



MERKO EHITUS GROUP

Construction, Engineering & Real Estate

16 April 2015
Impera Capital





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The largest listed construction company in the Baltics

Construction services:

- General construction
- Engineering construction
- Road construction

Own developed real estate projects

**Operates in
Estonia (68% of revenue),
Latvia (27%), Lithuania (5%)**



**Revenue in 2014
€252.3 mln**



**31.12.2014:
765 employees**



**Net Profit 2014:
€12.4 mln**

**EBITDA 2014:
€16.4 mln**

**Share quoted on
Nasdaq OMX
Tallinn since 1997**



Value Offering

Integrated project management and general contracting service across the full life cycle of construction projects.

- ❖ From idea to planning to engineering design to site works to warranty: full responsibility to deliver the project.
- ❖ We mainly contract subcontractors, but also use own workforce in concrete works, road construction, high-and medium voltage electrical engineering, external pipe networks.
- ❖ We invest in real estate and develop homes for sale directly to consumers.
- ❖ We can provide co-financing and share project risks, also in PPP

Our differentiation:

- ❖ Experienced project managers and engineers
- ❖ Experience and influence on subcontractor market
- ❖ New engineering and construction solutions
- ❖ Strong financial capability relative to peers
- ❖ Balanced business model: segment-wise and geographically

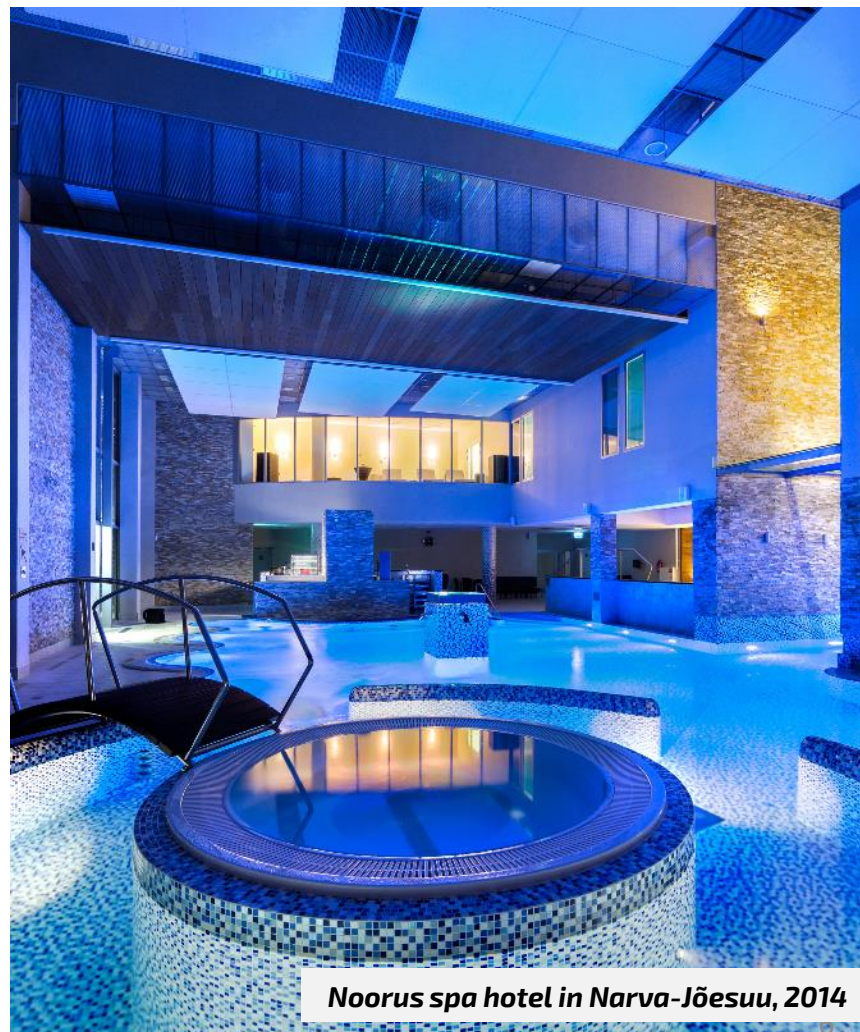
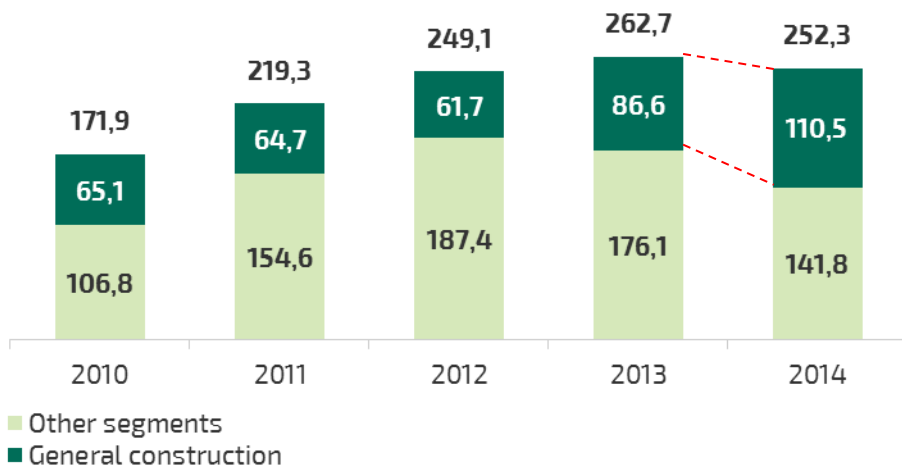


