



Transcription

Kojamo Q4 2021 / Interim report

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PRESENTATION

Niina Saarto

Good morning, ladies and gentlemen, and welcome to Kojamo's full-year results news conference. My name is Niina Saarto, and I'm Group Treasurer and Head of Investor Relations.

Today, the presentation will be given by CEO, Jani Nieminen, and CFO, Erik Hjelt.

After the presentation, we have time for some questions. We'll take first questions from the phone lines, and then from the chat.

But let's begin. Jani, welcome.

Jani Nieminen

Good morning, everybody. It's nice to be here and provide some colour on what's been going on in Kojamo last year.

So, providing colour, as a summary of last year, it's easy to say that we have made steady progress in implementing our strategy, and we've been able to create profitable growth in spite of the challenging circumstances. Our numbers are solid, and we had a strong growth in the fair value of the investment properties, due to our investments and lower-yield requirements in the market.

So, going forward, and providing some colour concerning the operating environment on page 4.

The Finnish economy is expected to grow, driven by domestic demand, and the overall view of the economy is stable despite of COVID-19, but the pandemic has had an impact. Concerning urbanisation, I would call it a temporary impact, especially here in Helsinki region.

If we look at the numbers concerning residential start-ups, it seems that towards the year end, there was an increase concerning the estimates, and as it now seems, the estimate is that 44,000 apartments were started, mostly because of the fact that construction companies feel that there is a lack of supply for home buyers, and they have a limited number of unsold apartments. So, more and more construction companies are focusing towards build-for-sale projects for home buyers.

Construction increases were, according to statistics, 3.5%; we do feel that they have been increasing a bit more than 3.5. It's good to keep in mind that, actually, these construction increases have no impact for our ongoing new development projects, as all our projects do have fixed prices.

GDP growth was positive. 3.4 is quite a strong figure. The vaccination level here in Finland is really strong. Of course, we have had this phenomenal COVID-19 and Omicron variant providing a lot of new cases and restrictions and creating uncertainty.



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Moving forward, it's good to keep in mind that, even though there's been a temporary impact towards urbanisation, long-term drivers for demand for rental apartments in the biggest cities are still valid. So, Finland is still lagging behind the rest of Europe concerning urbanisation. According to all the estimates, urbanisation will continue after COVID-19, and especially the uncertainty related to possible restrictions coming in or out will be removed. We feel that, then, travelling will pick up speed, people will start moving towards the biggest cities again as new work opportunities are available, and that will create, again, a lot of demand for new homes.

It's still a fact that we have an increasing number of small households, meaning one- and two-person households here in Finland, and there's been a shift in people's values towards ownership. So, especially, for example, cities like Helsinki, Turku, and Tampere, actually, more households today live in rental apartments than in owner-occupied homes.

Moving forward, as we've been saying, we feel that it's a temporary impact created by COVID-19 towards urbanisation. On the left-hand upper corner, it's clear to see that the population growth here in the capital region has been low. Some have been talking about whether there is over-supply situation in the market. I wouldn't call it over-supply situation in the market, I would call it a temporary under-demand situation in the market, which will pass by once people start moving towards Helsinki region again.

I would say that construction increases have made it a bit more challenging for us to find suitable new development projects, according to our parameters, and actually, that means that we just have to work a bit harder and scan more projects in order to find suitable ones for us.

Construction companies providing increasing volumes for home-buyers. I do believe that it's based on the fact that they do have a limited number of unsold apartments, but as well, that they do believe that they are able to transfer the increase in construction costs to home-buyers as all the estimates indicate that home prices are still increasing and will increase this year.

On the other hand, if they are not able to transfer the cost increases for home-buyers, they do have quite a lot of projects to be started and they may end up in a situation again which actually opens up a window for Kojamo in order to buy more projects.

Moving forward to key figures. As I said, our numbers were solid, according to our estimates - no surprises there. We were able to actually increase the total revenue - the increase there against the corresponding year was 2%. Of course, it's always a combination that we've been investing a lot in completing new homes, both 2021 and 2020. As well, we will be completing this year, and then there's a like-for-like growth aspect as well.

