

2017

Inspiring  
spaces

**Martela**

# Interim Report

1 January – 30 September 2017



## MARTELA CORPORATION INTERIM REPORT 1 JANUARY – 30 SEPTEMBER 2017

The January-September 2017 revenue and operating result declined from the comparison period. The third quarter operating result was EUR 1.7 million.

Challenges related to the implementation of the new IT systems made it difficult to retain the profitability and delivery accuracy reached in the previous year. Due to this we concentrated to stabilise the delivery accuracy on the third quarter and at the end of the quarter reached the 2016 level. Our operations have normalised and we estimate that we have overcome the biggest challenges related to the IT system project.

### July-September 2017

- Revenue was EUR 29.4 million (35.2), change -16.6 %
- Operating result declined but was positive EUR 1.7 million (3.6)
- Operating result per revenue was 5.9 % (10.2 %)
- Result for the period declined but was positive EUR 1.5 million (2.7)
- Earnings per share amounted to EUR 0.37 (0.67)

### January-September 2017

- Revenue was EUR 80.0 million (94.9), change -15,7 %
- Operating result declined and was EUR 0.2 million (4.1)
- Operating result per revenue was 0.2 % (4,3 %)
- Result for the period declined and was EUR -0,4 million (2.6)
- Earnings per share amounted to EUR -0.09 (0.62)

### Outlook for 2017 (published 23 October, 2017)

Martela Group anticipates that its 2017 revenue will decrease clearly and operating result will decrease compared to the previous year. Due to normal seasonal variations, the Group's operating result accumulates mainly during the second half of the year.

### Key figures, EUR million

	2017 7-9	2016 7-9	Change %	2017 1-9	2016 1-9	Change %	2016 1-12
Revenue	29.4	35.2	-16.6	80.0	94.9	-15.7	129.1
Operating result	1.7	3.6	-52.1	0.2	4.1	-95.5	6.2
Operating result %	5.9	10.2		0.2	4.3		4.8
Result before taxes	1.6	3.5	-55.3	-0.1	3.6	-102.9	5.6
Result for the period	1.5	2.7	-44.5	-0.4	2.6	-113.8	3.3
Earnings/share, eur	0.37	0.67		-0.09	0.62		0.81
Return on investment %	19.0	42.6		1.2	16.0		18.2
Return on equity %	25.1	46.8		-1.9	14.5		13.9
Equity ratio %				41.2	46.3		45.3
Gearing %				30.2	-8.9		-18.9

**Matti Rantaniemi, CEO:**

"The January-September 2017 revenue and operating result declined from the comparison period. Challenges related to the implementation of the new IT systems made it difficult to retain the profitability and delivery accuracy reached in the previous year. Due to this we concentrated to stabilise the delivery accuracy on the third quarter and at the end of the quarter reached the 2016 level, supported by improvement of the functionalities of the IT system and implementation of the new procedures throughout the organization.

The whole Martela organization concentrated into implementing the IT systems and new procedures, resulting in revenue decline in almost all the markets. Biggest impact was into Finland revenue. However, on the third quarter the new orders started to pick up in Finland and exceeded the previous year level.

Revenue decline in Sweden was in addition to IT system challenges due to lack of big projects and to the ongoing transformation of sales channel into Martela Lifecycle strategy format. In Norway our revenue increased accordingly to our strategy. Discontinuation of own sales operations in Poland and Russia has as expected declined our revenue in group Other countries.

Implementation of the comprehensive Martela Lifecycle in Nordics has developed well towards the strategic targets for the year 2018 of which one example is the Nordic contract with the construction and property group NCC.

The IT reforms caused somewhat more investments and expenditure than anticipated, but the effects from the earlier completed savings programme resulted in declined personnel and real estate expenditure. The third quarter cash flow from the operating activities was EUR 2.9 million positive, however the cash flow from the operating activities of January – September was negative by EUR 8.3 million (8.1).

In the remaining year we will focus on improving the sales volumes, profitability and cash flow as well as on finetuning the procedures by utilising the new IT systems effectively. We will direct more resources into sales and into its back office in order to secure customer satisfaction.

