

AS MERKO EHITUS

Retail Investor Meeting @ LHV, Tallinn

27 February 2019



AS Merko Ehitus Group in Brief



AS Merko Ehitus is a construction and real estate development group operating in Estonia, Latvia, Lithuania and Norway

BUSINESS SEGMENTS

ESTONIA

- General construction
- Civil engineering
- Electrical construction
- Road construction
- Residential real estate development and investments

LATVIA

- General construction
- Civil engineering
- Electrical construction
- Residential real estate development and investments

LITHUANIA

- General construction
- Residential real estate development and investments

NORWAY

- General construction

The construction company with the largest equity in the Baltics, long-term capability to self-finance its projects

A strong position on the Baltic construction market, the leading residential real estate developer

International quality, environmental protection and occupational safety **certificates ISO 9001, ISO 14001, OHSAS 18001**

SHARES

The shares are listed in the Main List of NASDAQ Tallinn since 1997.

The main shareholder is AS Riverito (**72%**)

2018 KEY FIGURES

Revenue **418.0 million** euros

Net profit **19.3 million** euros

764 employees

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Pärnu mnt 22 office building in Tallinn

Merko Ehitus 2018 sales revenue above EUR 400 million

- ❑ 2018 revenue EUR 418m, up 32% compared to 2017 (EUR 318m)
- ❑ More than half of revenue (52%) in 12 months earned outside Estonia; greatest growth in Latvia, supported by large contracts in progress
- ❑ Net profit of 2018 EUR 19.3m, up 32% compared to 2017 (EUR 14.7m)
- ❑ Secured order book at EUR 229m
- ❑ In 2018, 482 apartments sold.
- ❑ In 2018, 11 new development projects with 1032 apartments were started
- ❑ The group continued to implement its long-term apartment development strategy by investing a total of EUR 38m in this field, including EUR 3m in new land plots.



Viimsi state upper secondary school

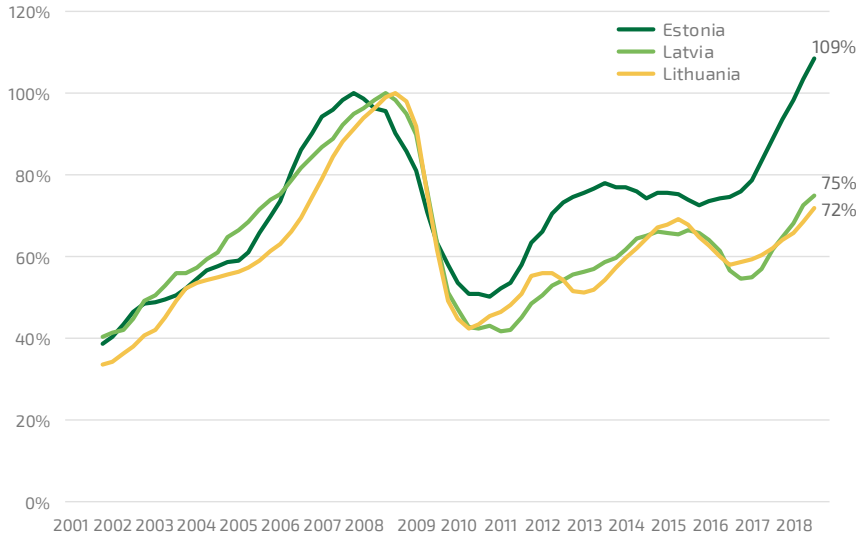
Merko Group Key Financial Highlights

<i>EUR million</i>	12M 2018	12M 2017	Variance
Revenue	418.0	317.6	+31.6%
EBITDA	21.9	22.2	-1.5%
EBITDA margin (%)	5.2	7.0	
Operating profit	19.9	19.5	+1.7%
Operating profit margin (%)	4.8	6.2	
Profit before tax	19.8	18.8	+5.3%
Net profit, attributable to equity holders of the parent	19.3	14.7	+31.6%
Earnings per share (EPS), in euros	1.09	0.83	+31.6%
Secured order book	229.0	344.4	-33.5%
Employees as at 31 December	764	757	+0.9%

2017 operating profit and EBITDA levels were supported by a number of positive factors, including real estate transactions of a one-time nature in Q4, the preparations for which spanned a longer period.

