

2020

Interim report

1 January – 31 March 2020

Martela



MARTELA CORPORATION'S INTERIM REPORT 1 JANUARY – 31 MARCH

The January–March 2020 revenue and operating result decreased compared to previous year.

January–March 2020

- Revenue was EUR 21.7 million (25.6), representing a change of -15.4 %
- Operating result was EUR -2.8 million (-1.9)
- Operating profit per revenue was -13.1 % (-7.4 %)
- The result for the period was EUR -3.5 million (-2.0)
- Earnings per share amounted to EUR -0.84 (-0.49)

Outlook

Outlook for 2020

Martela Group anticipates that its 2020 revenue will decrease clearly, and operating result will decrease compared to the previous year. Due to current situation visibility to second half of the year is even more challenging than normally and company is actively monitoring the situation.

Key figures, EUR million

	2020	2019	Change	2019
	1-3	1-3	%	1-12
Revenue	21.7	25.6	-15.4 %	106.2
Operating result	-2.8	-1.9		-2.0
Operating result %	-13.1 %	-7.4 %		-1.9 %
Result before taxes	-3.5	-2.1		-2.7
Result for the period	-3.5	-2.0		-2.5
Earnings/share, euro	-0.84	-0.49		-0.61
Return on investment %	-38.3	-23.4		-6.4
Return on equity %	-97.6	-46.2		-14.7
Equity ratio %	29.2	32.4	-9.7 %	30.6
Gearing %	66.1	39.4	67.5 %	31.5

Matti Rantaniemi, CEO:

“Our revenue decreased by 15.4 % in the first quarter compared to same period last year. Total revenue for the first quarter was EUR 21.7 million. Our revenue decreased expectedly due to implementation and trainings related to our new sales tool. Revenue was also negatively impacted by the coronavirus pandemic through a decreased demand and postponement of orders, especially in the Norwegian market. The implementation of the new sales tool was successful and the system will streamline our processes in the future.

New orders decreased slightly in the first quarter. The decrease was strongest in Norway and in the Finnish commercial sector:

Operating result decreased by EUR 0.9 million in the first quarter when comparing to the same period previous year and was EUR -2.8 million (-1.9). This was caused by the decreased revenue. Sales margin % stayed on the same level and operating expenses decreased compared to same period last year.

Our cash position remained on an acceptable level. We are having active communication with our financing partners in order to secure that our operations will not be disturbed due to financing issues.

The coronavirus pandemic and the uncertainty caused by it have had a negative impact on the market situation. We have initiated cost saving actions to minimize the financial impact of the pandemic. These actions include decrease of external services, minimizing travel expenses as well as temporary layoffs. Despite these circumstances, our delivery accuracy has remained on an excellent level and we will continue to develop our customer's learning and working environments and the furniture deliveries related to those.

Even though it is too early to say what the long-term impact of the pandemic will be to our market environment, it is clear that the negative impacts in the short-term will be significant.

Despite this difficult situation we strongly believe that the basis for our strategy remains. Transformation in working and learning environments will continue, get stronger and expand in the Nordics. Working and learning environments will have to be sustainable and to be able to adapt faster as needs and circumstances constantly keep changing. This will require capabilities to follow and understand the use of space and needs of the users, and to be able to renew and optimize the space according to those needs.”

Market situation

The coronavirus pandemic has had a negative impact on the whole market environment of Martela, both in Scandinavia and in other countries. This impact has been especially strong in the commercial sector. The negative impact has been smaller on the Finnish Public sector compared to the commercial sector, but the competition has toughened and prices have decreased also in the Public sector. At the moment it is impossible to say what the short- and midterm impacts to general market conditions will be and how long the uncertainty in the markets will continue.

Revenue and operating result

Revenue and result for January–March 2020

Revenue for January–March was EUR 21.7 million (25.6) and declined by 15.4 % from previous year. Revenue declined in all areas compared to previous year. In Norway revenue declined by 69.1 %, in Sweden by 18.0 %, in Other countries by 11.3 % and in Finland by 10.3 %.

