized due to the measures taken according to the transformation program. More importantly, the net debt remained stable compared to the Q2 even though it increased year-on-year. I will walk you through these KPIs a bit more in detail, starting with the order book.

We are pleased with the fact that the order book development was stable in Q3 despite the housing market conditions. Order book level of, altogether, €3.4 billion secures our operations and profits going forward. In the contracting segments, business premises and infrastructure, the market conditions have remained on a fairly normal level. We demonstrated solid order intake in both segments, driven by the focus in the tendering processes where we have competitive advantages. Good example of our competitiveness in the market is the mentioned tramway in Tampere Alliance and in infrastructure segment, we have made several other wins during the Q3 also. In the business premises, good evidence of the competitiveness is the research building to be constructed to Technopolis in Otaniemi which is to be occupied by the VTT Technical Research Center. This was announced in October and is recorded to Q4 order book. Also, it's good to note that we have the recurring revenue component in the form of life-cycle of service periods and it amounted to €332 million in business premises order book. Housing segment order book declined due to lower apartment start-ups.

Let's next have a look at the profitability more closely. Heikki presented the segments profitability individually and here, you can see the overall change in adjusted EBIT split by segment. The adjusted EBIT decreased especially in housing and the main driver behind this development was the lower consumer sales of our apartments in Finland. As Heikki mentioned, the demand in CEE countries has been clearly higher which is also strategically important for us. Also, some apartment completions were shifted from September to October in CEE which had an impact on the absolute profitability of the segment in the third quarter. The

underlying performance improved in business premises and the work continues to further strengthen the segment's profitability. In infrastructure, the overall performance continued to improve as well. However, the certain legacy projects in Sweden are still burdening the segment's profitability. So, even though the adjusted EBIT decreased in housing, the other segments were partly able to offset this impact.

Moving on to the development regarding cash flow and capital employed. In cash flow generation and capital employed, we were able to continue the positive track demonstrated already in Q2. Operating cash flow after investments improved significantly year-on-year. And the main drivers behind the cash flow improvement were increased working capital efficiency and sale of self-developed office property Maistraatinportti in Finland. But during the year, we have put focus on achieving permanent improvements in cash conversion cycle and some results are visible already. Despite the fact that the apartments in housing tied up more capital in Q3, we were able to increase our capital efficiency. At the end of Q3, we had approximately 500 less apartments under construction compared to previous quarter. This will gradually slow down the amount of additional capital tied to apartments in upcoming quarters. I'm pleased to see that our transformation program results are clearly visible in both cash flow and capital employed.

Let's next have a look at the key assets and net debt position. Our underlying asset base continues to be very strong. Total key assets totaled to €1.9 billion. We have a land bank of nearly €800 million to serve as a platform for future operations and profits. Inventory assets under production amounted to €500 million, decreasing €130 million from Q2 and reflecting declining number of apartments under construction. Completed apartments on real estate in our inventory increased by €56 million from previous quarter to some €320 million. Investments were worth of €300 million, biggest item being the Mall of Tripla, but also including our investments to joint ventures and associated companies. And on top of this, we have a valuable wind power portfolio of which we do not have a significant assets in our balance sheet and we are currently reviewing its strategic options as announced earlier.

In Q2, we initiated a strategic review regarding certain assets and operations. With these measures, we have the potential to release approximately €400 million of capital by the end of 2024. In Q3, we had several actions ongoing related to these assets and they progressed well. I'm happy to see that first transaction have become visible as we closed the sale of our co-investment vehicle at the beginning of October. Currently, we have several active processes ongoing to release more capital and we will naturally inform you about their progress when appropriate. Additionally, we continued our strategic review related to our infrastructure operations in Sweden. Net interest-bearing debt remained on a level of €820 million. Approximately €500 million of our gross debt is related to IFRS 16 lease liabilities, including leased plots and long maturity housing company loans that are transferred to buyer at the point of sale. So, the adjusted net interest-bearing debt is consequently only €320 million.

