

BALCONIES
FOR
GREATER
LIVING



Q3 report 1 July – 30 September 2020

12 November 2020

Kenneth Lundahl CEO
Michael Grindborn, CFO

Snapshot of Balco

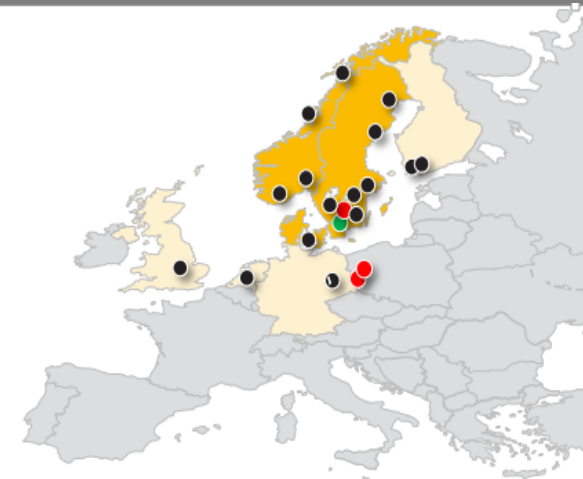
The leading provider of complete glazed balcony systems in the Nordics



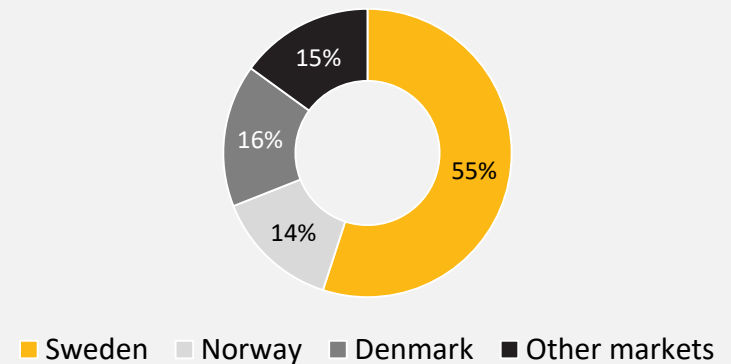
- **+30 years in the market for balcony systems**
- **Provider of the leading glazed balcony systems in the market:**
 - one-stop shop, inhouse expertise, own development and production
 - own sales force
 - own brands and 57 patent solutions
- **Focusing on the less cyclical market for balcony renovations**
- **Unique sales process:**
 - helps the customer through the whole process
- **Well-established logistics and delivery function:**
 - enabling just-in-time deliveries

Geographic overview

- Sales office
- Production unit & distribution centre
- Headquarter
- Key markets
- Other markets



Revenue split per region



Q3 – Strong financial position, but quarter affected by Covid-19

1

Improved EBIT-margin, but negative Covid-19 impact

- Net sales 258 MSEK (292)
- Operating profit 29 MSEK (31)
- Operating margin improved to 11.2% (10.7)

2

Covid-19

- The second wave of Covid-19 with increased spread of infection in most countries has postponed Balco's order intake in the third quarter
- Customers have moved the final voting of projects in Q3 for a value of more than 250 MSEK. Possible orders are piling up in Q4 and Q1 2021. The weak order intake since March will negatively affect sales and earnings in the coming quarters.

3

Strong financial position

- Operating cash flow of 35 MSEK and operating cash conversion of 91% in the quarter
- Equity/assets ratio 49%

4

No dividend in 2020 due to acquisition opportunities

- Balco evaluates various acquisition opportunities and in the light of this, the Board of Directors confirms its previous decision not to pay a dividend in 2020



Q3 financial highlights

Strong cash flow, improved operating margin

Net sales



- **Net sales** amounted to 258 MSEK (292)
- Renovation accounted for 94% of sales and New Build for 6%

Order intake and order backlog



- **Order intake** amounted to 142 MSEK (199)
The Renovation segment accounted for 87% of the order intake in the quarter
- **Order backlog** amounted to 1,294 MSEK (1,557)

