

budimex

Investor Presentation

1-3Q'19

Lublin
↑ Bobrowniki
Wysokie M

1. Market snapshot

- 1.1 Market environment – top facts
- 1.2 Macroeconomic forecasts for Poland
- 1.3 Overview of construction segment
- 1.4 Labour market
- 1.5 Prices of main materials
- 1.6 Presales of residential developers

2. Budimex Group in 1-3Q'19

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3. Budimex S.A. on WSE



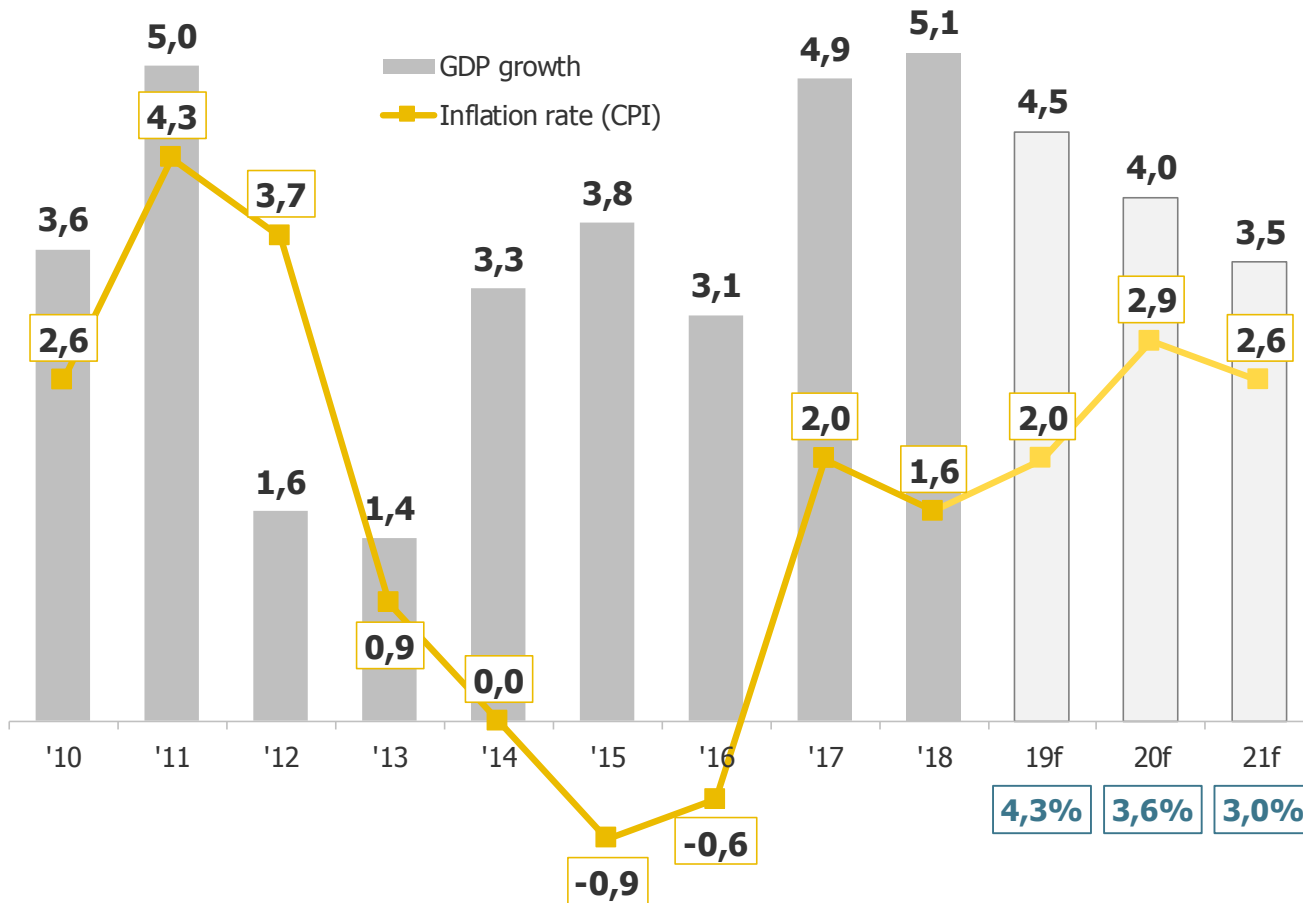
- In 10'19 World Bank increased forecast of GDP growth for Poland → '19f: **4,3%** vs. 4,0% published in 04'19
- Average inflation rate should soon close to 3,0% level → '20f: **2,9%** y-o-y
- The government approved a draft of State Budget for '20, which assumes **no budget deficit in '20**
- Smaller y-o-y dynamics of construction production vs. '18 → 1-3Q'19: **+9,0%**
- Main materials prices in three quarters of '19 grew slower than in 1-3Q'18 (in some cases prices dropped)
- More and more contracts terminated on GDDKiA market due to cost inflation
- Generally, profitability remains under pressure, but some big companies are able to recover their margins
- Increase of budget of two big investment programs executed by GDDKiA and PKP PLK to **142 bn PLN and 76 bn PLN** respectively
- Aggregated presales of top residential developers in 1-3Q'19 did not change significantly compared to '18

1.2 GDP growth and inflation rate

Comment

- In 10'19 World Bank increased forecast of GDP growth for Poland in '19 by 0,3 p.p.
- GDP growth forecast for '20 and '21 remained unchanged

GDP growth and inflation rate (% , y-o-y)



Forecasted decrease of GDP growth mainly due to **insufficient level of investments and external factors**

Inflation rate should be kept **within Central Bank's fluctuation band**

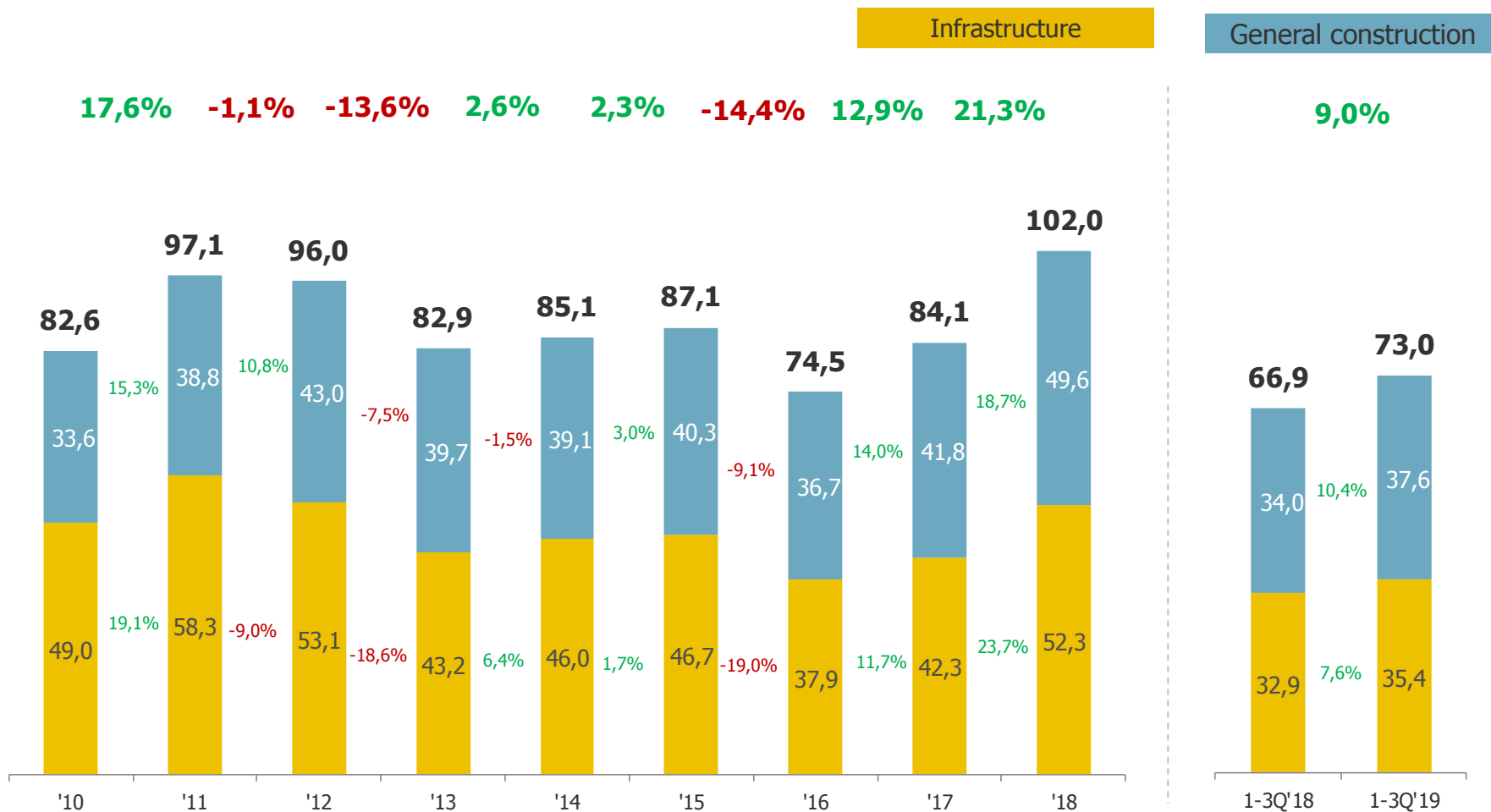
4,3% 3,6% 3,0% : GDP y-o-y, World Bank forecast (10'19)

1.3 Construction production by segment

Comment

- Construction production in 1-3Q'19 grew by 9,0% y-o-y
- The production rises not as fast as in '18

Construction and assembly production '10 – 1-3Q'19 (bn PLN, enterprises with > 9 employees, current prices)



1.3 Production vs.net profit margin in construction

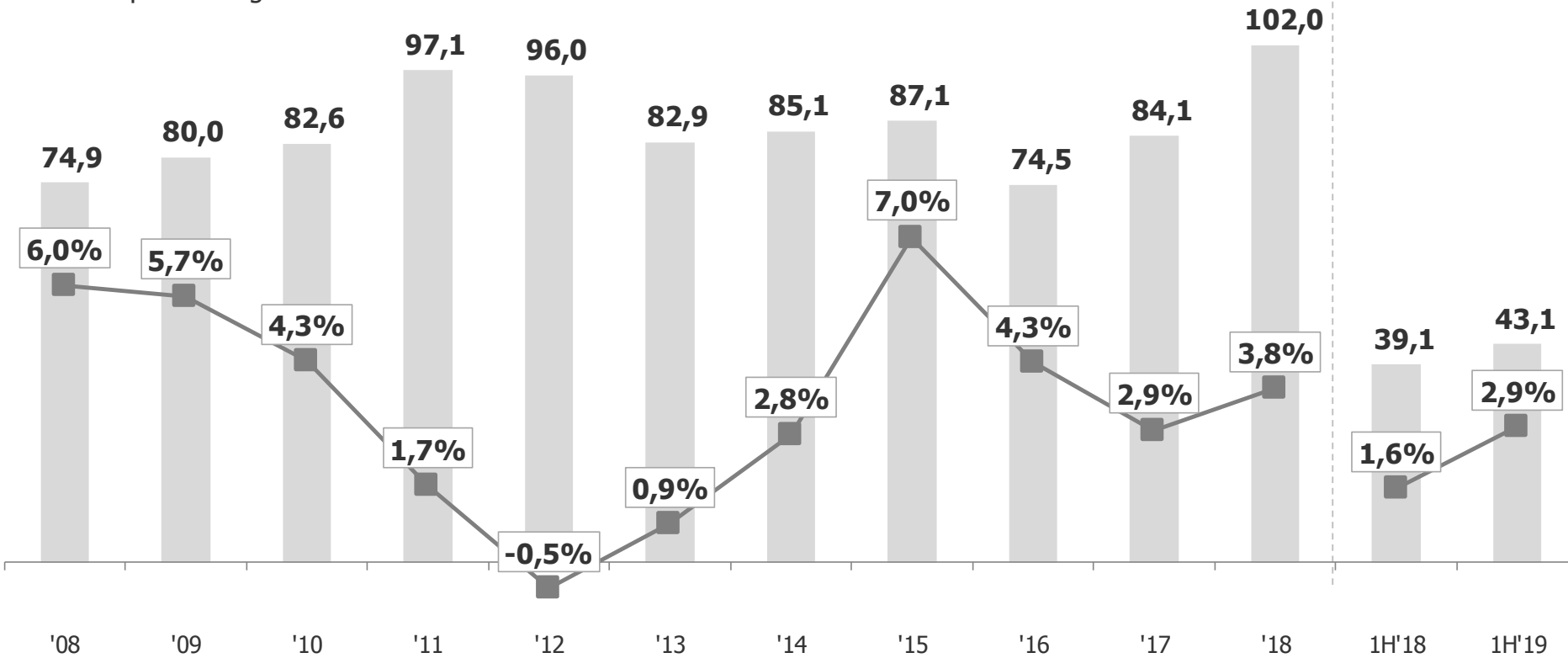
Comment

- Compared to 1H'18, net margin in construction increased in 1H'19
- Generally, more and more companies adjust their offer prices to new cost environment and improve the quality of backlog