So, to conclude, the key assets and net debt position. Our underlying asset base continues to be very strong and our net debt structure remains well balanced. Our gearing remained stable at the level of 100%. We have been able to keep the gearing development relatively flat after the hike in Q2. Measures taken to increase cash flow have supported gearing consequently. And YIT's target is to deleverage balance sheet in the short term and to return below 50% gearing level in the long term. Measures are ongoing to manage the maturity structure of interest-bearing debt. The company has progressed in its negotiations with lenders regarding the refinancing of its term loans. When the terms have been agreed on, we will inform the market accordingly.

Moving on to the guidance and outlook. Our guidance remains intact, so the 2023 group adjusted operating profit is expected to be lower than in year 2022, but at least €50 million. However, we have made some elaborations in the outlook regarding the housing market. The housing market recovery in Central Eastern Europe is expected to further continue. And in Finland, the market is expected to continue to be weak in the fourth quarter. In the outlook, we have now included also the fact that the delayed apartment completions could lead to the postponement of revenue and profit from one quarter or a year to another.

To conclude, our financial position and performance in Q3. The actions to improve our financial positions are starting to have an effect. We have key assets of €1.9 billion; the capital efficiency measures are already demonstrating results; and most importantly, the cash flow has improved significantly and net debt remained stable. Thank you. And over to you, Heikki.

Heikki Vuorenmaa

Thank you, Tuomas. And now, it's only time for me to recap our main messages before opening to the Q&A. In short, we are navigating through this cycle and we have very clear focus. We have a robust cost management and capital efficiency measures that are taken to secure the company performance. Our highly skilled teams will continue to focus on customer work and seek all opportunities to improve our delivery. And we continue to keep our eyes open, monitor the market risks and opportunities, and we do not hesitate to take needed actions to counter those.

Thank you, all, for listening. Operator, we are now ready for questions.

QUESTION AND ANSWER SECTION

Operator

The next question comes from Anssi Raussi from SEB. Please go ahead.

Anssi Raussi

Yes. Hi all and thank you for the presentation. I have a few questions. I go one by one. So first, about your operating cash flow. Could you maybe give us any ballpark of the operating cash flow if we exclude the impact of the sale of Maistraatinportti? This would help us maybe to think about the run rate here, underlying run rate.

Tuomas Mäkipeska

Yes, I can answer this one. Thank you, Anssi, for the question. So, as mentioned in the presentation, we have been working on improving our cash flow during the quarter and actually, during the whole year. We have taken several actions to improve our cash conversion cycle. Also, the cost efficiency measures, of course, support cash flow as well. And then, of course, we have evaluated our options during the quarter also to execute bundled deals to investors and so on. It's true that we closed the deal for the Maistraatinportti during the quarter as well. So, that was one item, of course, supporting our cash flow during the quarter. But I would put it this way that the other actions that we have been working on during the year supported the cash flow even more and most of the measurements or results are permanent.

Anssi Raussi

Okay. Thanks. And then about your commitment. I think you have like €67 million of investment commitments and €174 million of purchase commitments. Can you disclose what kind of terms are included in these contracts and what is the timeline in these commitments? Also, maybe can you walk away from these commitments if necessary?

Tuomas Mäkipeska

Yes, I can continue from here as well. Thanks, Anssi. We have long-term commitments to buy certain plots or assets. And I would like to highlight that they are long term. Also, we have exit options from those commitments. And if we see that it's economically viable to exit, that kind of a contract. So, that's possible as well. The commitments are spread on a wider timeframe and that is basically what we can disclose from that.

Anssi Raussi

Okay. And then, about the wind power pipeline, I think that you have had maybe some discussions with potential buyers, but have you been forced to adjust your so-called internal valuation of this development pipeline during these discussions? As we all know, that the interest rates have been rising and so on. So, what kind of elements you have been facing in these discussions?

