Veidekke
Market update

March 2021

Kristoffer Eide Hoen and Anders Wettre



A market of opportunities

Veidekke market update March 2021

Focus topics:

- Residential market
- Care facilities
- Rehabilitation
- Transport infrastructure & internationalisation

Veidekke market report

March 2021

08:30 – 09:00

Submit your questions until 10:00 to epost@veidekke.no

Presentation by:

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Brief introduction to key terms/contexts

- **Building starts**: the order intake of the companies
- **Production**: the revenues of the companies

- The distinction is made because production can go on for several years after a project has been started.
- Production is a direct algorithm/consequence of building starts which varies from building type to building type.
- Projects to be produced in 2021 have largely been registered or booked as started by year-end 2020.

Market forecasts and Covid-19

- At the time of publication, parts of Scandinavia are more exposed to new infections and lockdowns than previously during the course of the pandemic. The scale of the next wave and its consequences underline the unpredictability of the situation and the uncertainty of future developments.
- In our forecasts, we have assumed that vaccination programmes will reduce the scale of infection and need for infection control measures significantly as of the autumn of 2021, and that society and economic activity will start returning to normal thereafter.
- Our forecasts reflect that the markets have handled the uncertainty well thus far and that construction-sector demand has been high and stable throughout a challenging 2020. We therefore expect the market to remain reasonably robust even if infection-related challenges continue for longer than envisaged in our primary scenario.
- Strong contracting markets are largely attributable to implementation of comprehensive financial stimulus programmes both internationally and in the Scandinavian countries. We expect these programmes to continue if necessary.

01

Market overview

The contracting markets
Market developments

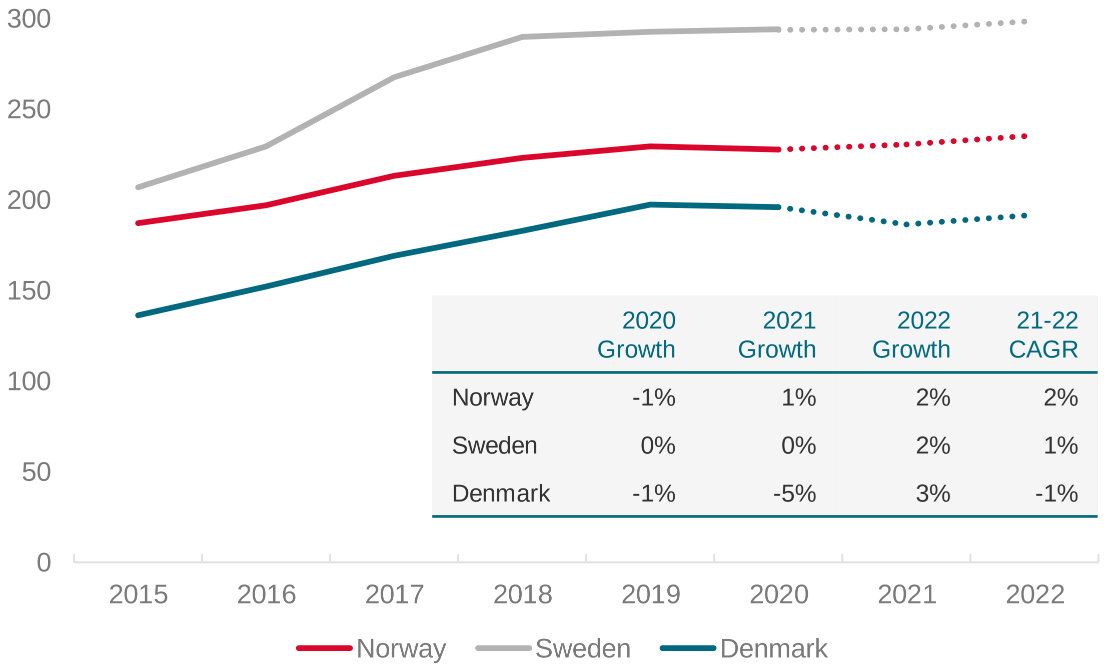
Highlights

- Market growth:
  - Growth prospects for 2021 have been increased since the previous report
  - In Norway, we expect 1% growth in 2021 (-4%)
  - In Sweden, we expect 0% in 2021 (-10%)
  - In Denmark, we expect -5% i 2021 (-3%)
  - In 2022, we expect moderate but positive growth in all three countries

September 2020 forecast in brackets

Construction-sector production by country

NOK billion



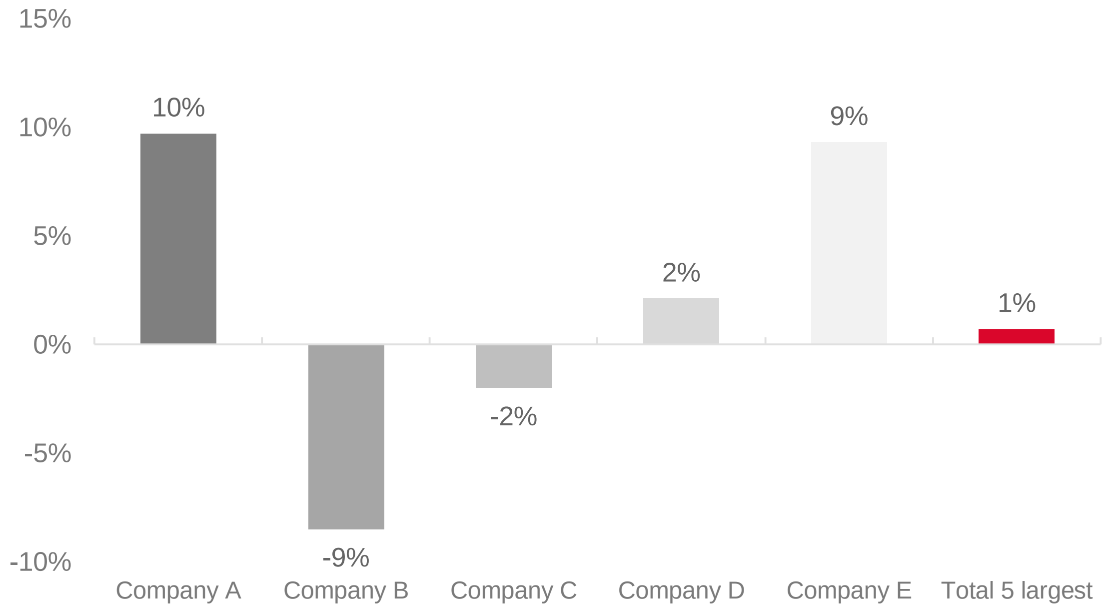
	2020 Growth	2021 Growth	2022 Growth	21-22 CAGR
Norway	-1%	1%	2%	2%
Sweden	0%	0%	2%	1%
Denmark	-1%	-5%	3%	-1%

Sources: Veidekke's market data, Statistics Norway, Statistics Sweden and Statistics Denmark

How certain can we be of continued high activity?
A large proportion of production in 2021 is known

Order book, 5 largest Scandinavian construction companies*

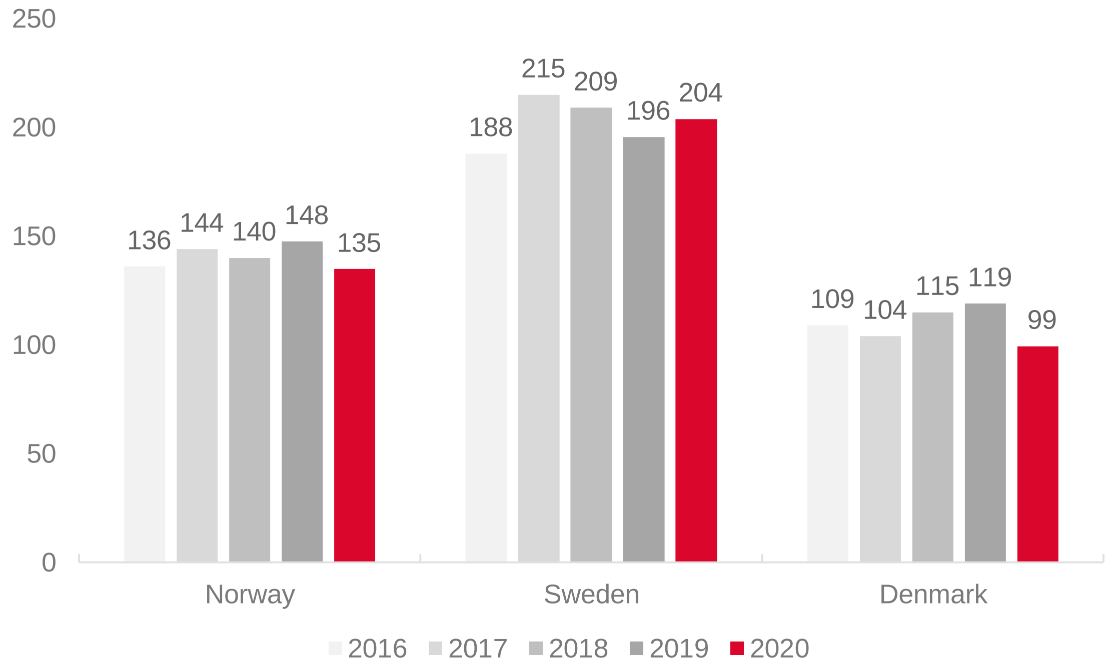
Growth in Nordic/Scandinavian construction sector Q4 2019 to Q4 2020



*5 largest construction companies (in random order): NCC, Skanska, Veidekke, AF-Gruppen and Peab – selected construction segments in the Nordic region/Scandinavia

Value of building starts, 2020 v. earlier years

NOK billion



Sources: Veidekke, NCC, Skanska, AF Gruppen, PEAB, Veidekke's market data, Statistics Norway, Statistics Sweden and Statistics Denmark

Several trends are creating opportunities:

The interest-rate effect:

New housing boom?

Customers are cutting:

Growth in the refurb market?

Investor uncertainty:

Where is the commercial market headed?

Increasing life expectancy:

More care homes

Strong central government finances:

Transport infrastructure is booming

Uncertainty among municipalities?

Will construction activity slow?