CONSTRUCTION VOLUME INDEX, COMPARED TO PREVIOUS MAXIMUM

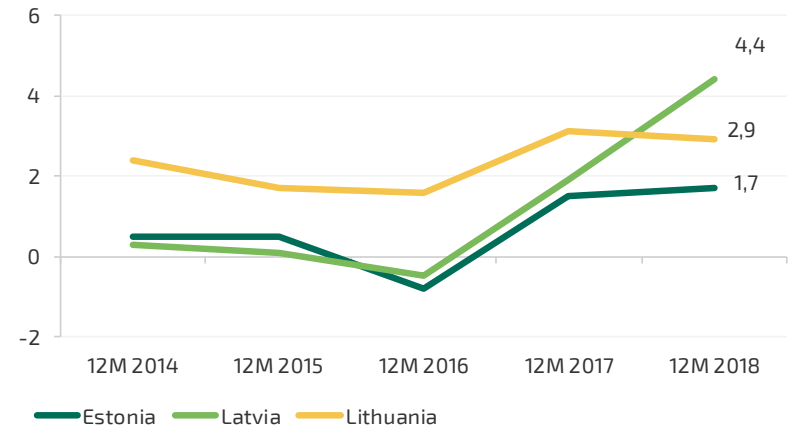
4 quarter running average



Source: Local national statistical offices

12 MONTHS CHANGE IN CONSTRUCTION PRICE INDEX

percentages

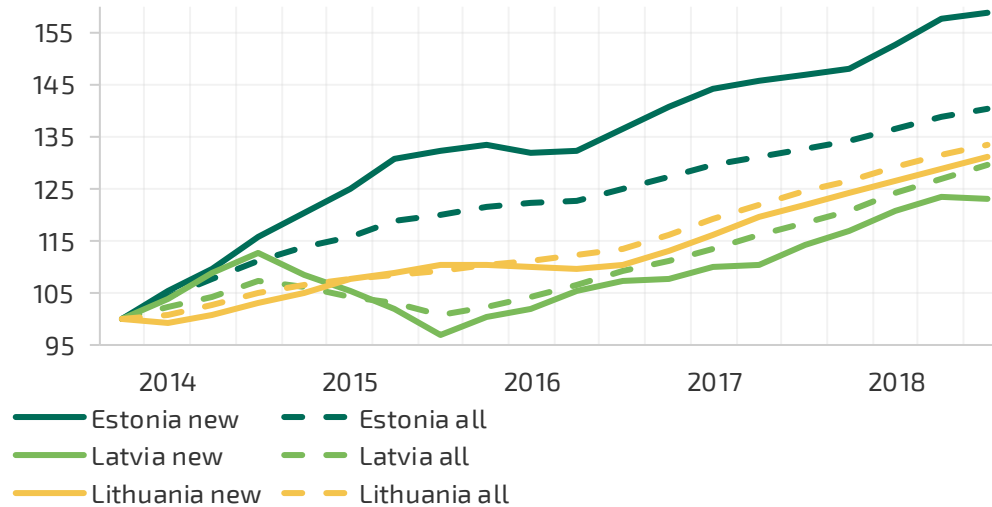


Source: Local national statistical offices

- ❑ In Estonia, construction volumes outstripped the booming years' peak in 2007 by about one-tenth; some caution is called for in regard to further developments
- ❑ Rapid growth in Latvia and Lithuania, but volumes lower by some one-quarter compared to the peak of previous booming years; compared to Estonia, more room for additional growth
- ❑ Last few years have been a highly active time in the Baltic construction sector: acute problem of finding sufficient number of high-quality subcontractors, prices rising
- ❑ Dynamics of public sector demand continues to be an important issue in the longer perspective, including the volume and timing of construction works related to Rail Baltica