BUSINESS ACTIVITIES

General Construction



- ❖ Construction of buildings and facilities
- ❖ 44% of 2014 revenues, 33% of 2013
- ❖ Markets: 
- ❖ Private and public clients

REVENUE
in million euros

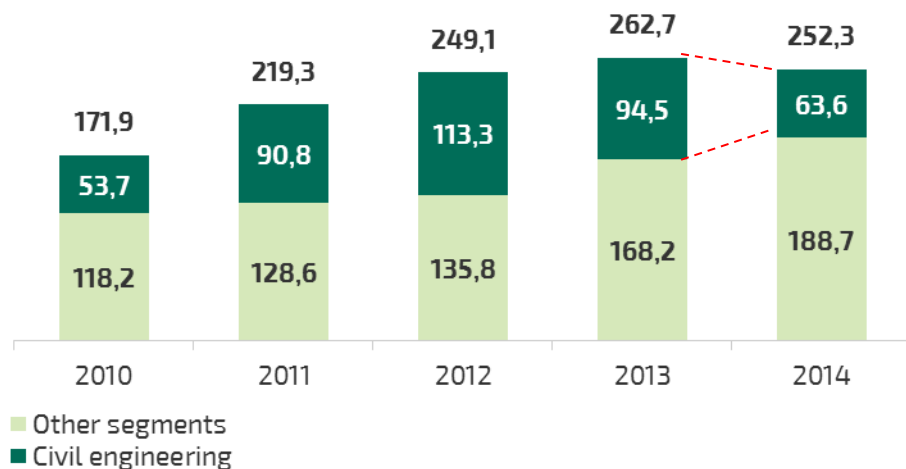


Noorus spa hotel in Narva-Jõesuu, 2014

Civil Engineering


- ❖ Infrastructure and engineering projects. Including water, environmental and electrical projects.
- ❖ 25% of 2014 revenues, 36% of 2013
- ❖ Mainly public clients: EU funding is key
- ❖ Markets:  

