

S1 2024 Earnings Call

Company Participants

- Andre Wyss, Chief Executive Officer
- Jens Vollmar, Head Division Buildings
- Marc Brulhart, Head Region Northwest, Buildings
- Silvan Merki, Chief Communications Officer
- Stefan Baumgartner, Chief Financial Officer
- Unidentified Speaker

Other Participants

- Holger Frisch, Analyst, Zurcher Kantonalbank
- Johannes Varamaki, Analyst, ABB
- Martin Husler, Analyst, Zurcher Kantonalbank
- Unidentified Participant

Presentation

Silvan Merki {BIO 21324943 <GO>}

Hello, and welcome to the Analyst and Media Conference on Implenia's Half-Year Results 2024. We are delighted to be able to present our results to you again here in connect and we also welcome the stream attendees to the presentation. My name is Silvan Merki, I am Implenia's Chief Communications Officer and I will be accompanying you through the event today. Our presentation will be held in German. For all those who are attending via the stream, you can select the English language. You may then ask your questions here in the room, in the stream chat, or even by phone in German or in English.

But before we start, I would like to draw your attention to the disclaimer shown here. So today we shall present the following. First, you will receive a business update from our CEO, Andre Wyss on the half-year results, and our CFO, Stefan Baumgartner will then take you through the financial figures. And this will be followed by a market outlook. And then Jens Vollmar, Division Head Buildings, and Marc Brulhart, Head of Region Northwest at Buildings will briefly express -- sorry, explain our Value Assurance process using the current project as an example. And last but not least, but we will be able to answer your questions.

And now I'll hand over to Andre for the first part. Andre, the floor is yours.

Andre Wyss {BIO 16735009 <GO>}

Thank you very much, Silvan. (Foreign Language) Hello, everyone. Good morning. Implenia has had another strong half-year. We achieved a good EBIT level and solid sales growth. We have further increased the equity ratio and we can confirm our targets for 2024 as expected.

But now to the details. Foreign currency effects are low this year, which is why we show all the figures directly and inclusively. (Technical Difficulty)

Stefan Baumgartner

(Technical Difficulty) Advance payments from customers also fell as a result (Technical Difficulty) expect a sustained positive free cash flow each year from the profitable operating business of all divisions.

At the end of June, cash and cash equivalents totaled CHF218.1 million and were thus, as usual, seasonally lower, but at the same level of the previous year. The issue of the CHF175 million bond led to a temporary increase in short-term fixed-term deposits. CHF125 million of this amount is intended for refinancing the bond maturing in October. We continue to make targeted investments in our own attractive real estate portfolio, our land bank.

The other current liabilities include the obligations expiring in October 2024 and expiring in June 2025. Due to the payment of the second installment of the Wincasa purchase price, current liabilities decreased compared to the end of 2023. Non-current financial liabilities increased by the amount of the new bond. With the positive consolidated result, we further strengthened equity to over CHF600 million, which corresponds to a year-on-year improvement of 20%. As a consequence, this results in an improved equity ratio of 20.5%, excluding the temporary impact of the fixed-term deposits.

For more than three years, we have consistently generated an EBIT of over CHF40 million in the seasonally weaker first half of the year. It should also be emphasized that Implenia achieved strong free cash flows in the second half of the year. In addition, we have almost doubled our equity ratio in the last three years. Implenia expects continued sustainable financial development, thanks to its strong operating business.

For the 2024 Annual Financial Statements, we confirm the profitability target of around CHF130 million EBIT supported by a strong operating business in a challenging market environment. In the medium term, we are still aiming for an EBIT margin of over 4.5% and an equity ratio of 25%.

And so back to Andre for the market outlook.

Andre Wyss {BIO 16735009 <GO>}

Thank you, Stefan. The megatrends of population growth, urbanization, and energy transition are driving demand for complex property and infrastructure projects. Implenia's range of services and expertise are geared precisely to making the best possible use of these opportunities.

We expect a positive trend in total construction output in Switzerland, but also in Europe. Only the German market for residential construction remains challenging, particularly due to inflation and also higher financing costs. Our strategic focus on large and complex project pays off. So we are not very affected by the low demand for smaller residential property developments in Germany. We see positive growth forecast for the Civil Engineering division in all of our geographical markets and now follows a brief excursus as aforementioned.

Value Assurance is our most important process for ensuring value creation in our projects. This concerns financial and contractual parameters, as well as equality and adherence to deadlines. It is a holistic approach that goes beyond conventional risk management, but also covering cultural and organizational aspects. Since mid-2019, all our projects have gone through the Value Assurance process, from selection and tender preparation to finalization.

