

HLRE Holding Group

H1 Interim Report 1 February – 31 July 2021

Comparison figures in brackets refer to the corresponding period previous year.

Brief Look at May – July 2021

- Q2 revenue increased by 30% to EUR 33,6 million (25,9 million).
- Gross margin increased by 20% to EUR 13,0 million (10,8 million).
- Adjusted EBITDA increased by 14% to EUR 2,4 million (2,1 million).
- Net cash from operating activities was still negative at EUR -0,3 million, but improved clearly compared to last year (EUR -1,6 million).

Brief Look at February – July 2021

- H1 revenue increased by 25% to EUR 62,9 million (50,2 million).
- Gross margin increased by 21% to EUR 25,5 million (21,1 million).
- Adjusted EBITDA increased by 14% to EUR 5,0 million (4,4 million).
- Net cash from operating activities remained at the same level EUR 1,6 million (EUR 1,4 million).

HLRE HOLDING GROUP IN

1000 EUR IFRS	May -Jul 2021	May -Jul 2020	%	Feb -Jul 2021	Feb -Jul 2020	%
Revenue	33,6	25,9	29,7 %	62,9	50,2	25,3 %
Gross profit	13,0	10,8	20,4 %	25,5	21,1	20,9 %
Gross margin	38,7 %	41,7 %		40,5 %	42,0 %	
Adjusted EBITDA	2,4	2,1	14,3 %	5,0	4,4	13,6 %
Net cash from operating activities	-0,3	-1,6	81,3 %	1,6	1,4	14,3 %

Q2 Revenue, Result and Cash Flow

HLRE Holding Group's Q2 revenue, gross margin and adjusted EBITDA Increased from Q2 last year. Q2 operating cash flow also progressed from last year but still remained negative at EUR - 0,3 million (EUR - 1,6 million). Roof and roof product installations as well as underground drain renovations are customarily exposed to seasonality. It has temporary effects on net working capital causing negative effect on cash flow both in Finland and in Sweden in Q2.

The Group's Q2 revenue increased by 30% to 33,6 million (25,9 million) and gross profit increased by 20% to EUR 13,0 million (10,8 million) from Q2 last year. Revenue and gross profit growth resulted mainly from the acquisition of Vesivek Salaojat Oy in February 2021 as well as from improved roof renovation installation volumes in Sweden. Installation capacity in Sweden was about 30% higher than in Q2 last year. In addition, sales price increases introduced in 2020 in Finland and Sweden as well as an increase in roof product sales volumes in Finland contributed positively to Q2 revenue and gross profit growth.

Purchase prices of raw materials used in roof and rainwater system production, roof installation and underground renovation; steel, wood and other materials, have risen significantly from Q4 last year. Group has reacted to purchase price increases in all Group companies and businesses by increasing sales prices, but it has had some temporary influences on gross margins in some of Group businesses.

Reported EBITDA in Q2 was EUR 2,2 million (EUR 1,9 million). The Group's Q2 adjusted EBITDA was EUR 2,4 million (EUR 2,1 million), operating cash flow progressed from last year but remained slightly negative EUR -0,3 million (EUR -1,6 million). Largest EBITDA adjustments include a leadership development project and other consulting total adjustments in Q2 EUR 0,2 million (EUR 0,2 million).

Q2 EBITDA was negatively affected also by increased fixed personnel costs from Q2 last year. That is partly due to acquisition and integration of Vesivek Salaojat Oy. However, in addition to sales and marketing synergies, management sees that the integration of underground drain business into Vesivek's other business operations will bring cost savings from, for instance, overlapping premise leases as well as support functions but also in fixed personnel costs such as HR, finance, and sales.

Management has reacted to COVID-19 pandemic through workforce adjustment and temporary layoffs of installation personnel in some units in Finland also during Q2. However, COVID-19 still continues to cause some uncertainty and decreased visibility regarding, for instance, business forecasts.

The Group's Q2 operating cash flow affected by seasonal increase on net working capital both in Finland and Sweden. The pandemic has temporarily caused longer delivery times of raw material, which increased the Group's inventory by EUR 0,4 million in Q2 to ensure efficient supply-chain management and delivery reliability.

H1 Revenue, Result and Cash Flow

H1 Revenue and gross profit increased from H1 last year mainly due to acquisition of Vesivek Salaojat Oy in February 2021, capacity increase in Sweden and sales price increases in all sales segments.

Gross margin did not develop as planned mainly due to significant price increases of raw materials from Q4 last year. Group reacted to purchase price increases in all Group companies by increasing sales prices, but it has had some temporary influences on gross margins in some Group businesses.