Operating profit



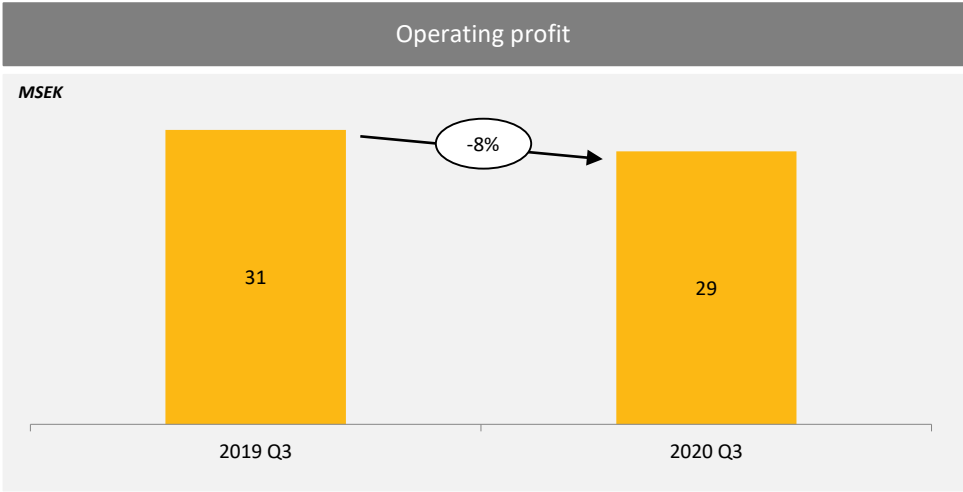
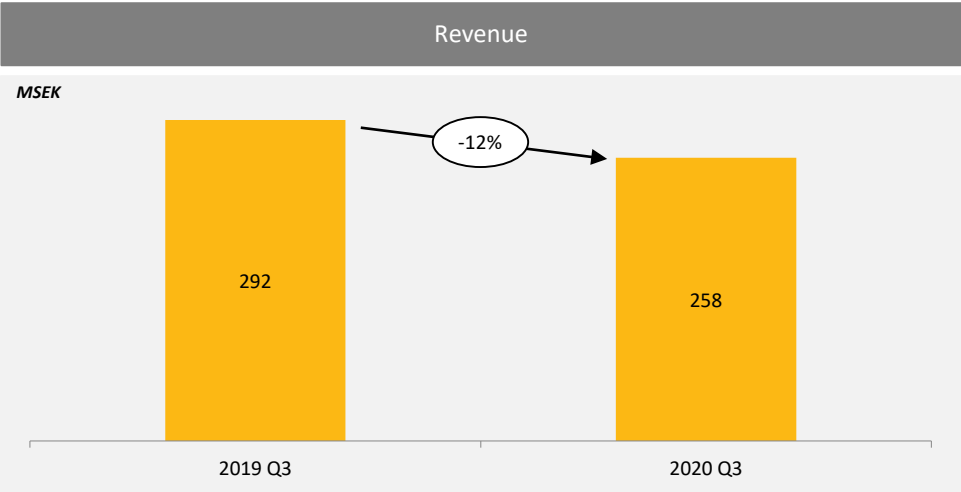
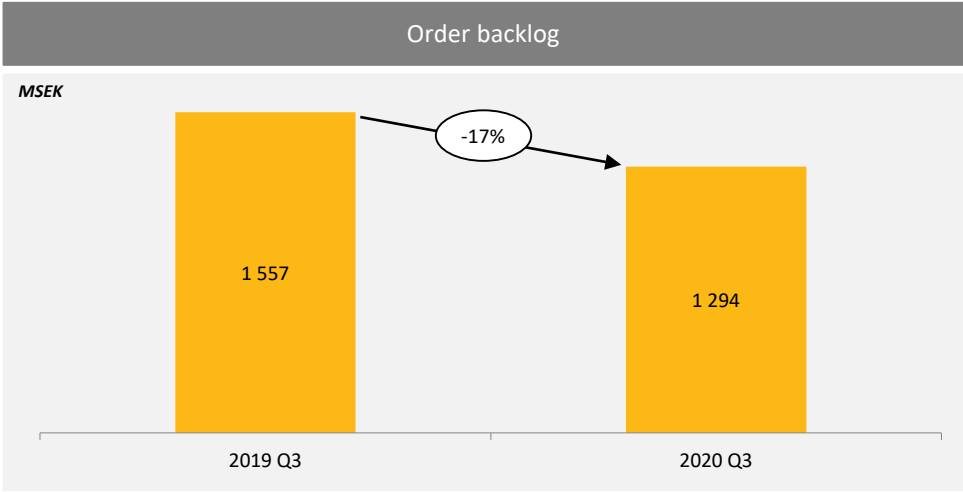
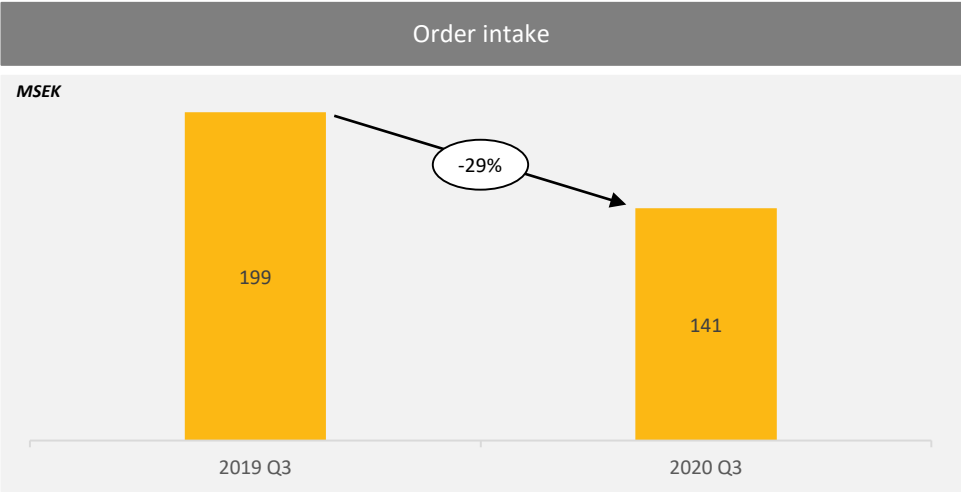
- **Operating profit** (EBIT) amounted to 29 MSEK (31)
- **Operating profit margin** improved to 11.2% (10.7)

Cash flow



- **Operating cash flow** improved to 35 MSEK (-1), due to reduced working capital
- **Operating cash conversion** of 91% in the quarter
- **Cash and cash equivalents** at quarter end of 181 MSEK (29)

