

HLRE Holding Group

Interim Report 1 February – 31 October 2021

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

Brief Look at August –October 2021

- Q3 revenue increased by 26% to EUR 40,3 million (31,9 million).
- Gross profit increased by 26% to EUR 17,7 million (14,0 million).
- Adjusted EBITDA increased by 57% to EUR 7,2 million (4,6 million).
- Net cash from operating activities was positive at EUR 9,5 million (EUR 5,6 million).

Brief Look at February – October 2021

- Q1-Q3 revenue increased by 26% to EUR 103,2 million (82,0 million).
- Gross profit increased by 23% to EUR 43,2 million (35,1 million).
- Adjusted EBITDA increased by 36% to EUR 12,2 million (9,0 million).
- Net cash from operating activities was positive at EUR 11,1 million (EUR 7,0 million).

HLRE HOLDING GROUP IN						
1000 EUR IFRS	Aug - Oct 2021	Aug - Oct 2020	%	Feb - Oct 2021	Feb - Oct 2020	%
Revenue	40,3	31,9	26,3 %	103,2	82,0	25,9 %
Gross profit	17,7	14,0	26,4 %	43,2	35,1	23,1 %
Gross margin	43,9 %	43,9 %		41,9 %	42,8 %	
Adjusted EBITDA	7,2	4,6	56,5 %	12,2	9,0	35,6 %
Net cash from operating activities	9,5	5,6	69,6 %	11,1	7,0	58,6 %

Q3 Revenue, Result and Cash Flow

HLRE Holding Group's Q3 revenue, gross margin and EBITDA increased from Q3 last year. Q3 progressed in all the Group business segments compared to last year.

The Group's Q3 revenue increased by 26% to EUR 40,3 million (31,9 million) and gross profit increased by 26% to EUR 17,7 million (14,0 million) from Q3 last year. The acquisition of Vesivek Salaojat Oy in February 2021, improved roof renovation installation volumes in Sweden, sales price increases introduced in 2020 in Finland and Sweden as well as increase in roof product sales volumes in Finland contributed positively to Q3 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.

Reported EBITDA in Q3 was EUR 7,1 million (EUR 4,3 million). The Group's Q3 adjusted EBITDA was EUR 7,2 million (EUR 4,6 million), operating cash flow progressed from last year and was positive at EUR 9,5 million (EUR 5,6 million). EBITDA adjustments include a leadership development project and other consulting total in Q3 EUR 0,1 million (EUR 0,3 million).

The Group's Q3 operating cash flow was steady due to productive business performance, no major investing activities and positive IFRS net working capital changes. Worth noticing however, total inventory value increased in Q3 by EUR 1,0 million to EUR 13,4 million due to ensuring material sufficiency and due to price increases of raw materials.

Q1-Q3 Revenue, Result and Cash Flow

Q1-Q3 cumulative revenue, gross profit and EBITDA increased from Q1-Q3 last year 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. Group has reacted to purchase price increases in all Group companies by increasing sales prices, but it still has had some temporary influences on gross margins in some Group businesses.

In Q1-Q3 Group's reported EBITDA was EUR 10,7 million (EUR 8,3 million), adjusted EBITDA EUR 12,2 million (EUR 9,0 million). Total reported adjustments EUR 1,5 million (EUR 0,7 million) include a capital loss of purchased leased assets EUR 1,0 million, a leadership development project and other consulting EUR 0,5 million. Impact of the adjustments to the operating cashflow in Q1-Q3 amounted to EUR 0,5 million (EUR 0,7 million).

LTM reported EBITDA as per 31 October 2021 was EUR 12,6 million (EUR 9,8 million 31 July 2021) and LTM adjusted EBITDA EUR 14,1 million (EUR 11,5 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 cumulative reported EBITDA.

The Group liquidity position in the end of Q3 was steady and no need to utilize any of its available EUR 2 million SSRFC in Q1-Q3.

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 \(02/2021-01/2022\)](#)

The Group is expected to report improved EBITDA and operating cash flow for the full-financial year compared to last financial year. Adjusted EBITDA is expected to exceed EUR 13,5 (EUR 11,4 million) and liquidity position to be relatively steady at the end of the financial period.