Construction production (companies > 9 employees) **vs. net profit margin in construction** (companies > 49 employees)

■ Construction production (bn PLN)

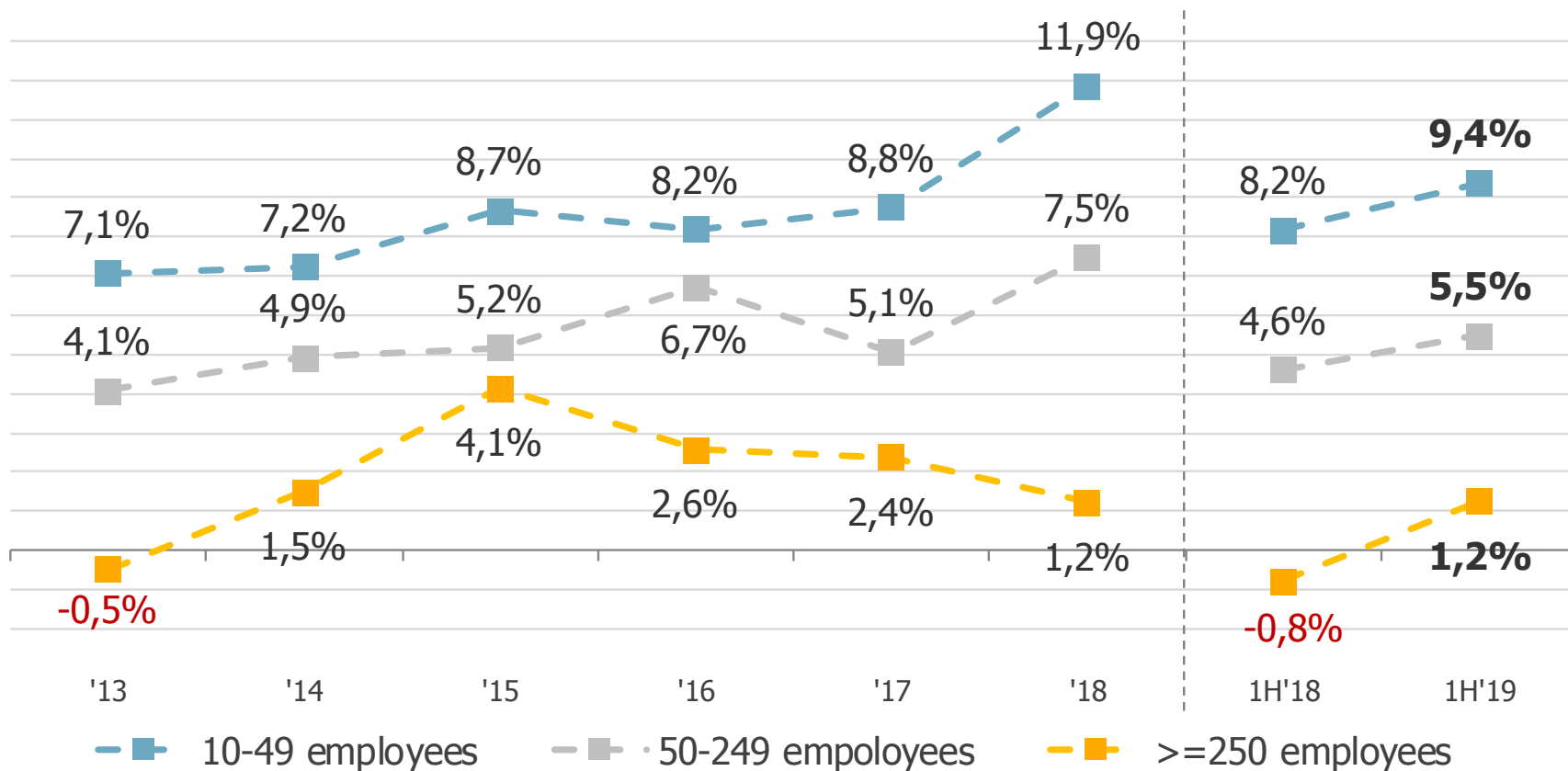
■ Net profit margin



1.3 EBIT margin by size of construction company

Comment

- Small construction companies were able to improve their margin in '18, while profitability of big companies felt to 1,2%
- In 1H'19 profitability of big companies faced a recovery

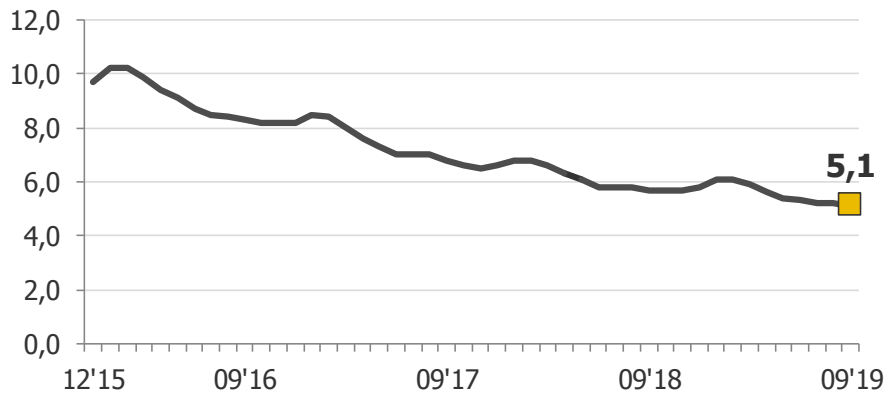


1.4 Labour market

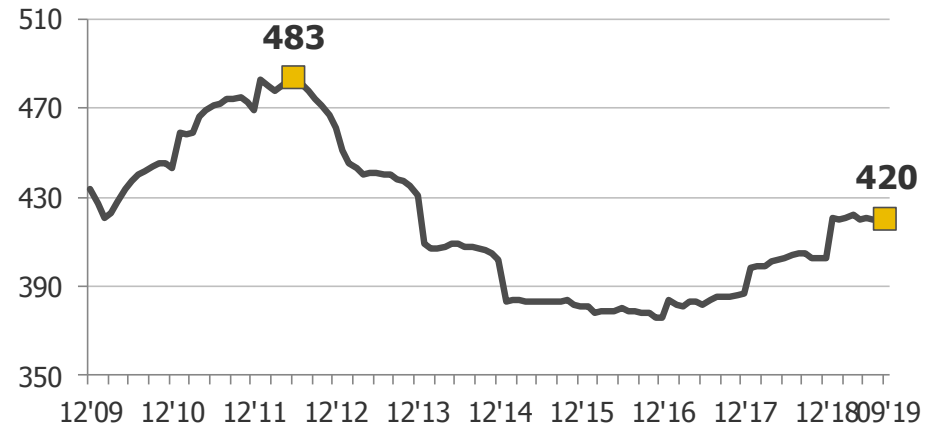
Comment

- Construction companies have to deal with labour shortage and increase of labour costs

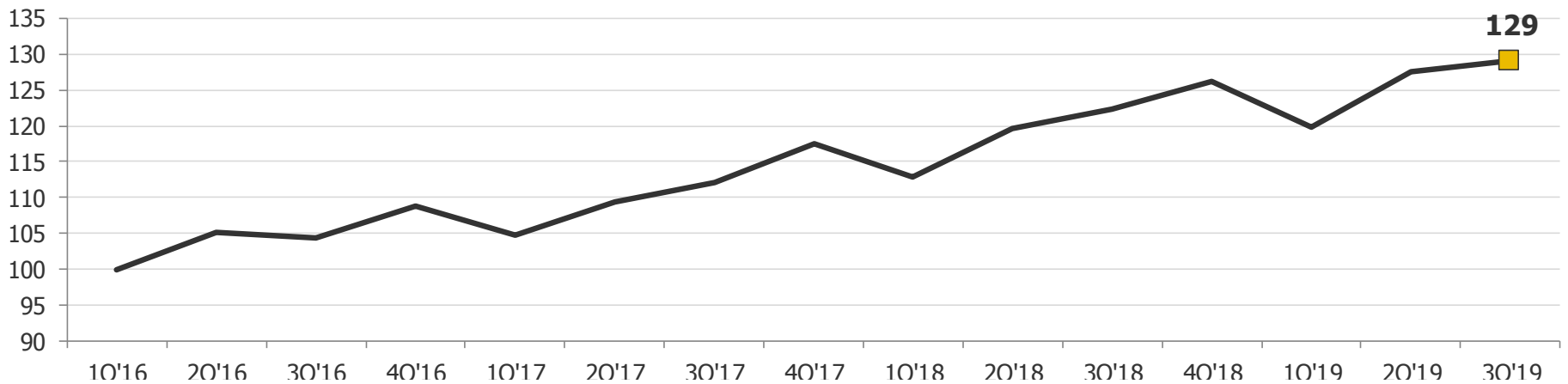
Unemployment rate (%)



Employment in construction (thous. employees)



Average wage in construction (1Q'16 = 100)

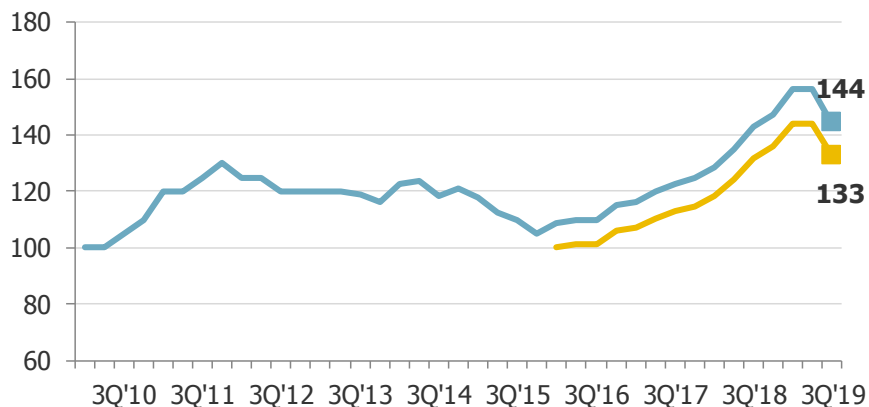


1.5 Prices of main materials

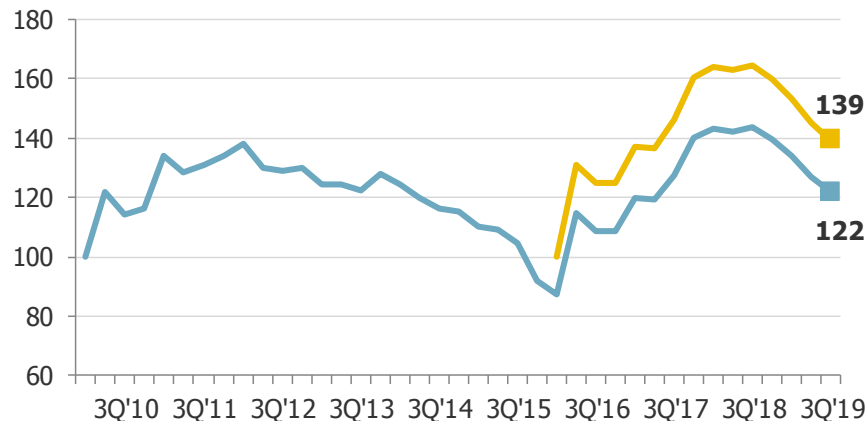
Comment

- Lower dynamics of construction production may normalize the situation on materials market