Q3 – Strong financial position, but quarter affected by Covid-19

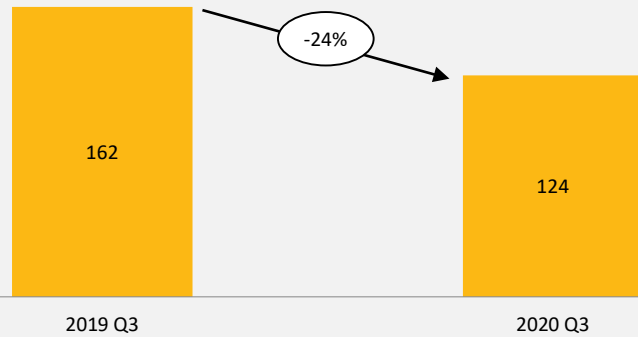


Q3 – Development per business segment

Renovation segment –quarter affected by Covid-19

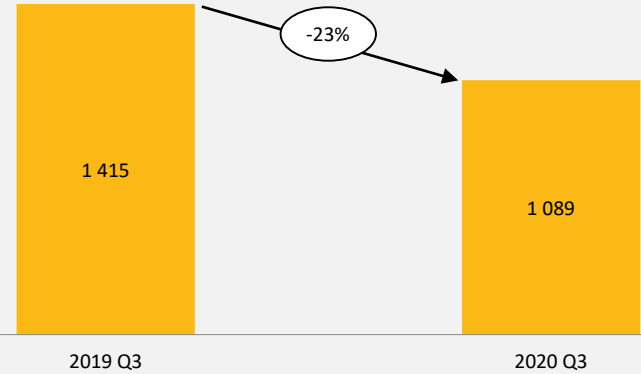
Order intake

MSEK



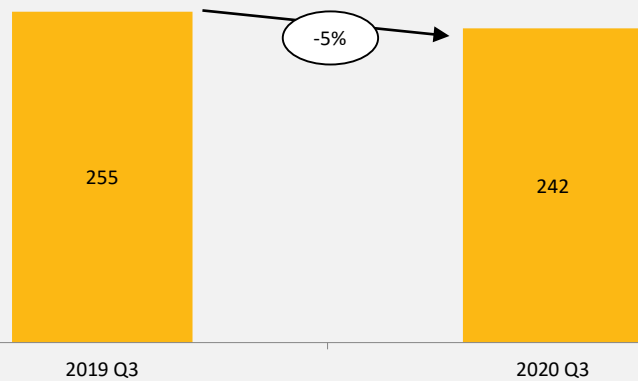
Order backlog

MSEK



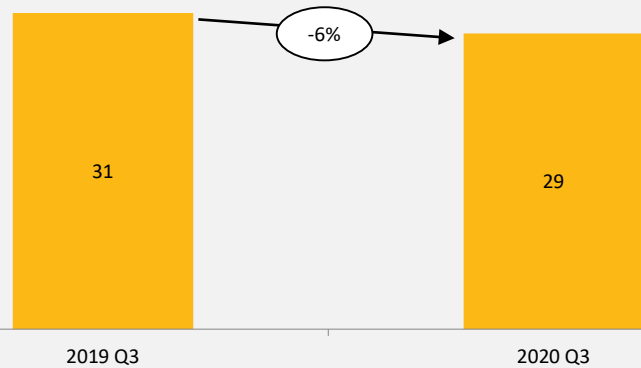
Revenue

MSEK



Operating profit

MSEK

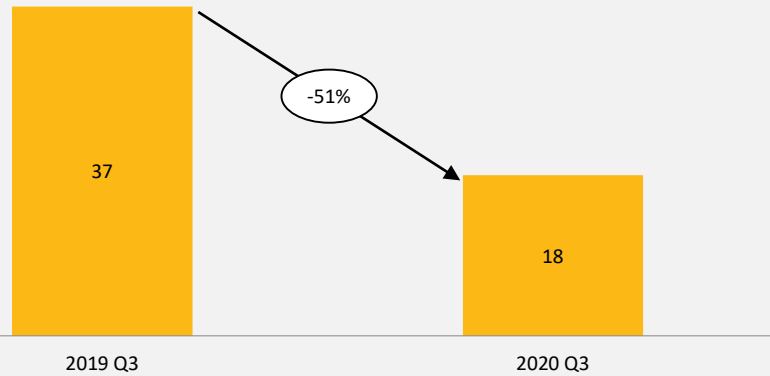


Q3 – Development per business segment

New Build –quarter affected by Covid-19

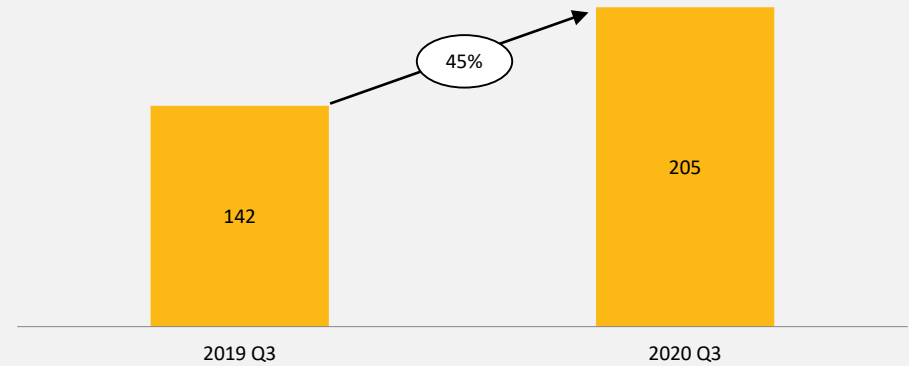
Order intake

MSEK



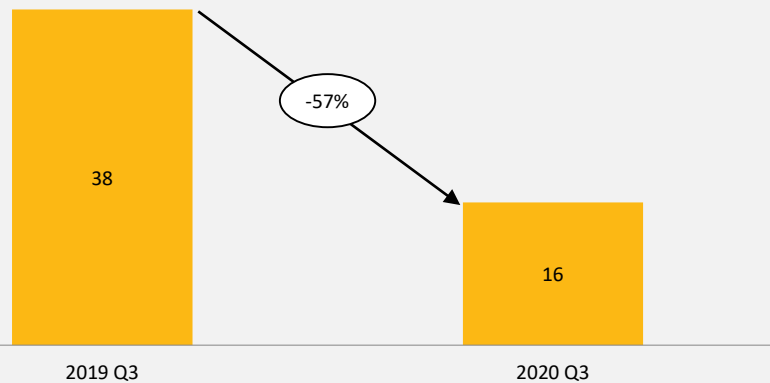
Order backlog

MSEK



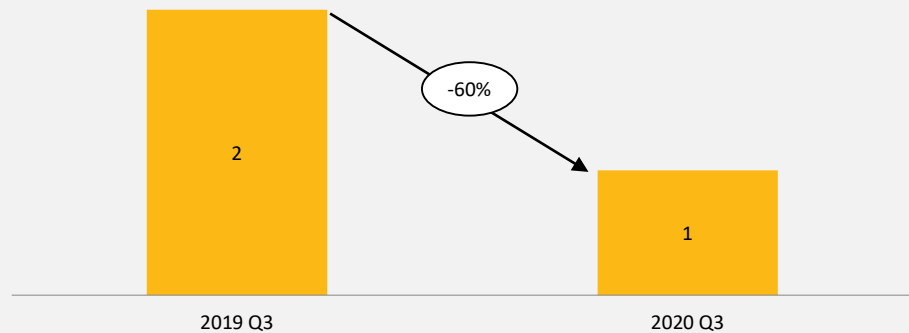