REVENUE
in million euros

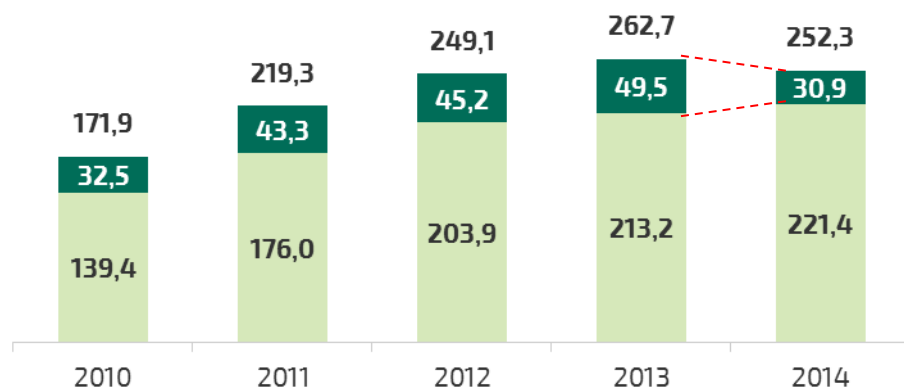


Estlink 2 underground cable, 2014

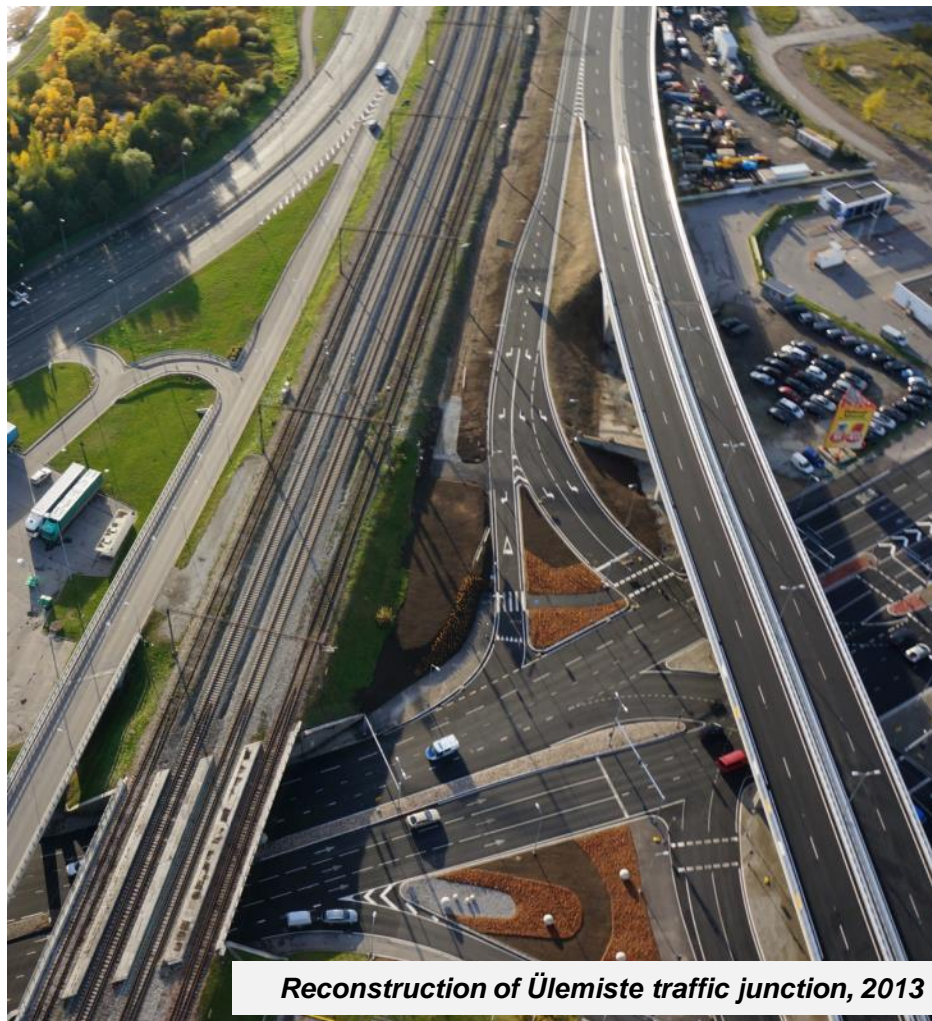
Road Construction

- ❖ Road construction and long-term road maintenance contracts
- ❖ 12% of 2014 revenues, 19% of 2013
- ❖ Mainly public clients: EU funding is key
- ❖ Market: 