Consolidated Statement of Comprehensive Income					
1000 EUR		1.8.-31.10.2021	1.2.2021-31.10.2021	1.8.-31.10.2020	1.2.2020-31.10.2020
REVENUE		40 276	103 158	31 863	82 036
Other operating income		279	745	212	631
Operating expenses		-33 413	-93 165	-27 752	-74 345
Depreciation and amortisation		-2 019	-6 022	-1 886	-5 651
OPERATING PROFIT		5 123	4 716	2 436	2 671
Finance income		-661	-376	54	258
Finance expense		-872	-2 656	-479	-1 691
Finance income and expense		-1 532	-3 033	-426	-1 433
PROFIT/LOSS BEFORE TAX		3 590	1 683	2 011	1 238
Tax on income from operations		-605	-463	-281	-401
PROFIT/LOSS FOR THE PERIOD		2 985	1 221	1 730	837
Profit attributable to:					
Owners of the parent company		2 722	1 066	1 712	844
Non-controlling interests		263	154	18	-7
		2 985	1 221	1 730	837
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translating foreign operations		28	21	4	14
Items that may be reclassified subsequently to profit or loss		28	21	4	14
TOTAL COMPREHENSIVE INCOME		3 013	1 242	1 734	851
Total comprehensive income attributable to:					
Owners of the parent company		2 748	1 086	1 715	858
Non-controlling interests		266	156	19	-6
		3 013	1 242	1 734	851

Consolidated Statement of Financial Position

1000 EUR	31.10.2021	31.10.2020
ASSETS		
NON-CURRENT ASSETS		
Goodwill	40 260	39 437
Intangible assets	1 022	883
Property, plant, equipment	25 924	26 052
Other non-current financial assets	48	48
Non-current loan receivables	78	10
Other non-current receivables	39	0
Deferred tax assets	199	0
NON-CURRENT ASSETS	67 571	66 430
CURRENT ASSETS		
Inventories	13 416	11 041
Trade receivables and other receivables	12 922	11 533
Cash and cash equivalents	11 307	3 271
CURRENT ASSETS	37 645	25 844
ASSETS	105 215	92 274
EQUITY AND LIABILITIES		
Owners of the parent company	28 700	28 262
Non-controlling interests	61	39
EQUITY	28 760	28 301
NON-CURRENT LIABILITIES		
Non-current liabilities, interest-bearing	52 156	18 033
Non-current interest-free liabilities	389	359
Deferred tax liabilities	117	137
NON-CURRENT LIABILITIES	52 662	18 529
CURRENT LIABILITIES		
Current interest-bearing liabilities	4 359	28 855
Current interest-free liabilities	19 435	16 589
CURRENT LIABILITIES	23 793	45 444
Liabilities	76 455	63 974
EQUITY AND LIABILITIES	105 215	92 274

Consolidated Statement of Cash Flows, indirect

1000 EUR	1.2.2021-31.10.2021	1.2.2020-31.10.2020
Cash flows from operating activities		
PROFIT/LOSS FOR THE PERIOD	1 221	837
Adjustments to the profit/loss for the period	10 488	7 674
Working capital changes	1 716	90
Cash flow from operating activities before finance and taxes	13 424	8 600
Finance income and expense	-1 836	-1 391
Income taxes paid	-472	-166
Net cash from operating activities	11 117	7 043
Cash flows from investing activities		
Purchase of tangible and intangible assets	-1 673	-1 423
Proceeds from sale of tangible and intangible assets	273	22
Acquisition of subsidiaries, net of cash acquired	-194	0
Addition / deduction of loan receivables	255	-571
Addition / deduction of cash equivalents	10	10
Net cash used in investing activities	-1 328	-1 964
Cash flows from financing activities		
Proceeds from sale of treasury shares	78	0
Repayment of current borrowings	-25 817	-2 050
Addition / deduction of current borrowings	0	2
Proceeds from non-current borrowings	28 781	0
Repayment of non-current borrowings	17	-2 050
Payment of lease liabilities	-3 758	-3 421
Net cash used in financing activities	-701	-7 520
Net change in cash and cash equivalents	9 087	-2 440
Cash and cash equivalents, opening amount	2 219	5 711
Net increase/decrease in cash and cash equivalents	9 087	-2 440
Effects of exchange rate fluctuations on cash held	0	0
Cash and cash equivalents	11 307	3 271
Cash and cash equivalents, other arrangements	0	0