NEW AND ALL (dotted line) DWELLINGS QUARTERLY HOUSE PRICE INDEX

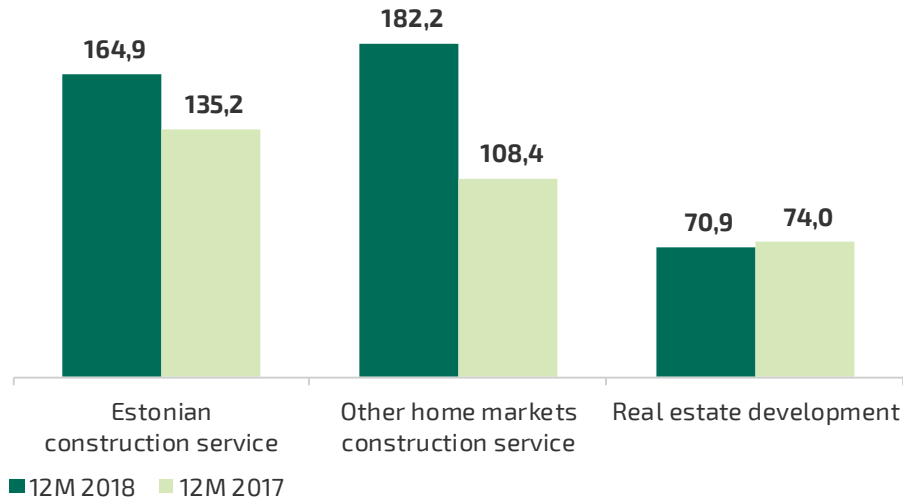
(4 QUARTER ROLLING AVERAGE) (2013=100)



- ❑ In Estonia, the number of permits for use issued for new residential units reached the level seen at the peak of the boom era
- ❑ In Lithuania, more use permits have been issued for new housing than at the height of 2008 for couple of years already
- ❑ Development sector in Latvia remains stable – no such major growth as in Estonia and Lithuania
- ❑ Clear trend of rising apartment prices in all three Baltic states; prices have risen at the same pace with personal incomes, so it does not in itself pose a risk to the general economic environment
- ❑ Supply of new apartments has increased: price level has stabilized and sales periods somewhat longer
- ❑ Success is defined by quality, location and the cohesiveness of the development area

GROUP 12 MONTHS' REVENUE BY SEGMENTS

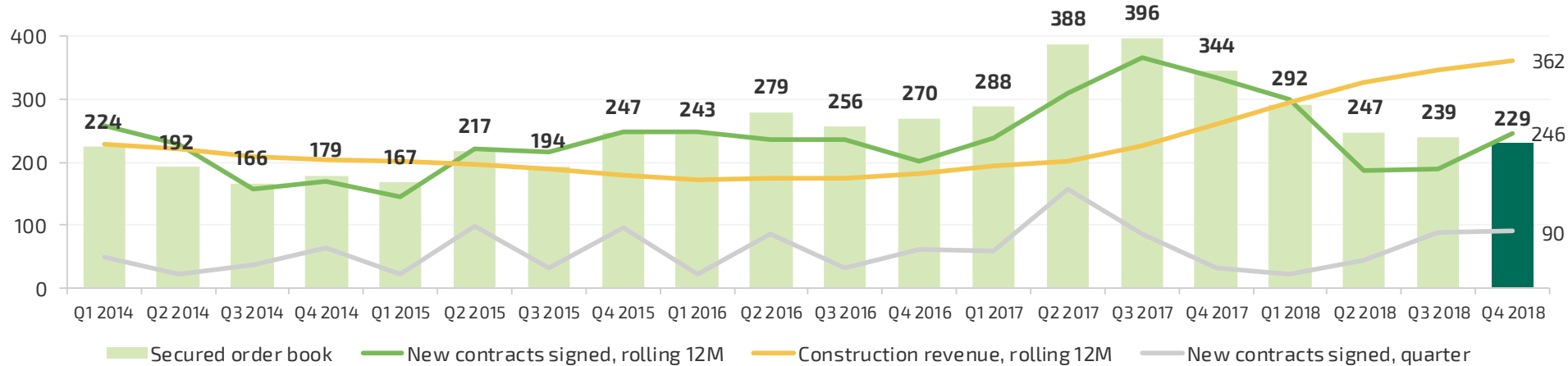
in million euros



- ❑ Group's revenue increased in all Baltic countries, doubling in Latvia
2018: Estonia EUR 203m, Latvia EUR 157m, Lithuania EUR 47m, Norway EUR 11m
2017: Estonia EUR 191m, Latvia EUR 80m, Lithuania EUR 35m, Norway EUR 12m
- ❑ Growth in revenue was supported by several major ongoing projects in Latvia and Estonia
- ❑ Problems of availability of building design and subcontracting resources exacerbated risks related to on-time completion of construction and financial risks
- ❑ Profitability of fixed price contracts under pressure due to increase in construction input prices
- ❑ Group participates in procurements for such objects where the risk-reward ratio matches our goals
- ❑ Rise in construction prices is slowing growth in the volume of new orders on the market