Jens Vollmar and Marc Brulhart will give us an example of the process. Jens, Marc, the floor is yours.

Jens Vollmar {BIO 19737722 <GO>}

Thank you very much, Andre. We are very happy and delighted to take over the part, the application of our Value Assurance approach today. And so we have DBM, that is the biomedical building of Basel. So the first reason is that, it's a very big project and it really exceeds all the competencies of employer and we have the laboratory and the also research buildings and it also underlines the strategic approach from Implenia. And here's a short introductory video about the project.

(Video Presentation)

So compared to other projects, this project had a competence-oriented award criterion and was very important for us and the customer awarded this important project to Implenia primarily because of our experience and references. And a few years ago, for example, Implenia founded and implemented a specialized organization that deals exclusively with the planning and construction of healthcare and laboratory buildings,

The Value Assurance project, which every single one of our projects goes through in this standardized way. Each project is categorized by independent Value Assurance team during the evaluation based on the exposure level in one of our four classes. So we have in each class a Value Assurance committee consisting of one business, one finance and one legal person, and all decisions must be unanimous. And in the event of disagreement, the project is escalated to the next higher exposure level. And during all project phases, there are several Value Assurance meetings in which

the committee makes decisions and there are, for example, for the tender approval meeting, that's when we gather together. There are at least two, but there could be more -- many more meetings.

Marc, who employs the specialist for healthcare and laboratory buildings in this unit, will now explain the specific application using the DBM as an example. Marc, the floor is yours.

Marc Brulhart

So the project, this is how the DBM project worked in practice. So, due to its size, complexity, technical requirements and contractual requirements and contractual constellation, project was categorized as a Class 1 project and accordingly, the committee is made up of the Head of Buildings Division, CFO, and the General Council, and the CEO.

The independent Value Assurance team was involved in the project on various occasions. During the tender phase, for example, there was a mid-tender review to assess the construction costs and the opportunities and risks, post specific opportunities and risks. And here you can see in all faces the various standardized templates that are completed by both the project team and the Value Assurance team. These serve as an example only and also the people taking on the decisions and helps them to have a quick overview of the parameters of the projects. And the market evaluation phase, we focus more on the strategic fit of the potential project and that ensures that minimum criteria are met. And we want to know what to invest and on which process. And the tender phase focuses on the detailed calculation of risks and opportunities and evaluates the possible contractual risks. And this is a very important phase, because the success of the project depends on these prior definitions and the focus of the realization phase ensures that the early identification of risks remains deviations, as well as the mitigation of risks are also taken into consideration.

So with the Value Assurance team, we are always in a very narrow exchange and we are able then to mitigate any kind of risk that may come. So this is what the templates (inaudible) for the strategic fit was given and the necessary specialized skills were available in-house at Implenia. And so during this phase, it was very important for us to utilize the expertise of our various internal units and not external help. And we had to ensure that the -- yes, sorry, we had to use, or we want to use (inaudible) our internal units such as the Master Builder, specialist foundation, engineering, also construction logistics. And we also had to ensure that the expected margin would be at least within the target range, in line with the opportunity risk profile of the project.

After three providers were pre-qualified, our focus during the tender phase was on the detailed construction cost, the EBIT, and the cash flow calculations, as well as assessing the opportunities and risks of the project. So it's very important that -- to us that each project generates pre-calculated cash flows, positive ones, and EBIT over its entire term. And based on our experience with similar projects, these have been

plausibility checks and adequate risk provisioning had been factored in. And there was also an in-depth contract review that took place. So, due to the recent outbreak of the war in Ukraine and also the ongoing COVID-19 pandemic, issues such as inflation regulations were particularly relevant for such long-term projects.

And once we had been awarded the contract for the project, the process began with tracking at various levels. And on the one hand, there's a project level where the commercial manager of the project team continuously monitor sales and construction costs, as well as cash flow and margin development. Monthly delimitation discussions are held with the finance business partner at regional management level, and the Implenia Group's financial planning and analysis team regularly conducts the supplementary result delivery assessment and the independent Value Assurance team will carry out a deep dive project review this year.

Thank you very much. Yeah, I can also confirm all this as I belong then to this time, and I can say that we are on track with this project. So we have thus given you a deeper insight how Value Assurance is lived in concrete terms in the project and we are convinced that the process will continue to make a significant contribution to achieve the operational and financial targets.

And so, back to you, Andre.