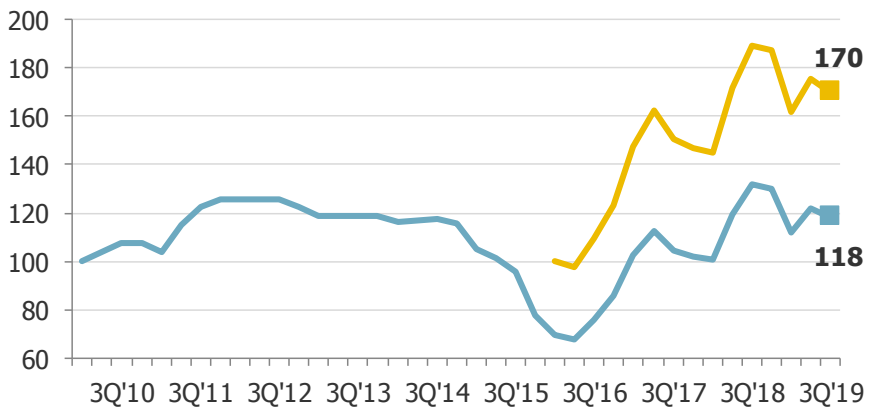
Concrete



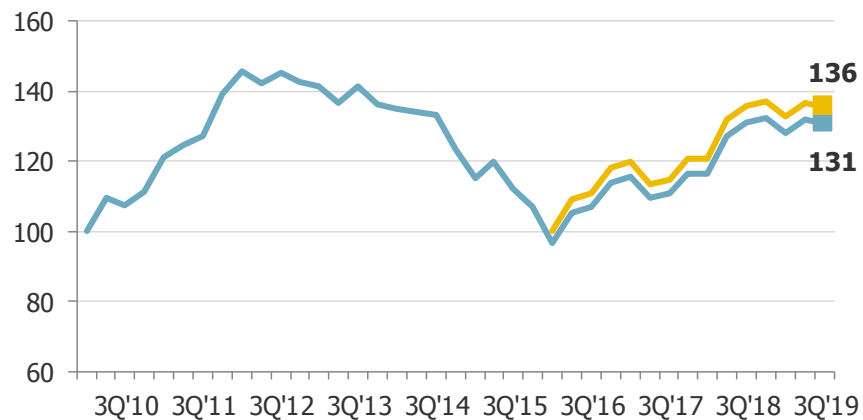
Reinforcement steel



Asphalt



Diesel oil



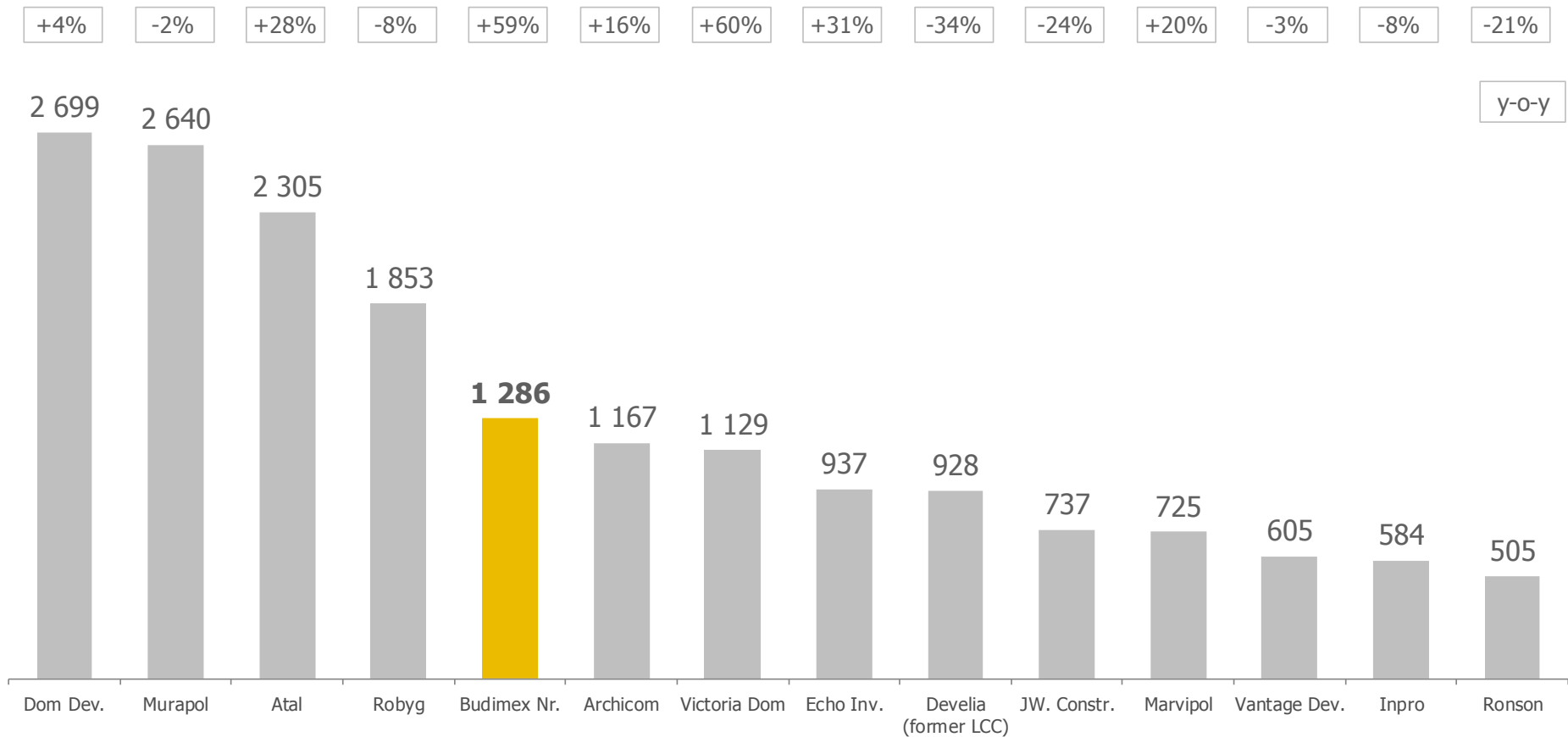
— 1Q'10 = 100
— 1Q'16 = 100

1.6 Presales of residential developers

Comment

- Despite visible increase of flats prices, the demand on residential market remains high

Presales of selected developers in 1-3Q'19 (flats)



- No significant change of sales in 1-3Q'19 → 1-3Q'19: **5,4 bn PLN** *(-0,1% y-o-y)*
- Decrease of % EBIT in construction segment → 1-3Q'19: **3,0%** *(-1,0 p.p. y-o-y)*
- Rising share of railway in construction sales → 1-3Q'19: **15,7%** *(+7,5 p.p. y-o-y)*
- Increase of net cash → 09'19: **0,6 bn PLN** *(+0,3 bn PLN vs. 06'19)*
- Similar value of contracts signed → 1-3Q'19: **5,5 bn PLN** *(-2,1% y-o-y)*
- Increase of backlog → 09'19: **10,7 bn PLN** *(+0,6 bn PLN vs. 12'18)*
- High improvement of market offer → 09'19: **4 074 flats** *(+717 flats vs. 12'18)*
- Purchase of remaining 51% stake in FBSerwis conducted at the begin of 07'19
(start of full consolidation of FBSerwis Group results in 3Q'19)

Comment

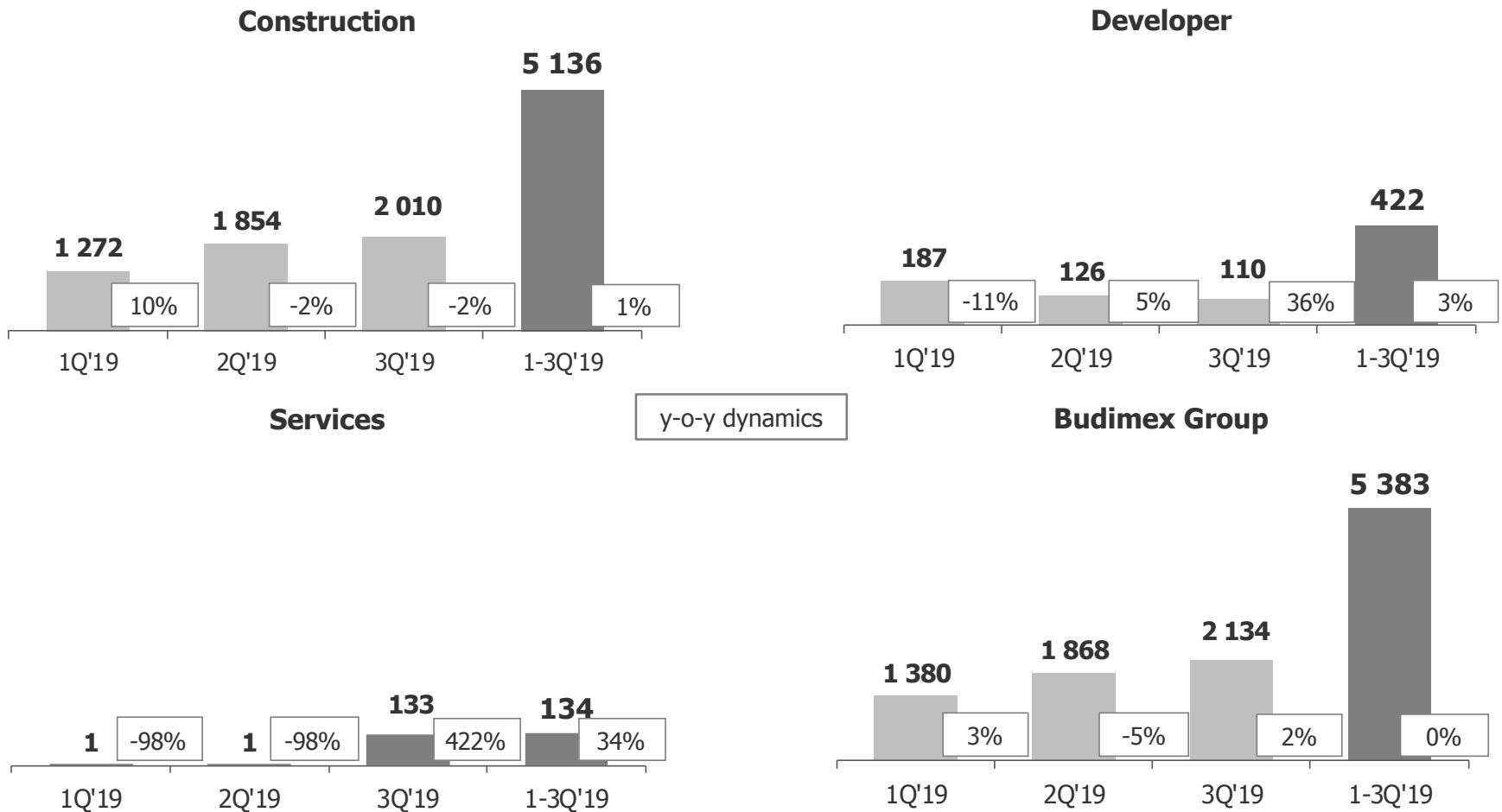
- Similar level of sales in 1-3Q'19 vs. 1-3Q'18 (-0,1%)
- Group's margin still under pressure

| | 1-3Q'19 | 1-3Q'18 | Δ | | FY'18 | FY'17 |
|-----------------------|--------------|--------------|------------|---|-------|-------|
| Sales | 5 383 | 5 390 | -7 | ↓ | 7 387 | 6 369 |
| <i>y-o-y dynamics</i> | -0,1% | 18,4% | -18,5 pp. | ↓ | 16,0% | 14,3% |
| Gross margin | 354 | 446 | -92 | ↓ | 629 | 810 |
| <i>% sales</i> | 6,6% | 8,3% | -1,7 pp. | ↓ | 8,5% | 12,7% |
| SG&A | -150 | -187 | 37 | | -260 | -251 |
| <i>% sales</i> | 2,8% | 3,5% | -0,7 pp. | | -3,5% | -3,9% |
| Other operating | 20 | 53 | -33 | | 48 | 29 |
| EBIT | 224 | 312 | -88 | ↓ | 417 | 588 |
| <i>% sales</i> | 4,2% | 5,8% | -1,6 pp. | ↓ | 5,6% | 9,2% |
| PBT | 213 | 304 | -91 | ↓ | 403 | 580 |
| <i>% sales</i> | 4,0% | 5,6% | -1,7 pp. | ↓ | 5,5% | 9,1% |
| Net profit | 137 | 231 | -94 | ↓ | 305 | 464 |
| <i>% sales</i> | 2,5% | 4,3% | -1,7 pp. | ↓ | 4,1% | 7,3% |

Comment

- Comparable sales in construction in 3Q'19 vs. 3Q'18
- In 3Q'19 Budimex began full consolidation of FB Serwis Group results (services segment)