02

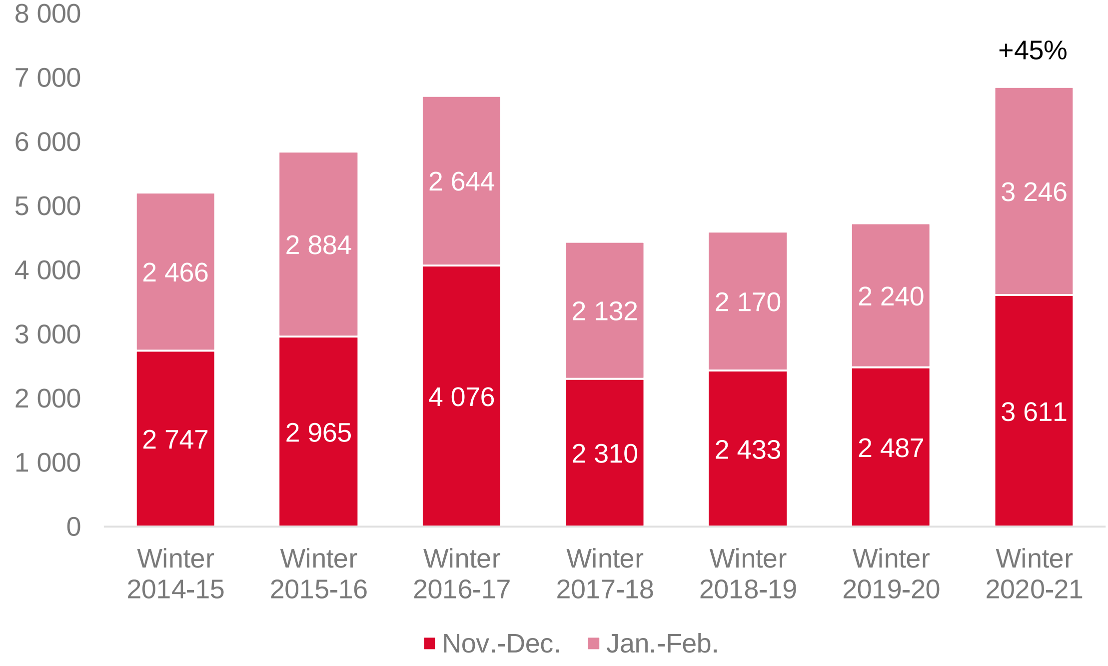
Low interest rates are boosting the residential sector

Strongest sales of new residential units since 2016-17

Figures for Norway from Economics Norway's "Econ Nye boliger" report

Off-plan apartment sales

Last four months (Nov.-Feb.), compared to corresponding period in earlier years



Source: Economics Norway

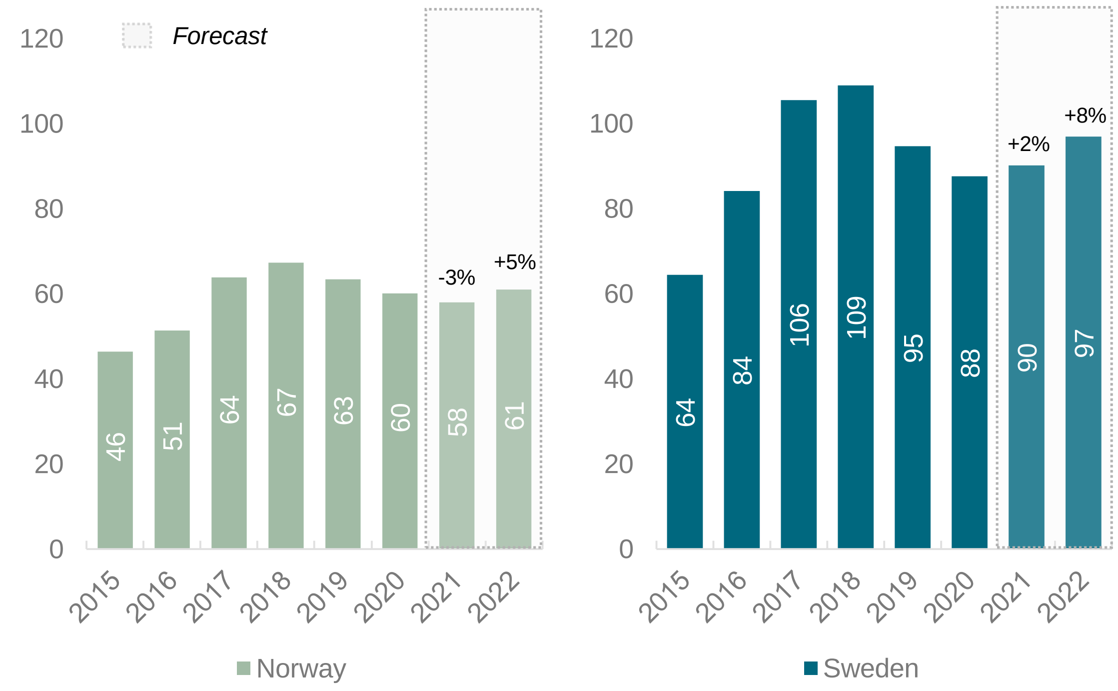
Comments

- Drivers: low interest rates and high household saving
- Record sales of new apartments in the past four months
- Means strong residential construction growth going forward

Production of apartments and small houses

Construction-sector production, apartments and small houses

NOK billion



Comments

- In Norway, production will shrink 3% in 2021, but grow 5% in 2022
- In Sweden, 2% growth is expected in 2021, and 8% growth in 2022
- Moderate forecasts given the current status of residential property prices and sales of new residential units

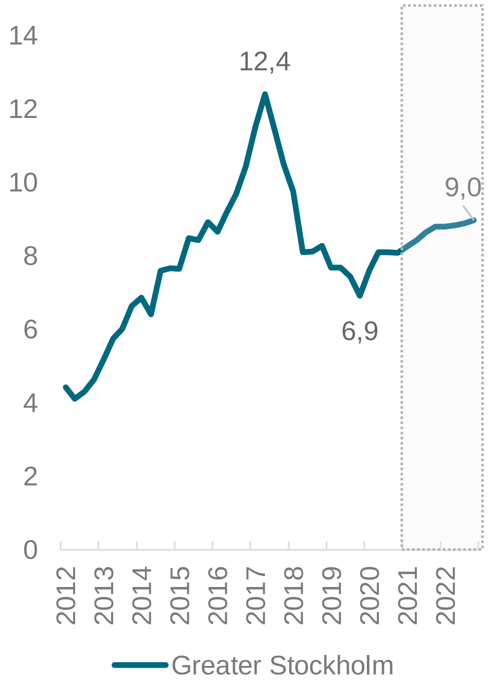
Sources: Veidekke's market data, Statistics Norway and Statistics Sweden

Capital cities have bottomed out

Projects starts for apartments and small houses are on the up

Value of building starts by quarter

NOK billion



Sources: Veidekke’s market data, Statistics Norway and Statistics Sweden

Comments

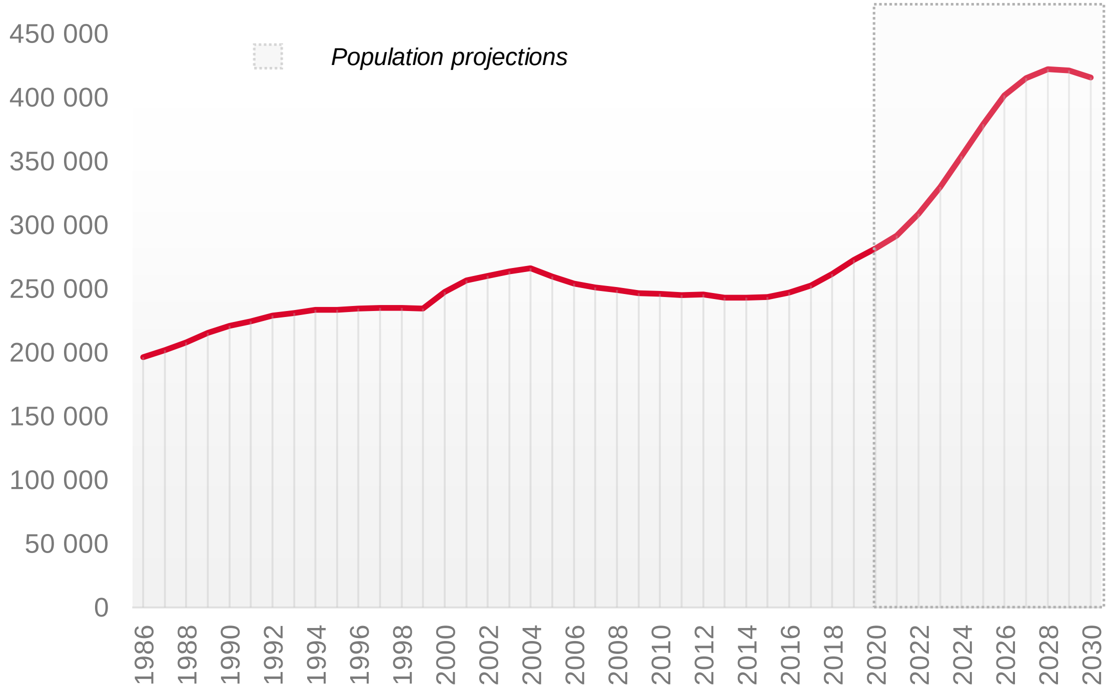
- Steep fall in Stockholm and Oslo following a peak in 2017
- Residential construction has remained stronger in other Swedish and Norwegian regions (e.g. Gothenburg and eastern Norway around Oslo)
- Better prospects going forward?