REVENUE
in million euros



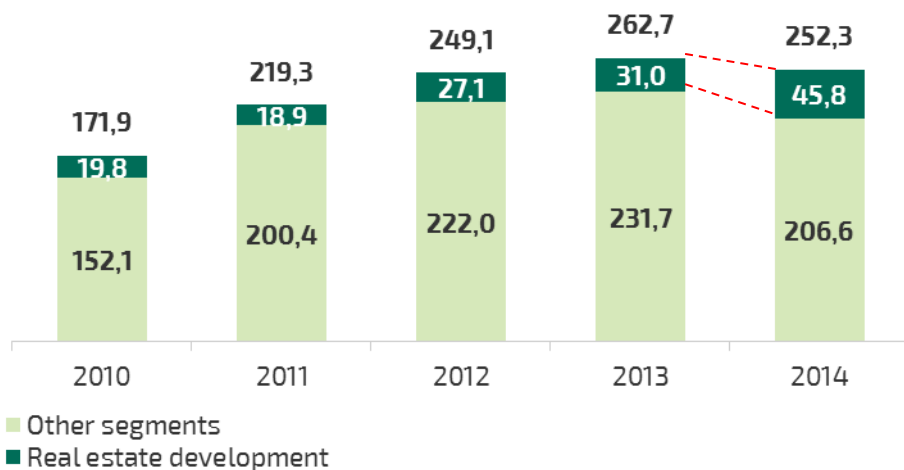
Other segments
Road construction



Real Estate Development

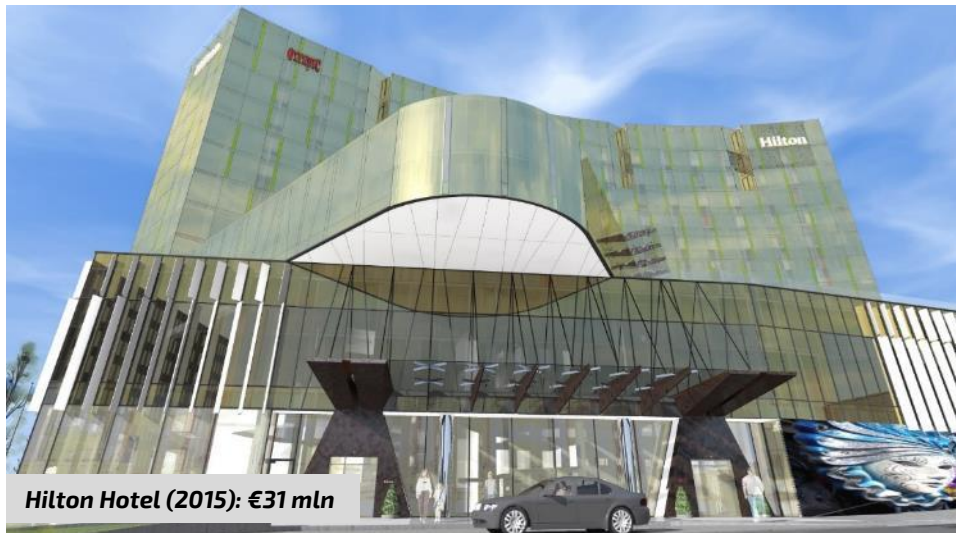
- ❖ Own development of residential apartments
- ❖ Merko has become the flagship of Baltics residential development
- ❖ 18% of 2014 revenues, 12% of 2013
- ❖ Markets:   

REVENUE
in million euros



*Skanstes virsotnes apartment buildings,
several phases 2006-2013*

2015 Largest Projects In Progress Estonia



2015 Largest Projects In Progress Latvia



Liepaja Concert Hall (2015): €28 mln



Skanstes Majas apartment buildings



Riga State Technical School (2015): €5 mln



Residential construction (2016): €11 mln

2014 Largest Projects In Progress Lithuania



Vilnius Balsiai Secondary School – PPP (2011–2035)



Kraziu apartment buildings (2015)



*Civil construction works of Nordbalt HVDC converter station
in Klaipeda district (2015): €6 mln*



*Complex of multi-dwelling residential buildings
and administrative buildings (2017): : €15 mln*

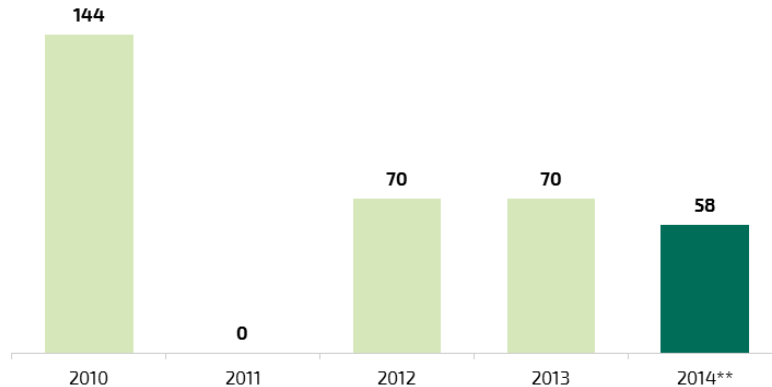
2013 AND 2014 RESULTS

EUR millions	2014	2013	Var	2012
Revenue	252.3	262.7	-4.0%	249.1
Gross profit	24.7	22.7	+8.8%	17.9
Gross profit margin (%)	9.8	8.6	+13.3%	7.2
EBITDA	16.4	15.1	+8.9%	11.4
Profit before tax	13.3	11.1	+19.4%	7.9
Net profit, attr. to equity holders of the parent	12.4	10.4	+19.4%	7.6
Earnings per share (EPS), in euros	0.70	0.59	+19.4%	0.43
Secured order book	179.1	213.7	-16.2%	189.9
Employees	765	860	-11.0%	915

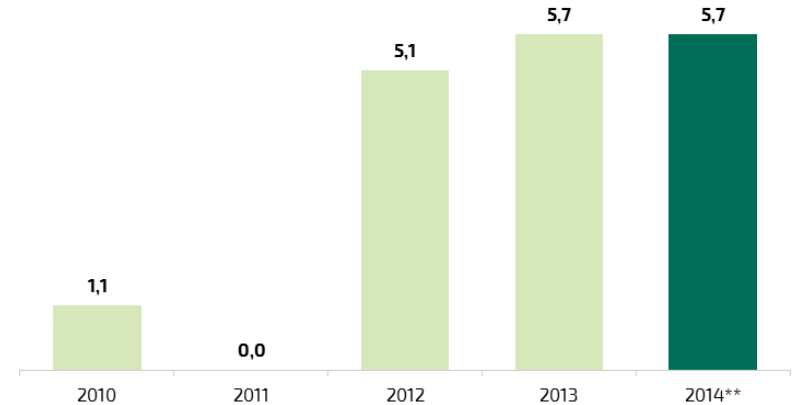
* Variance calculated based on interim consolidated financial reports

