

## DELETE GROUP (Ax DEL1 Oy)

Interim Report January–September 2017 (IFRS, pro forma<sup>1)</sup>, unaudited)

## DELETE GROUP'S INDUSTRIAL CLEANING AND RECYCLING BUSINESSES Q3 PROFIT ON STRONG LEVEL, DEMOLITION RECOVERING

### HIGHLIGHTS OF JULY–SEPTEMBER 2017

- Net sales decreased by 2% to EUR 50.9 (Q3 2016: 52.1) million
- Adjusted EBITDA<sup>2)</sup> declined by 4% to EUR 8.2 (8.5) million
- Net debt increased by 10% to EUR 85.9 (77.9) million
- Operative cash flow decreased by EUR 6.4 million to EUR 0.1 (6.5) million
- Industrial Cleaning and Recycling Q3 profitability on a high level
- Demolition Services recovered to profitable level after a weak Q2

### HIGHLIGHTS OF JANUARY–SEPTEMBER 2017

- Net sales decreased by 1% to EUR 132.2 (133.1) million
- Adjusted EBITDA declined by 33% to EUR 10.5 (15.8) million
- Net debt increased by 10% to EUR 85.9 (77.9) million
- Operative cash flow decreased by EUR 8.1 to -2.9 (5.2) million
- Mäkelä and Hernesniemi companies acquired to strengthen Demolition Services
- Demolition Services' weak H1 had an adverse effect on Delete's profitability

### KEY FIGURES

Key figures	7–9/2017	7–9/2016	Change	1–9/2017	1–9/2016	Change
Net sales, MEUR	50.9	52.1	-2.3%	132.2	133.1	-0.7%
Adjusted EBITDA, MEUR	8.2	8.5	-3.5%	10.5	15.8	-33.4%
Adjusted EBITDA, % of sales	16.1%	16.3%	-1.3%	8.0%	11.9%	-32.9%
Net debt, MEUR	85.9	77.9	10.4%	85.9	77.9	10.4%

### OUTLOOK FOR 2017

Industrial Cleaning Services and Recycling Services are expected to continue to perform well. Demolition Services has started to recover with an improved outlook for the rest of the year.

Profitability is expected to improve during the second half of the year, but the full year result 2017 is not expected to reach the 2016 level.

## **JUSSI NIEMELÄ, CEO OF DELETE GROUP:**

“The third quarter of the year turned out as expected with strong performance from Industrial Cleaning and Recycling Services. Demolition Services recovered back to making profit, however compared to the third quarter in 2016, Demolition Services’ profitability was still lower due to less sizable projects in the Swedish market. We expect the good trend in Industrial Cleaning and Recycling Services to carry over to the fourth quarter before the high season gradually slows down towards the wintertime. The demolition market outlook remains positive and also the Swedish project tender pipeline has increased since the summer.

The profitability in Industrial Cleaning continued strong with a good service level and high resource utilisation. In Recycling Services, profitability reached a record high level in the third quarter, however the relative adjusted EBITDA-% was somewhat lower than in the previous year due to higher processing costs driven by the record high intake volumes.

During the first six months of the year, we took action to strengthen the management and controls in Demolition Services. This has had the intended favourable impact and we did not face any major project execution issues during the third quarter. Going forward, the improvement programme for Demolition Services will emphasise strengthening sales efforts to secure large projects and efficiency to further improve the profitability.

Despite the Demolition Services set-back, our strategy execution is progressing well. We have taken action to support strong and profitable growth both organically and through add-on acquisitions. In the third quarter, we added resources in market intelligence, M&A, and project organisation, while we also continued to make growth investments in machinery and fleet capacity.

After leading Delete Group for seven years, I will step down from my position at the end of February 2018. During this time, we have developed Delete as one of the leading players in our industry. I will continue as an adviser to the Board of Directors going forward.”