SECURED ORDER BOOK

in million euros



- ❑ Secured order book EUR 229m (31.12.2017: EUR 344m).
- ❑ Private sector orders from projects in progress constitute 70% (31.12.2017: 86%)
- ❑ Total new contracts signed during 12M 2018: EUR 246m (12M 2017: EUR 335m)
- ❑ Launch of new commercial real estate projects is being slowed by the large volume of retail and office space accruing in recent years and the more complicated financing conditions

Real Estate Development

Group's central business line

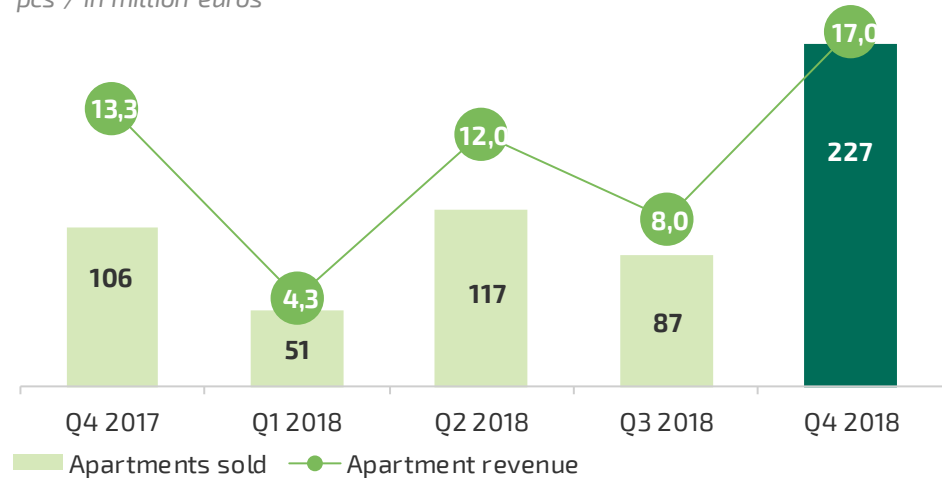
- ❑ 482 apartments, incl. 131 in joint venture, sold in 12M 2018 (12M 2017: 392, incl. 17 in joint venture)
- ❑ Revenue from sale of own developed apartments EUR 41m in 12M 2018 (12M 2017: EUR 47m)

In addition, there were 193 pre-sale agreements signed as of 31.12.2018 (311 on 31.12.2017)

- ❑ Construction of 1032 apartments launched during 12M 2018 (12M 2017: 496) and EUR 35m invested in apartment developments (12M 2017: EUR 48m)
- ❑ As of 31.12.2018, 989 apartments on active sale without pre-sale agreements, of which 12% completed
- ❑ Land plot acquisitions for EUR 3.0m in 12M 2018 (12M 2017: EUR 9.2m)
- ❑ Land plot portfolio of EUR 55m (31.12.2017: EUR 64m):
 - Estonia EUR 27m
 - Latvia EUR 27m
 - Lithuania EUR 1m