03

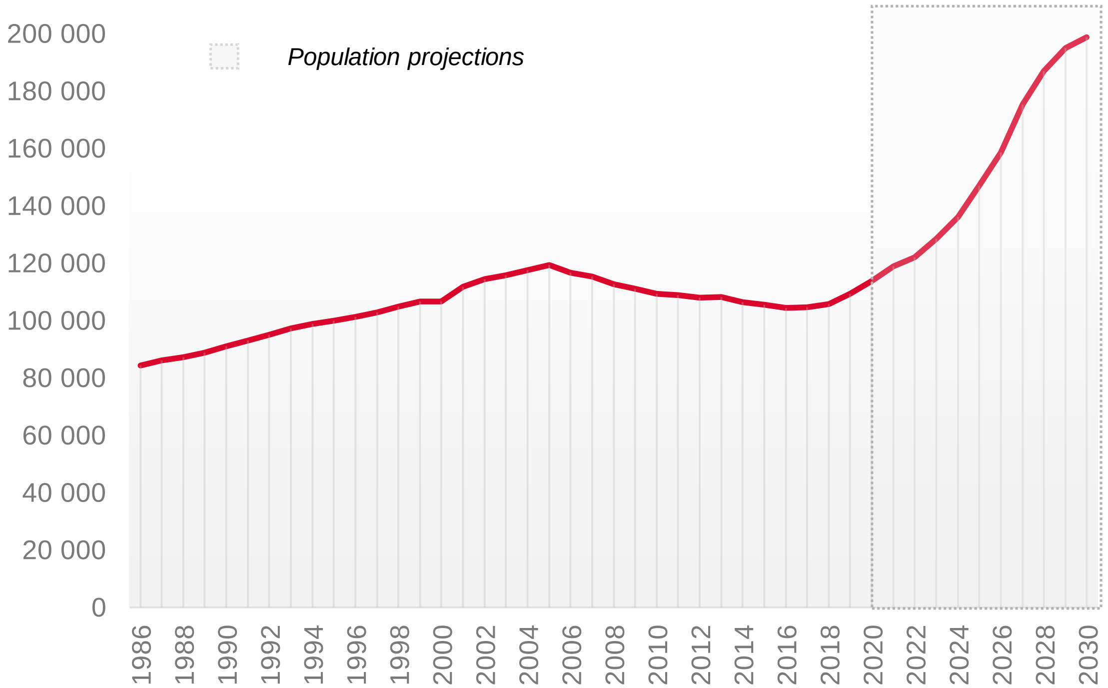
Increasing life expectancy

Twice as many 80 year-olds
Sweden and Norway

Sweden
Number of 80–85 year-olds



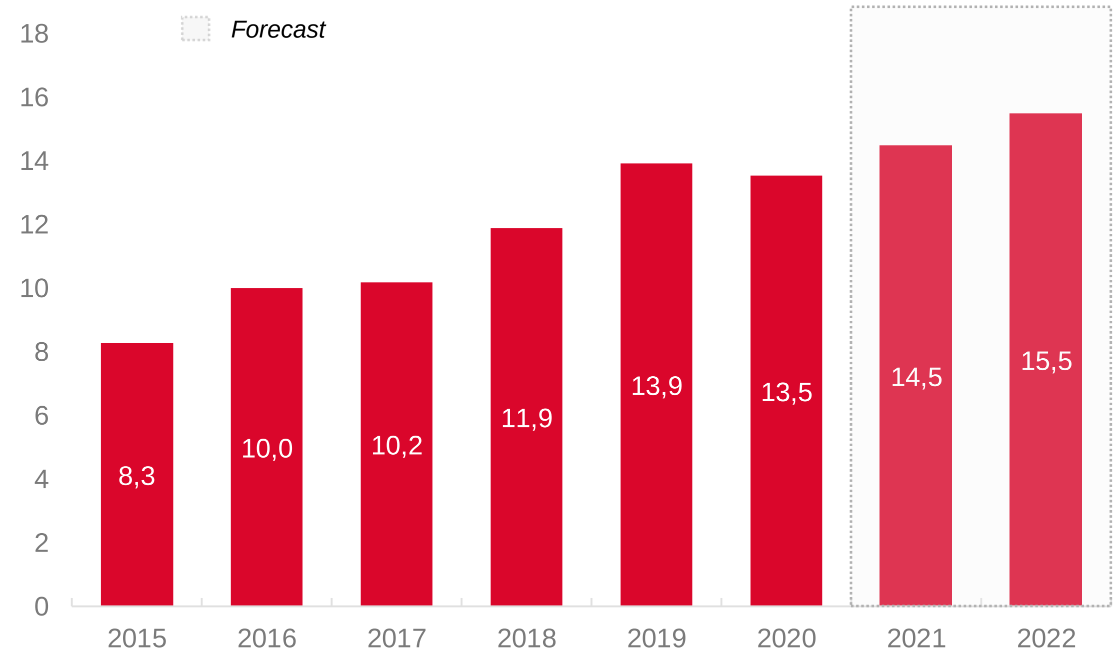
Norway
Number of 80–85 year-olds



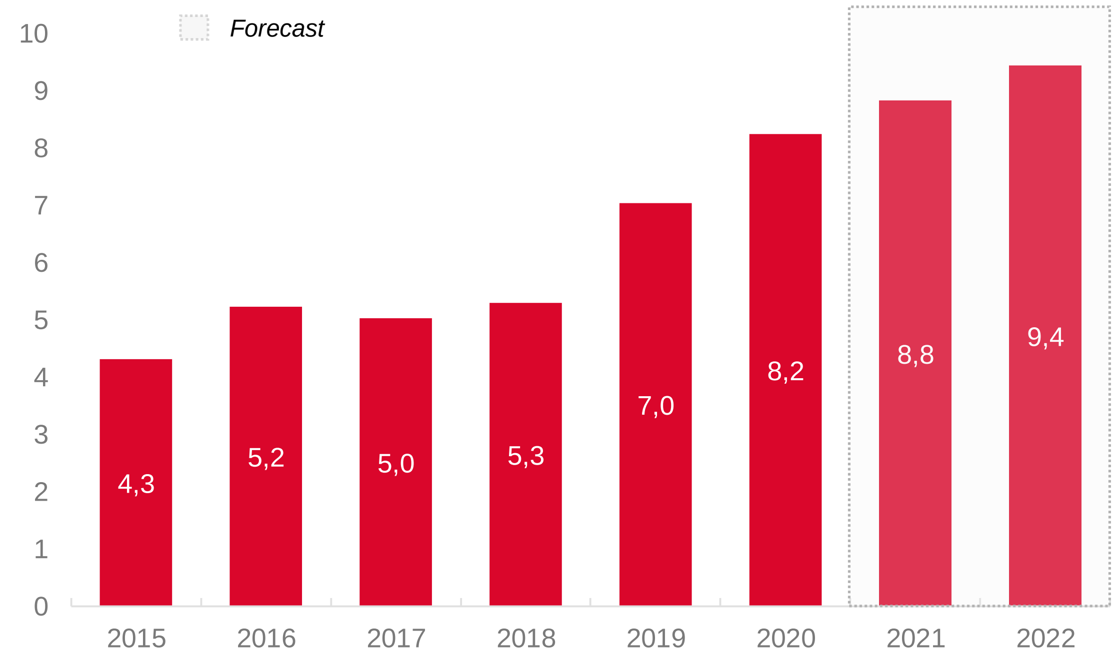
Sources: Statistics Sweden and Statistics Norway

Twice as many care facilities
Sweden and Norway

Sweden, construction-sector production care facilities
NOK billion



Norway, construction-sector production care facilities
NOK billion



Sources: Veidekke's market data, Statistics Sweden and Statistics Norway

04

Climate – the challenge of our time, but also an opportunity?

Quotes:

"Of course price is important, but not as important as it used to be. The lowest price no longer necessarily wins."

"More has happened in society in the past 12 months than in the previous 12 years."

"Accept your role! Tools and methods that help us make good decisions."

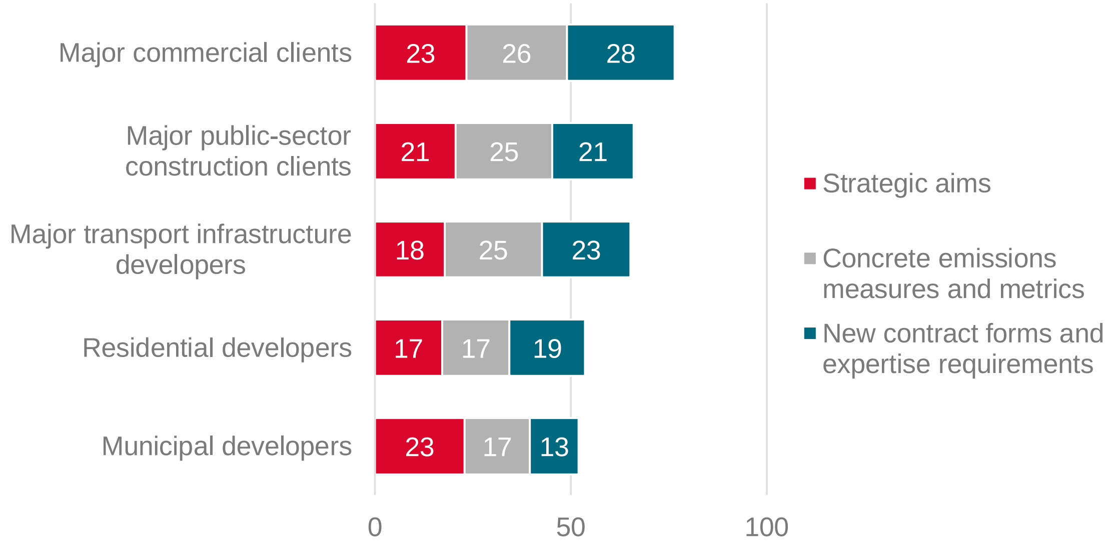
"Those who can solve the problem win the assignment, not those who price it."

"We have all the square footage we need in our part of the world."

Veidekke's client survey
What climate requirements can we expect?

Client climate requirements in three dimensions

Indexing of replies: max. score 33 per area, total max. 100



Comments

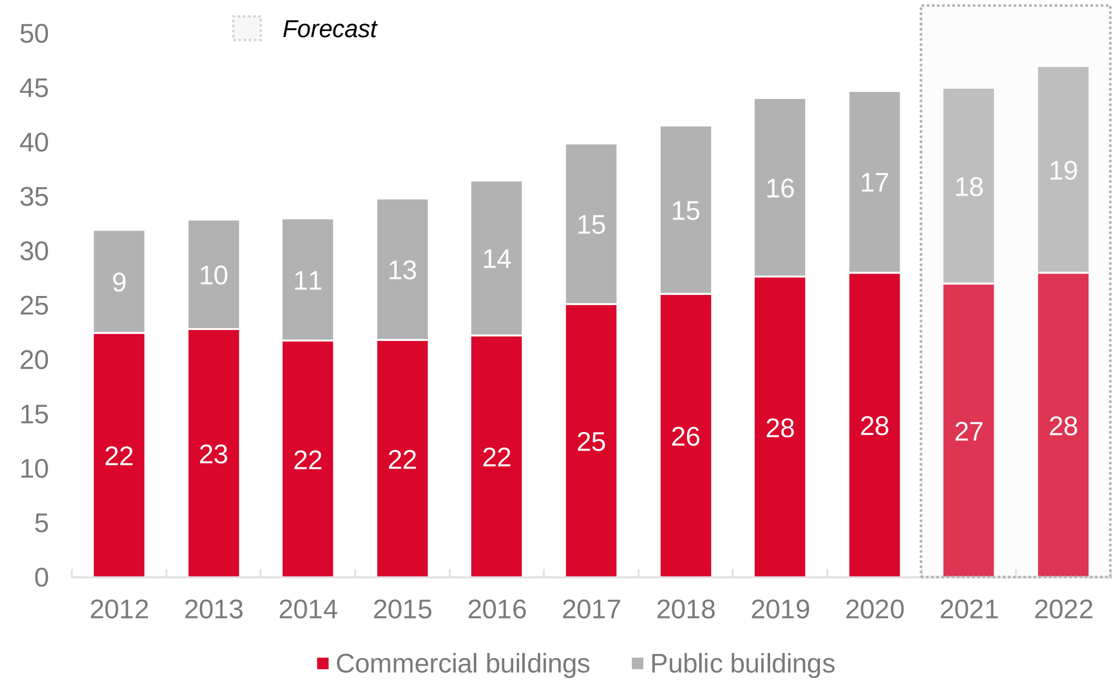
- Veidekke interviewed 18 major clients in the autumn of 2020 regarding their expectations and requirements related to climate.
- The survey revealed that:
  - All clients are adopting ambitious climate targets.
  - All clients have implemented or are implementing strategies specifying concrete emissions requirements, most often for the entire chain of production.
  - The most mature clients are demanding greenhouse gas accounts for projects. Others are opting for individual measures.
  - The leading, and strongest, demands for climate solutions are likely to come from major commercial clients and public-sector construction clients.