## **OPERATING ENVIRONMENT**

### Industrial cleaning

The core demand for industrial cleaning services remains stable and this year industrial customers’ maintenance shutdown activities are expected to be somewhat higher than last year. The market trend continues to move towards the ability to handle increasingly complex projects with high-quality environmental, health and safety standards favouring large professional players.

## Demolition services

The positive trend in the construction market provides also a favourable operating environment for demolition services. According to Statistics Finland (October 20, 2017), the growth of new construction continued in Finland during June–August 2017; 17.2% more building projects and 24.1% more residential building projects were started than one year earlier. Building permits granted for the construction of commercial and office buildings grew from the previous year while the cubic volume of residential building construction remained nearly on the previous year's level.

In Sweden, the construction market also shows high growth. According to Statistics Sweden (August 18, 2017), during January–June 2017, the number of dwellings in new and conversion buildings increased by 22% compared with the same period in 2016.

The aging building stock in both countries increases also the demand for demolition services, with buildings from the 1960s and early 1970s that are being renovated. In the public sector, especially municipality-owned real estate such as hospitals and schools require renovation.

## Recycling services

Increased environmental awareness continues to drive improvements and new regulations, such as the EU's 70% recycling target by 2020, landfill ban on C&D waste, and new asbestos legislation. Regulatory development both in the EU Circular Economy Action plan and national legislation as well as generally increasing sustainability awareness continue to keep the demand for recycling services on a high level.

## **NET SALES (pro forma)**

In the third quarter, Delete Group's net sales were close to the previous year's level and amounted to EUR 50.9 (52.1) million. Growing net sales in Industrial Cleaning and Recycling Services mitigated the declining project volumes in Demolition Services.

In the third quarter, net sales grew in Industrial Cleaning Services and Recycling Services, but decreased in Demolition Services. The Group's sales from Industrial Cleaning were EUR 22.8 (22.5) million, representing an increase of 1.8%, enabled by improved general demand as well as a number of new service contracts and several new shutdown projects. Recycling Services sales grew by 23.0% to EUR 6.2 (5.0) million, achieved through organic growth supported by three new sorting stations that opened in 2016. Net sales of Demolition Services were EUR 22.5 (26.7) million, showing a decrease of 15.4%, driven by a lack of large projects in Sweden during the third quarter.

The Group's net sales in January–September totalled EUR 132.2 (133.1) million and followed close to the previous year's net sales. The decline in Demolition Services volume was mitigated by the solid performance in Industrial Cleaning and Recycling Services.

**NET SALES BY SEGMENT (pro forma)**

MEUR	7-9/2017	7-9/2016	Change	1-9/2017	1-9/2016	Change	2016
Industrial Cleaning	22.8	22.5	1.8%	57.5	55.8	3.0%	76.2
Demolition Services	22.5	26.7	-15.4%	61.5	69.5	-11.6%	92.8
Recycling Services	6.2	5.0	23.0%	16.1	12.3	30.7%	17.6

**FINANCIAL PERFORMANCE (pro forma)**

The Group's adjusted EBITDA during the third quarter of 2017 remained fairly stable decreasing by -3.5% from the previous year to EUR 8.2 (8.5) million as a result of the slight decline in net sales and investments in sales, general and administrative costs to strengthen the sales and support functions.

In the third quarter, Industrial Cleaning EBITDA-% 25.1% (24.7%) improved from the previous year enabled by enhanced asset utilisation. Demolition Services EBITDA-% 11.2% (10.9%) was higher than the previous year driven by improved project controls. Recycling Services EBITDA-% 26.6% (28.3%) was burdened with increased processing costs due to high volumes and declining Recovered Fuel market price.

The Group's adjusted EBITDA for January–September 2017 amounted to EUR 10.5 million (15.8). The decline compared to the previous year is mainly due to the weak second quarter suffering from execution issues in projects, all of which have been closed by now. Without the project execution issues, the profitability in January–September 2017 would have been close to the previous year's level.