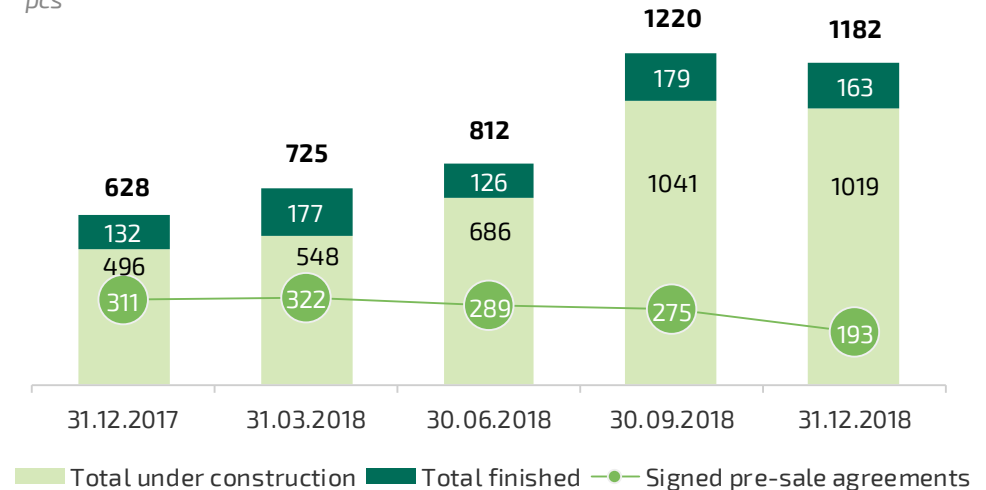
APARTMENTS SOLD AND APARTMENT REVENUE

pcs / in million euros



GROUP APARTMENTS INVENTORY

pcs

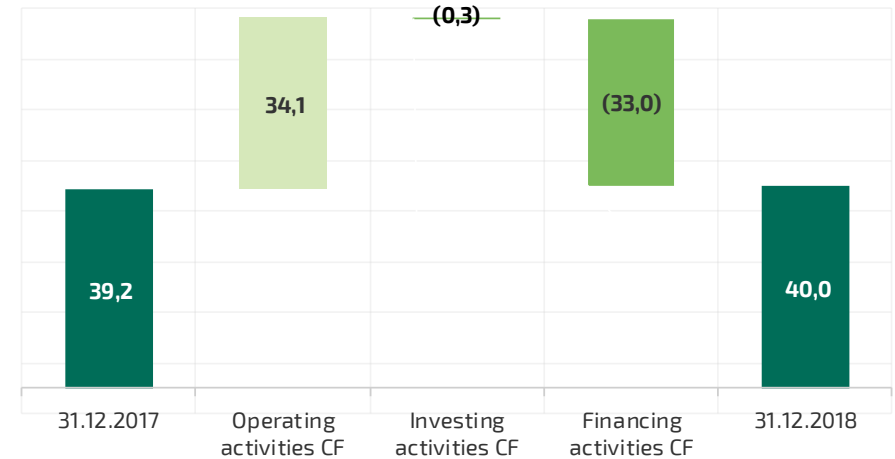


Robust capitalization, high liquidity, low debt level

- ❑ Liquidity position maintained strong, cash at EUR 40m as at 31.12.2018 (31.12.2017: EUR 39m).
- ❑ Net debt amounted to EUR 4m and debt ratio at 16% (31.12.2017: EUR 20m and 21%). Group is self-funding a large proportion of its own development projects construction activities and has not used all its overdraft facilities.
- ❑ Current assets are at 2.2x current liabilities (31.12.2017: 2.2x).
- ❑ Equity ratio at 49% (31.12.2017: 47%).