Revenue

MSEK



Operating profit

MSEK



9M financial highlights

Net sales growth, improved profitability and cash flow

Net sales



- **Net sales** increased 5% to 931 (887)
- Renovation accounted for 91% of sales and New Build for 9%

Order intake



- **Order intake** amounted to 703 MSEK (997)
- The Renovation segment accounted for 86% of the order intake

Operating profit



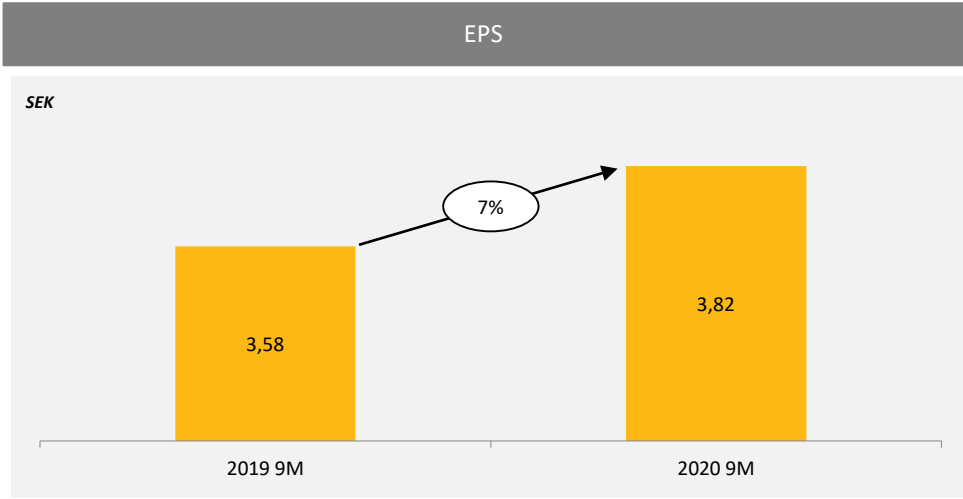
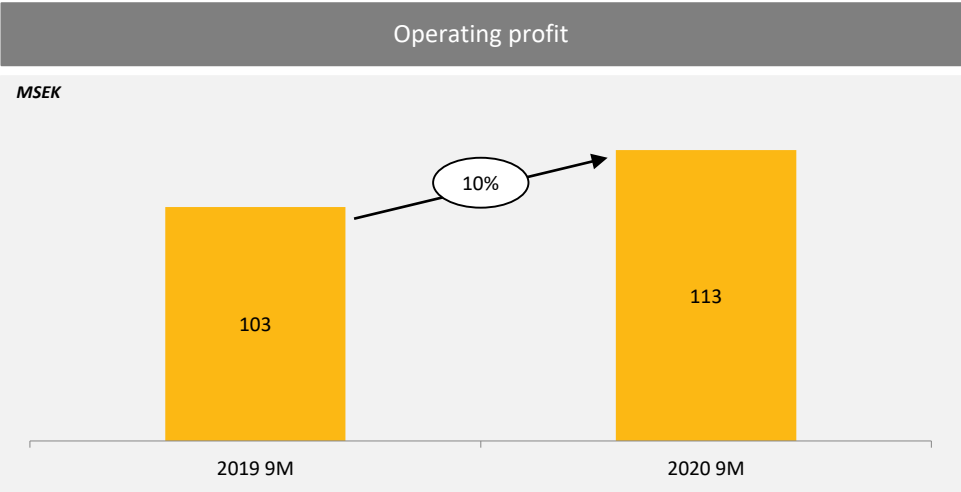
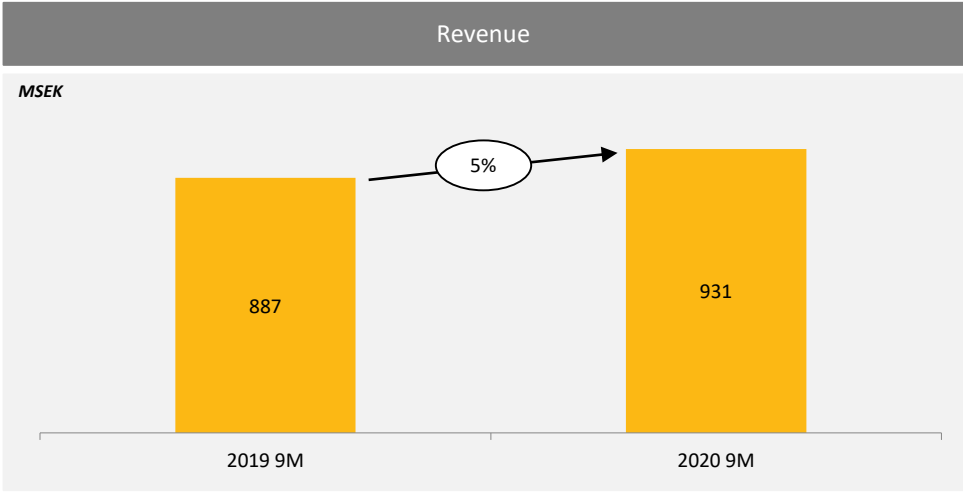
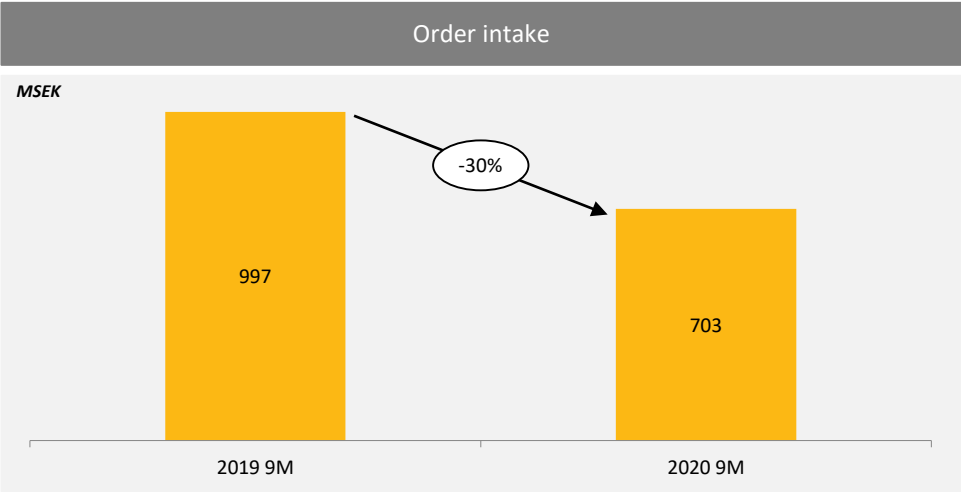
- **Operating profit** (EBIT) increased 10% to 113 MSEK (103)
- **Operating profit margin** improved to 12.1% (11.6)