Our operations have normalised and we estimate that we have overcome the biggest challenges related to the IT system project as well as by the end of first quarter next year the IT systems will fully support our new strategy but still leading to some nonrecurring expenditure. "

**Market**

No material changes took place in the market during the period. The demand for Martela's products and services is fundamentally affected by the general economic situation and by the extent to which companies and the public sector need to use their space more efficiently and make their workplaces more effective management tools.

**Revenue and operating result**

July-September 2017 revenue and operating result

Revenue for July – September declined 16.6 % from the previous year and was EUR 29.4 million (35.2). Revenue declined in Finland by 9.4 % in Sweden by 50.1 %, and in Other countries by 37.9 %. Revenue grew in Norway by 18.7 %.

Operating result for third quarter was EUR 1.7 million (3.6). Result before taxes for July – September was EUR 1.6 million (3.5) and result for the period was EUR 1.5 million (2.7).

January-September 2017 revenue and operating result

Revenue for January – September was EUR 80.0 million (94.9) and declined by 15.7 % from the previous year. Revenue declined in Finland by 8.9 %, and in Sweden by 44.7 %. Revenue in Norway grew by 26.6 %. Revenue in group Other areas declined by 28.7 %.

Operating result for January – September was EUR 0.2 million (4.1). Result before taxes for January – September was EUR -0.1 million (3.6) and result for the period was EUR -0.4 million (2.6).

### Revenue by country, EUR million

Revenue by country	2017 7-9	2016 7-9	Change %	2017 1-9	2016 1-9	Change %	2016 1-12
Finland	24.0	26.5	-9.4	62.5	68.6	-8.9	95.2
Sweden	2.2	4.5	-50.1	8.8	15.9	-44.7	20.4
Norway	1.0	0.9	18.7	3.0	2.3	26.6	3.7
Other	2.1	3.4	-37.9	5.7	8.0	-28.7	9.8
Revenue by country	29.4	35.2	-16.6	80.0	94.9	-15.7	129.1

As reported earlier, as a result of harmonising and combining processes, the organisation, reporting and systems, the company reports consolidated figures as a single segment and in addition reports revenue by country as of 2017. Revenue will be reported by the location of a customer into following countries: Finland, Sweden, Norway and Other countries

### Financial position

Cash flow from operating activities in January–September was EUR -8.3 million (8.1) and it improved EUR 2.9 million on the third quarter. The implementation of the IT reforms caused still some delays in invoicing that resulted in slower sales cash inflow than in the previous year.

At the end of the period, interest-bearing liabilities stood at EUR 16.2 million (9.4) and net liabilities were EUR 7.1 million (-2.2). At the end of the period, short-term limits of EUR 8.7 million were in use (0.0) and available limits stood at EUR 0.8 million.

The gearing ratio at the end of the period was 30.2 % (-8.9) and the equity ratio was 41.2 % (46.3). Financial income and expenses were EUR -0.3 million (-0.4).

Financing arrangements include covenant clauses in which the ratio between the Group's net liabilities and EBITDA and the Group's equity ratio are calculated. The key figures calculated at the end of the review period fulfilled the covenant clauses.

The balance sheet total stood at EUR 57.7 million (52.8) at the end of the period

### Capital expenditure

The Group's gross capital expenditure for January–September came to EUR 2.1 million (1.4). The majority of the investments concerned the IT system reforms (New Business Platform).

### Personnel

The Group employed an average of 509 people (561), which represents a decrease of 52 persons or -9.3 %. The number of employees in the Group was 504 (544) at the end of the review period. Personnel costs in January – September totalled to EUR 20.6 million (21.5).

Personnel on average	2017	2016	Change	2016
	1-9	1-9		1-12
			%	
Finland	437	432	1.2	428
Sweden	27	39	-30.8	37
Norway	9	8	12.5	8
Other	35	82	-57.3	77
Total	509	561	-9.3	550

The change in personnel in Sweden is related to the closure of the Bodafors assembly and logistic unit and in group Other countries to the discontinuation of Martela's own sales operations in Poland and Russia. The personnel at sales was increased in all sales units in the period.

