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PRESENTATION

Essi Nikitin
Good morning, everyone. And welcome to YIT's fourth quarter 2023 results webcast. My name is Essi Nikitin, and I'm 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. Please go ahead.

Heikki Vuorenmaa
Thank you, Essi. Good morning, everyone and welcome to fourth quarter and full year 2023 result webcast. Since first quarter of the year, we experienced that notable positive trend in Housing sales, especially in Central Eastern European countries, showcasing impact of our own actions and market resilience. Group operating cash flow continued to improve towards the end of the year, and our debt level declined during the last quarter.

Both of our contracting segments continued to improve underlying performance, even though the fair valuation of assets impacted our fourth quarter results. Throughout the year, our diligent cost management initiatives have been implemented across the organization. As a result, we have streamlined and customer focused operations at the moment. Additionally, strategic capital release actions have been successfully executed, contributing to our strengthening financial position and setting the stage for the coming years. I would like to thank all YIT employees for the overall solid closure of the year given that market environment.

If we then look at the full year 2023 in brief. Our financial performance during the year was clearly impacted by the Finnish housing market demand. To respond effectively to the market challenges and also secure the long-term competitiveness, we launched a holistic transformation program at the beginning of the year. We decided to focus on our three segments: Infra, Business Premises, and Housing, and to ensure we have the right competencies and capabilities to serve our customers most efficient way.

Our target is to improve our competitiveness and financial performance while reducing and reallocating capital employed between the segments. We have progressed faster than anticipated, and by now, we have achieved €25 million net recurring benefits and released significant amount of capital from the operation. Quarter four strong cash flow and reduced net debt level is a signal that we are on the right track. However, there is still a lot of work ahead during this year.

If we then look at the full year in numbers, our revenue stood at €2.2 billion, which is 10% less than in a comparison year. Adjusted EBIT decline is mainly connected to the Finland housing market and changes in fair valuation of fourth quarter in Business Premises. Let's break down the EBIT more closely to our segment level. On Housing segment, profitability is driven by all-time high performance in Central Eastern European countries. Market conditions in Finland continued muted throughout the year, and it's impacted the segment's full-year profit.

Despite the decline profitability, our operations are in great shape on all operating countries, and we are wellpositioned to deliver, again, as the market turns in Finland. Our Business Premises profitability were impacted by the rising yields and high construction material prices in fixed price projects. As mentioned, our operative performance in that segment is improving. And throughout the year, we implemented significant amount of changes and control points to improve segment competitiveness on coming years. On the Infrastructure segment, good performance in Finland operations continued, reaching 5.1% EBIT level. While the Sweden impacted our segment's full-year results.

Next, we go more into the details on each segment and start from Housing. Main driver for the decline in the EBIT was low apartment sales in Finland as mentioned. During the year, we sold approximately 400 apartments in Finland. It is approximately one quarter normal sales for us in more favorable market conditions. Clearly positive highlight is the sales in the CEE countries, total of 767 units. Our demand and supply is in balance as we started almost same amount of new units during 2023.

We also continued to have a good stock of apartments available. Now, more than 90% of those on the capital region or university towns in Finland and Central Eastern European countries. Our apartment sales on the fourth quarter increased close to 70% in the Central Eastern European countries. Quarter four was actually a third consecutive quarter of improved sales in the total Housing segment. On the Central Eastern European countries, the recovery started earlier and has continued positively, especially in Poland, Czech, and Latvia. Actually, if you look to Q4 sales, the total sales in units exceeded already the comparison quarter volume.

As I mentioned, we started to adapt our operations to the market situation strongly during last year. It is also visible now in our ongoing construction volume where we have approximately 3,400 units under construction. Vast majority of those in CEE countries. Our sales rate of apartments under construction is approximately 50%, which reflects the lower portion of investor sales. We will continue to accelerate the construction volumes on coming year, especially outside of Finland, and we'll return to the Finnish market as the market conditions are more favorable.

When we look it from the completions perspective, also our capacity assessment is visible here. During 2023, we completed approximately 2,600 apartments, 50% in Finland and 50% in Central Eastern European countries. Year 2024, we'll look different. We expect to complete approximately 1,800 units, of which almost 70% in the CEE market. And as mentioned, in Finland, we have a healthy inventory of apartments to sell to the market during 2024 and early 2025. Our total unsold portfolio of completed apartments in Finland was 890 at the year-end. It is approximately 20% of the total Finnish markets unsold new housing units. So the share of unsold apartments in Finland is less than our market share has been during last year. Our portfolio of apartments locates on the growth cities and the prime locations.