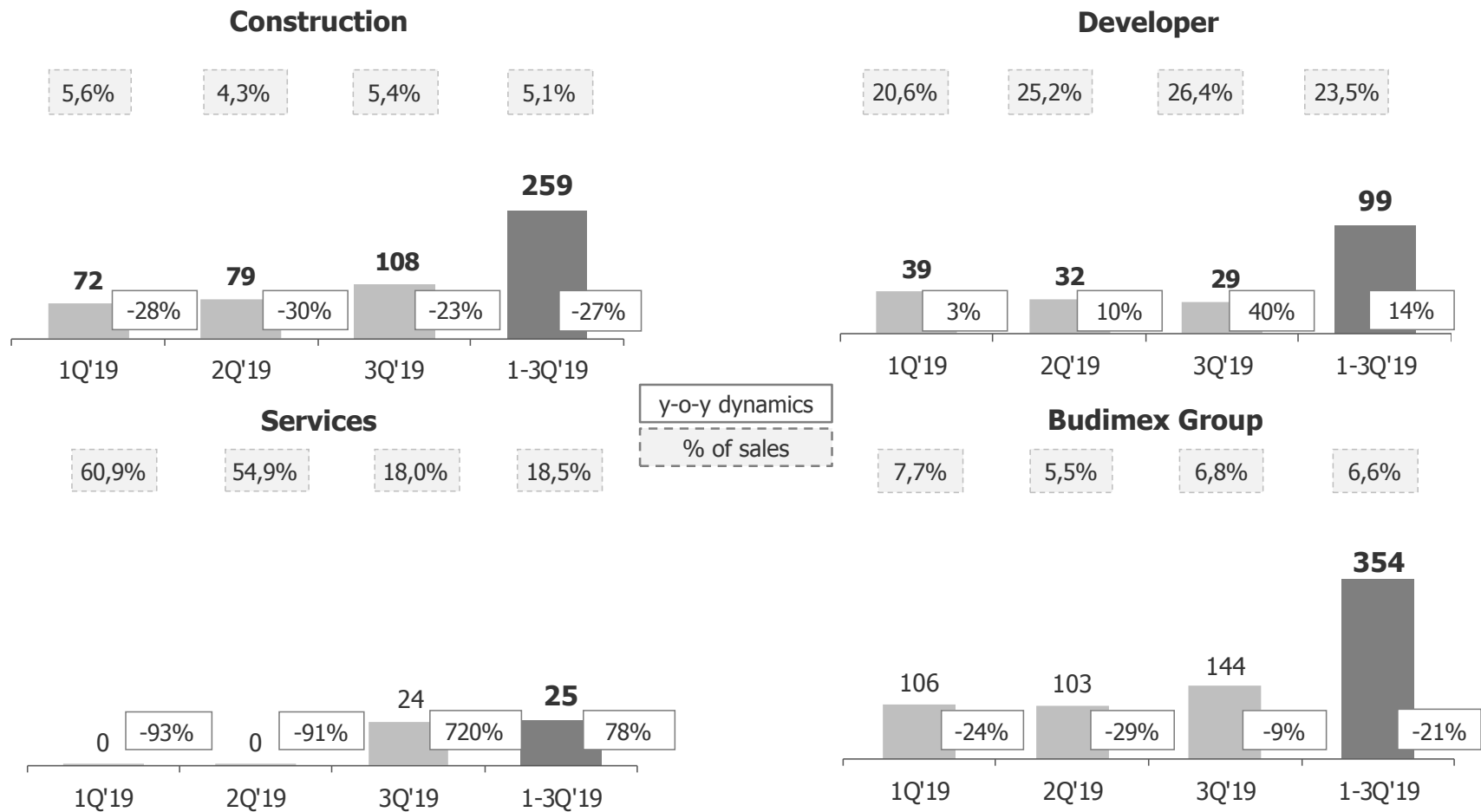
Quarterly sales in Budimex Group (M PLN)



Comment

- Profitability on gross margin in construction level improved in 3Q vs. 2Q
- Decent profitability in developer segment maintained in 3Q

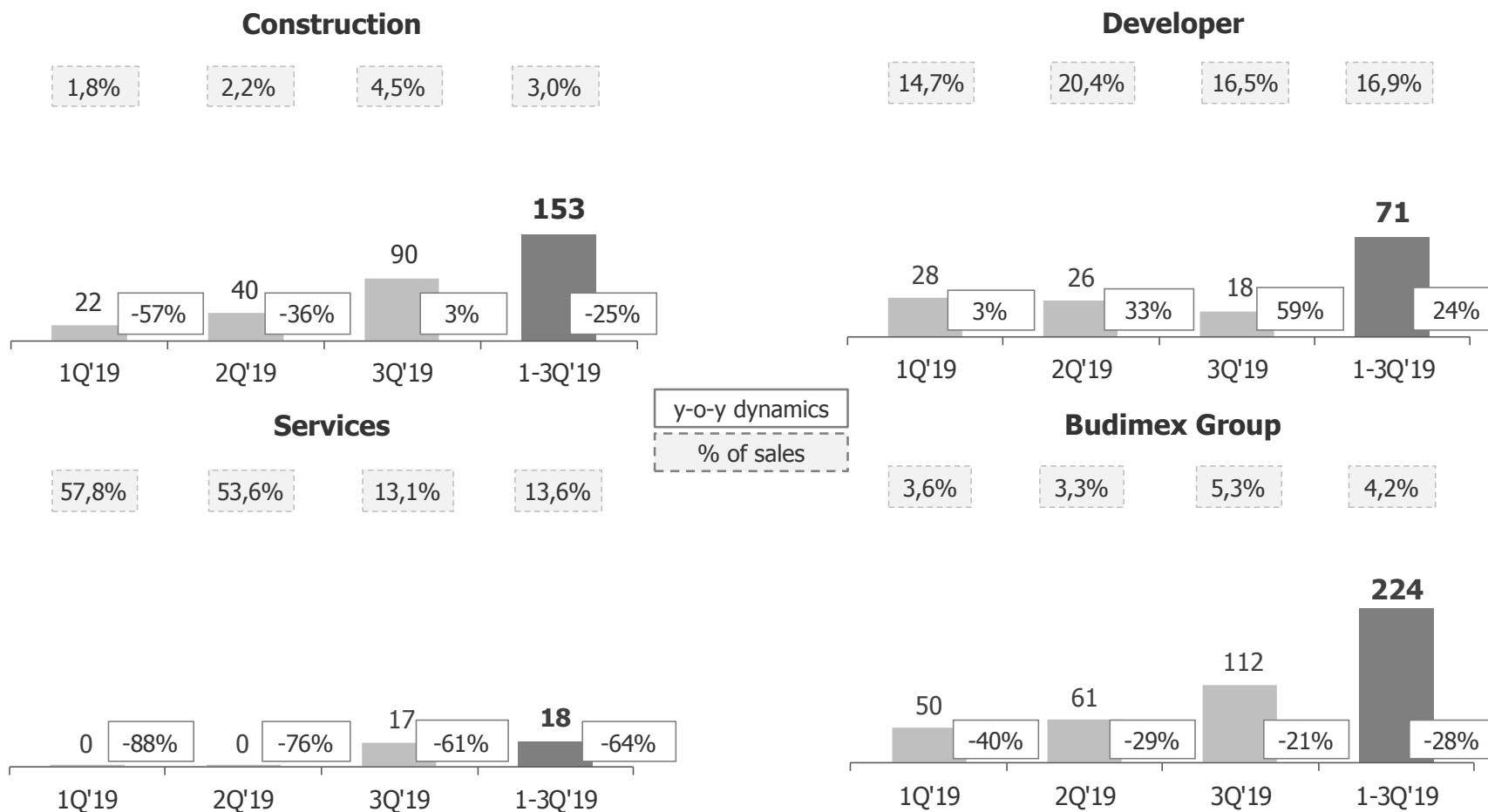
Quarterly gross margin in Budimex Group (M PLN)



Comment

- 35 M PLN effect of the adjustment of the historical cost of the license fee in construction segment on overheads level
- Consolidation of FBSerwis contributes to higher EBIT margin at Group level

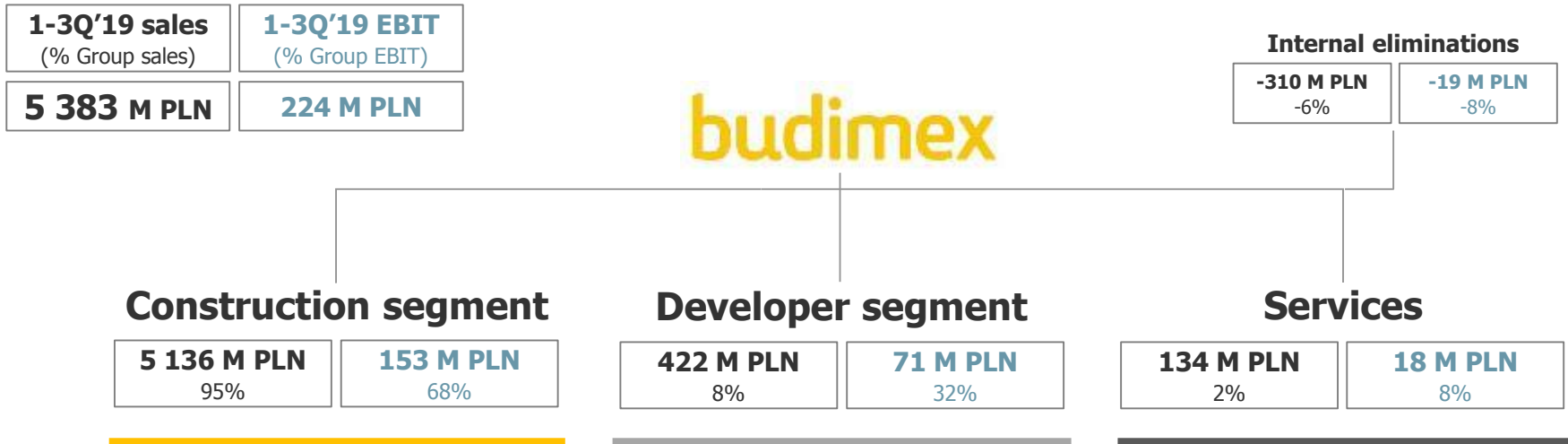
Quarterly EBIT in Budimex Group (M PLN)



2.2 P&L - results by segment

Comment

- At the begin of 07'19 Budimex finalized transaction and became the sole owner of FBSerwis (price for equity = 98,5 M PLN)
- „Other activity” segment renamed to „Services”



budimex

budimex
nieruchomości

fbserwis

Share as at 09'19: **100%**
(increased to 100% at the begin of 07'19)

mostostal
kraków

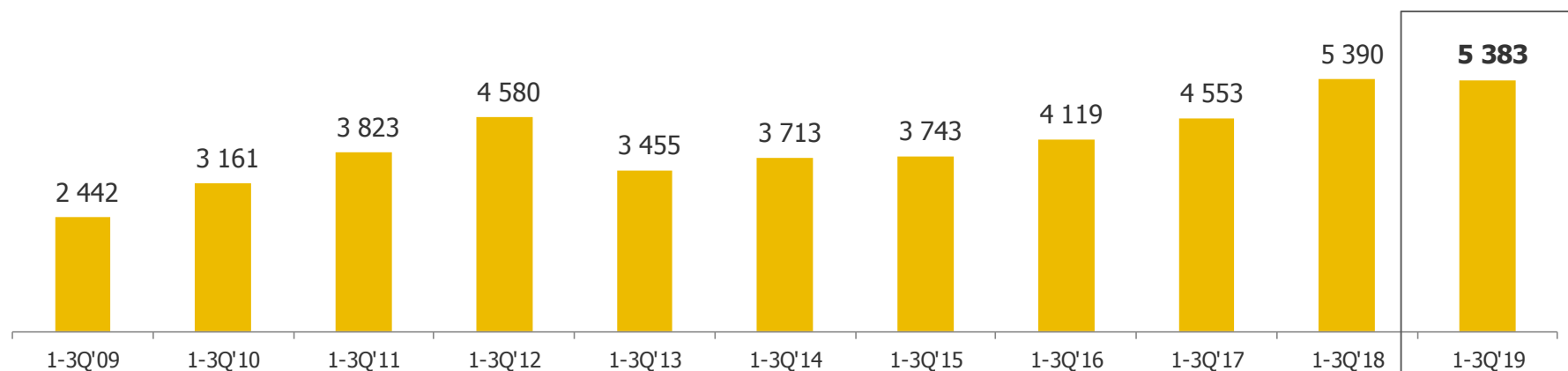
budimex
Parking Wrocław

Share as at 09'19: **51%**

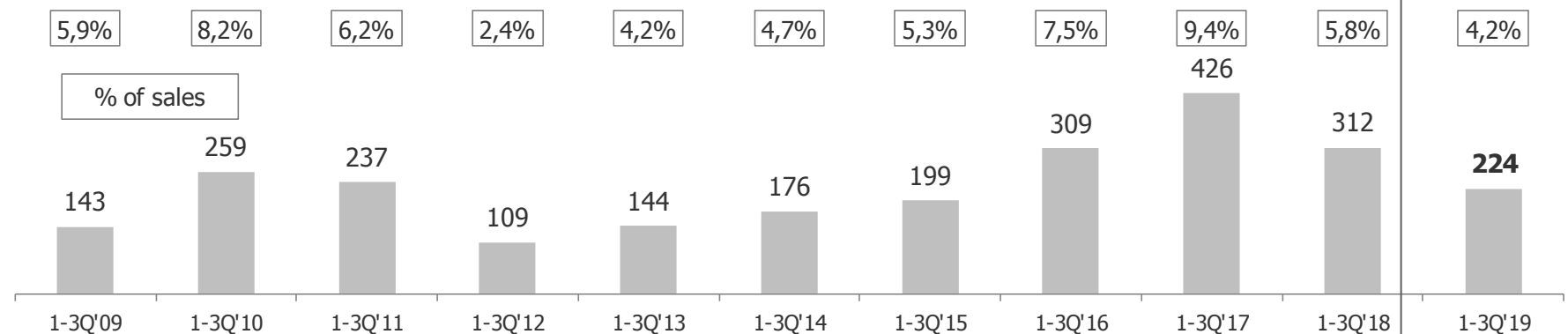
Comment

- *No significant y-o-y change of sales*
- *Due to unfavorable market environment in construction sector, EBIT margin felt in 1-3Q'19 to 4,2%*