Dividend and share capital reduction proposals

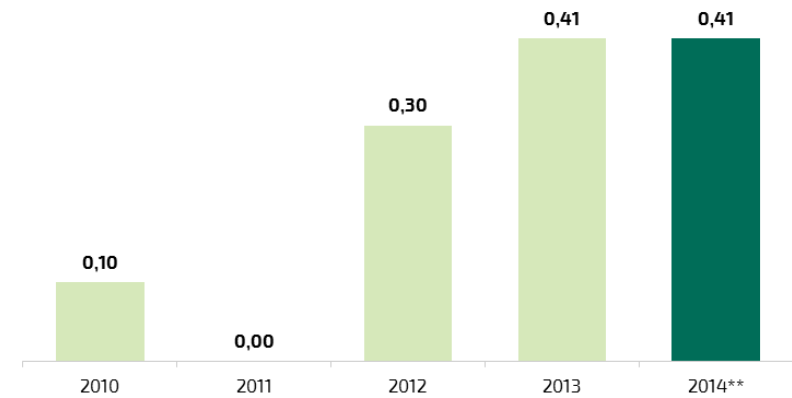
DIVIDEND RATE
percentages



DIVIDEND YIELD *
percentages



DIVIDEND PER SHARE
in euros



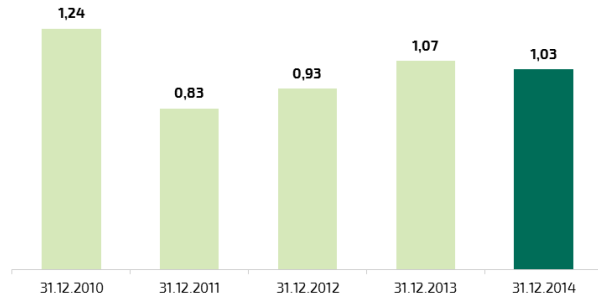
- ❖ Dividend pay-out ratio according to long-term financial objectives: 50-70% of the annual profit.
- ❖ Proposal to pay EUR 7.3 million as dividends (EUR 0.41 per share) in 2015.
- ❖ Proposal to reduce the share capital by EUR 4.1 million (EUR 0.23 per share). An annual investment yield of 9.0%.

* Using share price as at 31.12

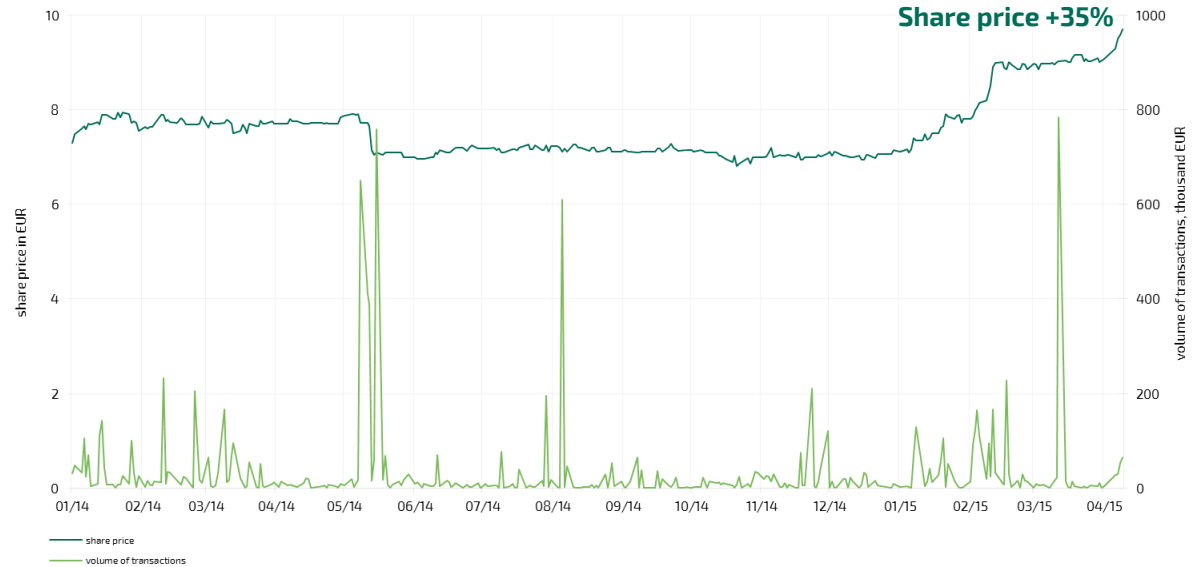
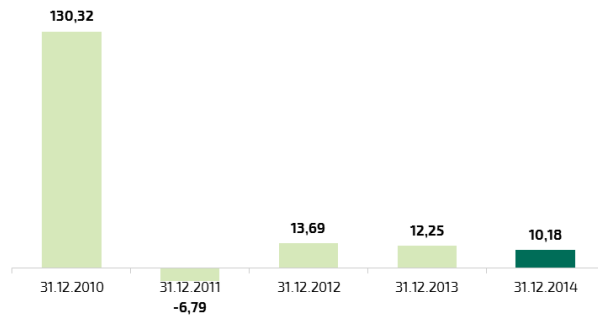
** 2014 figures based on Management Board proposal