We were able, as well, to increase both the net rental income and funds from the operations. There is a combination, as we've been providing information already last year, that last year the winter was cold, provided a lot of snow. There was an impact because of the pandemic, people spent more time at home, consumed more water. On the other hand, we were able to achieve some savings, for example, in SDI expenses, and we were able to optimise some renovations.

The fair value of investment properties today, €8.3 billion, included a strong positive impact, but at the end of the day, our strategy has been all the time to grow and invest in new homes. So, the strong development gains, it's a combination. Of course, there's a lot of interest towards the Finnish resi business. We have seen quite aggressive yields done in the market and that provided an impact towards valuation yields. But on the other hand, we've been saying all the time that we do get



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strong development gains as we are completing new homes. Then, we did have an improving net rental income, and at the end of the day, we still have apartments where restrictions are ending, and we are changing the valuation methodology that provides uplifts.

Gross investments, roughly €357 million. Basically, new development projects. We did not buy anything last year because we didn't find suitable portfolios for us.

A strong number in profit excluding changes in value: €173 million - improvement there is 4.7% against the corresponding year. And then, as we combine the changes in fair values with the profit excluding changes, we did have a really strong number, with profit before taxes close to €1.3 billion last year.

For Kojamo, it's all the time important that we are able to grow by using multiple sources. Last year, the focus has been new development projects. We did start the construction of a bit more than 1,300 apartments. And we do have a record high number of new development projects under construction, providing 2,675 apartments - most of the projects here in Helsinki Region, one project now located in Tampere region - that will provide us the future growth.

We still are able to convert premises into apartments. There's a big potential in so-called Metropolia properties, providing additional 1,000 apartments in Helsinki region. And then, of course, we are scanning the market all the time in order to find suitable portfolios for us. We are ready, willing, and able to move fast if we find something appealing enough.

As I said, all the projects, except one new development project in Tampere, are located here in Helsinki region, those projects having an excellent micro-location along with public transportation. The net initial yield in all the new development projects is four-ish, or about 4%, actually meaning that we are gaining strong development gains once those projects will be completed. All the projects at the moment are proceeding in a normal manner.

This year we will be completing roughly 1,300 apartments. 2023, we are completing 1,800 apartments. Today, we are working on the numbers, providing completed homes, 2024 and onwards. Metropolia case is proceeding, with the last parts of the zoning will be completed. The first project, the conversion, will be started during this spring.

And as I said, it's good to keep in mind that these ongoing projects do have fixed pricing. They are turnkey projects. We have binding agreements with construction companies providing roughly 600 apartments in those projects. Basically, most of them do have fixed pricing. They are turnkey projects, so these cost increases have no impact towards our net initial yields.

We've been fine-tuning the Lumo brand, as well. For us, it's important that we are able to create exceptionally good customer experience, providing added value for our customers, meaning easy, effortless living. It's a combination of apartments, communal spaces. We do, typically, own the whole building, provide different premises, providing services for incoming tenants, existing tenants, both digital and physical services.

We are happy to say that, for example, the digital Net Promoter score was 64 last year. 70% of our tenants today use My Lumo application. And to pick up one example of the services, we have a bit more than 700 cars available for our customers in the sharing car system.



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Moving to page 11, providing some colour on sustainability work. For us, it's a part of our company DNA. We've been working on ESG issues on daily basis all the time. We aim to be a company using carbon-neutral energy by 2030. We do have a road map in place. We are proceeding as planned. We have a clear reason. And we've been succeeding in improving our GRESB figures. We will be providing more colour on ESG in our annual report, which will be soon published, and we will keep on working on daily basis in order to achieve our targets concerning ESG issues.

At this point, I would move to Erik. Erik will provide more detailed colour.

Erik Hjelt

Thank you, Jani, and good morning, everybody, from my side, as well.

So, page 13 now. Total revenue growth was 2%, and that's €7.8 million. And during Q4 last year, the growth was €2.5 million, and the total revenue landed in Q4, €99.6 million. Like-for-like rental growth was a negative 0.3%, and the growth was mainly driven by the growing portfolio, meaning the completed apartments at 2020 and 2021. Net rental income growth was whole year €4.7 million, growth was €1.7 million during Q4, landing at €65.5 million.