In H1 Group's reported EBITDA was EUR 3,6 million (EUR 4,0 million), adjusted EBITDA EUR 5,0 million (EUR 4,4 million). Total reported adjustments EUR 1,4 million (EUR 0,4 million) include a capital loss of purchased leased assets EUR 1,0 million, a leadership development project and other consulting EUR 0,4 million. Impact of the adjustments to the operating cashflow in H1 amounted to EUR 0,4 million (EUR 0,4 million).

One purpose of the bond was to finance the purchase of the leased assets. As the sale and lease back-agreement concluded in 2019, based on IFRS rules no IFRS entries on acquisition costs of sale and lease back asset was booked and the remuneration from the assets was handled as a loan. The purchase price of the leased assets in February 2021 was below the total undepreciated acquisition cost causing an IFRS capital loss of EUR -1,0 million to Q1 and H1 reported EBITDA.

The Group continued to maintain stable liquidity position and did not need to utilize any of its available EUR 2 million SSRCF in Q2.

Management Overview

HLRE Holding Group (commonly known as Vesivek Group) is a leading provider of roof and roof product renovations offered primarily to detached and row houses in Finland and Sweden under the brand name Vesivek. In addition to roof and roof product installations, Vesivek provides underground drain renovations in five locations in Finland. The Group also develops, manufactures, and sells high quality rainwater systems and roof safety products under the brand name Nesco.

HLRE Holding Group operates currently in 20 locations in Finland and three locations in Sweden and employs more than 850 employees. The Group has two in-house manufacturing facilities in Finland, steel roofing profile production in Pirkkala and manufacture of rainwater systems and roof safety products in Orimattila.

Group company providing roof renovations in Finland, Vesivek Oy, started to use scaffolding as fall protection in roof installations in 2018. Around the house scaffolding brings Vesivek many competitive advantages such as efficiency, safety, and quality. Scaffolding optimizes use of installers' time as well as improves work quality and efficiency due to more ergonomic working conditions. Scaffolding also minimizes risk of personnel injuries and reduces overtime working hours and sick days as well as increases personnel commitment. In 2018 scaffolding was mainly subcontracted, but Vesivek has gradually moved scaffolding in-house during the years of 2019 and 2020. At the beginning of year 2021, only three units in Finland outsource all scaffolding, and the Group intends to gradually insource scaffolding also in the remaining Finnish units within one or two years. Management expects insourced scaffolding to bring savings and EBITDA improvement within the next couple of years.

Vesivek Oy acquired approximately 70% of Vesivek Salaojat Oy (previously called Salaojakympit Oy) in February 2021. Vesivek Salaojat Oy is the largest provider of underground drain renovations to small residential houses in Finland with very similar business model to Vesivek's roof installation renovation business. Much like Vesivek's roof renovations, underground drain renovations are completed within 2-4 days and are needed at similar approximately 40-year intervals as roof renovations. Vesivek Salaojat Oy is headquartered in Jyväskylä, Finland, and employs approximately 80-90 professionals in six geographical locations complementary to Vesivek's units. Management sees significant cross- and up-selling potential among existing and future customers in adding this service to Vesivek's service portfolio.

In February 2021 HLRE Holding Oy issued a three-year senior secured bond in an amount of SEK 300 million (approximately EUR 30 million) which was used to refinance the previous senior bank debt and purchase of leased assets, as well as to finance the add-on acquisition of Vesivek Salaojat Oy, and general corporate purposes. The bullet bond matures in three years and pays floating interest of STIBOR 3 months +6,60%. The bond terms and conditions include a possibility of subsequent bond issue at one or several occasions in maximum amount of SEK 100 million (approximately EUR 10 million) provided that the Group's leverage ratio, if the subsequent bond issue is made during the first year after the original bond issue, is equal to or less than 3.00:1, equal to or less than 2.75:1 in the second year after the original bond issue and equal to or less than 2.50:1 in the third year after the original bond issue, and that the company is not otherwise in breach of the bond terms. In connection with the bond, the Group agreed EUR 2 million SSRFC with Danske Bank A/S, Finland Branch, replacing the previous EUR 5 million RCF.

In 2020 COVID-19 pandemic erupted rapidly worldwide and its effects have continued since then. The Group took immediate actions in Finland and Sweden to safeguard the adequacy of Group companies' cash reserves, operating prerequisites, and business. All locations improved safety by adopting new guidelines and operating models to minimize physical meetings. In Finland, the pandemic has had more impact on Vesivek's sales than installation operations. In Sweden, the pandemic has affected both sales and installation. However, Vesivek Sverige AB has managed to avoid mass infections, and units have not been fully closed because of the pandemic in Finland or Sweden. Management sees that no structural changes have happened to the Group's business or market environment because of the pandemic, and the Group has prepared plans for reacting and adjusting operations to different scenarios.