Sales in Budimex Group (M PLN)



EBIT in Budimex Group (M PLN)

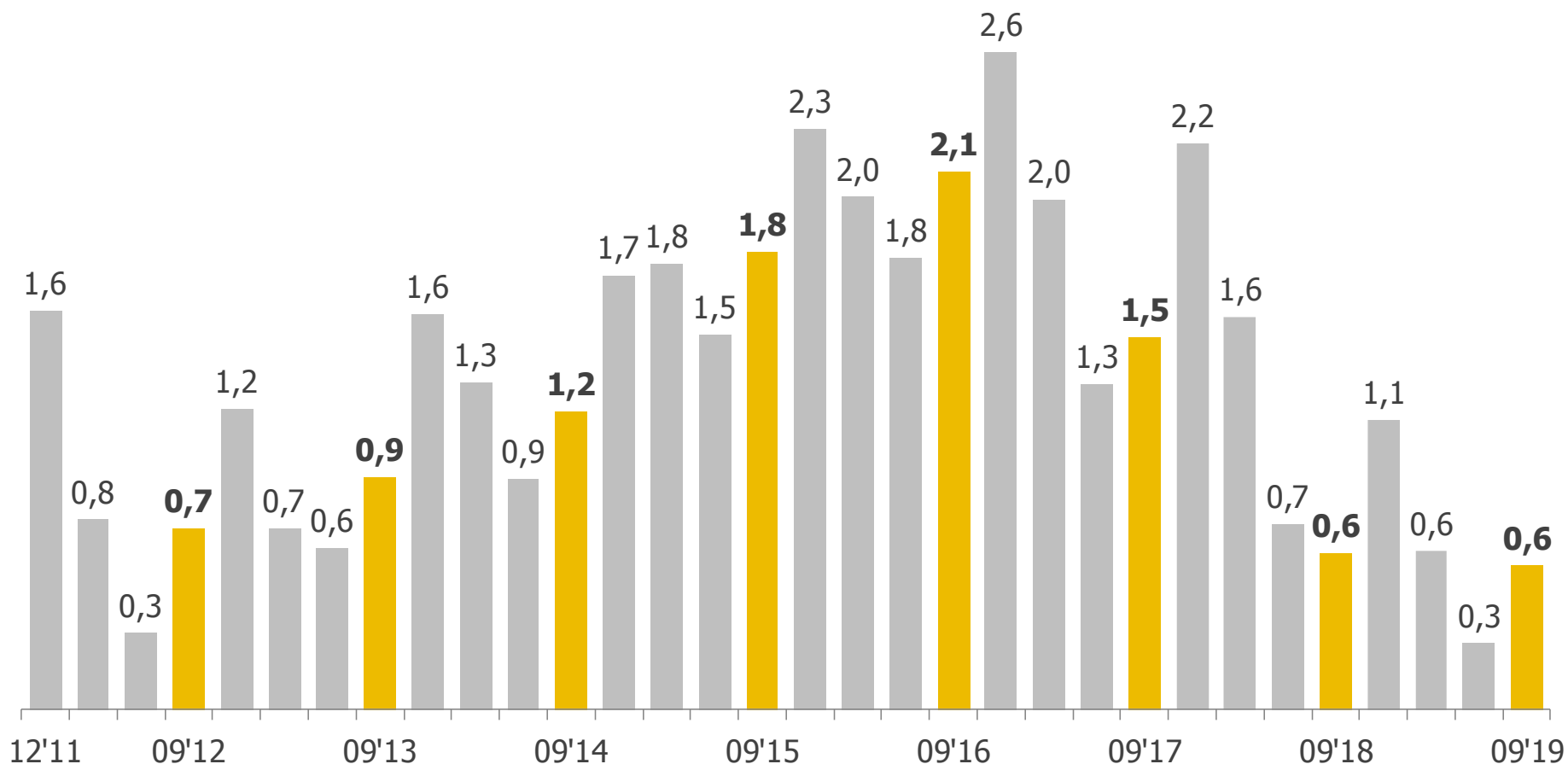


2.3 Evolution of Net Treasury Position

Comment

- *Net cash recovery vs. 06'19*
- *Cash remains under pressure due to delays in approval of construction works and invoicing*

Net Treasury Position in Budimex Group (bn PLN)

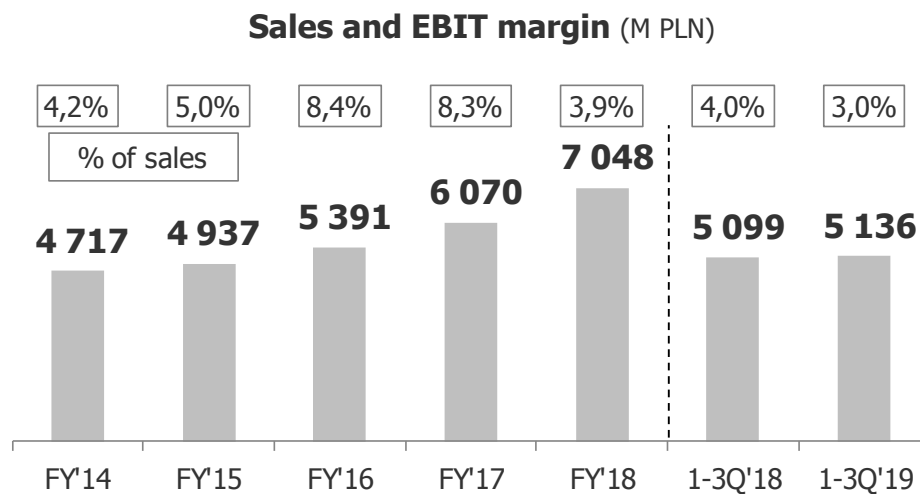


2.4.1 Construction segment

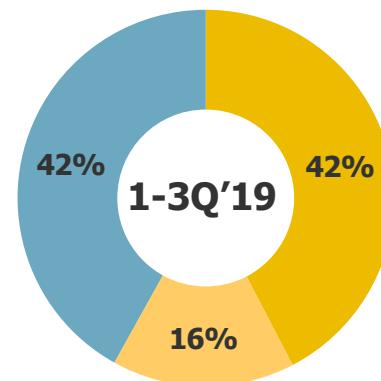
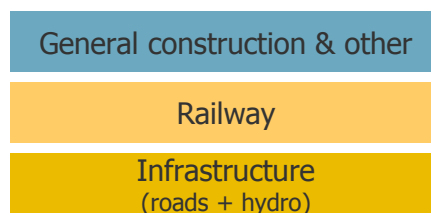
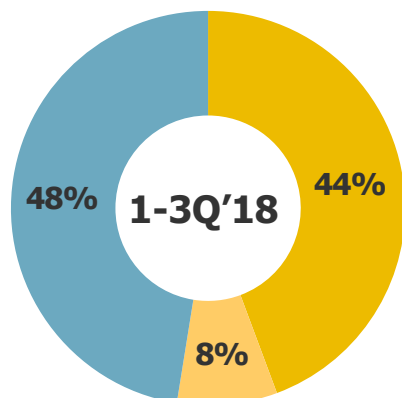
Comment

- 35 M PLN effect of the adjustment of the historical cost of the license fee on EBIT level (details: current report No. 63/2019)
- Significant contribution of railway segment to 1-3Q'19 sales

| | 1-3Q'19 | y-o-y dynamics |
|-------------------------|--------------|----------------|
| Sales | 5 136 | 1% |
| Gross margin | 259 | -27% |
| % sales | 5,1% | -1,9 pp. |
| Operating profit | 153 | -25% |
| % sales | 3,0% | -1,0 pp. |
| Net profit | 78 | -47% |
| % sales | 1,5% | -1,3 pp. |



Sales structure

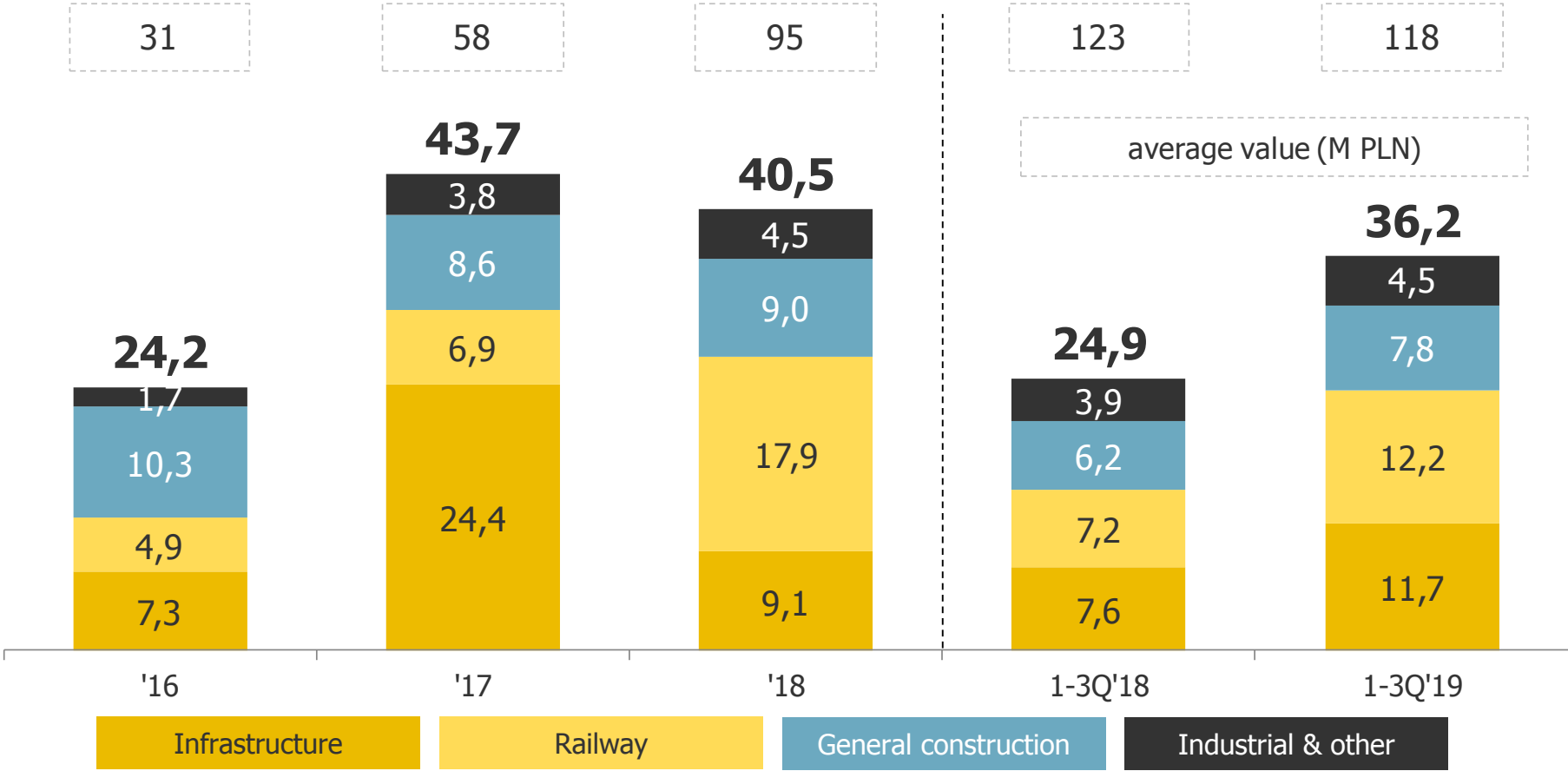


2.4.1 Construction segment

Comment

- +45% increase of value of offers placed in 1-3Q'19 vs. 1-3Q'18 due to increased activity in all segments
- Few high-value offers placed in railway