### **Martela's offering**

Instead of individual changes, Martela Lifecycle offers an approach that covers the entire lifecycle of a workplace. In the Martela Lifecycle model, the maintenance of premises and furniture is continuous and the workplace evolves with changing needs.

### **OTHER MATTERS**

#### **Group structure**

The documents concerning the discontinuation of our Russian subsidiary, LLC Martela, were approved by the authorities and the company was closed down in the second quarter. There were no other changes in Group structure during the review period.

#### **Shares**

In January–September, a total of 1,277,141 (1,635,960) of the company's series A shares were traded on the NASDAQ OMX Helsinki exchange, corresponding to 36.0 % (46.1) of the total number of series A shares.

The value of trading turnover was EUR 14.7 million (9.6), and the share price was EUR 9.08 at the end of the period (9.01). During January–September, the highest quotation of the share was EUR 14.0 and the lowest EUR 8.61. At the end of September 2017, equity per share was EUR 5.64 (5.90).

#### **Treasury shares**

Martela did not purchase any of its own shares in January–September. After the transfer of treasury shares based on the share-based incentive scheme as reported on 19 April 2017 Martela owned a total of 12,036 Martela A shares and its holding of treasury shares amounted to 0.3 % of all shares and 0.1 % of all votes. Own shares are purchased at an average price of EUR 10.65

#### **Share-based incentive programme**

In the effective share-based incentive programme there are two earning periods, which are 2017–2018 and 2019–2020. The Board of Directors will decide the earning criteria and the goals for each criterion of the programme at the beginning of each earning period.

The target group for the 2017–2018 earning period is the Group's Management Team. The potential reward of the plan from the earning period 2017–2018 is based on the Group's Earnings before Interest and Taxes (EBIT). Fees to be paid of the 2017–2018 earning period correspond to a maximum of approximately 100,000 Martela Corporation series A shares in total and also include the cash portion. Management of the share-based incentive scheme has been outsourced to an external service provider.



Related to the last earning period of the earlier share-based incentive program 35,110 shares were distributed on 19 April 2017. Totally 94,311 shares have been distributed based on the program.

## **2017 Annual General Meeting**

Martela Corporation's Annual General Meeting was held on 14 March 2017. The AGM approved the financial statements for 2016 and discharged the members of the Board of Directors and the Managing Director from liability. The AGM decided, in accordance with the Board of Directors' proposal, to distribute a dividend of EUR 0.37 per share. The dividend was paid on 23 March 2017.

The number of members on the Board of Directors was confirmed as seven. Kirsi Komi, Eero Leskinen, Eero Martela, Heikki Martela, Yrjö Närhinen and Anni Vepsäläinen were re-elected to the Board, and Minna Andersson was elected as a new member.

KPMG Oy Ab, Authorised Public Accountants, was reappointed as the company's auditor.

The AGM approved the Board of Directors' proposals, detailed in the meeting notice, to authorise the Board to acquire and/or dispose of Martela shares. The new Board of Directors convened after the AGM and elected from its members Heikki Martela as Chairman and Eero Leskinen as Vice Chairman.

## **Administration**

Martela Corporation is a Finnish limited liability company that is governed in its decision-making and management by Finnish legislation, especially the Finnish Limited Liability Companies Act, by other regulations concerning public listed companies, and by its Articles of Association. The company complies with the NASDAQ OMX Guidelines for Insiders and the Corporate Governance Code 2015 for Finnish listed companies published by the Securities Market Association. More information on Martela's governance can be found on the company's website.

## **EVENTS AFTER THE END OF REVIEW PERIOD**

On 23 October 2017 Martela changed its financial guidance for 2017.

No other significant events requiring reporting have taken place since the January–September period, and operations have continued according to plan.

## **SHORT-TERM RISKS**

The principal risk regarding profit performance relates to the general economic uncertainty and the consequent effects on the overall demand in Martela's operating environment. Due to the project-based nature of the sector, forecasting short-term developments is challenging.

Our operations have normalised and we estimate that we have overcome the biggest challenges related to the IT system project as well as by the end of first quarter next year the IT systems will fully support our new strategy but still leading to some nonrecurring expenditure.