Heikki Vuorenmaa

If I take this one and I'm not going more in the details in this discussion. Generally speaking, the market is still very active and there are a lot of positive conversation and discussion. Valuation is always a discussion about between two parties and you can approach it in multiple way and especially in the wind power portfolio type of an asset it comes down to the maturity of the projects and the likelihood of moving into the construction. As we know that there are several steps and different type of approvals that are needed. What comes to -- Tuomas mentioned there that we do not adjust the value that on our part of our balance sheet.

For us, it's a portfolio that we actively develop. And maybe, that is how we are approaching it internally. Anything that you would like, Tuomas, to add?

Tuomas Mäkipeska

Actually, no. Thanks.

Anssi Raussi

Okay. Thank you. I'll get back in the queue.

Operator

The next question comes from Svante Krokfors from Nordea. Please go ahead.

Svante Krokfors

Good morning. Thank you, Heikki, Tuomas, and Essi for the presentation. I have a couple of questions. Starting with housing, what kind of, I mean, you have mentioned campaigns earlier. What kind of campaigns are you running now and what kind of effects have you seen on consumers?

Heikki Vuorenmaa

Thank you, Svante. If I take this one? Yes. So, we had a very successful campaign that we launched and completed in the month of August which was this 'live a two year free' campaign. It brought a lot of activity as well as interests towards our apartments and the kind of deals or transactions made during the maturity of the campaign were very positive for us and it supported like mentioned there. So, a lot was driven by our own actions. At the moment, we are running a campaign where we are having an individual dialogue with the consumers and home buyers. People tend to have different type of needs. Some may like to do changes to the layout or upgrade the overall apartment which we are then obviously open to and discussions there. Some may still have a situation where the previous apartment is not sold and they would like to move into the new era type of apartments that the YIT is building. And there, we are capable to help. For some, the discussion is about the finances and so on and so forth. So, we've been having really personal conversations now with the consumers.

What comes then to the future campaigns or activities? We have been communicating, obviously, if we are changing approach or introducing new ones. But we do see that such activity and campaigns are creating positive demand for our products in the market at the moment.

Svante Krokfors

Thank you. And then, you had no disposals to JVs in this quarter. How should we read this? Is there still investment capacity in your JVs or should we interpret that your need is now less than you assess -- especially your smaller unsold apartments has declined?

Heikki Vuorenmaa

It's a great question. I would definitely interpret the latter one as mentioned. So, we want to control the overall portfolio so that we ensure that we are in the right place and with the right product mix also in the market. And we fundamentally believe that that is the situation at the moment. If we see the change, so then we are taking further actions. But at the moment, we felt that the portfolio at the end of Q3 was exactly what we needed going forward.

Svante Krokfors

Thank you. Then on business premises and Maistraatinportti, it obviously impacted your topline, but did it impact your EBIT also, i.e. did you sell at the gain or loss?

Heikki Vuorenmaa

If I start start with that one. Maistraatinportti was overall a really successful project, if you looked at what we were capable to do. It's actually originally built by YIT. And now, we are converting it and refurbishing it to the new era, upgrading it, and it is a fantastic, fantastic location. We all understand that the starting of the work and where we then are completing it, we are living in the different market environment. And I would say that it didn't have a material impact during the third quarter on our financials.

Svante Krokfors

Thank you. And staying in business premises, there has been no changes in the valuation yields of Mall of Tripla, I assume, as the value actually went a bit up, is that correct?

Tuomas Mäkipeska

Yes. I can take this one. So, that's correct. The valuation of Tripla remained fairly stable. No major changes in the valuation. And I would like to remind that the valuation model is audited and the yields used in the model is provided by the external independent service provider.

Svante Krokfors

Thank you. And then, regarding your €400 million disposal opportunities. Was Maistraatinportti included in that originally or was it outside of that?

Tuomas Mäkipeska

It was outside of that. So, when we launched the €400 million capital release program, we back then stated that it doesn't include the inventory items. So, that's not including the apartments or the other self-developed projects that are in our inventory. It is including the other assets that are in our balance sheet what I actually presented in my presentation included in the €1.9 billion key assets.