Stock Exchange overview

P/B RATIO
times



P/E RATIO
times



**Market Cap at EUR 172m
as of 10 April 2015.**

Shareholders

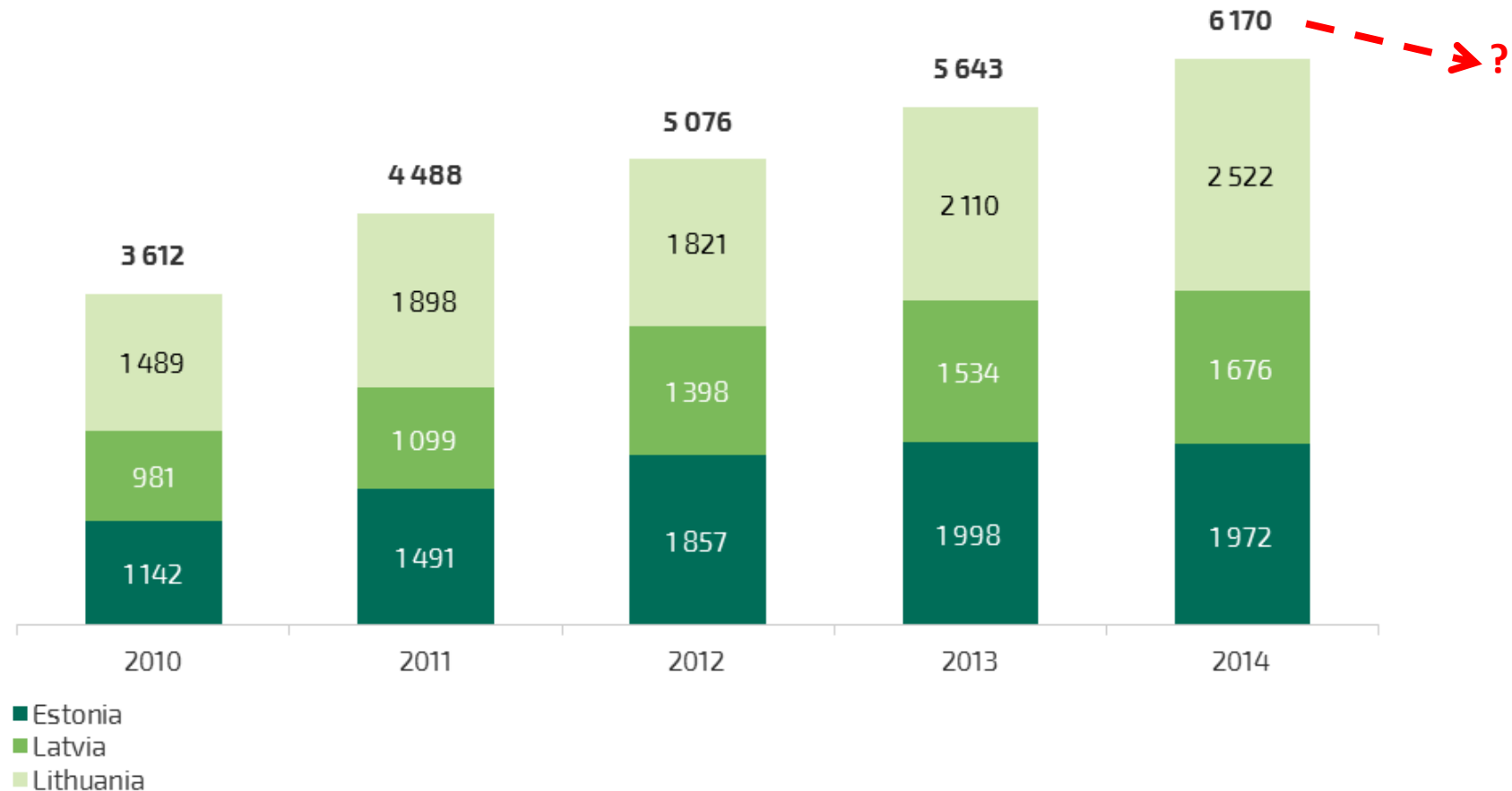
	No of shares	% of total 31.12.2014	% of total 31.12.2013	Variance
AS Riverito (management)	12 742 686	71,99%	71,99%	-
ING Luxembourg S.A. AIF Account	974 126	5,50%	5,50%	-
Skandinaviska Enskilda Banken S.A.	416 263	2,35%	2,72%	-65 116
Firebird Republics Fund Ltd	375 704	2,12%	1,71%	73 309
Skandinaviska Enskilda Banken AB, Swedish clients	293 660	1,66%	1,86%	-36 400
Firebird Aurora Fund Ltd	220 519	1,25%	0,00%	220 519
Skandinaviska Enskilda Banken AB, Finnish clients	183 982	1,04%	0,76%	49 000
State Street Bank and Trust Omnibus Account a Fund No OM01	153 018	0,86%	0,86%	-
SEB Elu- ja Pensionikindlustus AS	148 020	0,84%	0,72%	20 000
Clearstream Banking Luxembourg S.A. clients	143 652	0,81%	0,80%	2 390
Total largest shareholders	15 651 630	88,42%	86,92%	263 702
Other shareholders	2 048 370	11,58%	13,08%	-263 702
Total shares	17 700 000	100,00%	100,00%	