## **OUTLOOK 2017**

Martela Group anticipates that its 2017 revenue will decrease clearly and operating result will decrease compared to the previous year. Due to normal seasonal variations, the Group's operating result accumulates mainly during the second half of the year.

## **TABLES**

Accounting policies

This financial report has been prepared in accordance with the IAS 34 standard as approved by EU.

The calculation methods of the report are the same as those applied in the 2016 financial statements.

The figures in this release have been rounded, and so the combined sum of individual figures may differ from the sums presented.

This report is unaudited.

### **Standard IFRS 15 Revenue from contracts with customers**

IFRS 15 Revenue from Contracts with Customers standard is effective for financial years beginning on or after 1 January 2018. Martela has assessed the impacts of the implementation of the standard for different revenue streams and has come to the solution that the impact will not be significant. Martela's customer agreements consist mainly of one-off product or service deliveries, combinations of services and products and continuous services. The new standard will have almost no effect in the time of revenue recognition compared to earlier.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
(EUR 1000)**

	2017 7-9	2016 7-9	2017 1-9	2016 1-9	2016 1-12
<b>Revenue</b>	<b>29 350</b>	<b>35 174</b>	<b>79 957</b>	<b>94 854</b>	<b>129 127</b>
Other operating income	291	35	394	219	464
Employee benefits expenses	-6 109	-6 845	-20 626	-21 493	-29 671
Operating expenses	-21 049	-24 040	-57 452	-67 338	-90 854
Depreciation and impairment	-757	-720	-2 089	-2 189	-2 908
<b>Operating profit/loss</b>	<b>1 727</b>	<b>3 604</b>	<b>184</b>	<b>4 053</b>	<b>6 158</b>
Financial income and expenses	-152	-79	-289	-409	-540
<b>Profit/loss before taxes</b>	<b>1 575</b>	<b>3 525</b>	<b>-105</b>	<b>3 644</b>	<b>5 618</b>
Income tax	-54	-782	-248	-1 087	-2 302
<b>Profit/loss for the period</b>	<b>1 521</b>	<b>2 743</b>	<b>-353</b>	<b>2 557</b>	<b>3 316</b>
<b>Other comprehensive income:</b>					
Translation differences	50	-8	-38	-16	161
Actuarial gains and losses					43
Actuarial gains and losses, deferred taxes					-41
Other					-35
<b>Total comprehensive income</b>	<b>1 571</b>	<b>2 735</b>	<b>-391</b>	<b>2 541</b>	<b>3 444</b>
Basic earnings per share, eur	0,37	0,67	-0,09	0,62	0,81
Diluted earnings per share, eur	0,37	0,67	-0,09	0,62	0,81
Allocation of net profit for the period:					
To equity holders of the parent	1 521	2 743	-353	2 557	3 316
Allocation of total comprehensive income:					
To equity holders of the parent	1 571	2 735	-391	2 541	3 444



<b>GROUP BALANCE SHEET (EUR 1 000)</b>	<b>30.9.2017</b>	<b>30.9.2016</b>	<b>31.12.2016</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	7 426	5 139	6 321
Tangible assets	5 459	7 270	6 632
Investments	53	55	55
Deferred tax assets	138	390	144
Investment properties	600	600	600
<b>Total</b>	<b>13 676</b>	<b>13 454</b>	<b>13 752</b>
<b>Current assets</b>			
Inventories	10 128	8 717	7 709
Receivables	24 724	19 150	21 351
Cash and cash equivalents	9 136	11 512	13 425
<b>Total</b>	<b>43 988</b>	<b>39 379</b>	<b>42 485</b>
<b>Total assets</b>	<b>57 663</b>	<b>52 833</b>	<b>56 238</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	7 000	7 000	7 000
Share premium account	1 116	1 116	1 116
Other reserves	-9	-9	-9
Translation differences	-617	-756	-579
Retained earnings	14 912	16 460	17 135
Treasury shares	-128	-502	-502
Share-based incentives	1 094	913	1 013
<b>Total</b>	<b>23 368</b>	<b>24 222</b>	<b>25 174</b>
<b>Non-current liabilities</b>			
Interest-bearing liabilities	6 241	8 213	6 283
Deferred tax liabilities	511	653	577
Other non-current liabilities	2	0	0
Pension obligations	521	574	371
<b>Total</b>	<b>7 274</b>	<b>9 440</b>	<b>7 231</b>
<b>Current liabilities</b>			
Interest-bearing	9 425	569	2 005
Non-interest bearing	17 597	18 602	21 827
<b>Total</b>	<b>27 022</b>	<b>19 171</b>	<b>23 832</b>
<b>Total liabilities</b>	<b>34 296</b>	<b>28 611</b>	<b>31 063</b>
<b>Equity and liabilities, total</b>	<b>57 663</b>	<b>52 833</b>	<b>56 238</b>