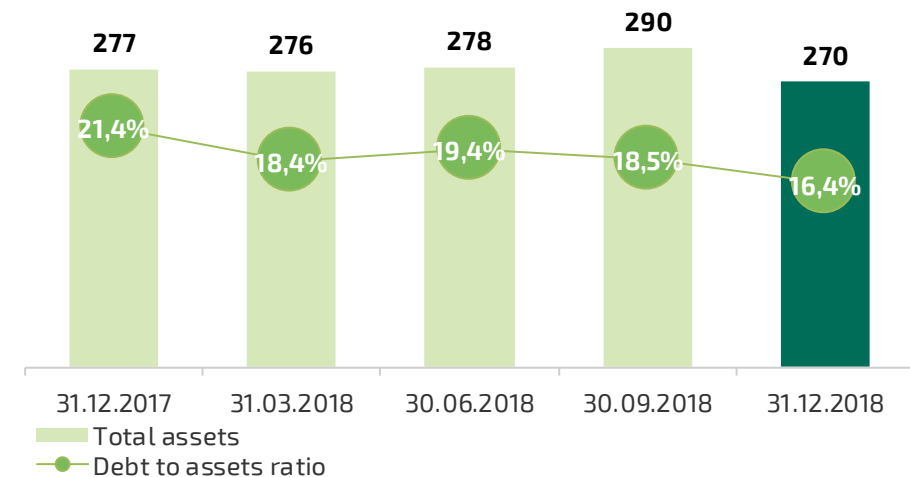
CHANGE IN CASH AND CASH EQUIVALENTS

in million euros



TOTAL ASSETS AND DEBT TO ASSETS RATIO

in million euros / percentages

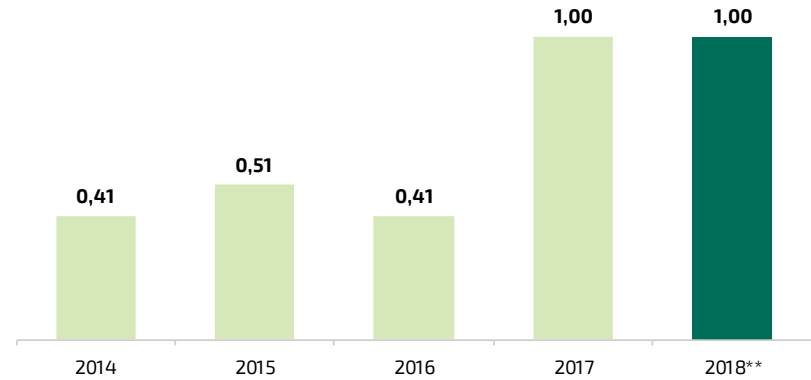


The Management Board proposes to pay a total amount of EUR 17.7m as dividends (EUR 1.0 per share) in 2019

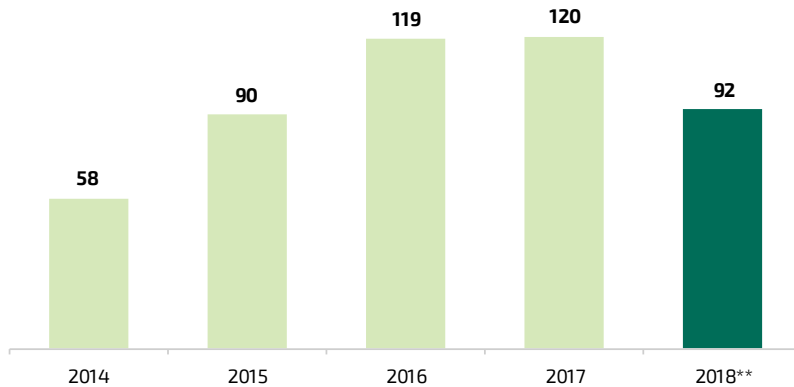
Based on Management Board proposal:

- 2018 dividend rate 92%
- 2018 dividend yield 10.9%
(using share price of 9.20 euros as at 31.12.2018)