Cash flow

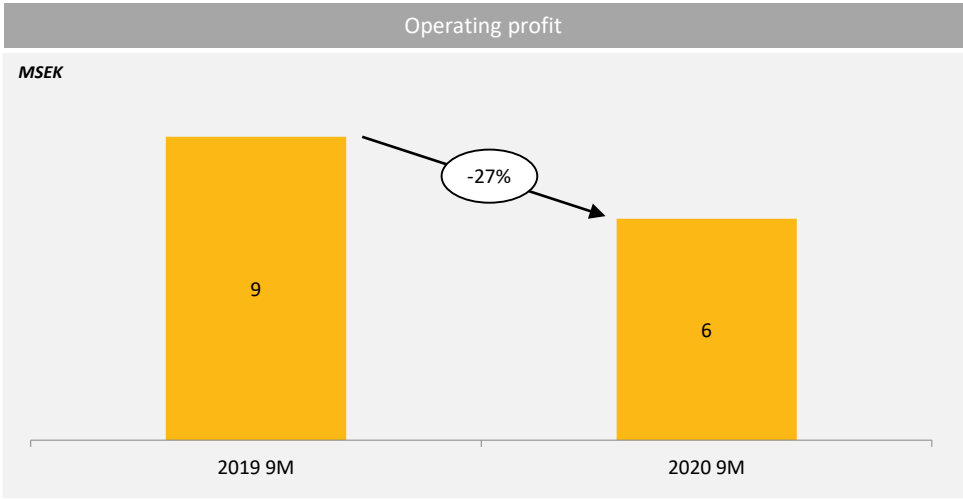
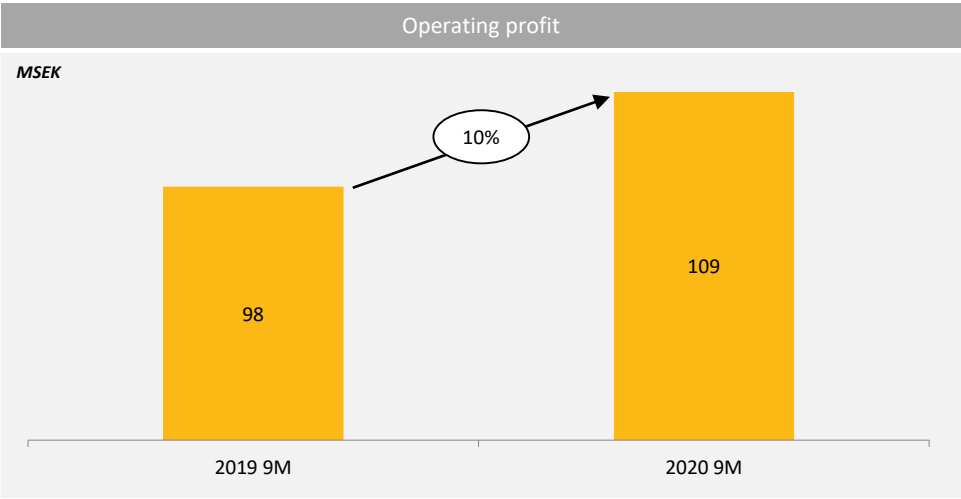
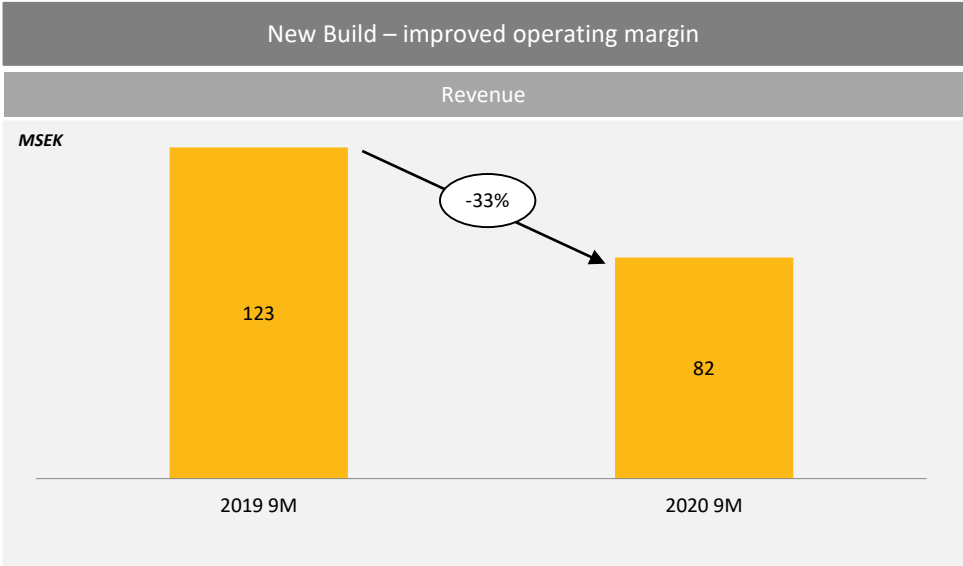
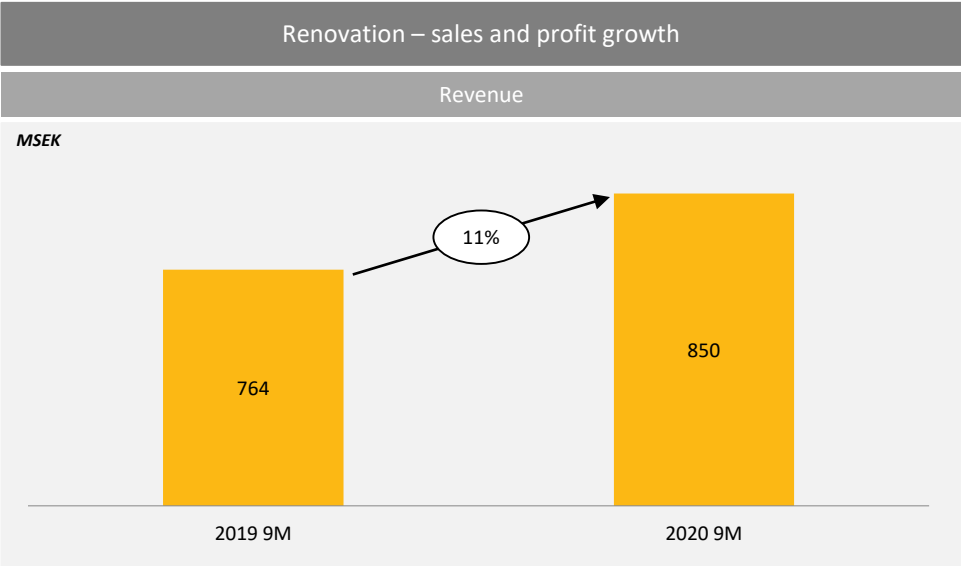