The Group's operating result in January–March was EUR -2.8 million (-1.9).

The January–March result before taxes was EUR -3.5 million (-2.1) and net result EUR -3.5 million (-2.0).

Revenue by country, EUR million

	2020	2019	Change	2019
	1-3	1-3	%	1-12
Finland	18.0	20.1	-10.3 %	83.2
Sweden	2.3	2.8	-18.0 %	10.7
Norway	0.6	1.9	-69.1 %	7.8
Other	0.8	0.9	-11.3 %	4.6
Revenue total	21.7	25.6	-15.4 %	106.2

Income from the sale of goods	18.0	22.3	-19.4 %	91.5
Income from the sale of services	3.7	3.3	11.4 %	14.7

Cumulative revenue includes EUR 113 thousand (37) income from sold furniture that based on the customer agreement is classified as rental income.

Martela started a cost efficiency improvement program in the second quarter of 2019 in order to improve its profitability. Target for the cost efficiency program was to reach EUR 4 million annual savings. Purpose of the planned actions is to align company's cost base to meet current market conditions and to secure set profitability targets. Planned savings will start to materialize gradually from the beginning of 2020 and will have full impact by the first quarter of 2021. Already implemented actions of this program will lead to savings of approx. EUR 3.3 million per year.

Financial position

The cash flow from operating activities in January–March was EUR -0.7 million (1.5).

At the end of the period, interest-bearing liabilities stood at EUR 15.6 million including EUR 6.2 million lease liabilities according to IFRS 16. At the end of comparison period the interest-bearing liabilities stood at EUR 17.2 million. Net liabilities were EUR 8.4 million (6.6). At the end of the period, short-term limits of EUR 4.0 million were in use (5.0) and available limits stood at EUR 0.3 million.

The gearing ratio at the end of the period was 66.1 % (39.4) and the equity ratio was 29.2 % (32.4). Financial income and expenses were EUR -0.7 million (-0.2).

Financing arrangements include covenant clauses in which the ratio between the Group's net liabilities and EBITDA and the Group's equity ratio are examined. The key figures calculated at the end of the review period did not fulfil the covenant-clauses concerning the ratio between net liabilities and EBITDA. Negotiation of this matter has been initiated with the financial institutions. The balance sheet total stood at EUR 46.2 million (52.1) at the end of the period.

Capital expenditure

The Group's gross capital expenditure for January–March was EUR 0.9 million (0.3).

Personnel

The Group employed an average of 452 people (492), which represents a decrease of 40 persons or 8.1 %. The number of employees in the Group was 451 (498) at the end of the review period. Personnel costs in January–March totalled EUR 6.7 million (7.0).

Personnel on average	2020	2019	Change	2019
by country	1-3	1-3	%	1-12
Finland	377	421	-10.5 %	423
Sweden	21	22	-4.5 %	22
Norway	15	10	50.0 %	10
Other	39	39	0.0 %	39
Total	452	492	-8.1 %	494

Martela's offering

In line with its Lifecycle strategy Martela creates high-quality services for workplaces and learning environments along the full lifecycle. Our offering includes workplace and learning environment specification and planning, implementation and furnishing as well as continuous measurement and optimization.

To add to the traditional way of purchasing Martela has introduced two new service models, Workplace as a Service and Learning environment as a Service. The monthly service fees can include everything from one to all of the lifecycle phases.

During the first quarter of 2020 Martela expanded the Pod product family by introducing the meeting space called PodBooth meeting. In addition to this, Martela launched a new cabinet solution called Capa on the Stockholm furniture fair.

OTHER MATTERS

Group structure

Kiinteistöyhtiö Ylähanka Oy, a subsidiary of Martela Oyj, was merged into the parent company during the first quarter of 2020.

Shares

In January–March, a total of 369 699 (236 594) of the company's series A shares were traded on the NASDAQ OMX Helsinki exchange, corresponding to 10.4 % (6.7) of the total number of series A shares.