Offers placed in Budimex Group (bn PLN)

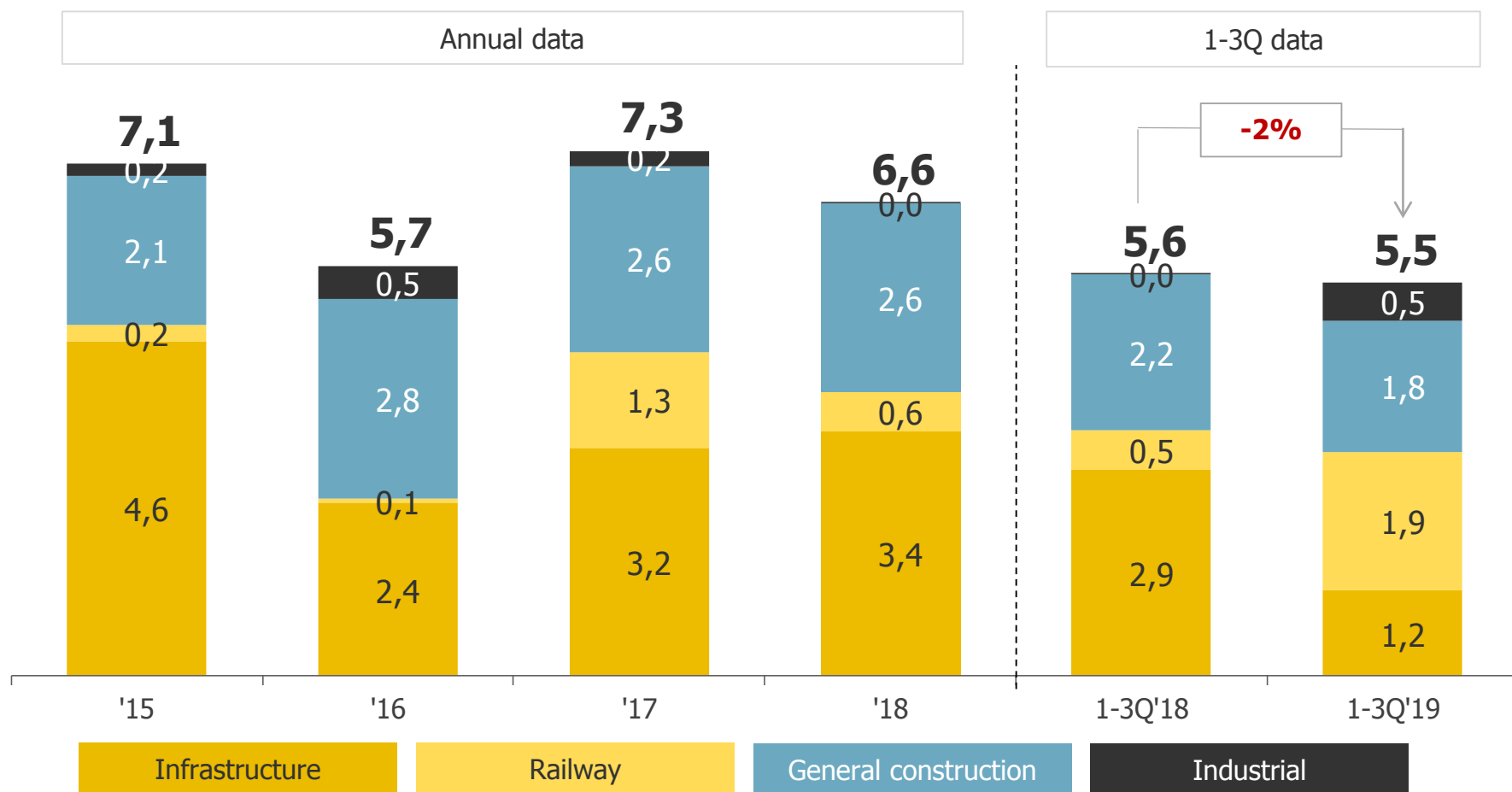


2.4.1 Construction segment

Comment

- Prudent bidding on GDDKiA market had an impact on contracts signed in infrastructure
- High y-o-y increase of contracts signed in railway due to two big projects acquired (No. 7: Deblin – Naleczow and railway contract in Gdynia seaport)

Contracts signed in Budimex Group (bn PLN)

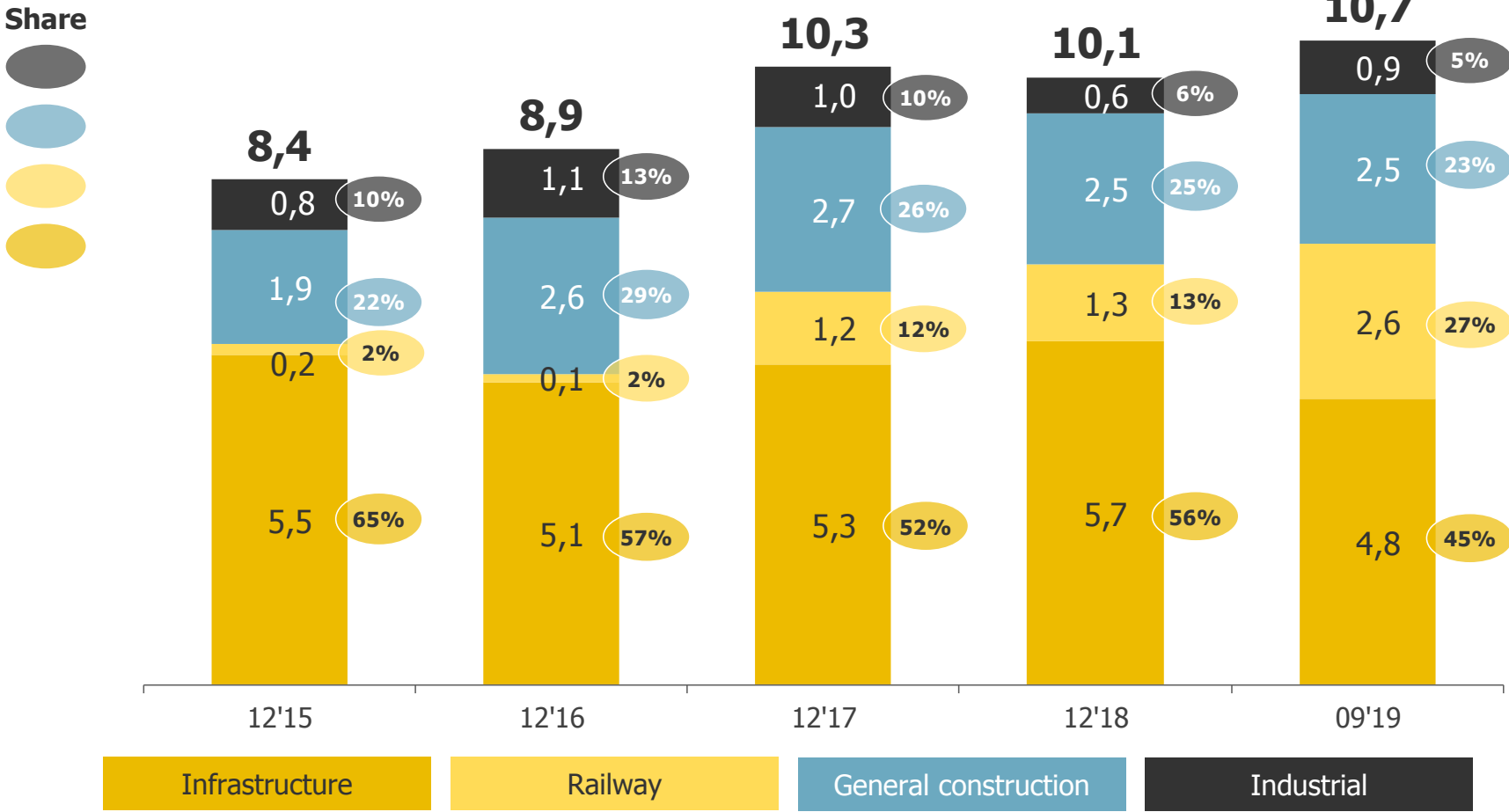


2.4.1 Construction segment

Comment

- At the end of 3Q'19 Budimex had a backlog of 10,7 bn PLN
- Share of railway projects in backlog is higher than general construction

Backlog in Budimex Group (bn PLN)

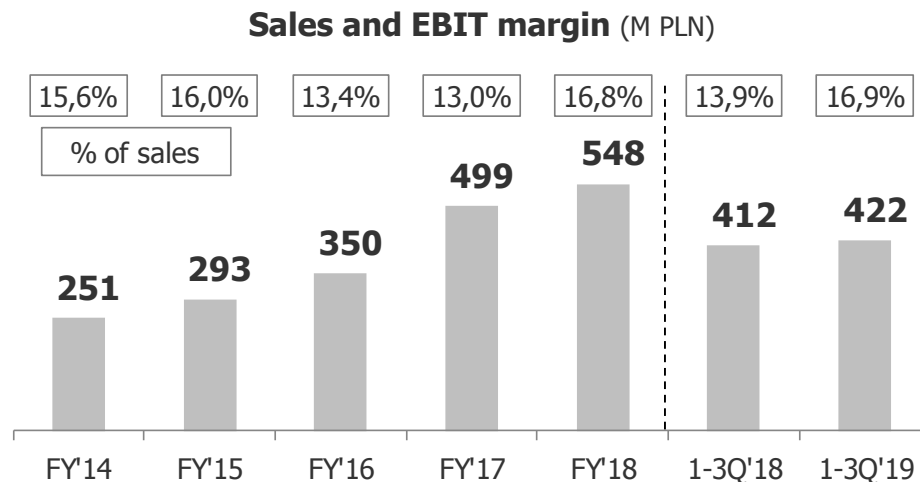


2.4.2 Developer segment

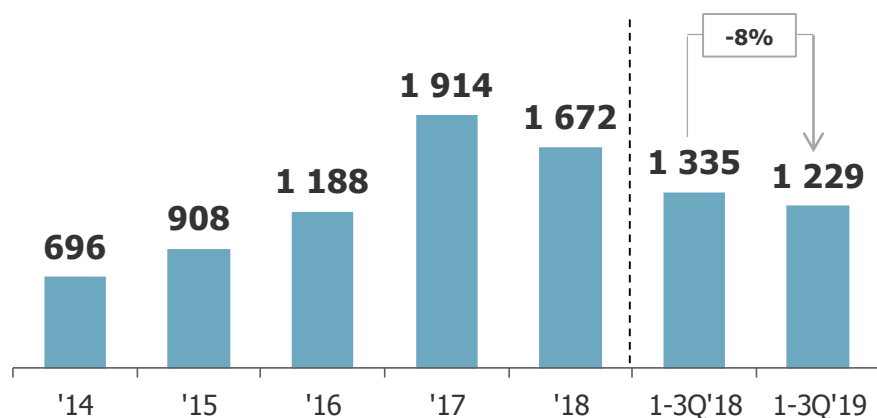
Comment

- High level of notary sales in 1-3Q'19 (1 229 flats)
- Much higher presales reached in 1-3Q'19 (1 286 flats) vs. 1-3Q'18
- Developer segment generated decent gross margin at 23,5% level