- **Operating cash flow** improved to 125 MSEK (34) due to better EBITDA and better development of working capital
- **Operating cash conversion** improved to 89% (26%) YTD and 119% LTM

9M – Net sales growth and improved profitability



9M - revenue and earnings per business segment



Strong financial position

Equity ratio and balance sheet strong, prepared for acquisitions

Equity/asset ratio



- **Equity/asset ratio** at 49% (45) driven by increased profit and low investments

Net debt/EBITDA



- **Net debt/EBITDA** at 0.4x (1.5), the reduction in debt is due to a strong cash flow
- **Net debt (excl. leasing)/EBITDA** at 0.1x (1.1)

Net profit for the period



- **Profit after tax** increased 8% to 83 MSEK (77), corresponding to earnings per share of 3.82 SEK (3.58)

Prepared for acquisitions



- **Acquisition head-room:** banking agreement to September 2022 and acquisition credit of 100 MSEK. Cash and cash equivalents at quarter end of 181 MSEK.
- Authorization to issue shares to finance acquisitions

Financial targets

		BALCO FIGURES Q3 2020, R12
GROWTH	<i>"Balco shall achieve growth of 10% per year"</i>	REVENUE GROWTH 6%
PROFITABILITY	<i>"Balco shall achieve an operating profit margin (EBIT) of at least 13 percent."</i>	EBIT MARGIN 11.9%
CAPITAL STRUCTURE	<i>"Interest-bearing net debt shall not exceed 2.5 times operating profit before depreciation and amortization (EBITDA), other than temporarily"</i>	NET DEBT/ Adj. EBITDA 0.4x
DIVIDEND POLICY	<i>"Balco shall distribute least half of profit after tax, taking into consideration needs for Balco's long-term growth and prevailing market conditions."</i>	0% ¹⁾

1) Withdrawn dividend due to the uncertainty caused by Covid-19

Sustainability initiatives

Lifetime 90 years



- Materials and construction last for at least 90 years and are fully recyclable thereafter only need two minor services
- Balco city balconies last for over 70 years

Energy savings



- Energy savings of 15-30% depending on product and conditions
- Reduced maintenance of facade and windows

Climate positive



- Climate positive after 30-50 years with Balco glazed balcony in Sweden
- New goal set to reduce this to by 5-10 year until end of 2021

Increased sustainability focus



- All purchases should be made from suppliers in Europe
- The work with priority points from our materiality analysis is ongoing



Q&A

A photograph of a modern, multi-story apartment building with a glass and metal facade. The building features numerous balconies with glass railings. The image is overlaid with a semi-transparent yellow horizontal band in the center, which contains the text "Financial appendix".