The value of trading turnover was EUR 1.0 million (0.7), and the share price was EUR 1.92 at the end of the period (3.16). During January–March the share price was EUR 3.58 at its highest and EUR 1.78 at its lowest. At the end of March, equity per share was EUR 3.08 (4.01).

Treasury shares

Martela did not purchase any of its own shares in January–March. Martela owns a total of 13 082 Martela A shares and its holding of treasury shares amounted to 0.3% of all shares and 0.1% of all votes. Out of the shares 12 036 were purchased at an average price of EUR 10.65 and 1 046 were transferred from Martela Corporation's joint account to the treasury shares reserve based on the decision by AGM on March 13, 2018.

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 and 2019–2020 earning periods is the Group's Management Team. The potential reward of the programme from the earning period 2017–2018 was based on the Group's Earnings before Interest and Taxes (EBIT) and from the earning period 2019–2020 based on the Group's revenue and Earnings before Interest and Taxes (EBIT). No incentives will be paid for the earning period 2017–2018. The potential reward for the earning period 2019–2020 will be paid in one transaction as shares and a cash portion in year 2021. The cash portion is aimed to cover taxes and other costs related to the reward. The shares paid as reward may not be transferred during an approximate one-year restriction period established for the shares. For shares earned from the performance period 2019–2020, the restriction period will end on 30 April 2022. Management of the share-based incentive scheme has been outsourced to an external service provider.

2020 Annual General Meeting

Martela Corporation's Annual General Meeting was held on Thursday, March 12, 2020. The Meeting approved the Financial Statements, discharged the members of the Board of Directors and CEO from liability for the year of 2019 and adopted Remuneration Policy for the Company's governing bodies. The Board of Directors proposal that no dividend will be distributed was approved.

The Annual General Meeting confirmed that the Board of Directors will consist of seven members and Ms. Minna Andersson, Mr. Jan Mattsson, Mr. Eero Martela, Mr. Heikki Martela, Ms. Katarina Mellström and Ms. Anni Vepsäläinen be re-elected as members of the Board of Directors and Mr. Johan Mild elected as a new member of the Board of Directors. The Annual General Meeting resolved a monthly compensation of EUR 3,400 be paid for the Chairman of the Board and EUR 1,700 for the Board Members, and an additional compensation of EUR 1,600 per year to the Board members belonging to a committee.

Authorized Public Accountant Ernst & Young Oy was elected as the company's auditor.

The Annual General Meeting authorized the Board in accordance with the proposal of the Board of Directors to decide on the repurchase of own shares, issuance of own shares and/or to dispose of the own shares held by the Company.

The Board of Directors elected by Martela Corporation's Annual General Meeting had its organizational meeting after the Annual General Meeting and re-elected from among its members Heikki Martela as the Chairman and Katarina Mellström as the new Vice Chairman of the Board.

Corporate responsibility and quality

Responsibility forms an integral part of Martela's strategy and operations. We support the responsibility of our customer companies by offering sustainable solutions for the workplace throughout its entire life cycle and by ensuring the responsible recycling of any furniture that is no longer needed. The company's Martela Lifecycle -model covers the entire lifecycle of the workplace. The Group has a quality and environmental system certified by an independent certifier, and they guarantee that operations are continuously improved, client expectations met and environmental matters taken into consideration.

Further information on the responsibility of the Group's operations can be found in the annually published responsibility report. Martela's responsibility reporting includes extensive non-financial information (NFI)

required by the new accounting legislation. It has been published since 2010. All reports are available on the Martela website.

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 THE REPORTING PERIOD

No significant events requiring reporting have taken place since the January–March 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. The coronavirus pandemic and the uncertainty caused by it have had a negative impact on the market situation. Due to the project-based nature of the sector, forecasting short-term development is challenging in normal circumstances. This has been further emphasized by the general uncertainty caused by the pandemic.

Outlook

Outlook for 2020

Martela Group anticipates that its 2020 revenue will decrease clearly and operating result will decrease compared to the previous year. Due to current situation visibility to second half of the year is even more challenging than normally and company is actively monitoring the situation.