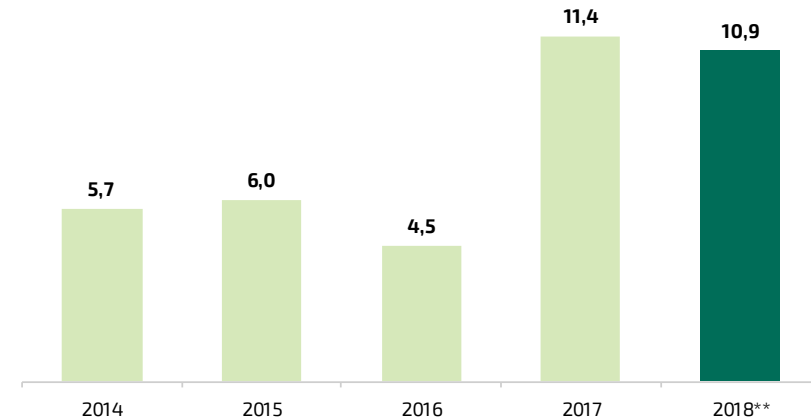
DIVIDEND PER SHARE
in euros



DIVIDEND RATE
percentages



DIVIDEND YIELD*
percentages

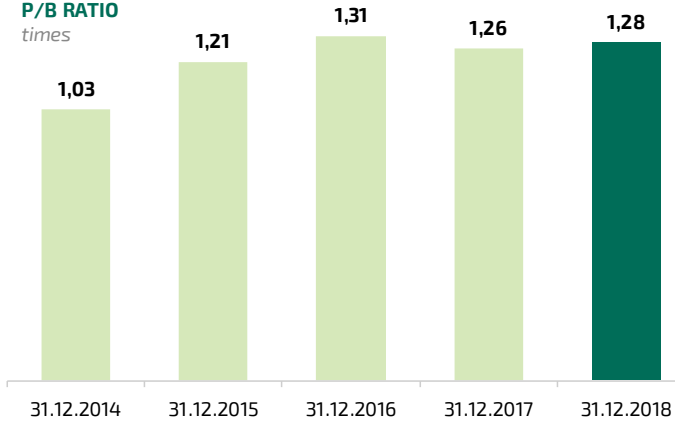


* Using share price as at 31 December

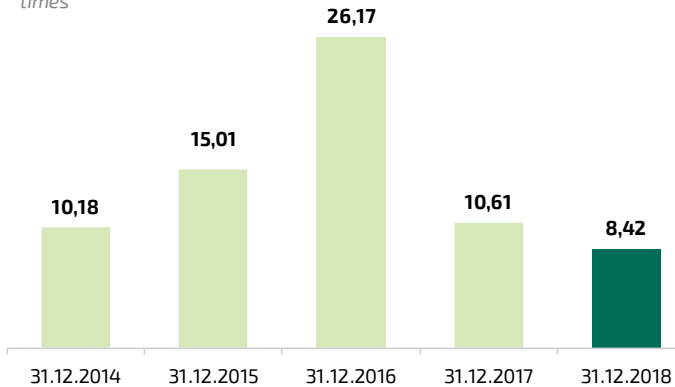
** 2018 figures based on Management Board proposal

Stock Exchange Overview

P/B RATIO
times



P/E RATIO
times



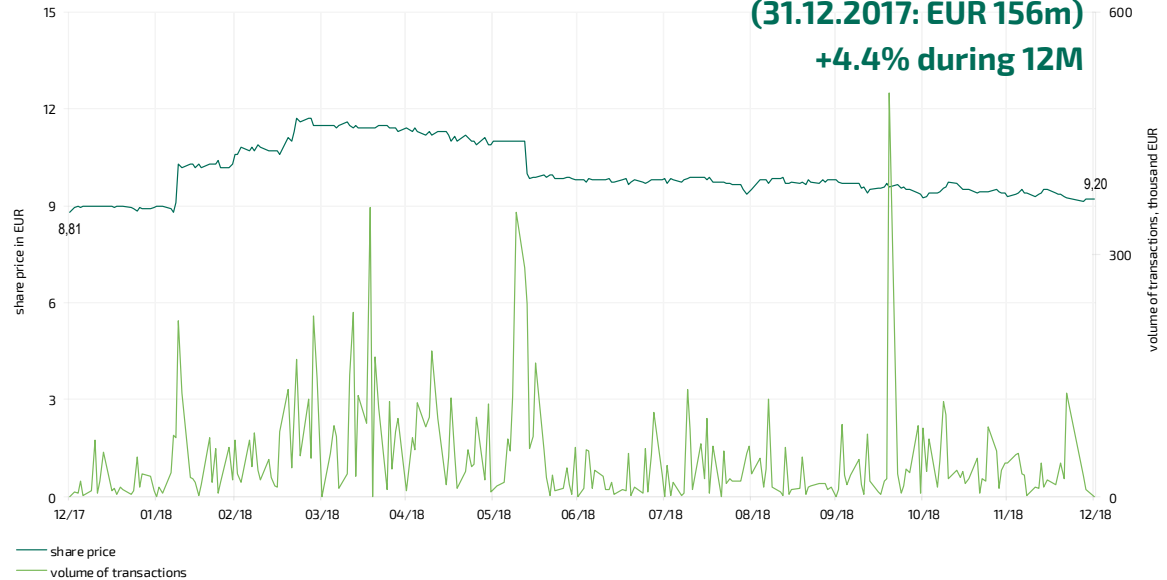
12M 2018: 4,299 transactions, turnover EUR 12.2 million
(12M 2017: 2,203; EUR 4.7m)

31.12.2018 (31.12.2017):
2,664 shareholders (2,040)

Market Cap as at 31.12.2018: EUR 163m

(31.12.2017: EUR 156m)