MARKET OUTLOOK AND FOCUS

Market outlook: construction

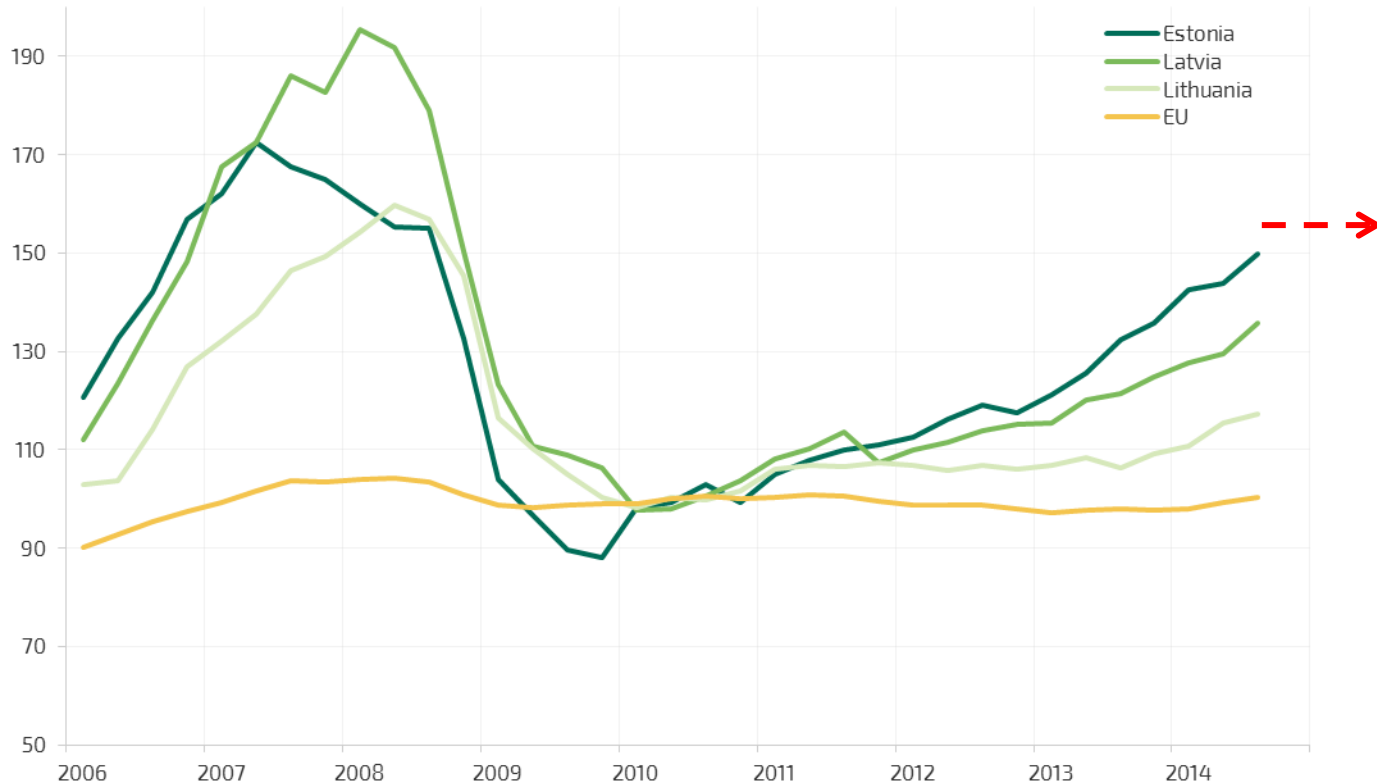
New tender volumes expected to decline in 2015 due to switchover to new EU budget period