TABLES

Accounting policies

Martela Corporation's consolidated financial statements have been prepared in compliance with the IAS 34 standard and the International Financial Reporting Standards (IFRS) valid on 31 March 2020. The figures in the release have been rounded and the total sum of individual figures may differ from the total presented in the release. The figures presented in this release have not been audited. Same accounting principles have been applied in this report as in the financial statements 2019.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (EUR 1000)

	2020 1-3	2019 1-3	2019 1-12
Revenue	21,652	25,598	106,207
Other operating income	131	99	356
Employee benefit expenses	-6,704	-6,997	-26,651
Operating expenses	-16,646	-19,378	-76,993
Depreciation and impairment	-1,273	-1,204	-4,949
Operating profit/loss	-2,841	-1,882	-2,031
Financial income and expenses	-674	-193	-670
Profit/loss before taxes	-3,515	-2,075	-2,701
Taxes	37	27	159
Profit/loss for the period	-3,478	-2,048	-2,541
Translation differences	767	-76	-98
Other change	-67		-38
Actuarial gains and losses	0	0	-37
Actuarial gains and losses, deferred taxes	0	0	6
Total comprehensive income	-2,778	-2,124	-2,708
Basic earnings per share, eur	-0.84	-0.49	-0.61
Diluted earnings per share, eur	-0.84	-0.49	-0.61
Allocation of net profit for the period: To equity holders of the parent	-3,478	-2,048	-2,541
Allocation of total comprehensive income: To equity holders of the parent	-2,778	-2,124	-2,708

GROUP BALANCE SHEET (EUR 1000)	31.3.2020	31.3.2019	31.12.2019
ASSETS			
Non-current assets			
Intangible assets	7,835	6,773	7,560
Tangible assets	10,754	10,852	9,582
Investments	7	53	52
Deferred tax assets	243	149	217
Total	18,839	17,826	17,410
Current assets			
Inventories	7,986	8,140	7,966
Receivables	12,172	15,495	20,179
Cash and cash equivalents	7,200	10,627	9,621
Total	27,358	34,262	37,766
Total assets	46,197	52,088	55,176
EQUITY AND LIABILITIES			
Equity			
Share capital	7,000	7,000	7,000
Share premium account	1,116	1,116	1,116
Other reserves	-9	-9	-9
Translation differences	-270	-1,015	-1,037
Retained earnings	3,989	8,644	7,713
Treasury shares	-129	-128	-128
Share-based incentives	1,081	1,028	1,085
Total	12,778	16,635	15,740
Non-current liabilities			
Interest-bearing liabilities	3,240	8,082	5,924
Deferred tax liabilities	267	366	283
Pension obligations	472	442	472
Total	3,979	8,890	6,679
Current liabilities			
Interest-bearing	11,928	8,664	8,188
Non-interest bearing	17,512	17,899	24,569
Total	29,440	26,563	32,757
Total liabilities	33,419	35,453	39,436
Equity and liabilities, total	46,197	52,088	55,176

CONSOLIDATED CASH FLOW STATEMENT (EUR 1000)	2020 1-3	2019 1-3	2019 1-12
Cash flows from operating activities			
Cash flows from sales	26,950	28,919	107,633
Cash flow from other operating income	90	94	325
Payments on operating costs	-27,289	-27,522	-101,324
Net cash from operating activities before financial items and taxes	-249	1,492	6,634
Interests paid	-289	-71	-360
Interests received	10	1	5
Other financial items	-202	-101	-208
Dividends received	1	0	0
Taxes paid	-14	-219	203
Net cash from operating activities (A)	-743	1,102	6,274
Cash flows from investing activities			
Capital expenditure on tangible and intangible assets	-776	-343	-3,040
Proceeds from sale of tangible and intangible assets	0	5	5
Net cash used in investing activities (B)	-776	-338	-3,034
Cash flows from financing activities			
Proceeds from short-term loans	4,500	0	0
Repayments of short-term loans	-8,933	-94	-1,152
Repayments of lease liabilities	-682	-640	-2,631
Proceeds from long-term loans	4,400	0	0
Dividends paid and other profit distribution	0	0	-414
Net cash used in financial activities (C)	-716	-734	-4,197
Change in cash and cash equivalents (A+B+C) (+ increase, - decrease)	-2,235	30	-957
Cash and cash equivalents in the beginning of the period	9,621	10,594	10,594
Translation differences	-186	3	-16
Cash and cash equivalents at the end of period	7,200	10,627	9,621