The whole-year figure for growth in maintenance costs was €6.4 million, mainly driven by the harsh winter that we had here in Finland, especially during Q1 and Q4. So, impact for whole-year maintenance costs during Q1 was €2.8 million, and €1.6 million during Q4. And repairs was a negative figure there, so some savings there, €3.4 million.

Page 14: the profit on fair value on investment properties; whole-year figure, €1.1 billion, €621 million during Q4. If you look at the Q4 value chains, the yield compression accounted 68% of the total value change; development gains, 7%. Net rental income increases provided 24% of that growth, and ending restrictions played a minor role in Q4. Our development gain has been north of 30% - three zero percent. Yield requirements came down by 24 basis points from Q3 to Q4 on a whole portfolio level.

FFO growth there was €1.7 million. Of course, net rental income growth contributed there, €4.7 million. SG&A expenses, we achieved there some savings, €1.1 million. Finance expenses up by €3.9 million, given the fact that that underlying loan portfolio was much bigger than the corresponding year. And cash taxes up by €0.5 million.

Page 15: the financial occupancy rate pretty much flat compared to Q3, and the drivers there and reasons behind that pretty much the same as Q3. The Omicron variant, and the restrictions based on that, still plays a role, especially here in Helsinki region. And hopefully, now, we are moving towards removing those existing restrictions.

Page 16: like-for-like rental income. Total figure: 0.3 negative, but good to note that the impact of rents and water charges was a positive figure, 2.2%, so we've been increasing the rents pretty much in the normal manner. And the negative figure, 2.5, also impact of occupancy rate.

Page 17: investments, mostly development investments, €339.5 million. Modernisation investments, €11.9 million; and capitalised borrowing costs, €5.4 million.



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Modernisation investments and repairs down by €3.4 million, as already said, and modernisation investments, €15.2 million less than in corresponding period. There, the reason is decrease in modernisation investments related to timing process. So, no big modernisation investment projects started 2020.

Page 18: fair value investment properties. The profit on fair value investment properties was €1.1 million; and investments, €356.9 million.

We still have 2,039 apartments with restrictions regarding valuation and uplift in the valuation, and these restrictions gradually end by 2024 will be somewhere between €130 million and €150 million, and that is back-rated. So, half of that, most likely, is coming through 2024.

Page 19: our ongoing developments and binding agreements and land plots, euro-wise, almost €400 million already invested in these ongoing developments. €267 million to be invested in order to complete these 2,675 apartments. We still have, under binding agreements, apartments, 636, and to complete those, we will invest €123 million.

Metropolia case providing additional 1,000 apartments, €8 million on our balance sheet. And then, the real land bank, if you like, pure land and land where we have existing building and ideas to demolish existing buildings to provide a net 300 additional apartments. So, worth €51 million. We estimate that investments in developments this year, 2022, will be somewhere between €310 million and €360 million.

Page 20: our Loan To Value and Equity ratio figures are actually very, very strong, so we have set the target for Equity ratio to be about 40%, and Loan To Value to be below 50%. And we have quite a sizeable buffer against these levels. EPRA NRV per share, 22.04, driven by the value change and the FFO growth from Q3 was €2.72 per share. And actually, I have noticed that most of the times in 2020 and 2021, Kojamo shares has traded above premium on this EPRA NRV.

Page 22: our key financing figures, strong figures, no major changes there, actually. Cost of debt, on average, 1.8%, including the cost of derivatives, and we are quite conservative what comes to interest rate hedging so hedging ratio was 92%. Average loan maturity and averaged fixed interest rate period above four years. We have €300 million credit lines in place, committed, unused, €250 million commercial paper programme, €50 million outstanding commercial papers. And we are quite cash rich, so more than €300 million in cash and cash equivalents as well as in financial assets.

Page 23: a couple of notes for the strategic KPIs. Growth, 2%: our long-term target is to be somewhere between 4% and 5%. Annual investments: the target there is to invest between €200-400 million per year. We were on the upper end of that range.

Profitability side of the KPIs against total revenue: our target is to be above 36%, more than we were, above 39. So, very strong figures there, as well.