BUILDING MARKET VOLUMES (WITH OWN FORCES) IN THE BALTIC STATES
in million euros



Market outlook: real estate

HOUSE PRICE INDEX (2010=100)



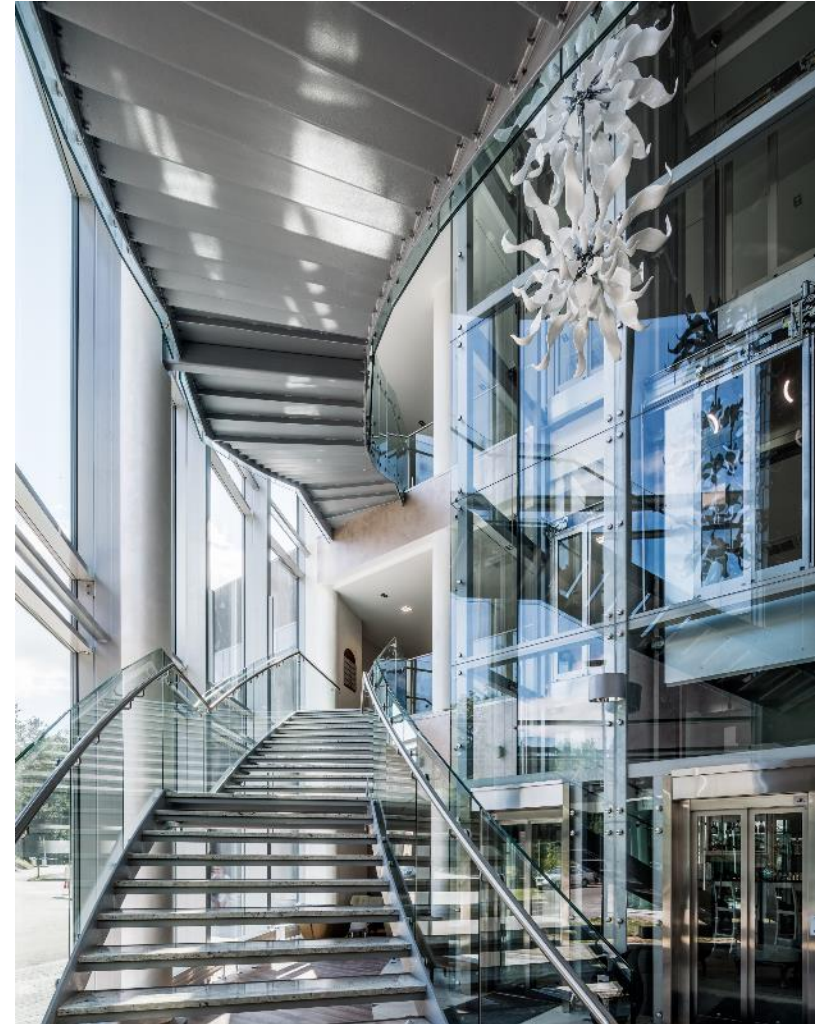
- ❖ Number of transactions and price per m2 have shown growth trend 2012-2014 due to low interest rates and limited supply of new flats during first after-crisis years.
- ❖ Market is calming down. Increased apartment offering is likely to cause price stabilisation and the prolongation of sales periods. Clients becoming more selective towards what and from whom they buy. Financially stronger and more experienced developers are better positioned.

Short-term

- ❖ Focus on private sector customers. More focus on design and build contracts to avoid price war. Providing bridge financing in selective cases.
- ❖ Active positioning in residential real-estate
- ❖ Electrical construction important segment.
- ❖ Continued focus on costs: reallocation and cost-cutting. Keeping and recruiting the best employees.

Medium-term

- ❖ EU-funds after 2015-2016
- ❖ Consolidation
- ❖ Tax and regulatory developments support more level playing field
- ❖ Lithuanian growth potential
- ❖ Residential: stable demand for good planning and living environments
- ❖ Aim to identify non-Baltic revenue potential at acceptable risk level.





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