Svante Krokfors

Thank you. And then, the last one on the efficiency program, which is proceeding nicely. You had a target of that total costs of that. But you mentioned that the costs have been lower so far that you have anticipated, should we expect any changes due to one-off costs on that side?

Heikki Vuorenmaa

If I start first about the program. Then, Thomas, you can comment on the one-off costs. But yes, you are right, it is really progressing nicely. And big thanks is for all YIT team. So, we've been mobilizing a broad amount of employees and really building initiatives and engaging our teams in all parts of the operations. We are communicating about the run rate €40 million that we are permanently taking out from our cost structure going back to the 2022 baseline. In addition, we have been really progressing on the other measures as well and ensuring that, for example, I mentioned the procurement and the supply chain management to be really important in such type of environment. So, we need to have capabilities in place in terms of category management, in terms of understanding the competitiveness of our pricing, and so on and so forth. And that is building fundamental capabilities to be more competitive on the tendering phase. It's a difficult number, obviously, to crack, since some of that will be then part of our overall competitiveness. So, that is the work that we have been doing and it's really progressing faster than anticipated. And Tuomas, if you want to take the cost part of the...

Tuomas Mäkipeska

Yes. I will continue from here. So, the cost of the program. So, of course, we are happy that we have been executing the program on a lower cost level, that we originally anticipated. But the program scope has remained same for this and next year. And our evaluation at the beginning regarding the €50 million to €70 million cost of the program remains the same. But it's good to know that we see also opportunities to execute the program on a lower cost level than originally anticipated. But so far, that remains the same.

Svante Krokfors

Okay. Thank you. And then, last one regarding your specification in the outlook where you mentioned apartment completions, postponements, and so on. Clearly, you had postponements now in CEE from Q3 to Q4. But should we read it in general terms or more in short term the change in the outlook? Is it forward-looking or backward-looking?

Heikki Vuorenmaa

If I start first with the postponements, let me emphasize that it's not connected at all to capabilities or the progress of the construction. What we have now observed and it actually impacted slightly but very mildly already Q2, but now especially on the Q3, we observe that the governmental process and documentation that this needed, for some reason, has been slower than earlier. And it could be connected to some external factors or it could be that there are some permanent changes in those processes. And obviously, for that reason, it's also good to state that it's a part of a factor which is not always on our hands if it starts to impact on the timing of the completions. Anything, Tuomas.

Tuomas Mäkipeska

Nothing to add. Okay. Exactly so.

Svante Krokfors

Okay. Thank you. That's all from me.

Heikki Vuorenmaa

Thank you, Svante.

Operator

The next question comes from Emil Immonen from Carnegie. Please go ahead.

Emil Immonen

Hi Heikki and Thomas. Thank you for the presentation. Could you help me understand how prices have developed in the housing market? I've seen that you've had some discounts on housing in CEE countries, at least?

Heikki Vuorenmaa

So, that CEE, our pricing model is actually dynamic pricing where we are. Then, pricing the apartments based on market condition, the time of the completion of the overall project as well as then, ensuring that we have a right, let's say. the sales rate compared to the project. So, that is how we do the pricing in CEE compared to in Finland where we are in more like a list price approach.

Emil Immonen

Okay. But are you seeing any pressures on taking your prices down? Do you have to compete on prices now that sales of housing overall are more difficult?

Heikki Vuorenmaa

If I continue there, what we have seen is that well, typically, like in CEE, we are not delivering the fully installed kitchens or the complete house. The process is different based on different countries. In some countries we have seen is that, for example, younger buyers if I go to specific, for example, Latvia, the younger buyers are keen on to have a service that we are providing also, the fully installed kitchens and bathrooms and so on and so forth, so that the apartment is ready to move in. And there could be a campaign or situation where we have been promoting that with the lower cost level or kind of on top of the apartment prices with certain percentages there that have been then boosting our sales. That's more typical activity, I would say, than what we have been taking on the Central Eastern European countries. There has been also... when we talk about the smaller investor buyers so it could be that, such a deals have been taken. But generally speaking, for example, if you talk of Poland, the Poland, our market is in a very, very positive trend at the moment.