And then if we look on the city by city level, example in Tampere and Turku, our sale stock is approximately two months sales on the normal market conditions. When we then looked at overall Finnish market, so here, we have summarized all the completions from the players to the Finland market during 2024 up to 2025. And this is then illustrating the supply to the market.

The total supply to the market on this year is approximately 3,700 units. 15% of completions comes from YIT. The supply will even further decline during the first half of 2025 as the industry balancing is expected to continue. And to summarize the segment situation, our segment is operatively in very good condition and is ready to deliver as the cycle starts to turn at scale.

But let's move to the other segments, and we start with the Infra business. Our management and all the Infra employees, they have really improved the profitability during the year 2023. Our operating profit improved to 3.3% on the segment level. And then as mentioned, in Finland, we reached over 5% while our order book continued to increase. This is a very strong result from the team, and that as we then gradually are exiting from Sweden, our segment profitability still continues to improve. Excellent progress and we all have good reasons to expect a similar track to continue on the coming years as well.

Then to the Business Premises. The year was overall challenging for the segment. Rising yields impacted assets fair valuation and material cost increased the fixed price contracts. During last quarter, we changed the management of the segment and also reorganized ourselves to face the challenges that we have. Several improvements are already implemented to improve the operative performance and leverage the group best practices all the way from tendering to the final product delivery.

I'm very confident that we can expect similar profit improvement and reach similar operating margin as we already see on the Infrastructure segment in the next two years. We had success to release capital from the segment during last year in the form of selling our office premises, Maistraatinportti. And we need to continue on that path. Potential to reduce segment balance sheet is almost €400 million, and we are working on with that in full speed.

But then, a look overall, the market and the environment where we are operating in, the market environment continues similar as in the last quarter. Housing market in Finland and Baltic countries is expected to continue weak. Central Eastern European market continues on the normal level already. And real estate market on our operating countries are on normal level, and we see activity both in industrial and public sector to remain normal. Infra Finland, we see actually several potential project under calculation this year, of which a construction will start early 2025. Overall, the market remains normal for us.

But now, it's time to hand over to you, Tuomas, to go through our financials more in detail.

Tuomas Mäkipeska
Yes. Thank you, Heikki. Also, from financial perspective, the fourth quarter was another step forward for YIT, and we consequently closed the financial year of 2023 on a positive trend. Despite the market situation, our order book remained strong ensuring future volumes and profits. However, the housing market in Finland challenged us throughout the year, which led to a clear decrease in overall profitability. During the year, we took determined actions to improve our financial performance. We made progress, especially in releasing capital and generating cash flow from our operations. Consequently, we decreased the net debt by over €70 million during the last quarter of the year.

Let's have a closer look at the financials. We are pleased with the fact that the order book development was relatively stable throughout the year despite the housing market conditions in Finland. In the contracting segment, Business Premises and Infrastructure, the market conditions have remained on a fairly normal level. In fact, the order book improved in Infrastructure segment both year-on-year and quarter-on-quarter, which we see very positive. There, our approach of focusing on the tendering processes where we have competitive advantage is paying off.

Business Premises segment's order book has developed relatively steadily and currently includes also more than €300 million of lifecycle project service periods, providing recurring revenue and profits for long-term. Housing segment order book declined during the whole year due to the lower apartment start-ups in Finland. But altogether, the order book level of €3.2 billion ensures our operations and profits going forward.

Let's next have a look at the profitability more closely. As mentioned, the overall profitability decreased clearly from the comparison period. The change in adjusted EBIT was roughly €70 million and profitability decreased especially in Housing Finland. The main driver behind this development was the low consumer sales of our apartments in Finland.

As Heikki mentioned, the demand in CEE countries has been clearly higher, and we reached all-time high profits there, which is also strategically very important for us. The underlying profit performance improved in Business Premises and the work continues to strengthen segment's profitability. Unfortunately, the progress was more than offset mainly by the decline in fair values, especially in Mall of Tripla, which is operationally performing well though.

In Infrastructure, the overall performance continued to improve and ended up with solid profitability in Q4, which we also see very positive. YIT's Infrastructure business in Finland has improved its profitability significantly and simultaneously increased the order book, which are clear demonstrations of competitiveness in the market.

Moving on to the development regarding the cash flow and capital employed. From cash flow generation and capital employed perspective, the year was clearly twofold. In Q1, we recorded a very low cash flow due to high construction volumes tying a lot of capital, while simultaneously consumer sales nearly stopped in Finland, providing very low cash inflows.