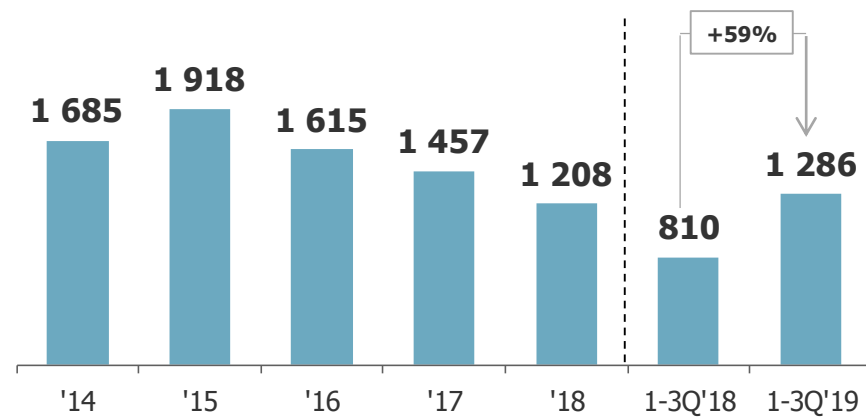
| | 1-3Q'19 | y-o-y dynamics |
|-------------------------|------------|----------------|
| Sales | 422 | 3% |
| Gross margin | 99 | 14% |
| % sales | 23,5% | 2,4 pp. |
| Operating profit | 71 | 24% |
| % sales | 16,9% | 2,9 pp. |
| Net profit | 59 | 24% |
| % sales | 14,0% | 2,4 pp. |



Notary sales (flats)



Presales (flats)

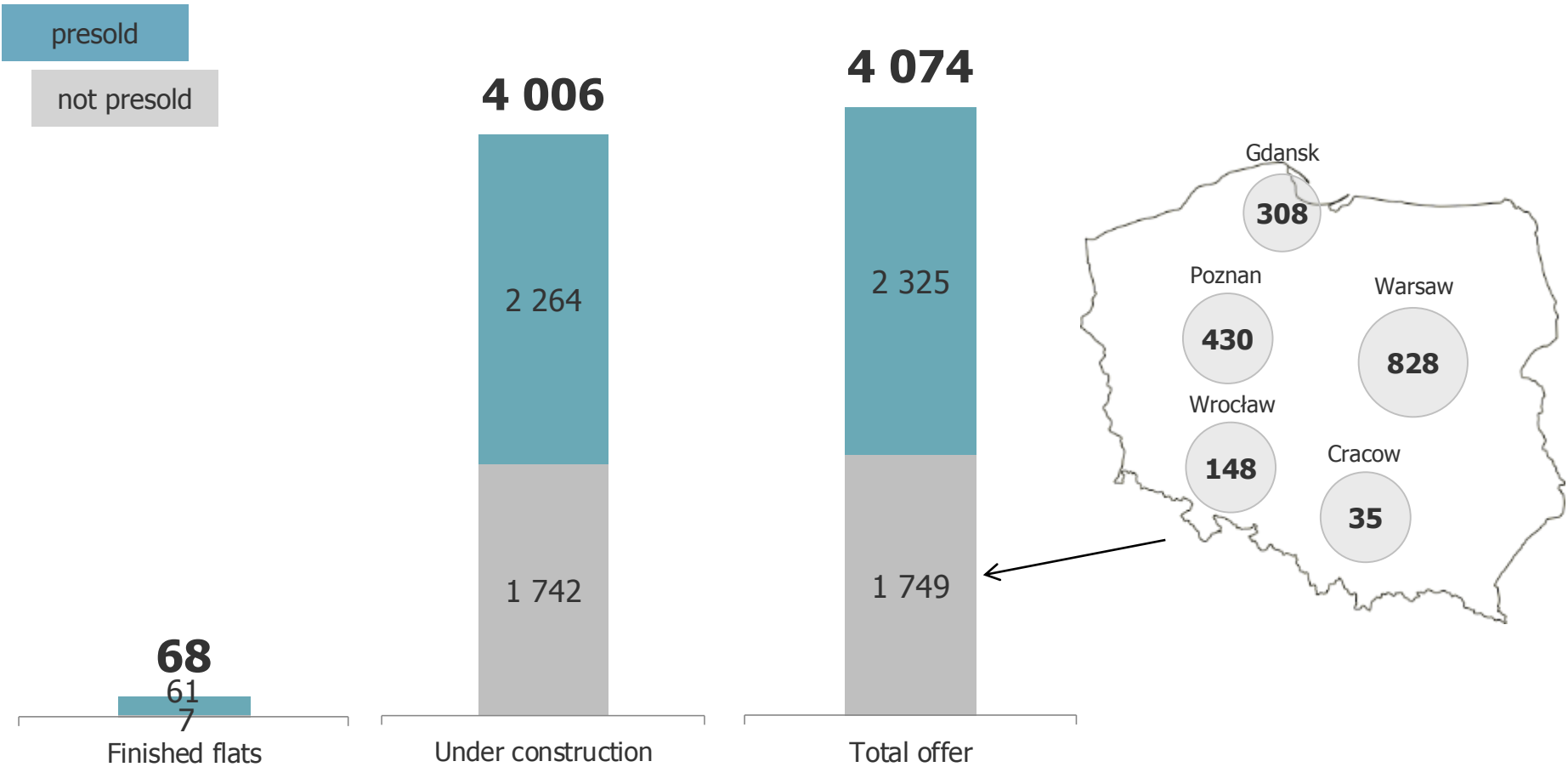


2.4.2 Developer segment

Comment

- Market offer noted serious increase vs. 12'18 due to few projects launched in Warsaw, Tricity, Poznan & Wrocław
- In 09'19 land bank amounted to 9 571 flats

Market offer as at 09'19 (flats)



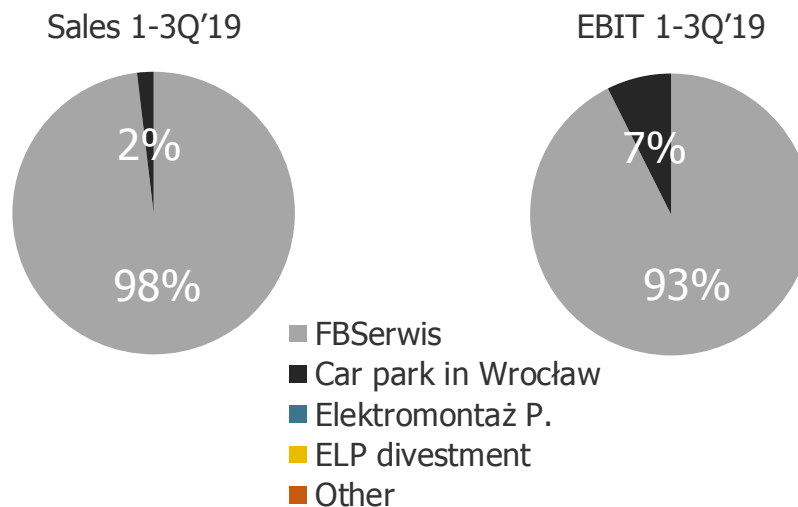
2.4.3 Services

Comment

- Services results in 1-3Q'18 encompassed Elektromontaz Poznan and BIG that were disposed in 3Q'18 (+44 M PLN impact in 3Q'18)
- 1-3Q'19 results were generated by two companies: FBSerwis and Budimex Parking Wroclaw
- Since 07'19 Budimex began full consolidation of FBSerwis Group's results

| | 1-3Q'19 | y-o-y dynamics |
|-------------------------|------------|----------------|
| Sales | 134 | 34% |
| Gross margin | 25 | 78% |
| % sales | 18,5% | 4,6 pp. |
| Operating profit | 18 | -64% |
| % sales | 13,6% | -36,4 pp. |
| Net profit | 15 | -57% |
| % sales | 11,6% | -24,3 pp. |

Sales & EBIT structure



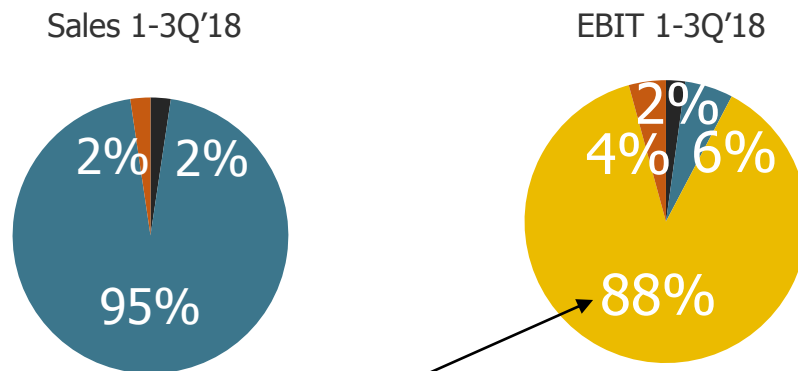
Group's services segment composition



- environmental services, infrastructure maintenance, facility management, energy efficiency services
- 100% share (as at 30.09.2019)
- full consolidation since 07'19



- construction & administration of underground car park in Wrocław (concession)
- 51% share
- full consolidation



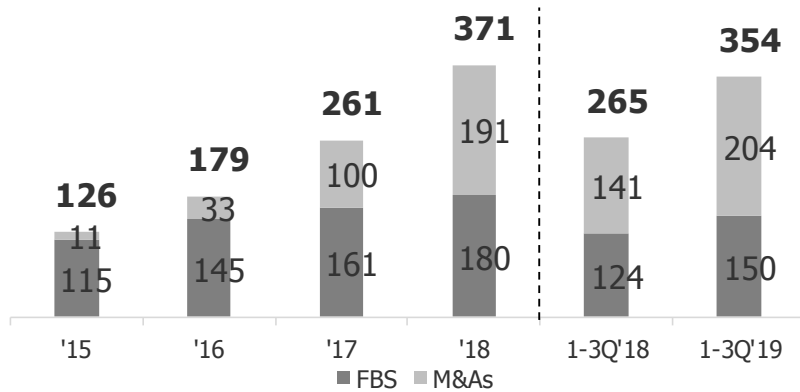
Sell of Elektromontaz P. in 3Q'18 (+44 M PLN effect)

2.4.3 FBSerwis – key financial data

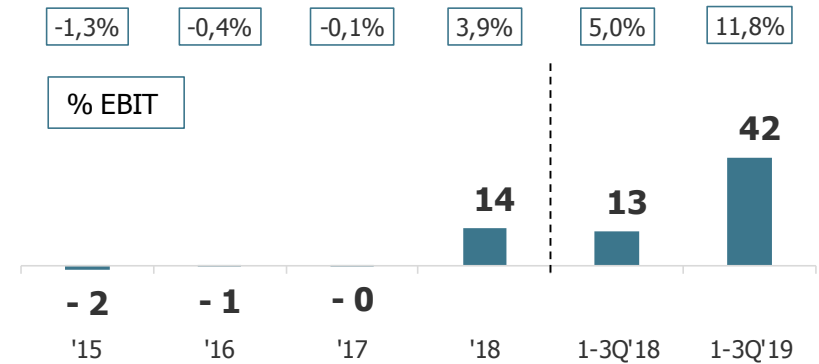
Comment

- **Sales structure in 1-3Q'19:** Waste Management – 65%, Infrastructure Maintenance – 26%, Facility Management & Street Lightening – 8%
- M&A transactions in Waste Management helped to increase FBSerwis Group profitability
- Intangible depreciation has a significant share in total depreciation (financial asset from PPA of M&As)

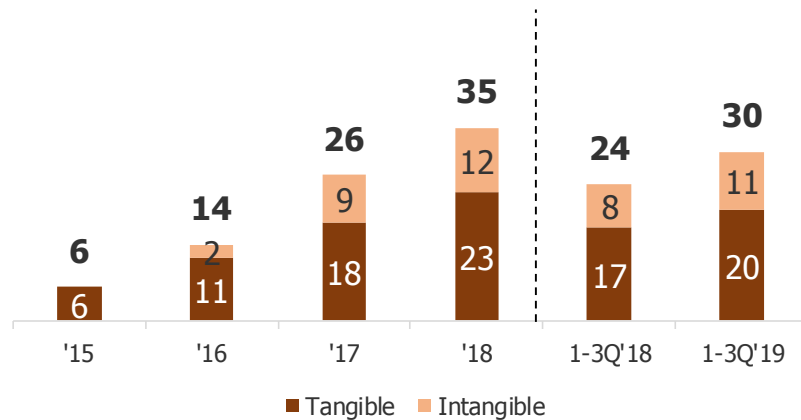
Sales (M PLN)



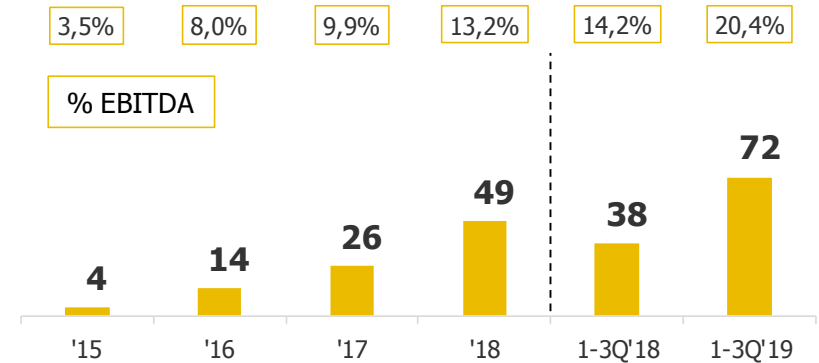
EBIT (M PLN)