**CONSOLIDATED CASH FLOW STATEMENT**

<b>(EUR 1000)</b>	<b>2017</b>	<b>2016</b>	<b>2016</b>
<b>Cash flows from operating activities</b>	<b>1-9</b>	<b>1-9</b>	<b>1-12</b>
Cash flow from sales	77 340	98 247	129 898
Cash flow from other operating income	159	201	317
Payments on operating costs	-84 388	-88 684	-116 264
<b>Net cash from operating activities before financial items and taxes</b>	<b>-6 889</b>	<b>9 764</b>	<b>13 951</b>
Interest paid	-173	-188	-375
Interest received	1	4	4
Other financial items	-68	-136	-193
Dividends received	0	5	18
Taxes paid	-1 216	-1 311	-1 743
<b>Net cash from operating activities (A)</b>	<b>-8 345</b>	<b>8 139</b>	<b>11 662</b>
<b>Cash flows from investing activities</b>			
Capital expenditure on tangible and intangible assets	-2 018	-1 318	-2 579
Proceeds from sale of tangible and intangible assets	235	18	146
<b>Net cash used in investing activities (B)</b>	<b>-1 784</b>	<b>-1 300</b>	<b>-2 433</b>
<b>Cash flows from financing activities</b>			
Proceeds from short-term loans	8 761		
Repayments of short-term loans	-1 384	-1 331	-1 395
Proceeds from long-term loans			
Repayments of long-term loans		-791	-1 221
Dividends paid and other profit distribution	-1 520	-998	-1 022
<b>Net cash used in financial activities (C)</b>	<b>5 857</b>	<b>-3 119</b>	<b>-3 638</b>
<b>Change in cash and cash equivalents ( A+B+C) (+ increase, - decrease)</b>	<b>-4 272</b>	<b>3 720</b>	<b>5 591</b>
Cash and cash equivalents in the beginning of period	13 425	7 724	7 724
Translation differences	-17	68	110
<b>Cash and cash equivalents at the end of period</b>	<b>9 136</b>	<b>11 512</b>	<b>13 425</b>

**STATEMENT OF CHANGES IN EQUITY (EUR 1 000)**

Equity attributable to equity holders of the parent

	Share capital	Share premium account	Other reserves	Transl. diff.	Retained earnings	Treasury shares	Total
<b>01.01.2016</b>	<b>7 000</b>	<b>1 116</b>	<b>-9</b>	<b>-740</b>	<b>15 968</b>	<b>-673</b>	<b>22 662</b>
Total comprehensive income					2 557		2 557
Translation diff.				-16			-16
Dividends					-884		-884
Withholding taxes from dividends					-139		-139
Share-based incentives					-129	171	42
<b>30.09.2016</b>	<b>7 000</b>	<b>1 116</b>	<b>-9</b>	<b>-756</b>	<b>17 373</b>	<b>-502</b>	<b>24 222</b>
<b>01.01.2017</b>	<b>7 000</b>	<b>1 116</b>	<b>-9</b>	<b>-579</b>	<b>18 148</b>	<b>-502</b>	<b>25 174</b>
Total comprehensive income					-353		-353
Other changes					23		23
Translation diff.				-38			-38
Dividends					-1 290		-1 290
Withholding taxes from dividends					-230		-230
Share-based incentives					-292	374	82
<b>30.09.2017</b>	<b>7 000</b>	<b>1 116</b>	<b>-9</b>	<b>-617</b>	<b>16 006</b>	<b>-128</b>	<b>23 368</b>