Regarding the classification of clients' climate requirements vis-à-vis construction companies:
Strategic aims – max. score 33: The client has a strategy that includes clear requirements for emissions cuts in its operations over the next 5-10 years and experiences emphatic emphasis on this point among both end clients and investors/owners.
Concrete emissions measures and metrics – max. score 33: The client has defined concrete plans for cutting emissions in new projects and has adopted SBT targets in Scope 1–3. Requirements for climate accounts at project level will be introduced shortly.
New contract forms and expertise requirements – max. score 33: The client is currently adopting or has adopted new contract models as standard that specify coordination during the design phase where the contractor is expected to advise on solutions. The client sees cost increases as a necessary consequence.

Reuse: the refurbishment market
Estimated market development and forecast

Refurbishment of non-residential buildings in Scandinavia

NOK billion



Sources: Veidekke's market data, Statistics Norway, Statistics Sweden and Statistics Denmark

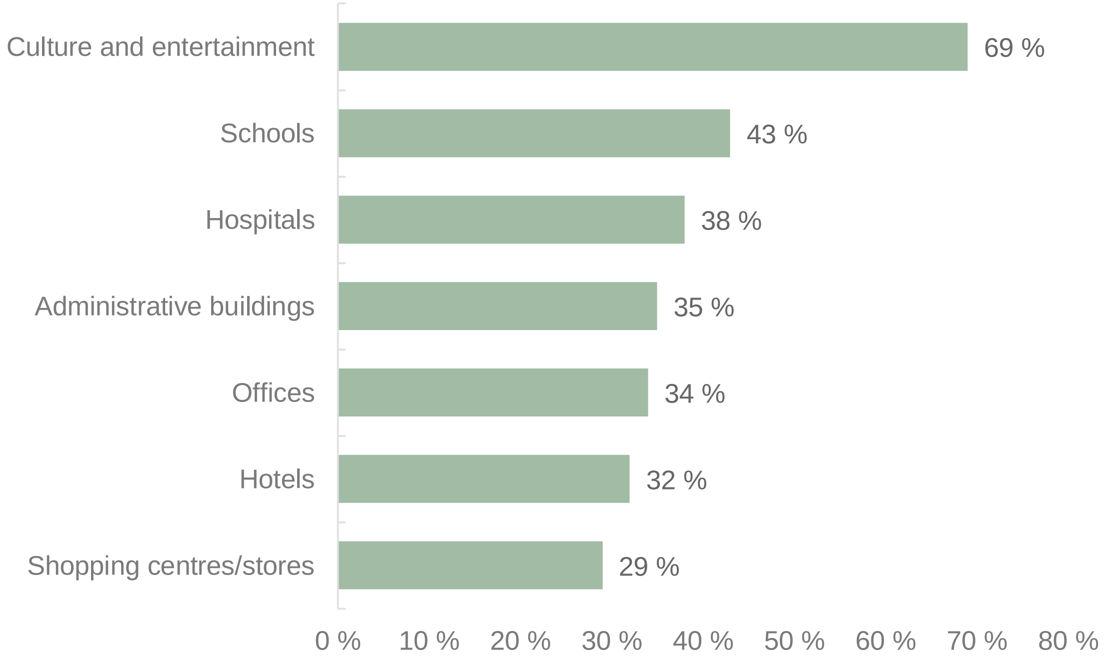
Comments

- The refurb market in the commercial buildings segment will total NOK 45 billion in 2020*
- Reduced growth in the commercial buildings segment in the short term
- Analysis of 14,500 announced projects > 25 million in Norway and Sweden in the period 2015–2020
  - Segments, project types and stakeholders
- An attractive and substantial market with considerable expertise requirements – many contracts totalling NOK 100 million+

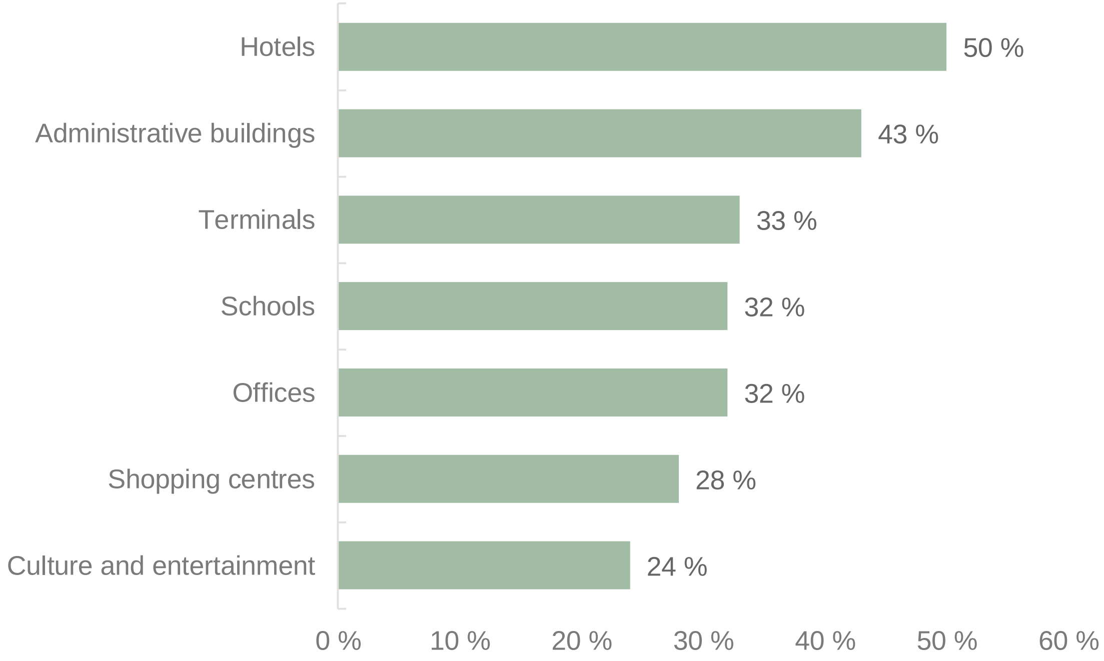
* In the present context, defined as contracts > NOK 25 million

Refurbishment – share of the total market
Distribution by segment

Sweden, seven largest segments
Refurbishment share of total project volume 2015–2020



Norway, seven largest segments
Refurbishment share of total project volume 2015–2020



Sources: Sverige Bygger, Norge Bygges and Veidekke

05

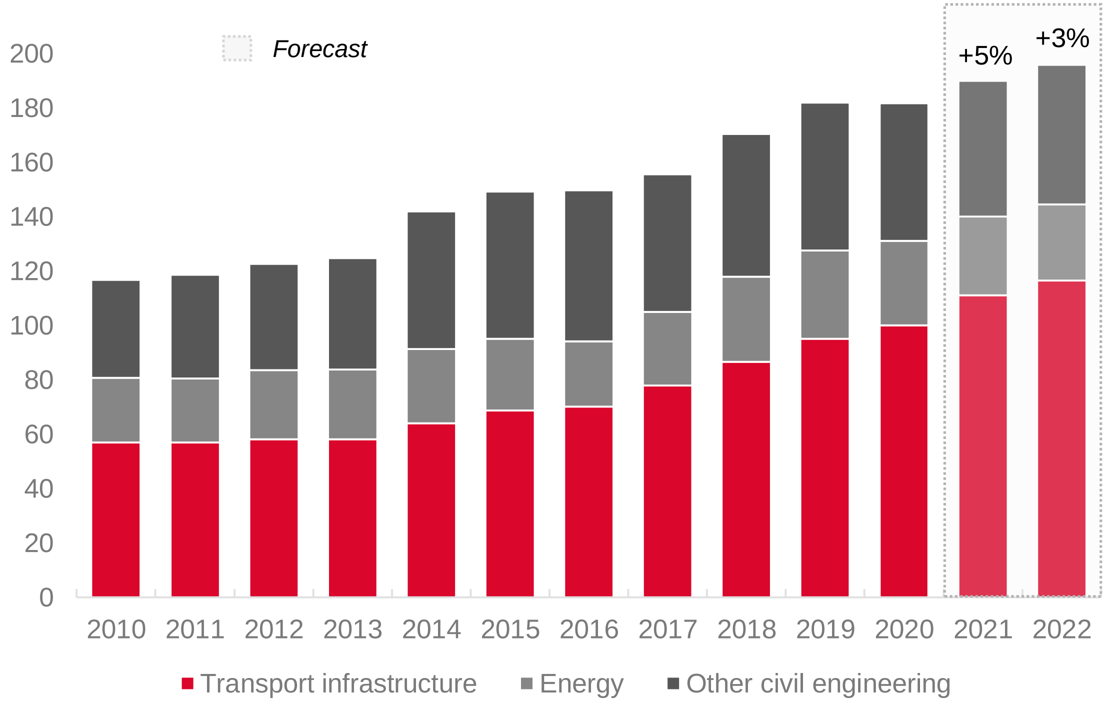
Strong central government finances – investment in transport infrastructure

The civil engineering market in Norway and Sweden

Continued growth in the transport infrastructure segment

Investment by civil engineering segment

NOK billion, Norway and Sweden



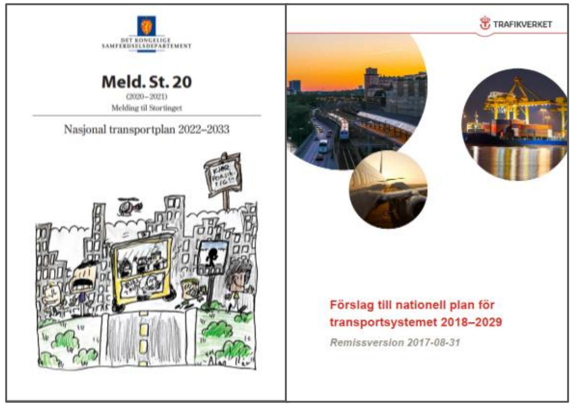
Sources: Statistics Norway, Statistics Sweden, Veidekke