Andre Wyss {BIO 16735009 <GO>}

Thank you very much, Jens and Marc. I hope that we were able to give you an overview how a project is treated and dealt with in Implenia. The successful first half year of the year lays a strong foundation for achieving our goals for 2024. I have decided then to take our new challenges here at Implenia. And the group following the transformation is optimally positioned. It can continue to grow profitably on a sustainable basis and is ready for the next strategic phase. The Board of Directors has appointed Jens Vollmar as CEO of Implenia with effect as of the 1st of April 2025. I look forward to continuing to work with you until the next spring when I will seamlessly hand over my responsibilities as CEO to Jens Vollmar.

Also in the division then of the Civil Engineering, there will be a change in management. Christian Spath will step down from his role at the end of August 2024 and take on a new external challenge. And Erwin Scherer, also an internal candidate, will take over the position of Head Divisions of Civil Engineering and Member of Implenia Executive Committee as of the 1st of September. I thank Christian Spath for his great commitment and I wish Erwin Scherer, a good start in his new role.

And the successful first half year lays a strong foundation for achieving our goals for 2024. With a lot of variety, diverse and specialized skills, many years of experience, and also our disciplined Value Assurance approach, we demonstrate that we can deliver the most demanding projects reliably and profitably. I thank you for your attention.

And now back to Silvan.

Silvan Merki {BIO 21324943 <GO>}

Many thanks, Andre. I would like to draw your attention to the next date. So on the 26th of February 2025, we will present the 2024 Annual Results of Implenia and we will hold our Annual General Meeting on the -- on 25 of March 2025. If you have any further questions following this event, please get in touch with the already-known contacts. And now let's move on to the questions-and-answer session.

Questions And Answers

A - Silvan Merki {BIO 21324943 <GO>}

I would like to ask then our CEO and CFO to come here. So we have the possibility then to ask questions via the chat or by phone or here in the room. So who would like to ask the first question? Please name your name very briefly, for which organization you work, and then please pose your question.

Q - Martin Husler

Thank you very much. My name is Martin Husler from the Zurcher Kantonalbank. I have three questions actually, and I will ask them one after the other. So, in the financial results, or let's say in the P&L, I noticed that there is an essential contribution for the EBIT. And those were, let's say, working communities. So as far as I understand, these have not been fully consolidated. So the EBIT contribution went from CHF11 million to CHF31 million. What were the reasons for this successful business with this work of communities? Were they just individual projects or was it something more vast?

A - Silvan Merki {BIO 21324943 <GO>}

Stefan, I think that is a perfect question for you.

A - Stefan Baumgartner

Thank you very much, Martin. Well, of course, the working communities are very important and also constitute part of our projects. And yes, in the last half year, we had very good contributions that were generated from these very large communities. And some of these projects have even been concluded with a positive result.

Q - Martin Husler

All right. So thank you very much. Perhaps another question to the CFO. So the market value of the land bank, what is the value, or can you tell me more about the delta?

A - Stefan Baumgartner

Maybe I'll answer to the first part. So, the land bank, we don't have it evaluated regularly, especially not every semester, because it demands great effort and very -- also costly. And so, I think we just bought it for CHF45 million. So it has been accurately then assessed or evaluated just to let you know. Just to -- add something, so there are significant purchases that are done in the first half year and the difference is not much greater than per end of 2023.

Q - Martin Husler

Thank you very much. And then the last question, the market environment in Switzerland, especially then in construction, which China, for example, is becoming stronger. Can you tell me, is the market environment a bit calmer, more relaxed, or are there more opportunities (inaudible)?

A - Unidentified Speaker

I mean, you know, we are always -- we don't really like it when there are competitors or partners that get any problems. We really don't want that. We prefer to have strong partners. As far as the market environment goes, that's not going to have a direct influence on us. The market environment is quite tense, especially in residential construction. But that's not our strategy. We don't go onto residential and smaller constructions or smaller buildings. We go on to bigger projects and/or also bigger customers, for example, where the cyclical behavior isn't so typical. And so, it's more of a sub-problem for us. You cannot then, let's say, compare it to others, mid-sized, middle-sized or medium-sized competitors -- companies.

A - Silvan Merki {BIO 21324943 <GO>}

Who -- to whom can I give the microphone now? Who would like to ask the next question?

Q - Unidentified Participant

Yes. Dominic Field [ph] from the NZ [ph] newspaper. Yes, perhaps to just -- just the first one, what are your expectations for the construction industry in Europe? There is a lot of optimism in the European economy, especially industries such as automobile and machining and pharmaceutical, among other things.