Financial appendix

Consolidated income statement

MSEK	Note	Jul-Sep		Jan-Sep		Oct-Sep	Jan-Dec
		2020	2019	2020	2019	2019/20	2019
Net sales		258,5	292,4	931,4	887,3	1 264,7	1 220,6
Production and project costs		-193,0	-225,0	-691,1	-667,8	-943,8	-920,6
Gross profit		65,5	67,4	240,3	219,4	320,9	300,0
Sales costs		-25,0	-19,7	-82,2	-68,1	-108,2	-94,2
Administration costs		-11,6	-16,3	-45,6	-48,9	-62,8	-66,1
Other operating income		-	0,0	-	1,0	0,6	1,6
Other operating expenses		-	-0,1	-	-0,7	-0,2	-0,9
Operating costs		-36,6	-36,1	-127,8	-116,8	-170,6	-159,6
Operating profit		28,9	31,3	112,5	102,6	150,3	140,4
Finance income		0,1	0,1	0,1	0,8	0,2	0,8
Finance costs		-1,8	-1,9	-6,7	-5,9	-10,2	-9,5
Profit before tax		27,1	29,5	106,0	97,4	140,2	131,7
Income tax		-6,6	-6,3	-23,3	-20,7	-31,5	-28,8
Net profit for the period		20,5	23,2	82,6	76,7	108,8	102,8
Other comprehensive income							
Items that have been/can be reclassified to profit/loss							
Exchange rate differences on translation of foreign operation		-0,2	-0,2	-2,0	2,4	-4,3	0,2
Comprehensive income for the period		20,4	23,0	80,6	79,2	104,5	103,0
Of which attributable to:							
Owners of the parent company		20,4	23,0	80,6	79,2	104,5	103,0
Earnings per common share, SEK, before dilution	4	0,95	1,08	3,82	3,58	5,03	4,80
Earnings per common share, SEK, after dilution	4	0,94	1,08	3,77	3,58	4,97	4,76
Average number of common shares, thousands		21 623,3	21 428,8	21 623,3	21 428,8	21 607,1	21 461,2

Consolidated balance sheet

MSEK	30-sep 2020	30-sep 2019	31-dec 2019
ASSETS			
Non-current assets			
Goodwill	401,2	401,4	401,2
Other intangible assets	50,0	52,3	52,9
Concessions	43,3	54,2	54,1
Property, plant and equipment	133,3	138,9	134,1
Financial assets	3,5	4,3	3,1
Deferred tax assets	3,8	1,8	1,8
Total non-current assets	635,1	652,9	647,1
Current assets			
Inventory	30,7	27,5	26,0
Trade receivables	182,7	165,8	135,5
Contract assets	144,3	167,2	149,2
Current tax receivables	3,7	5,7	3,8
Other current receivables	26,8	22,2	24,7
Cash and cash equivalents	180,5	28,6	119,4
Total current assets	568,7	417,0	458,8
TOTAL ASSETS	1 203,9	1 069,9	1 105,9
EQUITY AND LIABILITIES			
Equity			
Share capital	129,7	128,6	129,7
Additional paid-in capital	393,5	385,9	393,5
Retained earnings, incl. profit for year	71,9	-32,5	-8,7
Equity attributable to owners of the parent company	595,2	481,9	514,5
Non-current liabilities			
Deferred tax liabilities	32,9	27,2	33,6
Interest-bearing liabilities to banks	198,1	225,6	215,2
Leasing non-current liabilities	36,1	38,7	35,1
Other non-current liabilities	24,2	20,3	19,4
Total non-current liabilities	291,3	311,8	303,3
Current liabilities			
Interest-bearing liabilities to banks	10,4	-	10,4
Leasing current liabilities	16,4	19,2	20,7
Contract liabilities	57,2	52,4	41,4
Trade payables	133,3	106,7	122,6
Current tax liabilities	5,5	20,0	15,5
Other liabilities	35,3	26,1	23,1
Other accrued expenses and prepaid income	59,4	51,7	54,3
Total current liabilities	317,4	276,1	288,0
TOTAL EQUITY AND LIABILITIES	1 203,9	1 069,9	1 105,9