Emil Immonen

Okay. Thank you. And the pricing in Finland, is there any price pressure then? So, what I'm after is, is there any risk on write-downs, for example, on your balance sheet?

Heikki Vuorenmaa

Yeah. If you, Thomas, take the write-downs and I... When we have been running a for example, like this campaign, effectively, the discount for customer has been around 10% and if you look, the overall secondary market price development, that's been on the similar range what has been the situation or our experience on the market at the moment. But if you, Tuomas, take the latter part of the question?

Tuomas Mäkipeska

Yes, I can continue. So, if our apartments are valued at cost or at historical cost in accounting terms in our balance sheet and even though this market situation, there is a pressure on prices, as we know, but nowhere near to the situation where we would be in a situation to be written-down in our balance sheet. So, no pressure in that sense.

Emil Immonen

Okay. Thank you. I understand. And then, you had -- I saw that you discussed that there is some price pressure in competition, I think it was in the business segment. Is there any prices for construction overall coming down as well? I've seen, let's say, some statistics that they would be quite stable in general.

Heikki Vuorenmaa

Yeah. So, what we mentioned there is that we have been taking earlier -- made earlier commitments on the

projects and the business premises that inflation prices has been hitting. And maybe let me be more precise there. So, for example, if there has been a project that we have been awarded in 2019, but then due to the several rounds of complaints and the construction might have only started 2021. And if we look then the price of 2019, price to wherever you are in 2022, 2023, there is a significant difference on the material prices and we have been doing a lot on effort and growing extra mile in order to find the solutions. What we are saying is that that type of situation still continues to impact our business premises portfolio at the moment.

What also I was pointing out there is that we start to see opportunities to negotiate lower prices. So, seeing is that there, as the market overall is softening, we see that the market situation overall in the construction is getting down. So, we see that there are further opportunities to improve the competitiveness and negotiate the lower deals. We have also, I mentioned already there on the transformation program side, we have taken a lot of effort to build up partnerships and competitiveness through our supply chain and tendering. Because on the construction, it's not only about what is the unit price, but how do you actually integrate your design, your own operations, and your suppliers product in such a way that you are capable to design the most cost-efficient solution, in addition, finding the right partners to deliver it. So, you get the efficiency which is then leading to the overall lowest total cost and providing us that competitiveness. So, those are the activities that we are seeing at the market. Specifically, I think if you want to look on the different raw material prices, I think the wood prices, for example, historically that has been coming down, it's up a little bit higher than on a pre-pandemic level, but still, a substantial decline. There are also other indicators in the market that are pointing to the direction that the overall construction industry has an opportunity now to use our scale and negotiate the competitive costs and pricing for us.

Emil Immonen

Okay. Thank you. That's all for me.

Heikki Vuorenmaa

Thank you.

Operator

The next question comes from Anssi Raussi from SEB. Please go ahead.

Anssi Raussi

Thank you. Just a couple of follow-ups from me. First, about your refinancing negotiations, just to make sure, are you still negotiating both November and March maturity?

Tuomas Mäkipeska

Thank you, Anssi. Yes. As mentioned, we are altogether negotiating refinancing our term loans. There are three term loans each, €50 million. So, all together, €150 million term loans. Refinancing negotiations are ongoing, as mentioned. So, they are progressing well. But of course, let's say, the market situation and the pressure on our sector has, of course, slowed down a bit in the negotiations, but they have progressed well. And of course then, when we have the final solution, we will communicate that accordingly.