A - Unidentified Speaker

I mean, they are all laying off employees and also burdenings of -- in the, let's say, public treasuries and administrative. Even in Switzerland, there's more than a loss of CHF1 billion for hospitals that needs to be covered in one way or another. So perhaps is our, let's say, era of wonderful construction business over in Europe or perhaps you will give that or hand that over to your successor.

Q - Unidentified Participant

And I also looked at the margins and also growth rates of very important competitors, as they have been mentioned by the ZKB, Zurcher Kantonalbank. So you see those 4.5% that you are endeavoring or that you are aiming for, they are

attainable according to your forecasts. Of course, if you compare your competitors, (inaudible) and others, well, why are you not even further than that?

A - Andre Wyss {BIO 16735009 <GO>}

Well, thank you very much for both questions. So, for the first one, regarding the market, I think you never listened to me over the past six years, that the market would pose a problem for us, for our growth. We are very optimistic about the market. There's no need to speak about the German market with the smaller residential projects. That has always been a project, but that's not our strategy. Infrastructure is very positive, in my opinion. Also bigger, complex infrastructure projects. If you look at the results and the figures of -- that's very positive, especially when -- in terms of infrastructure, and we are going to keep our strategy, maintain our strategy for the infrastructure. Maybe there will be a flattening of the curve, but we continue to grow.

It's not that we just run after every project. We can choose which project we want to adopt or we want to carry through, and that is something very positive. And that is the case in all markets where we are present. So we are very optimistic as far as the market goes, where we are active. The entire market, especially small residential buildings, I think that will probably still be faced with problems for a certain time. Urbanization and population growth continue to increase and people need to find some places to live. But I think that has more to do with politics. Our percentage, 4.5 percentage, well, that is the portfolio of a company. If you have a portfolio with concessions or -- consensus or incoming streams, well, you can attain such a result much faster than if you only have a pure construction activity.

When our construction business, you cannot go beyond 4.5, especially if the market situation does not change. But I am convinced that the margins will grow or will increase, especially with greater projects. If we are able then to accomplish them, we have to be able to do so. So, our portfolio will continue to change, will continue to develop. And we have always said, we are always looking at the targets pro and in the past and forward and backwards, and we will continue to expand our activities. Once you have constructed one hospital, you have a certain margin. And if you have done several, then you have more margins and even a greater margin in the end. And so, those are the three components or let's say, the elements on which we base our work, on which we work. And as I said, I am very optimistic, especially in the long term. So thank you very much.

A - Silvan Merki {BIO 21324943 <GO>}

Another question here at the front.

Q - Holger Frisch {BIO 15193624 <GO>}

Holger Frisch, Zurcher Kantonalbank. I have three very brief questions. One, to Wincasa, you said that the EBIT was CHF1.8 million, I think you said. Can you tell me how that developed versus the previous year? And then also, then the dissolution of reserves. So can you perhaps tell us -- give us some background info, what it's about here? And also regarding real estate activities, the CHF48 million. Can you tell us then more about the transactions, more details about the transaction?

A - Andre Wyss {BIO 16735009 <GO>}

So, Wincasa, yes, it's a very -- makes us very happy. Integration was a great success, also concluded, and the expectations had been fulfilled. And the synergies, we have been able to use them and attain them. And so, we are right -- just on track. And at the moment, we don't see any other obstacles that would impair our success. And so, you will hear more about that over the years. And the -- we don't have an EBIT margin, but you can look at a business case and then presume that the -- it's just at the same level as business case, if not even better. Desolation [ph] then of reserves, we -- regarding that project, we were able to conclude some projects, and so we were able then to expand our reserves.

Regarding the real estate portfolio, there are two transactions mainly, but there -- although, there are some smaller or minor ones to include, and then some that we purchased outside Zurich. So one is in Morse [ph] and one in the urban area of the city of Zurich, and also another external one, a smaller one. And there are always some smaller transactions that we don't care to mention. But there are two major transactions, one in Morse and the one in Zurich.

A - Silvan Merki {BIO 21324943 <GO>}

Thank you very much. Who would like to have the microphone for the next question? Otherwise, well, you can just continue to think of of question -- about questions.

Q - Unidentified Participant

Rainer Weifolf [ph] from Finance and Virtual. Is Andre now a professional then let's say Board of Directors with various mandates.

A - Andre Wyss {BIO 16735009 <GO>}

Yes, I'm going then to retreat from my operational activities, but only at the end of March 2025. And then I look forward to also attend then the general meeting. And then afterwards, I am going to concentrate on existing and new mandates.

A - Silvan Merki {BIO 21324943 <GO>}

Okay, thank you very much, Rainer, for this question. Who would like to have the microphone here in the room. Yes, here in the front.