But as a result, we launched several cash flow improvement and capital release actions. With the measures taken, we were able to turn cash flow positive already in Q2 and continue on positive track rest of the year. In fact, from Q2 to Q4 year-on-year, the operating cash flow after investments improved over €300 million. In Q4, the cash flow reached nearly €70 million. Main drivers behind the cash flow improvement were the determined actions according to capital release program, on which I will elaborate a bit in a minute.

Increase in capital employed was stopped in Q2. And during the second half of the year, we achieved positive trend downwards despite the fact that completed apartments in Housing Finland tied up more capital. Sale of the apartments from inventory will release capital and low construction volumes will slow down the amount of additional capital tied to apartments in upcoming quarters.

In big picture, we see that running our business profitably requires clearly less capital than before, and we aim to release capital significantly from our operations going forward. For example, we have shifted our housing focus to CEE countries and reached growth and all-time high profitability while simultaneously decreasing capital employed by adopting capital efficient ways of doing business there.

Let's double click on the capital release measures taken so far. First of all, I'm pleased to see that we have executed our transformation program according to plan. Results are clearly visible in both cash flow and capital employed as demonstrated on the previous slide. All together, we have taken actions worth of €200 million so far. But the capital release program measures worth of some €100 million has been executed.

During the Q4, we were able to sell our renewable energy business to Eolus Vind and recorded a €46-million gain on sale. We have put focus on achieving permanent improvements in cash conversion cycle and some results are visible already. In that area, we see a lot of further potential to be realized this year. The cost efficiency measures, especially in IT and procurement to support the profits and cash flow as well.

We also completed the sale of the SIA LiveOn co-investment vehicle in Q4. But on top of the capital release program, we have achieved net working capital efficiencies worth of some €120 million. Sale of Maistraatinportti office property was of course a successful closing for Q3. We have also sold some plots in Finland and CEE countries to improve liquidity. And finally, we have executed some apartment-bundled deals to investors to deleverage the balance sheet. This work continues, and we are expecting significant further gains during 2024.

Let's next have a look at the key assets and net debt position. Our underlying asset base continues to be very strong. Key assets totaled to €1.9 billion. We have a land bank over €800 million to serve as a platform for future operations and profits. Inventory assets under production amounted to €400 million, decreasing €100 million from Q3 and reflecting declining number of apartments under construction. Completed apartments and real estate in our inventory increased to €390 million and investments were worth of €290 million, decreasing from the Q3 by the sale of SIA LiveOn as mentioned.

Net interest bearing debt decreased significantly to €795 million due to strong cash flow in Q4. Approximately €520 million of our gross debt is related to IFRS 16 lease liabilities, including the leased plots and long maturity housing company loans that are then transferred to buyer at the point of sale. So, the adjusted net debt is consequently only €280 million.

So, our underlying asset base continues to be strong and our net debt structure remains balanced. And going forward, we see that optimal situation for YIT is to operate with clearly less debt and utilize mainly project-based loans. We are aiming to reach this kind of a position by the end of 2026.

Equity ratio of the company remained stable throughout the year and ended up with slight improvement in Q4. Gearing decreased nearly 10 percentage points due to the strength from cash flow and decrease in net debt in Q4. Overall, YIT's target is to deleverage balance sheet in short-term and to return to clearly below 50% gearing level in the long-term. Regarding the interest-bearing debt, we completed the refinancing of the term loans during the Q4 and consequently improved the maturity structure of the debt portfolio. There is €100 million bond maturing in the spring, which we are currently planning to redeem.

Now, moving on to guidance and outlook. We have updated the guidance for 2024 as follows. YIT expects its group adjusted operating profit for continuing operations to be between €20 million and €60 million in 2024. The operating cash flow after investments is expected to be positive. The housing market recovery in Central Eastern Europe is expected to continue. But in Finland, the housing market is expected to continue to be weak in the first half of the year.

In Business Premises and Infrastructure, the underlying operational performance is expected to improve, and the YIT's performance will be supported by the increased efficiencies from the transformation program launched last year. Changes in macroeconomic environment, especially in interest rates, may impact the housing market demand and the fair value of investments. Delayed apartment completions could lead to postponement of revenue and profit from quarter or year to another. Actions to release capital may have an impact on the company's profits.

So, to summarize the financial situation, we have key assets of €1.9 billion. We have achieved results from the capital efficiency measures and the determined work continues on that. And most importantly, cash flow has improved significantly and net debt decreased consequently.