STATEMENT OF CHANGES IN EQUITY

(EUR 1000)	Share capital	Share premium account	Other reserves	Translation diff	Retained earnings	Treasury shares	Equity total
Equity attributable to equity holders of the parent							
1.1.2019	7,000	1,116	-9	-939	11,751	-128	18,791
Profit/loss for the period					-2,048		-2,048
Other change					-47		-47
Translation diff.				-76			-76
Share-based incentives					15		15
31.3.2019	7,000	1,116	-9	-1,015	9,671	-128	16,635
01.01.2020	7,000	1,116	-9	-1,037	8,798	-128	15,740
Profit/loss for the period					-3,478		-3,478
Other change					-248		-248
Translation diff.				767			767
Share-based incentives					-3		-3
31.3.2020	7,000	1,116	-9	-270	5,069	-128	12,778

CONTINGENT LIABILITIES

	31.3.2020	31.3.2019	31.12.2019
Mortgages and shares pledged	21,981	21,818	21,738
Other commitments	378	308	345
Rental commitments	6,451	7,355	5,501

DEVELOPMENT OF SHARE PRICE

	2020 1-3	2019 1-3	2019 1-12
Share price at the end of period, eur	1.92	3.16	3.36
Highest price, eur	3.58	3.35	3.56
Lowest price, eur	1.78	2.79	2.55
Average price, eur	2.84	3.11	3.11

KEY FIGURES/RATIOS	2020	2019	2019
	1-3	1-3	1-12
Operating profit/loss, EUR thousand	-2,841	-1,882	-2,031
-% in relation to revenue	-13.1	-7.4	-1.9
Profit/loss before taxes, EUR thousand	-3,515	-2,075	-2,701
-% in relation to revenue	-16.2	-8.1	-2.5
Profit/loss for the period, EUR thousand	-3,478	-2,048	-2,541
-% in relation to revenue	-16.1	-8.0	-2.4
Basic earnings per share, eur	-0.84	-0.49	-0.61
Diluted earnings per share, eur	-0.84	-0.49	-0.61
Equity/share, eur	3.08	4.02	3.80
Equity ratio %	29.2	32.4	30.6
Return on equity %	-97.6	-46.2	-14.7
Return on investment %	-38.3	-23.4	-6.4
Interest-bearing net-debt, EUR million	8.4	6.6	5.0
Gearing %	66.1	39.4	31.5
Capital expenditure, EUR million	0.9	0.3	2.3
-% in relation to revenue	3.9	1.3	2.1
Personnel at the end of period	451	498	464
Personnel on average	452	492	494
Revenue/employee, EUR thousand	47.9	52.0	215.0

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, %	=	$\frac{\text{Interest-bearing liabilities-cash and cash equivalents and liquid asset securities} \times 100}{\text{Equity}}$
Personnel on average	=	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

BRIEFING

A briefing will not be held due to the prevailing pandemic situation, but additional information can be asked by telephone from Matti Rantaniemi and Kalle Lehtonen on Thursday 7th of May 2020 from 11:30 a.m. to 2 p.m. EET.

Martela Corporation
Board of Directors

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Our strategic direction is defined by our mission "Better working" and our vision "People-centric workplaces". Martela supplies user-centric workplaces where the users and their wellbeing are what matter most. We focus on the Nordic countries because, based on our common open work culture and needs, the Nordic countries are leaders in hybrid workplaces.