**CONTINGENT LIABILITIES**

	<b>30.9.2017</b>	<b>30.9.2016</b>	<b>31.12.2016</b>
Mortgages and shares pledged	26 750	26 755	26 781
Other commitments	243	346	329
Rental commitments	6 283	8 231	7 929

**DEVELOPMENT OF SHARE PRICE**

	<b>2017</b>	<b>2016</b>	<b>2016</b>
	<b>1-9</b>	<b>1-9</b>	<b>1-12</b>
Share price at the end of period, eur	9.08	9.01	12.84
Highest price, eur	14.00	9.50	13.50
Lowest price, eur	8.61	3.29	3.29
Average price, eur	11.47	5.86	6.80

<b>KEY FIGURES/RATIOS</b>	<b>2017</b>	<b>2016</b>	<b>2016</b>
	<b>1-9</b>	<b>1-9</b>	<b>1-12</b>
Operating profit/loss	184	4053	6158
- in relation to revenue	0,2	4,3	4,8
Profit/loss before taxes	-105	3644	5618
- in relation to revenue	-0,1	3,8	4,4
Profit/loss for the period	-353	2557	3316
- in relation to revenue	-0,4	2,7	2,6
Basic earnings per share, eur	-0,09	0,62	0,81
Diluted earnings per share, eur	-0,09	0,62	0,81
Equity/share, eur	5,64	5,90	6,13
Equity ratio	41,2	46,3	45,3
Return on equity *	-1,9	14,5	13,9
Return on investment *	1,2	16,0	18,2
Interest-bearing net-debt, eur million	7,1	-2,2	-4,8
Gearing ratio	30,2	-8,9	-18,9
Capital expenditure, eur million	2,1	1,4	2,9
- in relation to revenue	2,6	1,5	2,2
Personnel at the end of period	504	544	506
Average personnel	509	561	550
Revenue/employee, eur thousand	157,1	169,1	234,8

## FORMULAS FOR CALCULATION OF KEY FIGURES

Earnings / share	=	$\frac{\text{Profit attributable to the equity holders of the parent}}{\text{Average share issue-adjusted number of shares}}$
Equity / share, EUR	=	$\frac{\text{Equity attributable to the equity holders of the parent}}{\text{Share issue-adjusted number of shares at year end}}$
Return on equity, %	=	$\frac{\text{Profit/loss for the financial year} \times 100}{\text{Equity (average during the year)}}$
Return on investment, %	=	$\frac{(\text{Pre-tax profit/loss} + \text{interest expenses} + \text{other financial expenses}) \times 100}{\text{Balance sheet total} - \text{Non-interest-bearing liabilities (average during year)}}$
Equity ratio, %	=	$\frac{\text{Equity} \times 100}{\text{Balance sheet total} - \text{advances received}}$
Gearing, %	=	$\frac{\text{Interest-bearing liabilities-cash and cash equivalents and liquid asset securities} \times 100}{\text{Equity}}$
Average personnel	=	Month-end average calculation of the number of personnel in active employment
Interest-bearing net debt	=	Interest-bearing debt - cash and other liquid financial assets

Key figures are calculated according to formulas as presented in Annual Report 2016

\*) When calculating return % the profit/loss for the period has been multiplied in interim reports.

## INFORMATION EVENT

An event for analysts, portfolio managers and media will be held on Thursday 2 November 2017 from 11:30 to 12:30 at Martela house in address Takkatie 1, Helsinki. The result will be presented by CEO Matti Rantaniemi.

Martela Corporation Board of Directors

Matti Rantaniemi CEO

Further information

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Our strategic direction is defined by our mission “Better working” and our vision “People-centric workplaces”. Martela provides people centric workplaces where the users and their wellbeing are in the core. We focus on the Nordic countries, as the Nordic countries are forerunner in hybrid working environments with common open work culture background and needs.