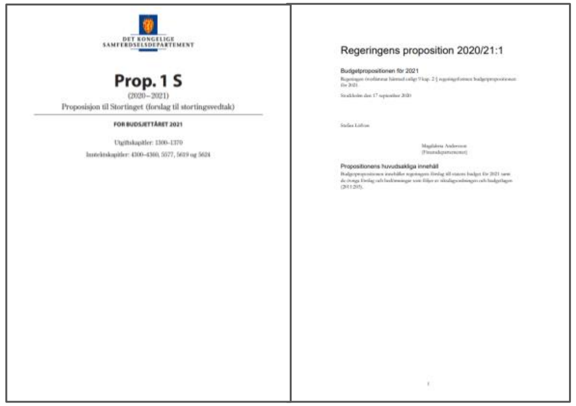
Comments

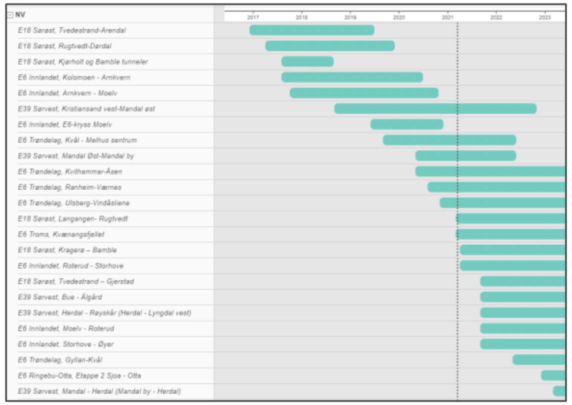
- Estimated growth of 5% in the civil engineering market in 2021 and 3% in 2022
- Transport infrastructure investments have been increasing for several years
- Ongoing strong outlook for the transport infrastructure market, with growth of 11% forecast for 2021 and 5% for 2022

Our forecasting
Transport infrastructure

Long term	Medium term	Short term	Specific projects
National Transport Plan Transport agencies' infrastructure plans	**Action plan** Detailing the next planning period	**National budget** Final framework and specific measures	**Veidekke's project database** Contracts > 500 million roads and railways







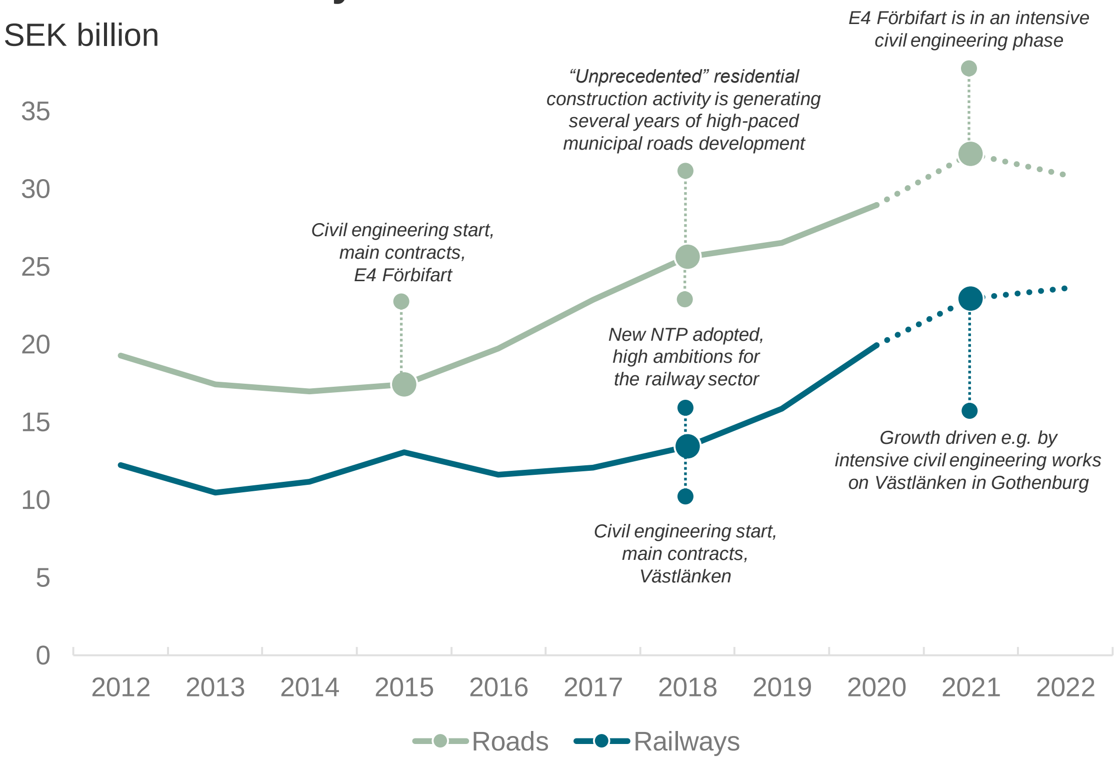
Sources: Norwegian Government, Norwegian Public Roads Administration, Swedish Transport Administration and Veidekke

Transport infrastructure in Sweden

Many roads and even more railways

Road and railway investment

SEK billion



Sources: Statistics Sweden, Swedish Transport Administration, Swedish Government, Veidekke

Comments

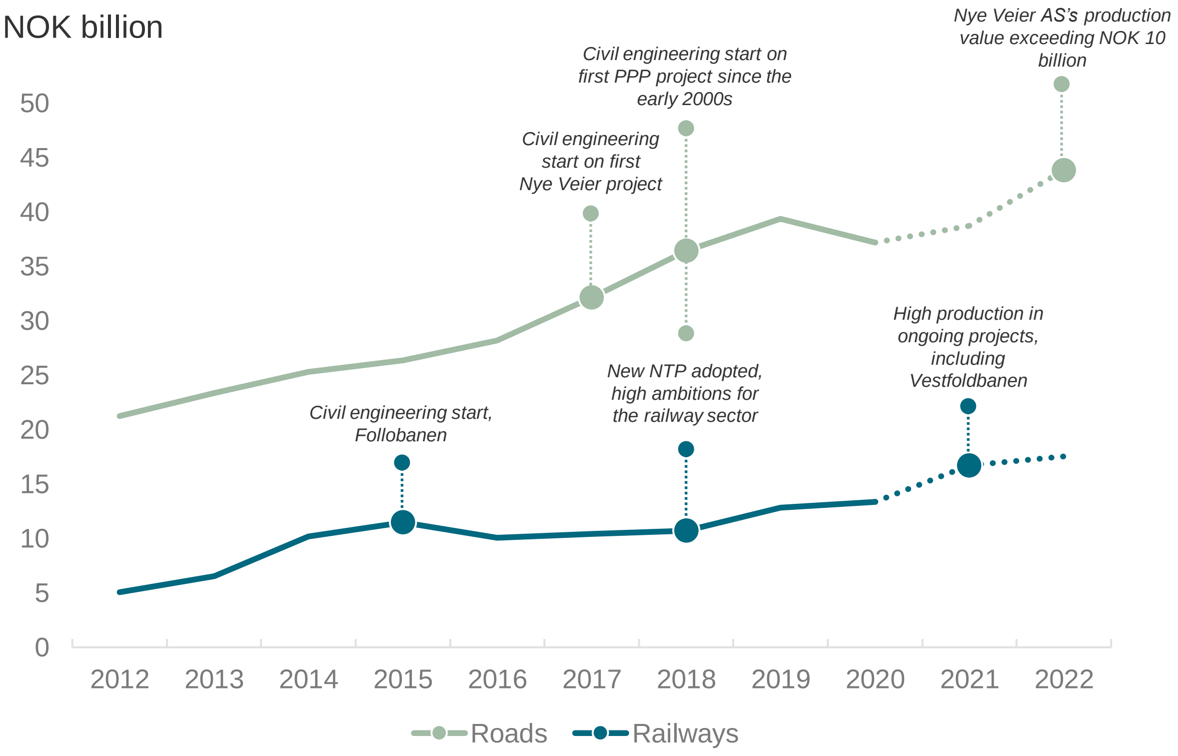
- Clear signs of growth follow the start of large transport infrastructure projects in major metropolitan areas, which are now in an intensive production phase
- 9% growth in the roads market and 26% growth in the railways market in 2020
- The railways market is likely to account for the strongest growth throughout the forecast period
- A draft new national transport plan will be presented in the first half of 2021

	2020 Growth	2021 Growth	2022 Growth
Roads	9%	11%	-4%
Railways	26%	15%	3%
Total	15%	13%	-1%

The transport infrastructure market in Norway
Many roads and even more railways

Road and railway investment

NOK billion



Sources: Statistics Norway, Statistics Sweden, Bane NOR, Norwegian Government, Veidekke

Comments

- Further growth expected in roads investment in the period to 2022, primarily linked to increasing production value in Nye Veier AS
- Positive development of the railways market, and start of work on several InterCity lines
- Based on high production in ongoing projects and the start of civil engineering works on Fornebubanen, we estimate growth of 25% in 2021 and 5% in 2022

	2020 Growth	2021 Growth	2022 Growth
Roads	-6%	4%	13%
Railways	4%	25%	5%
Total	-3%	10%	11%

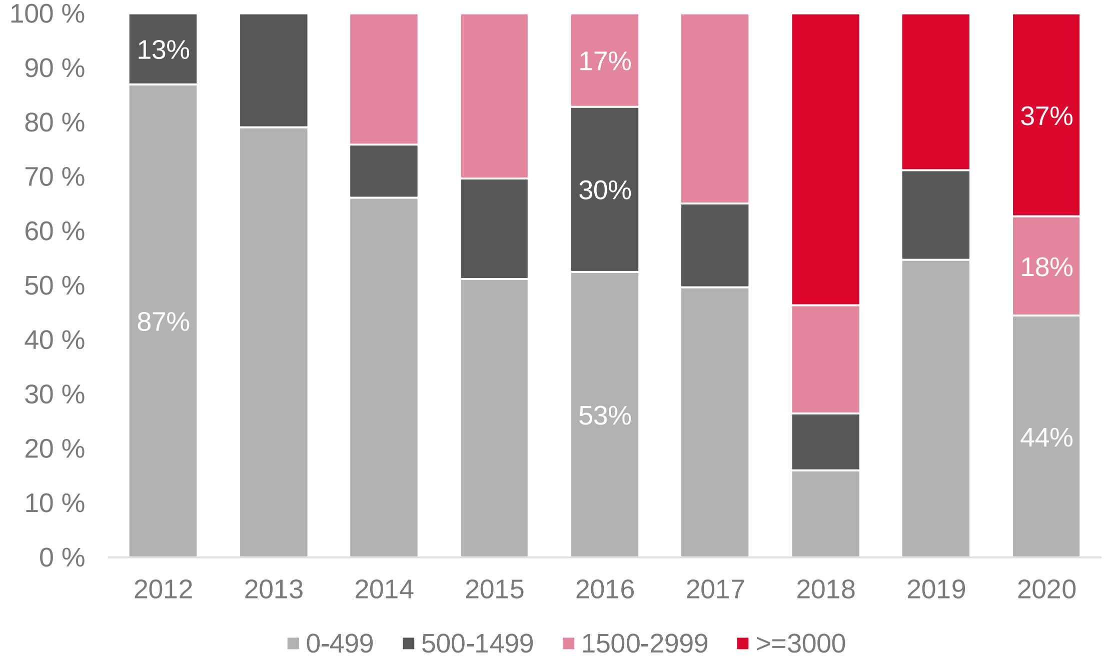
06

Focus topic: internationalisation

The transport infrastructure market in Sweden
Reorientation towards larger contracts