Consolidated cash flow statement

MSEK	Jul-Sep		Jan-Sep		Oct-Sep	Jan-Dec
	2020	2019	2020	2019	2019/20	2019
Operating activities						
Operating profit (EBIT)	28,9	31,3	112,5	102,6	150,3	140,4
Adjustment for non-cash items	3,4	9,2	9,6	27,1	19,5	36,9
Interest received	0,1	0,1	0,4	0,8	0,4	0,8
Interest paid	-1,5	-1,8	-6,1	-5,7	-8,9	-8,6
Income tax paid	-7,5	-4,5	-33,9	-30,1	-38,4	-34,5
Cash flow from operating activities before changes in working capital	23,4	34,3	82,5	94,7	122,9	135,1
Changes in working capital						
Increase (-)/Decrease (+) in inventories	-2,7	0,4	-4,7	-1,1	-3,2	0,4
Increase (-)/Decrease (+) in operating receivables	25,3	-2,4	-44,6	-53,5	-0,1	-9,0
Increase (+)/Decrease (-) in operating liabilities	-22,0	-37,7	43,9	-34,7	49,2	-29,4
Cash flow from operating activities	23,9	-5,4	77,0	5,4	168,7	97,1
Investing activities						
Purchase/sale of intangible assets	-0,1	-0,2	-0,8	-0,6	-2,4	-2,1
Purchase/sale of property, plant and equipment	-2,9	-1,9	-9,4	-7,5	-10,0	-8,2
Purchase/sale of subsidiaries	-	-	-	-	-	-
Change in other financial assets	-	-	-	-	-0,6	-0,6
Cash flow from investing activities	-3,1	-2,2	-10,2	-8,1	-13,0	-10,9
Financing activities						
Changes in bank loans	-2,0	-3,8	-10,4	0,5	-11,8	-0,9
Changes in leasing	1,8	-1,4	10,1	-19,9	6,9	-23,1
Changes in other non-current liabilities	-1,3	0,5	-4,7	2,6	-6,7	0,6
Warrants	-	4,1	-	4,1	7,3	11,4
Rights issue	-	-	-	-	1,2	1,2
Distributed dividend	-	-	-	-42,9	-	-42,9
Cash flow from financing activities	-1,6	-0,7	-5,0	-55,5	-3,2	-53,7
Cash flow for the period	19,2	-8,3	61,9	-58,2	152,6	32,5
Cash and cash equivalents at beginning of the period	161,6	36,9	119,4	87,0	28,6	87,0
Exchange rate differential cash and cash equivalents	-0,3	0,0	-0,8	-0,2	-0,7	-0,2
Cash and cash equivalents at end of the period	180,5	28,6	180,5	28,6	180,5	119,4

Key ratios

MSEK	Jul-Sep		Jan-Sep		Oct-Sep	Jan-Dec
	2020	2019	2020	2019	2019/20	2019
Net sales	258,5	292,4	931,4	887,3	1 264,7	1 220,6
Order intake*	141,9	199,3	703,0	997,3	1 054,8	1 349,1
Order backlog	1 294,0	1 556,9	1 294,0	1 528,7	1 294,0	1 522,4
Gross profit	65,5	67,4	240,3	219,4	320,9	300,0
EBITDA	38,2	40,1	140,7	128,3	189,2	176,9
Adjusted EBITDA	38,2	40,1	140,7	128,3	189,2	176,9
Operating profit (EBIT)	28,9	31,3	112,5	102,6	150,3	140,4
Adjusted operating profit	28,9	31,3	112,5	102,6	150,3	140,4
Gross profit margin, %	25,3	23,1	25,8	24,7	25,4	24,6
EBITDA margin, %	14,8	13,7	15,1	14,5	15,0	14,5
Adjusted EBITDA margin, %	14,8	13,7	15,1	14,5	15,0	14,5
Operating profit margin (EBIT), %	11,2	10,7	12,1	11,6	11,9	11,5
Adjusted operating profit margin (EBIT), %	11,2	10,7	12,1	11,6	11,9	11,5
Operating cash flow	34,8	-1,2	125,3	33,7	225,5	133,9
Operating cash conversion, %	91,1	-3,1	89,0	26,2	119,1	75,7
Capital employed, average	677,2	721,1	676,0	670,3	706,2	655,8
Capital employed, excl. goodwill, average	276,0	319,7	274,8	269,1	304,9	254,7
Equity, average	585,0	468,4	554,9	447,7	538,6	477,5
External interest-bearing net debt	80,4	254,9	80,4	254,9	80,4	161,9
External interest-bearing net debt/Adjusted EBITDA 12 months, times	0,4 x	1,5 x	0,4 x	1,5 x	0,4 x	0,9 x
Return on capital employed, %, (12 months)	22,2	20,0	22,2	21,5	21,3	21,4
Return on capital employed, excl. goodwill, %, (12 months)	54,5	45,1	54,7	53,6	49,3	55,1
Return on invested capital, %, (12 months)	18,6	20,4	19,6	21,4	20,2	21,5
Equity/assets ratio, %	49,4	45,0	48,0	41,8	47,4	44,0
Number of full-time employees on the closing date	419	419	419	419	419	419
Average number of common shares for the period, 000s	21 623,3	21 428,8	21 623,3	21 428,8	21 607,1	21 461,2
Equity per common share, SEK	27,05	21,86	25,66	20,89	24,92	22,25

* The order intake 2020 YTD has been revised with an order that we received earlier in the year but which the customer canceled in Q3.

Segments financials

	Jul-Sep		Jan-Sep		Oct-Sep	Jan-Dec
	2020	2019	2020	2019	2019/20	2019
Net sales, MSEK						
Renovation	242,5	254,8	849,6	764,4	1 129,6	1 044,4
New Build	16,0	37,6	81,8	122,9	135,1	176,2
Group other	7,0	3,9	16,1	11,9	20,3	16,1
Elimination	-7,0	-3,9	-16,1	-11,9	-20,3	-16,1
Total Net Sales	258,5	292,4	931,4	887,3	1 264,7	1 220,6

	Jul-Sep		Jan-Sep		Oct-Sep	Jan-Dec
	2020	2019	2020	2019	2019/20	2019
Operating profit, MSEK						
Renovation	29,2	31,5	108,7	98,4	144,8	134,6
New Build	0,7	1,6	6,2	8,5	9,2	11,5
Group other	-1,0	-1,8	-2,3	-4,3	-3,8	-5,7
Elimination	-	-	-	-	-	-
Total EBIT	28,9	31,3	112,5	102,6	150,3	140,4

	Jul-Sep		Jan-Sep		Oct-Sep	Jan-Dec
	2020	2019	2020	2019	2019/20	2019
EBIT margin, %						
Renovation	12,0	12,3	12,8	12,9	12,8	12,9
New Build	4,1	4,3	7,6	6,9	6,8	6,5
Group other	n/a	n/a	n/a	n/a	n/a	n/a
Elimination	n/a	n/a	n/a	n/a	n/a	n/a
Total EBIT margin	11,2	10,7	12,1	11,6	11,9	11,5