[Outlook for the full-financial year 2021 \(02/2021-01/2022\)](#)

No change to the previous outlook. The Group is expected to report improved adjusted EBITDA and operating cash flow for the full-financial year compared to last financial year.

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Consolidated Statement of Comprehensive Income 1000 EUR	2021		2020	
	1.5.-31.7.2021	1.2.2021-31.7.2021	1.5.-1.7.2020	1.2.2020-31.7.2020
	REVENUE	33 580	62 882	25 886
Other operating income	211	466	201	420
Operating expenses	-31 584	-59 751	-24 232	-46 593
Depreciation and amortisation	-2 011	-4 003	-1 885	-3 765
OPERATING PROFIT	197	-406	-30	234
Finance income	65	284	84	205
Finance expense	-930	-1 785	-584	-1 212
Finance income and expense	-865	-1 500	-500	-1 007
PROFIT/LOSS BEFORE TAX	-669	-1 907	-530	-773
Tax on income from operations	219	142	-114	-120
PROFIT/LOSS FOR THE PERIOD	-449	-1 765	-643	-893
Profit attributable to:				
Owners of the parent company	-404	-1 657	-624	-867
Non-controlling interests	-45	-107	-20	-26
	-449	-1 765	-643	-893
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations	-1	-6	11	11
	-1	-6	11	11
TOTAL COMPREHENSIVE INCOME	-450	-1 771	-633	-882
Total comprehensive income attributable to:				
Owners of the parent company	-405	-1 663	-614	-857
Non-controlling interests	-45	-108	-19	-25
	-450	-1 771	-633	-882

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Consolidated Statement of Financial Position

1000 EUR	31.7.2021	31.7.2020
ASSETS		
NON-CURRENT ASSETS		
Goodwill	40 260	39 437
Intangible assets	1 054	917
Property, plant, equipment	27 006	27 185
Other non-current financial assets	48	48
Non-current loan receivables	69	11
Other non-current receivables	52	0
Deferred tax assets	735	0
NON-CURRENT ASSETS	69 223	67 599
CURRENT ASSETS		
Inventories	12 404	11 249
Trade receivables and other receivables	13 299	11 484
Cash and cash equivalents	3 731	1 292
CURRENT ASSETS	29 434	24 024
ASSETS	98 658	91 623
EQUITY AND LIABILITIES		
Owners of the parent company	25 975	26 547
Non-controlling interests	-196	21
EQUITY	25 779	26 567
NON-CURRENT LIABILITIES		
Non-current liabilities, interest-bearing	48 739	18 853
Non-current interest-free liabilities	389	359
Deferred tax liabilities	662	196
NON-CURRENT LIABILITIES	49 790	19 408
CURRENT LIABILITIES		
Current interest-bearing liabilities	4 521	31 015
Current interest-free liabilities	18 568	14 633
CURRENT LIABILITIES	23 089	45 648
Liabilities	72 879	65 056
EQUITY AND LIABILITIES	98 658	91 623

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Consolidated Statement of Cash Flows, indirect

1000 EUR	1.2.2021-31.7.2021	1.2.2020-31.7.2020
Cash flows from operating activities		
PROFIT/LOSS FOR THE PERIOD	-1 765	-893
Adjustments to the profit/loss for the period	6 627	4 830
Working capital changes	-1 572	-1 279
Cash flow from operating activities before finance and taxes	3 290	2 659
Finance income and expense	-1 407	-1 070
Income taxes paid	-288	-172
Net cash from operating activities	1 595	1 416
Cash flows from investing activities		
Purchase of tangible and intangible assets	-844	-863
Proceeds from sale of tangible and intangible assets	144	205
Acquisition of subsidiaries, net of cash acquired	-194	0
Addition / deduction of loan receivables	260	-573
Addition / deduction of cash equivalents	0	0
Net cash used in investing activities	-634	-1 234
Cash flows from financing activities		
Proceeds from sale of treasury shares	78	0
Repayment of current borrowings	-25 815	0
Addition / deduction of current borrowings	1	3
Proceeds from non-current borrowings	28 781	0
Repayment of non-current borrowings	141	-2 321
Payment of lease liabilities	-2 635	-2 281
Net cash used in financing activities	551	-4 599
Net change in cash and cash equivalents	1 512	-4 418
Cash and cash equivalents, opening amount	2 219	5 711
Net increase/decrease in cash and cash equivalents	1 512	-4 418
Effects of exchange rate fluctuations on cash held	0	-1
Cash and cash equivalents	3 731	1 292
Cash and cash equivalents, other arrangements	0	0