+4.4% during 12M



Shareholders

	Number of shares	% of total 31.12.2018	% of total 30.09.2018	Variance
AS Riverito	12,742,686	71.99%	71.99%	-
ING Luxembourg S.A. AIF Account	670,695	3.79%	3.87%	(14,710)
Firebird Republics Fund Ltd	363,094	2.05%	2.05%	-
Firebird Avrora Fund Ltd	222,419	1.26%	1.26%	-
OÜ Midas Invest	210,680	1.19%	1.09%	18,180
SEB S.A. UCITS client assets	206,562	1.16%	1.31%	(24,431)
Skandinaviska Enskilda Banken AB, Swedish customers	159,559	0.90%	0.90%	-
State Street Bank and Trust Omnibus Account at Fund No OM01	153,018	0.87%	0.87%	-
SEB Elu- ja Pensionikindlustus AS	142,887	0.81%	0.81%	(1,000)
Firebird Fund L.P.	131,331	0.74%	0.74%	-
Total largest shareholders	15,002,931	84.76%	84.89%	(21,961)
Total others shareholders	2,697,069	15.24%	15.11%	21,961
Total	17,700,000	100%	100%	-

Construction for clients:

- ❑ Managing risks of large objects
- ❑ Preferred partner for private customers who value reliability and quality
- ❑ Clearer focus on construction tenders, efficiency of bidding resources
- ❑ Internal efficiency and cost savings, incl. with the help of technology. Expanding the usage area of building information modeling (BIM).
- ❑ Flexibility also to construct smaller objects
- ❑ Construction tenders for infrastructure facilities

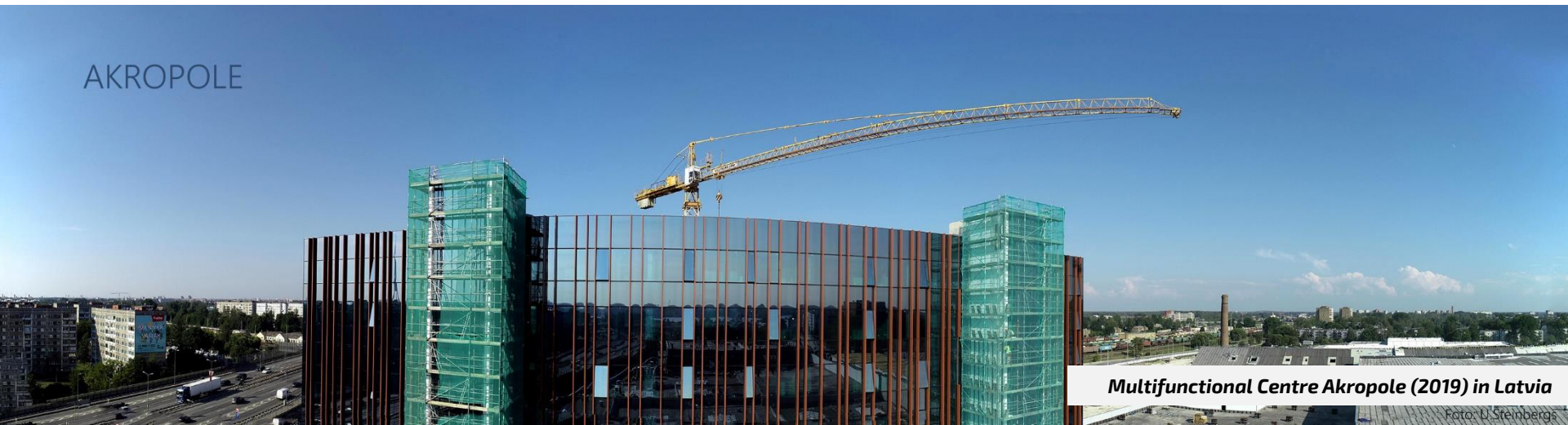
Development of residential real estate:

- ❑ Selling the best apartments of their price range: to cover different segments. Product development, based on pricing
- ❑ Focus on the capitals of the Baltic states
- ❑ Integral development concept for large development areas
- ❑ Launch 650-700 new apartments a year and invest around EUR 60m, depending on receiving building permits

To retain liquidity:

- ❑ Covering the needs of the construction service, ensuring investment capability

AKROPOLE





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