Thank you. And back to you, Heikki.

Heikki Vuorenmaa
Thank you, Tuomas. And before we open the lines for questions, let me recap the main messages. We continue to focus to improve our segments' profitability, complete our transformation, and substantially, release capital employed from the operations. We are building on our talented professionals to deliver solutions to our customers, and we have a high focus on risk management via sizing all the opportunities this market provides for us.

Thank you. And operator, it's now time for the questions.

QUESTION AND ANSWER SECTION

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

Svante Krokfors
Thank you and good morning Heikki and Tuomas, thank you for the presentation. The first question regarding your guidance, €20 million to €60 million in adjusted EBIT seems a bit shy given the support that you will get from the exclusion of Swedish Infrastructure business. Could you give some guidance per division? And also regarding Business Premises, do you still have the fixed price contracts that will burden it in 2024?

Heikki Vuorenmaa
Yeah. Thank you, Svante. If I a little bit elaborate and provide more color segment by segment there. So, we do expect that the Finland Infra business to continue on a good path. And like you mentioned there, so the impact and the influence of the Swedish Infra is going to decline. We actually are having less and less revenue coming from there as we are then gradually managing it towards the end. So, that's where we see the Infra business this year.

When we then look at the Business Premises side, the vast majority of those contracts that has been taking on a fixed price with the lower material cost were executed during last year. We may still have a couple of those continuing this year. So, what we are expecting overall is that the underlying profitability on the Business Premises is going to increase this year. And what we were impacted last year was also the sales of our asset base as well as the fair valuation of the assets on that segment, which quite significantly improved the – impacted the performance on 2023. And, of course, those are then unknown factors on the 2024 how the yields and the interest rates are going to develop on the market.

On the Housing segment side, two-fold, so, the CEE where we have now the 70% of the completions during this year, we expect it to continue on a very strong path. The Finland market, as we mentioned there, we see at the moment that the first six months to continue on the weak level, which has the highest, I would say, uncertainty on our outlook, hence, a relatively broad range what we are now stating. Anything, Tuomas, you would like to complement?

Tuomas Mäkipeska
Not really. That, I think, covers it all. Thanks.

Svante Krokfors
Thank you. And then, you have a new campaign with interest rate caps on new apartments. I think, that has

now been running for a bit more than a week. How has the response been there? Can you give any color on that?

Heikki Vuorenmaa
Yeah, absolutely. So, first of all, that has been very well received. I think it is a signal and it has been welcomed as a positive new product to the market since we are now capable to give five-year certainty for a homebuyer, what would be the interest base rate, 2% or lower on that period of time. And if you look at from the individual's perspective, that is actually quite a significant decline on those monthly payments that one has to make in order to buy a new home.

What we are already seeing is that there has been interest on consumers in terms of contacting the banks that are supporting us here, Nordea and Aktia. And also, what we have seen is amount people visiting the open houses and the apartments and the contacts has been increasing now since we have been launching the campaign. Too early yet to conclude the full impact, obviously, we expect then and also we see that the individuals are taking their own time and considering the best apartment to select for their own need.

Svante Krokfors
Thank you. And then, I guess, a lot of focus in the next month or two will be on your bond maturing at the end of March. Can you give some color? I know that you don't want to comment that, but could you give some color on that? And also the fact that you have been drawing slightly on your RCF during the quarters. How will that impact on your bond refinancing options?

Tuomas Mäkipeska
Yes. Thank you, Svante. I'll take this one. And yes, our plan currently is to redeem the €100 million bond at the beginning of April. And the idea is to fund that one by the capital release and the cash conversion that we have been actually generating throughout the second half of the last year. Also, we had cash and equivalents, roughly €130 million at the end of December and planning to continue on that path, releasing capital and increase in cash flow. So that's basically the idea and the funding behind redeeming the bond.

Svante Krokfors
Thank you. Perhaps the last question regarding your €400 million capital release program. You elaborated a bit on that earlier, but you still believe that €400 million is a relevant number, given that you probably received less for the renewable business and you didn't receive anything from Swedish Infra operations?

Tuomas Mäkipeska
Yeah. I can continue from here. And probably, you can fill in then. But yes, the €400 million potential, what we have stated, is still intact and we stated that there is €400 million potential. And of course, we are looking our options in several items on the plan or on the road map. It's for sure one kind of a big ticket item there is the Mall of Tripla, what we have disclosed publicly as well. There, we are looking our options during this year and making, let's say, best possible decisions to our shareholders. And that's, of course, one thing, which is still unsure.