Development in contract sizes, Swedish Transport Administration

Contract value in SEK million, percentage



Source: Swedish Transport Administration

Comments

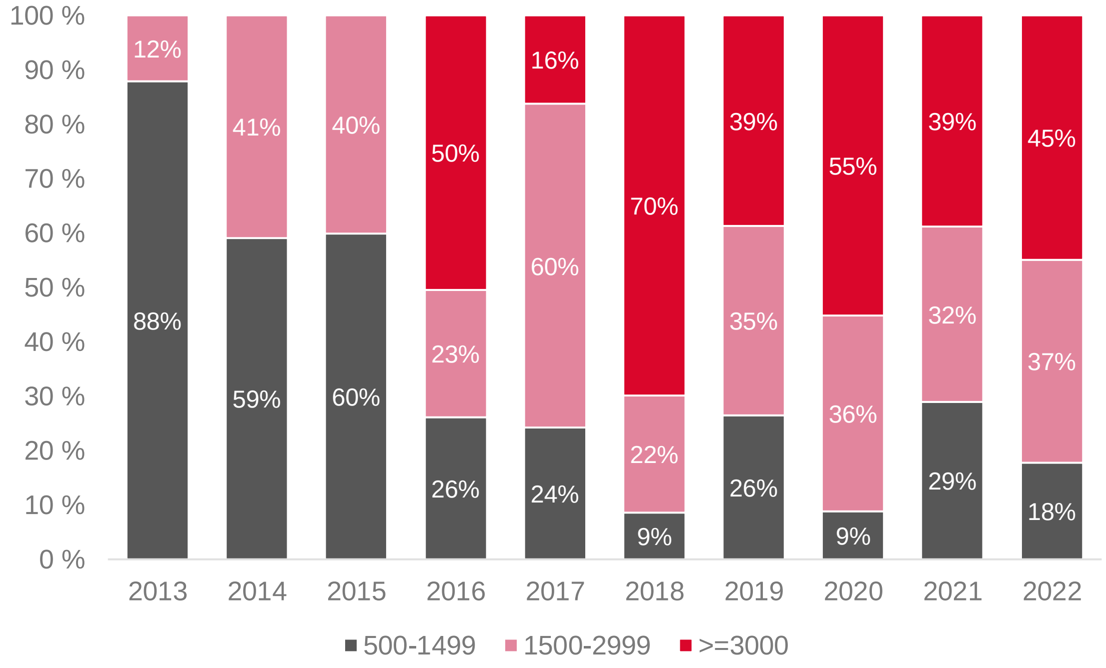
- Reorientation towards ever-larger contracts with facilitation of international competition
- In 2020, contracts > SEK 1.5 billion accounted for 56%
- Larger contracts are attracting international interest
- Data have been compiled for all contracts awarded by the Swedish Transport Administration in the period 2012–2020

The transport infrastructure market in Norway and Sweden

The largest contracts are becoming larger

Development of contract sizes

Norway and Sweden, contracts > 500 million



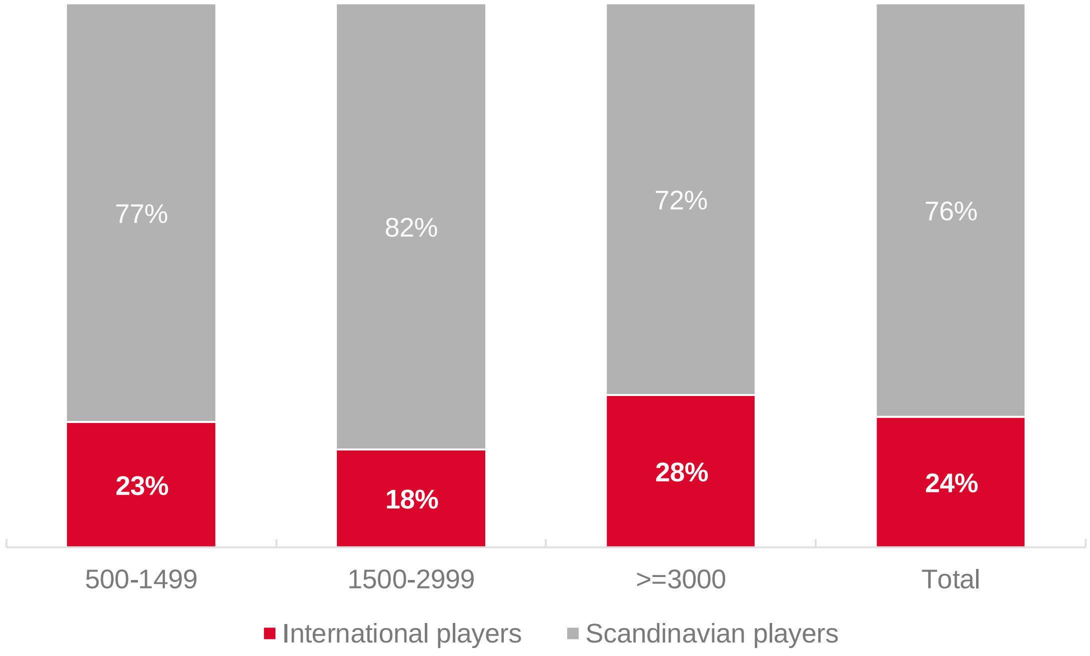
Comments

- Reorientation towards ever-larger contracts with facilitation of international competition
- In 2020, contracts > NOK 3 billion accounted for 55%
- Larger contracts are attracting international interest

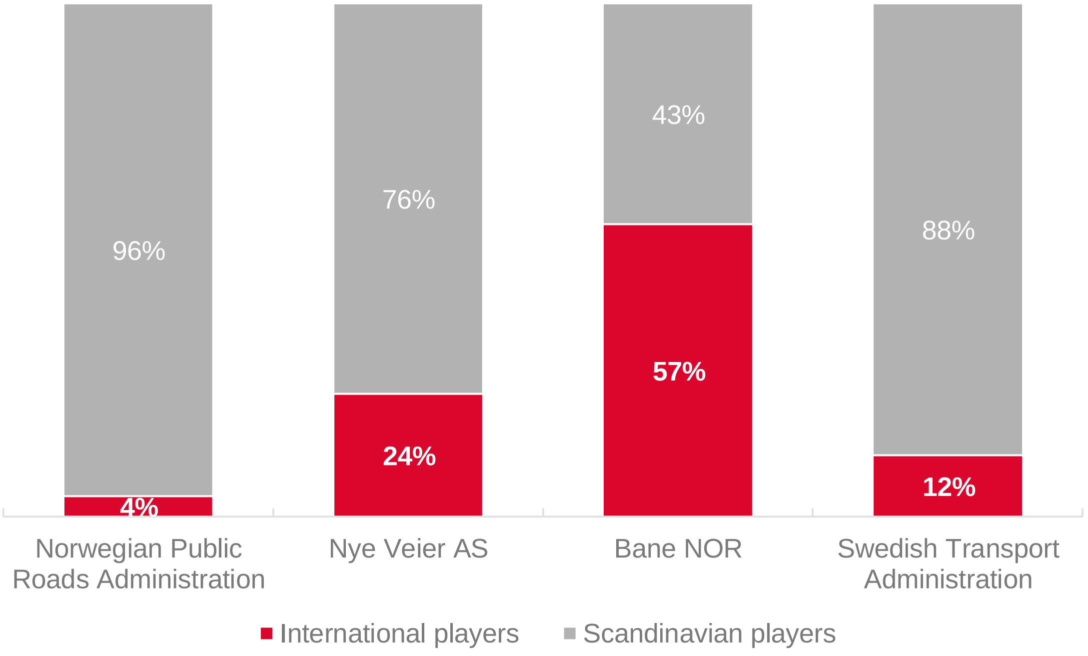
Sources: Veidekke's project database, Norwegian Public Roads Administration, Nye Veier, Bane NOR, City of Oslo, Swedish Transport Administration, Region Stockholm

International players, 2017–2020
Scandinavian players did well

Proportion by contract size, contracts > 500 million
Percentages, Norway and Sweden