Q - Unidentified Participant

Yes. Mark (inaudible). I have a question regarding the classification in those four classes. Can you perhaps give us an impression of where the pondering, the weight takes place and the impact of Artificial Intelligence, so -- to improve the quality of the projects and so that you can also expand or increase your margin?

A - Unidentified Speaker

And that's -- sorry, a very good question. We speak about this at the Board of Directors. So let's start with Artificial Intelligence. Absolutely. So it's based on data.

So we need as much data as possible in order to be able to use AI. We're already doing that. But you know that as long as the data are still on Excel sheets or PowerPoints, we were unable to then, let's say, include or enter these data -- this data from there. You can make a comparison with external data because of certain obstacles. It's also a question of how much are we ready then to reveal. If you go now to the four classes or the category we had risk management, we said CHF2 million and 1.5, 1 and under 1. That was one criteria. Another criteria is, do we have -- or have we already executed such a project?

If we have, okay, if we haven't, when a project has a certain size, it automatically becomes a Class 1. And also, in a region where we have never worked before, that will be a Class 1 project. It has to do with complexity, of course. And the criteria are quite difficult to recognize in so far, you know, to know in which class it will or in which class it will be categorized. And we do some fine-tuning. When we notice that a project that is going to become Class 2, but we think that it should be a Class 1 project, then we need to adjust our criteria. We don't do that at the beginning of the year. We do that, you know, over time. So you can imagine then a Class 1, for example, someone who goes to the CFO, to CEO and General Counselor, it's probably the Class 2, and then the Class 4 are the very small projects, and we don't have that many just to mention.

Does that answer your question?

A - Silvan Merki {BIO 21324943 <GO>}

I think someone was raising his hand.

Q - Unidentified Participant

Once again, just another little additional question. Can you quantify how many projects you have and how many have not, let's say, reached your expected goals?

A - Andre Wyss {BIO 16735009 <GO>}

Yes, we do so-called tracking. You can imagine that certain projects have not been concluded yet, but we have a forecast for those. And I can tell you right now that the realized margin the -- is very close to the calculated margin. That is, that explains why our margin is continuously improved. And of course, you're right, the realized margin is, of course, more important. The calculated margin has increased over the three years, not significantly, but still it has increased. And we track everything very precisely and at every phase of the project. But until now we don't have any data that we were able to present, because for the simple reason that there aren't that many projects that have been concluded yet.

A - Silvan Merki {BIO 21324943 <GO>}

Thank you very much for this answer. So you can continue then to pose your questions in the chat, or even give us a call. So, who would like the microphone here in the room?

Q - Johannes Varamaki

Johannes from the ABB. You said that Wincasa had fulfilled the expectations and you have attained these -- the synergies. So, can you remind me how high were those synergies? I should know it, right?

A - Unidentified Speaker

No, we have divided everything what was in 2024 and what must be achieved in 2027. So CHF5 million for 2024 per year, especially on the cost side, and 2027 going forward, CHF10 million synergies. And then also the turnover that we have not even taken into account. Yes, so this is calculated very conservatively. And as I said before, we are right on track. So, Johannes, does that answer your question?

Q - Johannes Varamaki

Thank you very much.

A - Silvan Merki {BIO 21324943 <GO>}

Who would like to have the microphone here in the room? I see a hand, the gentleman at the back of the room.

Q - Unidentified Participant

(inaudible) Very curious to know what you're going to do with your participation with inner investors about 40% or 40%.

A - Unidentified Speaker

Sorry, acoustically, I didn't hear him. No, it's very stable. There was just a slightly -- a slight change with the merge, very minimal one. It's a strategic participation. We don't have any intention whatsoever of deviating from our strategy. We are very happy with the development so far. Of course, last year, it wasn't a very easy year for the real estate industry. And that impacted inner investor, of course. But the collaboration, the results are very pleasing. And we see that inner invest is increasing again, being positive, and we are very happy, and we're going to keep it that way.

A - Silvan Merki {BIO 21324943 <GO>}

Okay, I don't have any further questions or any calls. Is there someone else here in the room who would like to ask a question?

A - Andre Wyss {BIO 16735009 <GO>}

Well, everything seems to be very clear.

A - Silvan Merki {BIO 21324943 <GO>}

Yes, absolutely. So, one last opportunity to ask a question, if you wish to do so. Okay. If that's not the case, then we have come to the conclusion of our Q&A session. So those who are participating here in Connect, we would like to invite you then to a

nice lunch. And otherwise, thank you very much. Thank you for your participation to today's conference, and we wish you all a lovely day. Thank you very much.

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