The other ones, let's say, the kind of a smaller capital release items, we are at full speed on executing those. And I mentioned already in the presentation, we see a lot of potential both from the networking capital, capital, and the disposal items to be gained during this year.

Svante Krokfors
Okay. Thank you, Heikki and Tuomas. That's all from me.

Heikki Vuorenmaa
Thank you, Svante.

Tuomas Mäkipeska
Thank you.

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

Olli Koponen
Hello, everyone. And thank you for the presentation. I have few questions left, and first I will start with the

Infra segment. Can you tell us was there some extraordinary in Infra segment's profitability in the quarter or should we kind of assume that you were able to make this kind of profits now in the segment, now that the Swedish Infra has been downgraded?

Heikki Vuorenmaa
Yeah. Thank you, Olli. And we had very successful completion of the projects during Q4. What you should expect is the full year, I would say, the level, not the individual quarter as the project starting and completions may vary a bit within the year, but that is a level that we are pleased with. And there is actually where our Finnish Infra has been already for a period of time.

Olli Koponen
Okay. Thank you. And just another question about the cash flow, on the guidance of the cash flow. You expect to see your cash flow after investments to be positive this year, but how do you kind of expect it to behave in the first half, if you can elaborate on that? And does it depend on you selling lots of apartments from your balance sheet?

Heikki Vuorenmaa
Specifically, maybe not comment on how the – between the quarters and the years. But the main driver for us on the past quarters, tying of the capital has been that within the construction volumes has been tying capital for the Finnish apartments that we haven't sold all of those. And as we mentioned now, so the completions in Finland especially will be really low, and we are approaching a point in time where we have a less and less production ongoing. Hence, the production itself doesn't anymore tie up such so much capital into it. That capital starts to decrease.

If you look the point there, that Tuomas was presenting, and historically, compare the level of net working capital between the years 2021 to 2023, you can observe that we have been tying approximately €400 million more capital into our net working capital during the period of time. And what we are seeing now in messaging here is that, that tide is going to turn, and we see that we are going to have a positive cash flow this year, and we are taking steps to release the capital, both on the investment side as well as the net working capital side. And as a consequence, as a result, then to have a healthier balance sheet, deleverage the company and return on our capital employed result as well.

Tuomas Mäkipeska
Exactly. And if I may continue a bit on that. So for sure, there is the underlying seasonality in the cash flow for sure, but also, what will impact the cash flow and the timing of the cash flow development is dependent, of course, the capital release program and the items and the measures that we are taking there. So that will kind of impact and give us some seasonality for the cash flow for sure. But anyway, so that's in a big picture, what Heikki mentioned is that we are releasing capital totally from our operations throughout the year.

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

Heikki Vuorenmaa
Thank you, Olli.

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

Emil Immonen
Good morning, Heikki and Tuomas. Thank you for taking my question. Emil Immonen from Carnegie. I just wanted to understand a little bit better the financial costs in Q4, €20 million. Is that – is there some one-offs there or are those expected to continue at this high of a level?

Tuomas Mäkipeska
I'll take this one. Thank you, Emil, for the question. Regarding the financial cost in Q4, so there are actually kind of a two kind of items. First of all, the increase in the interest rates have started to be visible in our financing costs. And then on top of that, so related to the refinancing procedure that we completed during the Q4. So regarding that, there are some one-offs as well.

Emil Immonen
Okay. So but they will still be higher than maybe we saw in the three first quarters this year?

Tuomas Mäkipeska
Well, we are not disclosing any financial cost development through this year. But anyway, so it's good to note that the overall increase in the interest rates will have a kind of a negative impact on the financing costs as in general.

Emil Immonen
Okay. Because I was thinking about with your guidance, which was quite soft, I think, you're then almost guiding for a loss-making there in 2024, is that correct?

Tuomas Mäkipeska
Well, as mentioned, so we are not guiding specifically the financing costs, but it's of course true that with the €20 million to €60 million adjusted EBIT, there is – somewhere there is also the breakeven point for the net profit as well. That's for sure.

Emil Immonen
Okay. That is all for me. Thank you.

Operator
There are no more questions at this time. So I hand the conference back to the speakers.

Essi Nikitin
Great. Thank you. So yes, it seems that there are no more questions. So we thank you all for participating and wish you all a great rest of the day.

Heikki Vuorenmaa
Thank you.

Tuomas Mäkipeska
Thank you.