Proportion by client, contracts > 500 million
Percentages, Norway and Sweden

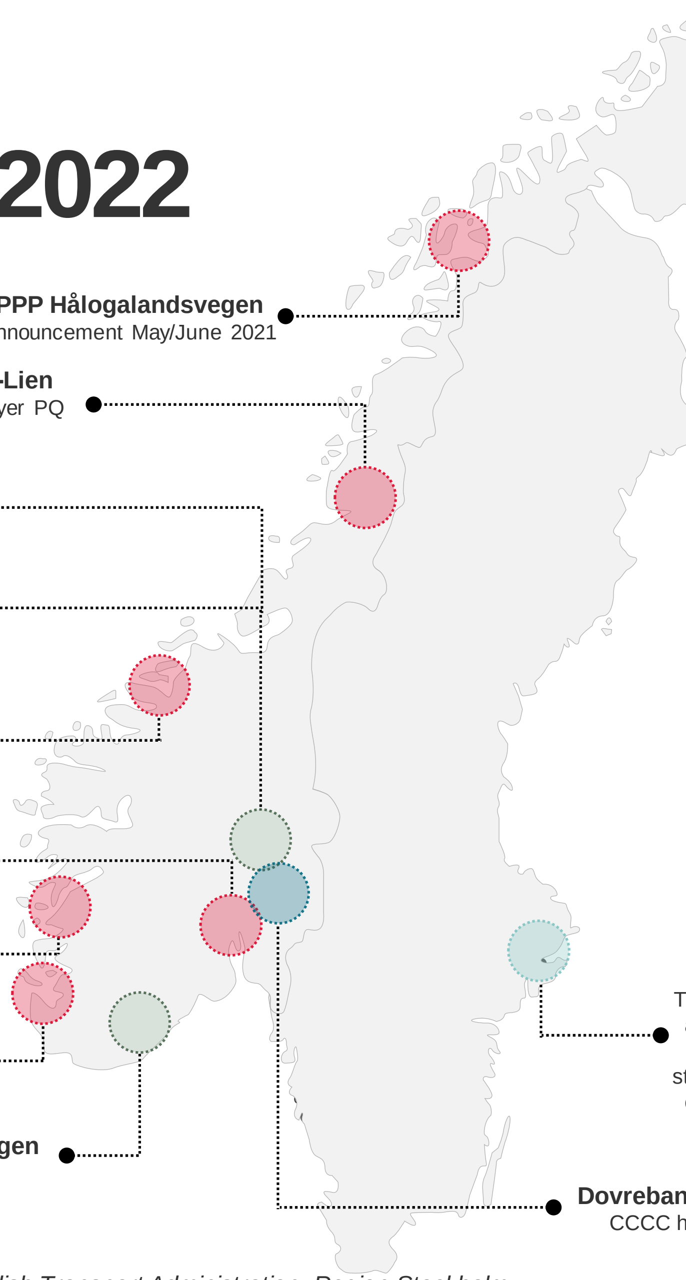


Sources: Veidekke's project database, Norwegian Public Roads Administration, Nye Veier, Bane NOR, City of Oslo, Swedish Transport Administration, Region Stockholm

International players, 2021–2022

Strengthening their position

- Reorientation towards larger contracts with facilitation of international competition
- International players are strengthening their position in a growing Scandinavian transport infrastructure market
- If the following contracts are awarded to international players, their market share will potentially increase from 24% to 50%

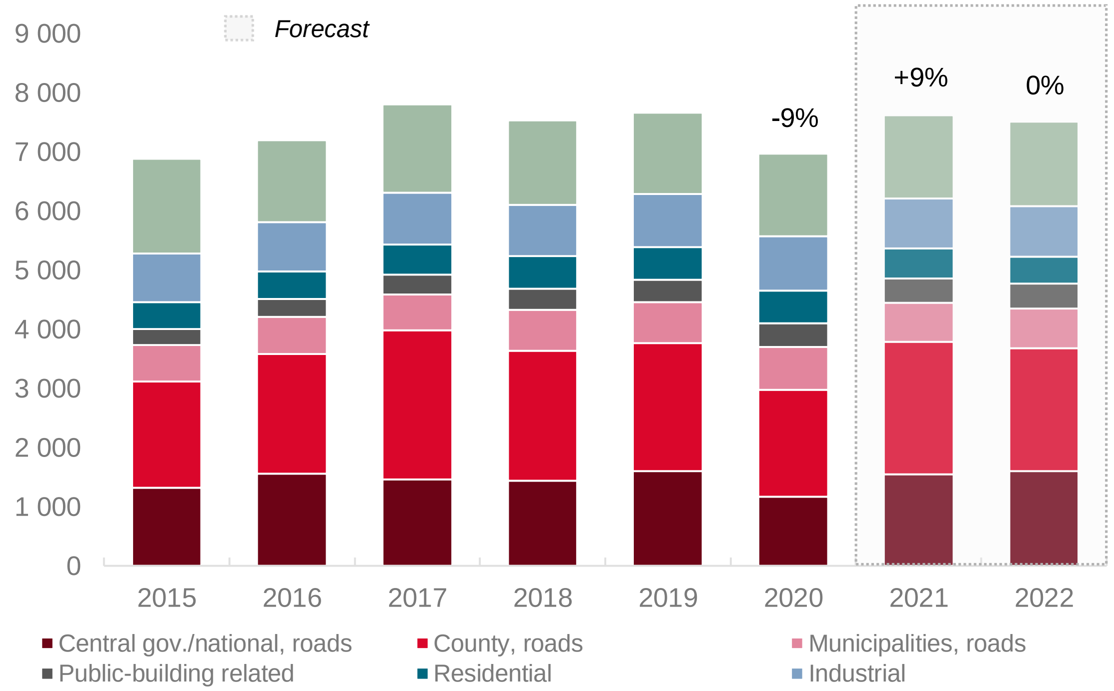


Sources: Veidekke's project database, Norwegian Public Roads Administration, Nye Veier, Bane NOR, Swedish Transport Administration, Region Stockholm

The Norwegian asphalt market
Better prospects than in 2020

Tonnes of asphalt by client segment

1,000 tonnes



Source: Veidekke's market data

Comments

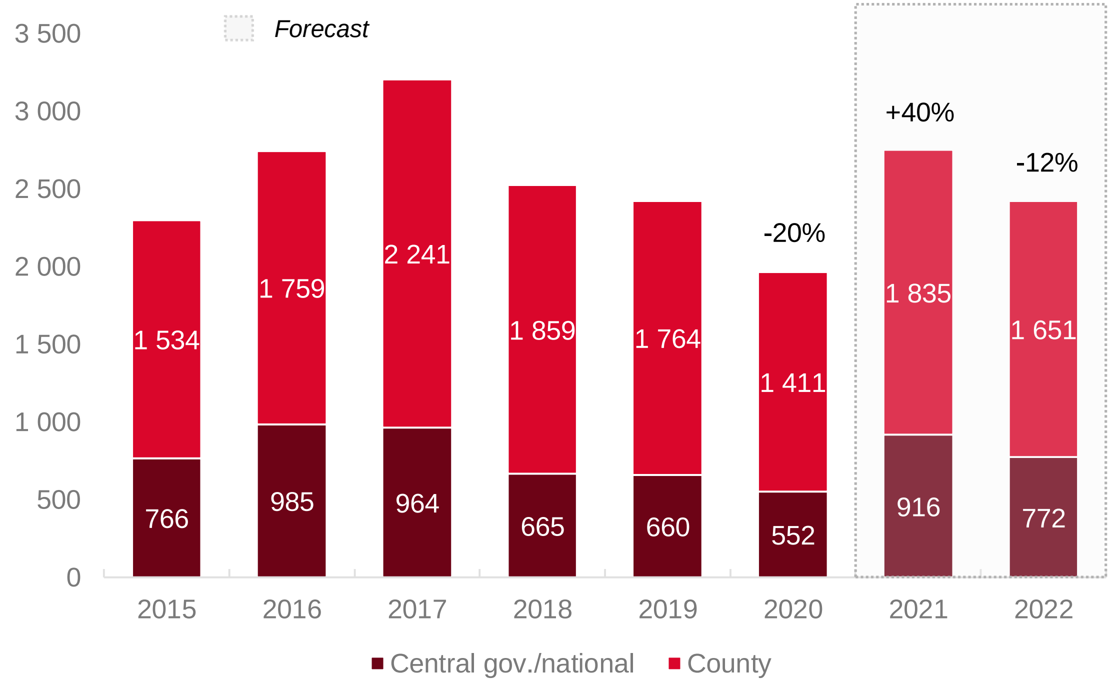
- 2020 marked a trough in the Norwegian asphalt market
  - Unusually weak year for maintenance assignments for central government and counties
  - Low demand for asphalting in large new projects
- The outlook for 2021 is better, and we anticipate 9% growth
- Budget agreements are not expected to provide the same impetus in 2022, but volume will be compensated for by an increase in new-build projects

The Norwegian asphalt market

Increased allocations by central government and county authorities

Maintenance for central government and municipalities

1,000 tonnes



Source: Veidekke's market data

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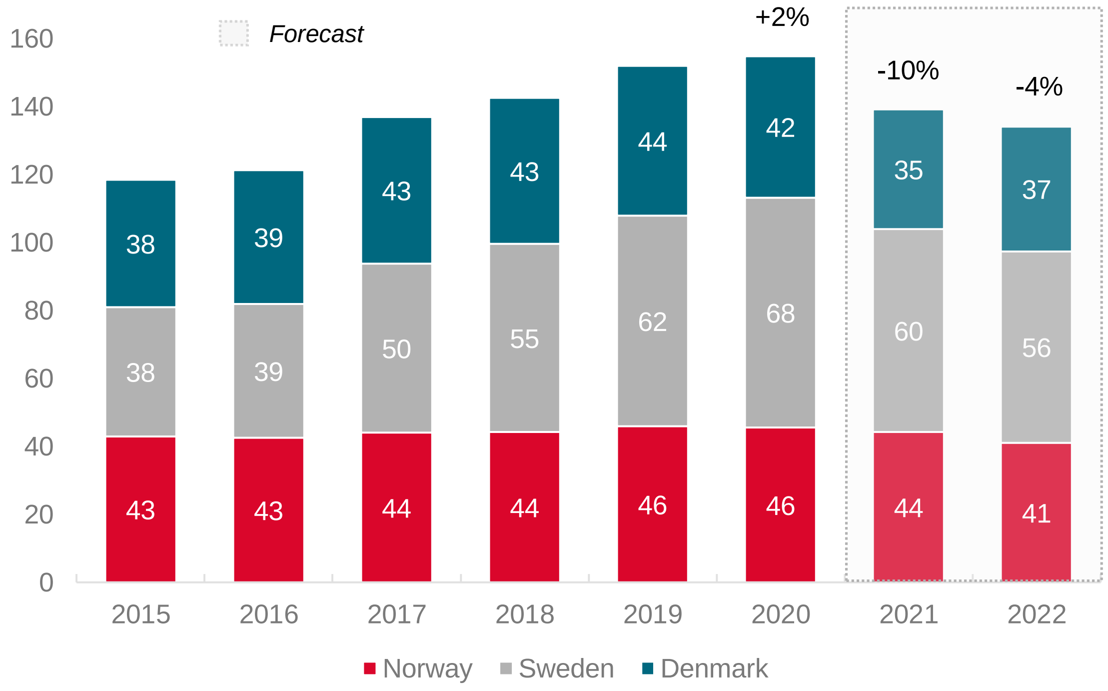
07

Trouble ahead?