Anssi Raussi

Okay. And the last one from me is about maybe a big picture, yes. So, I think you are estimating to complete roughly 50% less consumer apartments in the first three quarters in the next year compared to this year. And I think that if you look back, like, rolling 12 months, your sold units to investors is down like 50% as well. So, how do you see your organizational structure right now? And what kind of thoughts you have, like, do you want to keep your organization as it is now for the future, maybe recovery, and how do you manage your subcontractors in this kind of situation? Just some thoughts around this topic.

Heikki Vuorenmaa

Thank you, Anssi. It's a great question and very topical. We have -- if you look, our strength on this type of a market cycle where the housing, the residential demand is lower, we have a combined teams in the majority part of our operation. So, we do have a capabilities and skills to develop the business premises projects, build the schools, build the factories, and so on and so forth. And we also have a capabilities to do this, let's say, housing contracting business for ARA type of projects to balance it out. It's not always enough. We have all the time taking all the measures to ensure that we have the right capabilities on board. I mentioned also that we have taken some engagement actions. So, we are trying to build opportunities for our employees to

have studies or be trained, for example, lead methodologies during this time of the cycle so that our capabilities and skills are developed as well.

If we look then at the supplier and the subcontractor landscape, what is really important now for us is to ensure that we have the right partners with us. The ones that have the financial capability to weather the storm and are capable to build the future with us also when the cycle turns. And that is one area that we are really focusing on. But I don't think we are no exception there. So, we are also, in addition to all these, let's say, measures, we need to also keep open about all the options, how do we ensure that we have a right size of organization and the teams in place throughout 2024.

Anssi Raussi

Okay. Thanks. And actually, one more for me, if you let me ask you, guys. It's about public projects and we know that, of course, you have to be the cheapest one to win the competition here. But do you want to take these projects and apply your resources to these low-margin projects just to keep your resources in work?

Heikki Vuorenmaa

I think that the recent really positive trend is actually is that we see a lot of in the public projects also that the competencies and the quality is valued. And it can be sometimes even 50% to 75% weight on those. And we believe and see that we are having very strong competitiveness on such a type of tenders. YIT probably is not the one who is kind of the overall cheapest and we have been very vocal and clear that we are selective with our tendering approach. We are seeing much more opportunities on that type of works where our expertise, quality, and the team competencies and references are valued.

Anssi Raussi

Okay. Thank you. That's all for me.

Heikki Vuorenmaa

Thank you, Anssi.

Operator

The next question comes from Olli Koponen from Inderes. Please go ahead.

Olli Koponen

Thank you very much for the presentation. I have few questions already, kind of one question left. It's on the housing market. And just to make sure kind of that are you expecting this kind of or some kind of bundled deals in the housing segment in Q4?

Heikki Vuorenmaa

Too early to conclude. Obviously, we are still living through the quarter. We have multiple discussions and dialogue ongoing, alternatives and opportunities that are on the table. And we need to see the overall picture, what do we see that creates the best value from the shareholders' viewpoint, what type of bundled deals we are executing during the quarter?

Olli Koponen

And to kind of follow up on that, can you confirm that nothing like this is included in your guidance or are you expecting something to be included in your guidance?

Tuomas Mäkipeska

Well, I can answer this one. So, we are not directly commenting on the guidance, but just to elaborate a bit on what Heikki already said regarding the bundle deal, so that's kind of a normal course of business for us. And throughout the year, we have been evaluating our opportunities and options to execute on that kind of deals. As we have seen, so we have executed two of them already this year and also during Q4. We will evaluate our options if it's wise or economically viable option for us.

Heikki Vuorenmaa

Maybe if I still continue a bit. Also, good to know Olli that there is... we continue to still have private investor sales also during the third quarter. It's just not the specific point that we are bringing up. Typical buyer investors, private investors. They are looking for five apartments, six apartments, that type of deals. And now, after that, I would say, extremely low Q1, especially, I think the Q2 was also slower, we do see that type of activity for the ones that are seeing a little bit beyond the cycle. And seeing that, well, this actually is

creating an opportunity for private investors to kind of go into the market at this point in time and seeing that how the supply picture and how the overall development on the cities, the urbanization is developing. So, those type of, it's a normal course of action that we are seeing also during the quarter.