**EBITDA BY SEGMENT (pro forma)**

MEUR	7-9/2017	7-9/2016	Change	1-9/2017	1-9/2016	Change	2016
Industrial Cleaning	5.7	5.5	3.5%	10.6	9.3	13.7%	13.5
Demolition Services	2.5	2.9	-13.0%	1.5	8.0	-81.8%	10.0
Recycling Services	1.6	1.4	15.5%	3.8	3.5	8.3%	4.5

**FINANCING AND FINANCIAL POSITION**

Operative cash flow was EUR 0.1 (6.5) million due to a higher working capital than in the previous year, adversely affected by some EUR 2.3 million of delayed receivable payments from a large customer in the third quarter. The aforementioned delayed receivables have been settled and received after the reporting period in October. A correction from a previous period between working capital and investing activities had an adverse impact on the Q3 operative cash flow of -0.8 million affecting comparability. The correction is neutral for total cash flow.

Delete Group's cash and cash equivalents at the end of September 2017 were EUR 2.2 (7.6) million. In addition, the Group has committed undrawn revolving credit facilities to be used for general corporate purposes, acquisitions and capital expenditure. The Group's interest-bearing debt was EUR 88.1 (85.5) million. On the balance sheet date, the interest-bearing net debt was EUR 85.9 (77.9) million. The revolving credit facility's quarterly maintenance covenant for debt leverage was reached with comfortable headroom at the end of September.

The balance sheet total at the end of September 2017 was EUR 191.4 (192.3) million. At the end of the reporting period, property, plant and equipment totalled EUR 36.6 (36.2) million. Equity ratio<sup>3)</sup> was 37% (39%).

## INVESTMENTS AND CORPORATE TRANSACTIONS

Investments in intangible and tangible assets in the third quarter 2017 were EUR 1.4 (2.0) million. The reported investments for the third quarter were EUR 0.6 million, but impacted by a correction of EUR 0.8 million between working capital and investments.

There were no M&A related transactions or other investments in the third quarter.

## OTHER KEY EVENTS

No major events during or after the review period.

## CHANGES IN MANAGEMENT

After leading Delete Group Oy for seven years, the Group CEO Jussi Niemelä has announced that he will step down from his position, effective from February 28, 2018. He will continue as the CEO until the new CEO is nominated and thereafter serve as an adviser to the Board of Directors.

## SIGNIFICANT RISKS AND RISK MANAGEMENT

Delete Group carries out an extensive annual risk assessment analysis, as a result of which the risk management capabilities are constantly updated and reviewed and approved by the Board of Directors.

The Group's key risks are divided into strategic, operative and financing risks.

Operational risks are mainly related to project execution both quality wise and financially. The internal control environment is under constant development to improve preventative measures.

Financing risks are mainly related to interest rates, credit and liquidity.

Other uncertainties are related to the market environment, as well as the successful implementation of the Group's growth strategy and related corporate acquisitions and the integration of the acquired companies, personnel and recruitments.

The Group confirms that no relevant changes have occurred that influence the business, given the risks mentioned above, during the third quarter in 2017.

## FINANCIAL CALENDAR 2017

Delete Group will publish the Financial Statement bulletin of 2017 on February 28, 2018.

## FOR FURTHER INFORMATION

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<sup>1)</sup> *pro forma: acquired businesses reported for the current and comparison period.*

<sup>2)</sup> *adjusted EBITDA: EBITDA before taking into account any extraordinary or exceptional items that are not in line with the ordinary course of business.*

<sup>3)</sup> *Equity ratio = equity/(assets-prepayments)]*

## DELETE GROUP IN BRIEF

Delete Group is a leading environmental full-service provider that offers specialist competences and specialised equipment through three business areas: Industrial Cleaning, Demolition Services and Recycling Services. Delete was formed in 2010 through the combination of Toivonen Yhtiöt and Tehoc and was acquired by private equity investor Axcel in 2013. Since 2011, Delete has made over 30 acquisitions within the industrial cleaning and demolition segments.

The Group is headquartered in Helsinki and employs approx. 870 professionals at over 30 locations in Finland and Sweden.