Commercial buildings
Hardest hit by Covid-19

Construction-sector production, commercial buildings

NOK billion



Sources: Veidekke's market data, Statistics Norway, Statistics Sweden and Statistics Denmark

Comments

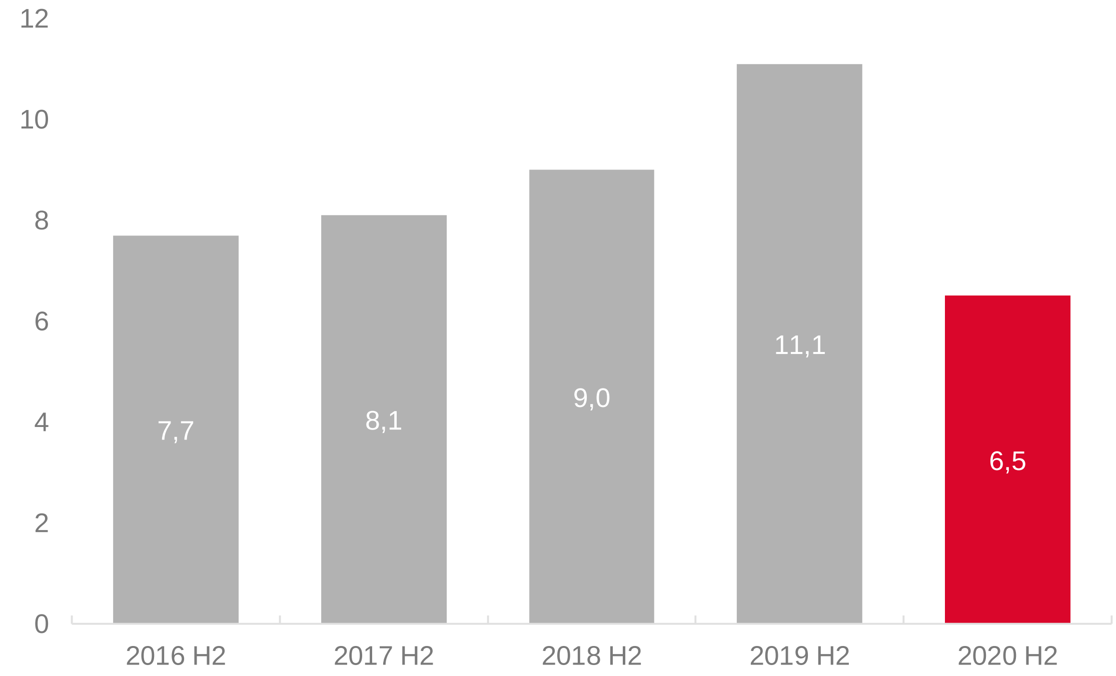
- Investor uncertainty due to Covid-19
- Offices and hotels are particularly vulnerable in the short term
- A 6% year-on-year drop is expected in the Scandinavian commercial buildings segment in 2021 and 2022
  - Norway: -5%
  - Sweden: -9%
  - Denmark: -6%

What is happening in Norwegian municipalities?

Very low number of building starts in autumn 2020

Municipal building starts in second half of 2020

NOK billion, daycare centres, primary and lower secondary schools and care facilities



Sources: Veidekke's market data, Statistics Norway

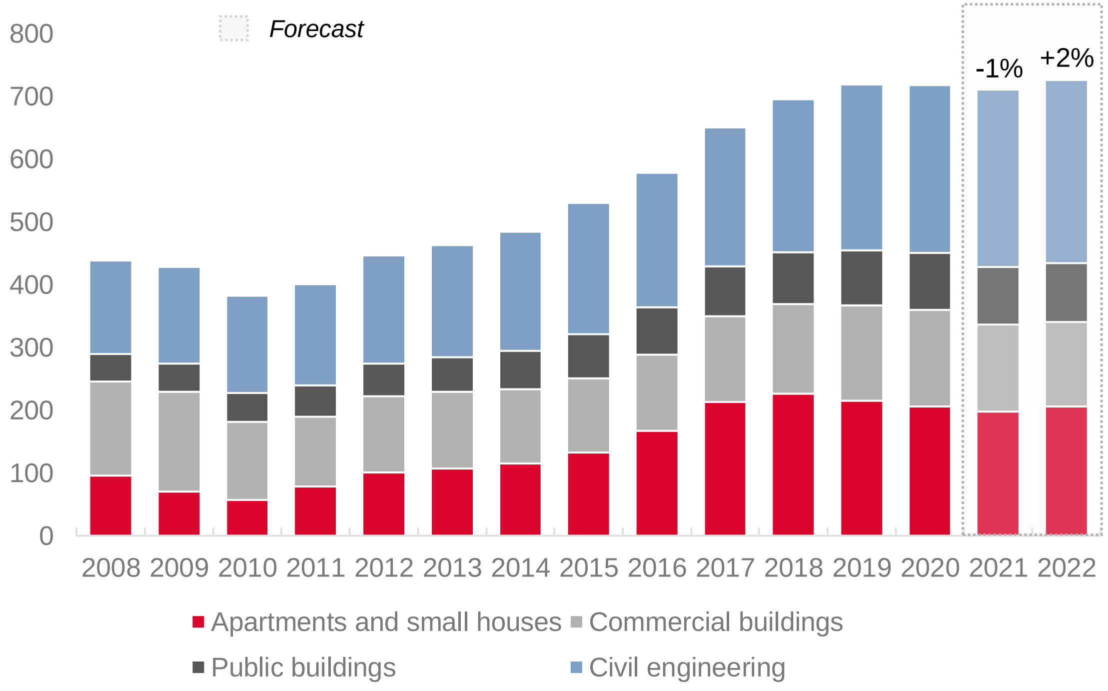
Comments

- Very low number of building starts in the second half of 2020
- Potential reasons:
  - 119 Norwegian municipalities were merged with neighbouring municipalities
  - Very high number of municipal building starts before the mergers
  - Tighter finances – reinforced by Covid-19?

Summary

Scandinavian construction market

Construction-sector production, NOK billion



Sources: Veidekke's market data, Statistics Norway, Statistics Sweden and Statistics Denmark

Comments

- High activity levels but weak growth in 2021 and 2022
- Considerable uptick since last report
- Good opportunities in several segments

Keen on numbers and the construction industry?

Veidekke.com/no/Markedsanalyse

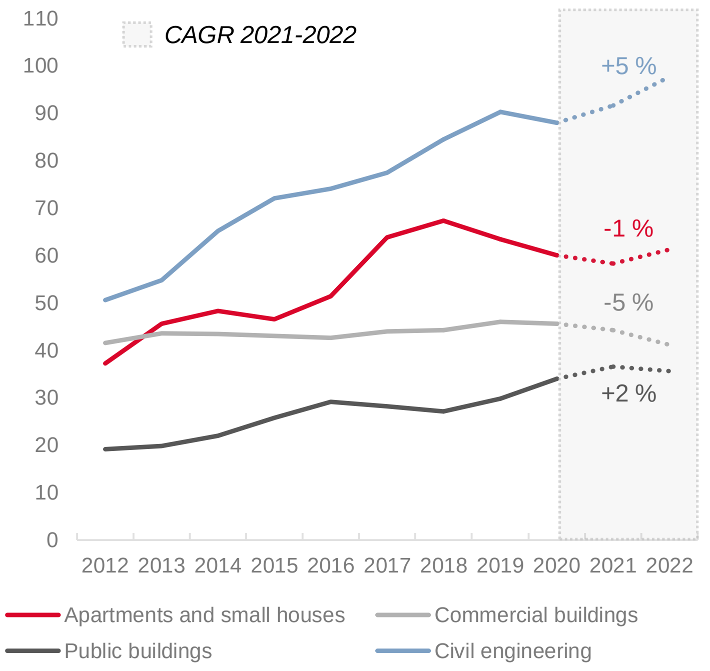
1. Interactive database (PBI) for the Scandinavian construction market
2. Key figures in MS Excel
3. Market presentation as .pdf

08

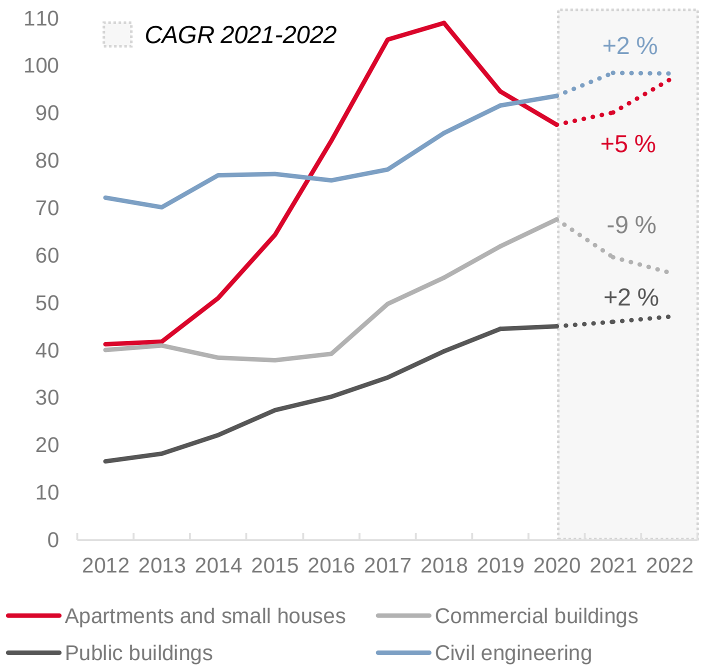
Annexes

The contracting markets
Scandinavia

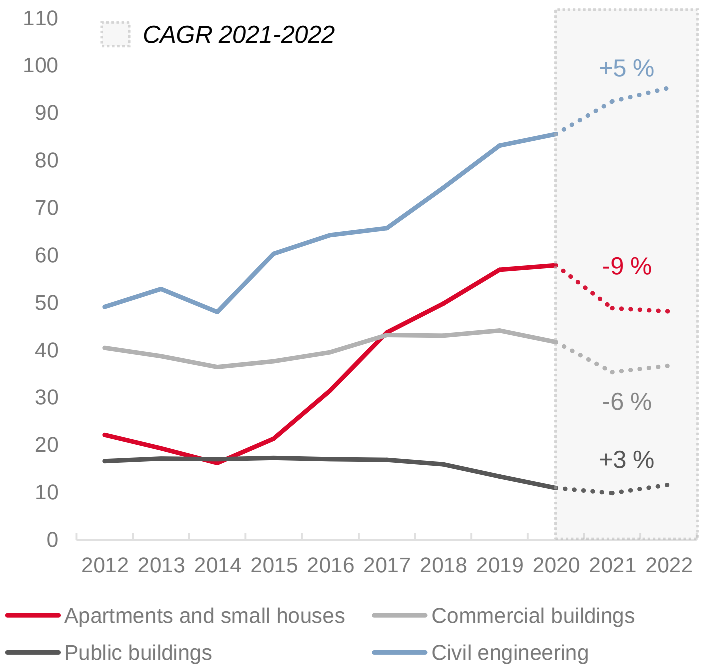
Norway
By sector, NOK billion



Sweden
By sector, NOK billion



Denmark
By sector, NOK billion



Sources: Veidekke’s market data, Statistics Norway, Statistics Sweden and Statistics Denmark

Thank you