Olli Koponen

Okay. Thank you. That's all for me.

Heikki Vuorenmaa

Thank you, Olli.

Operator

The next question comes from Markku Moilanen from Nordea. Please go ahead.

Markku Moilanen

Yes. Hi. It's Markku from Nordea. I can actually follow up on Anssi's question regarding the refinancing situation. So, the way I see it, you still have some €130 million of maturities coming already by the end of this year. And given your current cash situation and the still negative cash flow you generated in Q3, I think that there is a small risk of insolvency if the negotiations don't prove to be successful. And so, let's say that the banks won't refinance the loans, what options do you have then?

Tuomas Mäkipeska

Well, Markku, thank you for the question. I can take this one. As mentioned, so we have progressed well with the negotiation with our lenders. And let's say that to our liquidity, we have a good situation with our liquidity. So, we have undrawn RCF and the overdraft limits and so on. So, this is not a question about liquidity in the short term. This is more about refinancing the company going forward. So, those are not in conflict. And as already mentioned, of course, when we reach the final solution regarding the refinancing, we will inform the market accordingly.

Markku Moilanen

Okay. Thank you.

Operator

The next question comes from Lasse Rimpi from SEB. Please go ahead.

Lasse Rimpi

Yeah. Hi and thanks for taking my questions too. Perhaps continuing with the liquidity topic and the refinancing. Basically, I mean, looking at the sort of Q3 situation, you have utilized the RCF a little bit more and then, also the amount of available housing corporation loans was now at €60 million roughly. And if I look at previous quarters, that amount has reduced by some €50 million or so per quarter. I mean, just to follow up on the previous one that Markku was basically asking, do you have some sort of backup plans for the sort of the bank loan negotiations? I mean, would it be able to use the RCF to refinance the term loans or if you have access to pension loans or other kind of facilities. So, that would be the first one.

Tuomas Mäkipeska

Yes. Thank you, Lasse. And I would like to continue the answer from the perspective and repeat, first of all, that negotiations have been very constructive and progress during the quarter. And on top of that we, of course, evaluate our options at all times and we are securing our liquidity by the instruments that we have in use. So, in that sense, we don't see challenges in the short term regarding the liquidity. But then again, we want to kind of look at the refinancing on the longer term and also beyond this cycle. It's extremely important for us to have very good relationship with the banks and cooperation even after the demanding market situation. So, in that sense, we look at the big picture and of course, evaluate our options. But this is something that we are negotiating right now and getting back to you when ready with it.

Lasse Rimpi

Okay. Thanks. And then perhaps two more basically on the covenants of the RCF. Do you feel comfortable with the buffer to short off threshold on that one? And then secondly, I mean, regarding the ongoing housing production, do you see flexibility there? I mean, if there could be potential to possibly postpone projects in order to protect cash flow, I mean, if the sales rate remains low or otherwise, the loan negotiations would take more time.

Tuomas Mäkipeska

Yes. If I start and then you can continue with the production side. Regarding the covenants, also in the term loans and in the RCF. They are intact and we are comfortable with that as well. So, no challenges in meeting the covenants of all the bank contracts.

Heikki Vuorenmaa

Yeah. And if I can follow up on the postponing of the projects, we have been very, very careful with our startups already last 12 months. And that is the number one factor that is impacting on how much we are applying capital into the production. And that has been the tool and we discussed and communicated clearly that we see now production volumes are coming down, so less and less capital will be tied to the housing apartments especially here in Finland.

Lasse Rimpi

Okay. Thank you. That's all for me.

Heikki Vuorenmaa

Thank you, Lasse.

Essi Nikitin

Okay. As there seems to be no more questions, we thank you all for participating and wish you a great rest of the day. Thank you.

Heikki Vuorenmaa

Thank you very much.