Depreciation (M PLN)



EBITDA (M PLN)



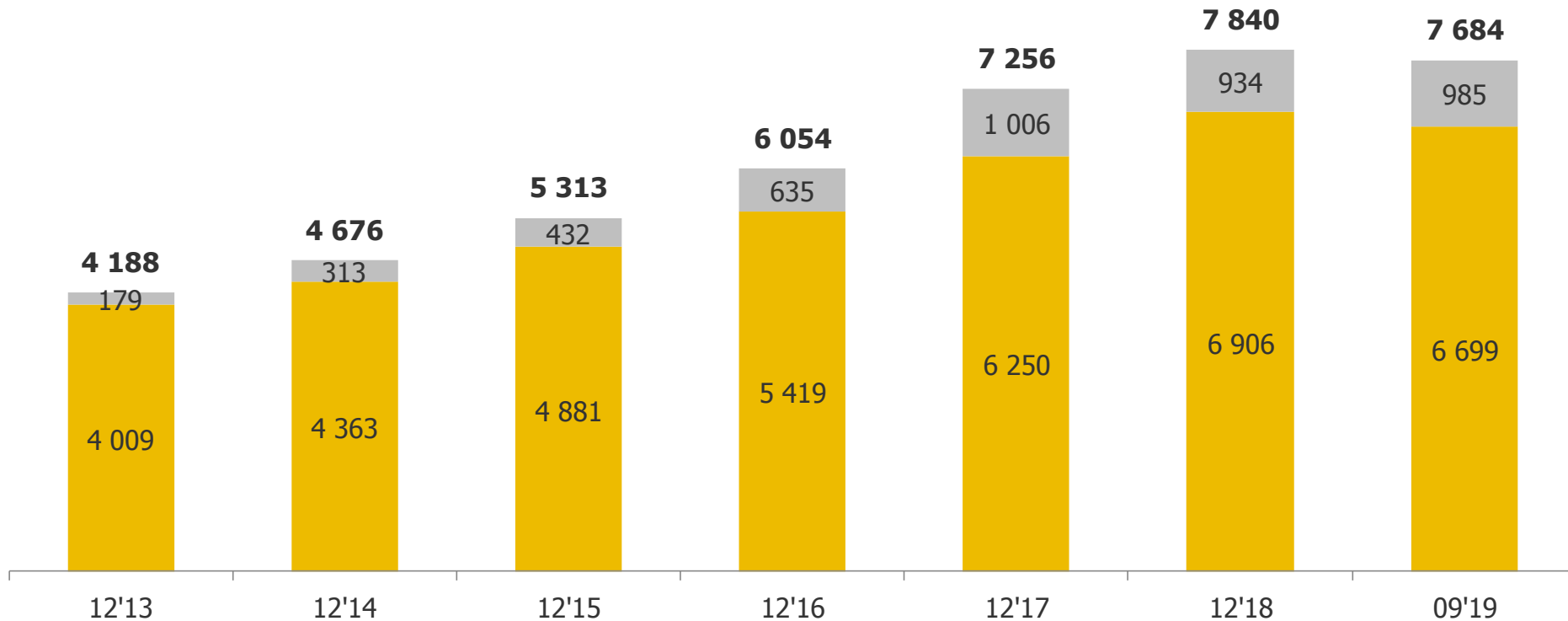
2.5 Employment

Comment

- *The level of employment felt slightly vs. 12'18*
- *Taking control over FB Serwis Group increased employment of Budimex Group by ca. 1 000 people*

Employment in Budimex Group*

■ Bx Group w/o FBS ■ FBS



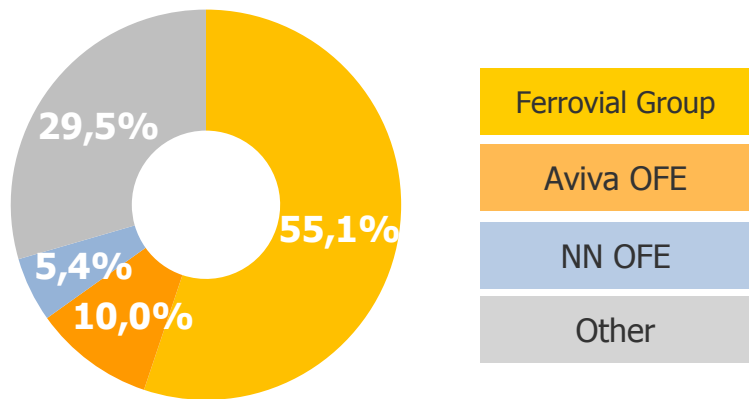
* w/o Elektromontaz Poznan

3. Budimex S.A. on WSE

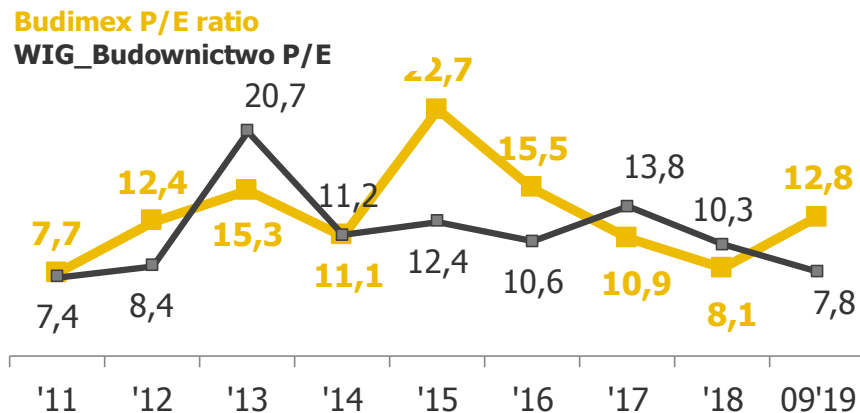
Comment

- In 1-3Q'19 Budimex market capitalization faced 10% increase vs year-end
- Total pension funds' share in BDX amounts to 30-35%

Shareholders structure (12'18)

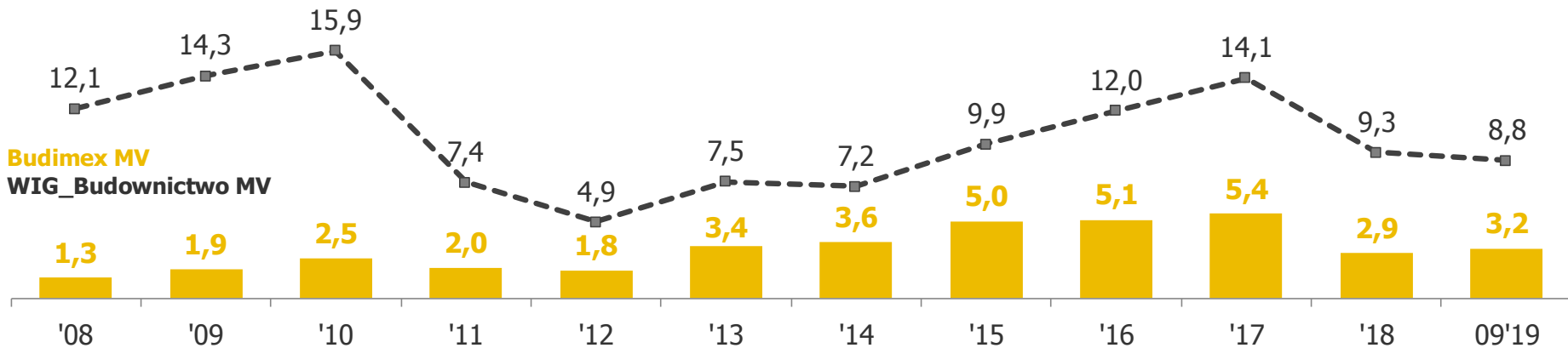


P/E ratio



Source: stooq.pl

Budimex market value vs. WIG-Budownictwo aggregated market value (bn PLN)

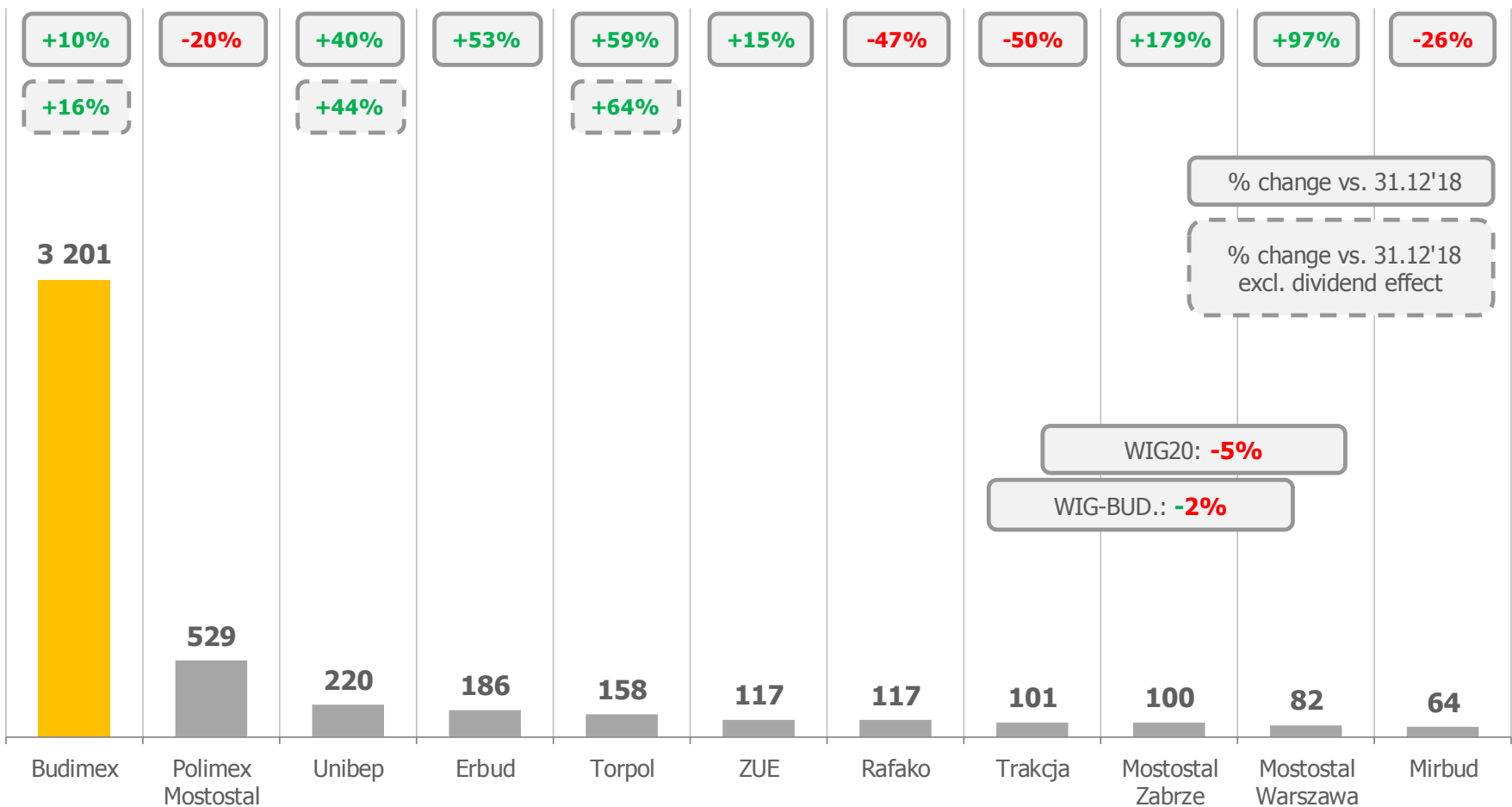


3. Budimex S.A. on WSE

Comment

- After declines in share prices from '18, in 1-3Q'19 market value of some construction companies, including Budimex S.A., faced a rebound

Market value as at 09'19 (M PLN)



3. Budimex S.A. on WSE

Comment

- As a result of decreasing margin in construction sector and planned investment outlays, in 04'19 Management Board recommended a dividend payment of 50% of FY'18 net profit
- In 05'19 shareholders accepted Board's recommendation

Dividends paid (M PLN)