And the risk management angle, if you like, Loan To Value, Equity ratio, a quite sizeable buffer against these target levels.

Net Promoter Score target is 40. We were at 20. So, it's good to know that digital NPS was 64, and these NPS - Net Promoter score - figures, they went down during COVID-19, and that's quite a universal phenomenon, and it goes on different industries, as well. And our interpretation there is that people are still simply sick and tired for COVID-19, and



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that's why they are unsatisfied. Because in our surveys, all these customer satisfaction KPIs has been improving, even during 2021.

Our outlook: we estimate that top line growth will be between 3% and 6% year-on-year, and we estimate that the FFO 2022 will be somewhere between €153 million and €165 million.

And this outlook doesn't take into account the impact of potential acquisitions or disposals. And then if you look what assumptions we have behind this outlook, the top line first. If you look at the upper end of that trade, 6%, and that's actually divided, two parts: first of all, half of that to achieve this 6% will come through the like-for-like rental and water charges increases and improving occupancy, and half of that will come through completed developments. And of course, those developments completed 2021 and those that will be completed in 2022 will have a positive impact for top line.

This FFO guidance, that actually reflects the top line guidance, and on top of that, of course, it requires to have so-called normal weather. Last year, the weather was very, very tough, and we had to spend more money because of that. So, in this guidance, we expect the winter to be on a normal level. We expect some cost inflations there, but we estimate that we should be able to save some costs, as well.

Dividend policy: no changes there. And the Board proposal, or AGM, €0.38 per share.

And now, I hand it over to Jani.

Jani Nieminen

Thank you, Erik.

In order to summarise it, I'd say that 2021 was in line with our estimates and expectations. As I said, our numbers were solid. Both the total revenue and net rental income increased. Our balance sheet figures are really strong at the moment. We've been progressing in line with our strategy. We are growing in line with our expectations. The new development project pipeline is really strong. And we see that the impact in urbanisation, because of COVID-19, is a temporary issue.

Urbanisation will continue. And for example, a piece of good news is that, even though market conditions here in Helsinki have been quite challenging, we started renting out Lumo One in January. First people will be moving in in July. We have already rented out half of the apartments - so basically, half year before the completion. Half of the apartments are already sold, so we do believe that there's a lot of appetite for the concept Lumo provides for the customers.

Thank you. Now, we would move into Q&A. Please, Niina.

Niina Saarto

Thank you, Jani. Thank you, Erik. As said, we can now move on to Q&A part. And we could have first questions coming from the conference call line. Operator, we are ready.



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Q&A

Operator

Thank you. If you wish to ask a question, please dial 01 on your telephone keypad now to enter the queue. Once your name has been announced, you can ask your question. If you find it's answered before it's your turn to speak, you can dial 02 to cancel.

Our first question comes from the line is Svante Krokfors of Nordea. Please go ahead. Your line is open.

Svante Krokfors

Thank you, and thank you, Jani and Erik, for the presentation. I have a couple of questions here. First one, to your value uplift, which was quite massive, noting that Helsinki region declined from 3.5 to 3.25, quarter-over-quarter. Could you give some flavour about what kind of reference deals impact that? Is it mainly new apartments, or has there also been some old apartments sold?

Jani Nieminen

As we have been providing colour already, last year, there have been several transactions acquisitions in the market. Of course, we are relying on the expert view provided by JLL, which follows the market all the time, gathers all the information from the market, but I would say it's a fact that there's been a yield compression in the market. We have seen quite aggressive yields in acquisitions: three, and a low figure, even if not a flat three in the Helsinki region. But on the other hand, it's good to keep in mind that the positive impact in valuation was not only because of the yield compression. We did receive strong development gains as well, for example.

Svante Krokfors

Thank you. And a follow-up question on your latest line. You implied that the development gain is now north of 30%. Does that mean that you are already at 3%, or even below 3%, in the valuation of new apartments?

Erik Hjelt

We are still above three in new ones.

Svante Krokfors

OK. So, your yield on cost is at least with some margin above 4%?



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Erik Hjelt

Yield on cost, still around 4%, or about four, as discussed earlier. So, given the fact that ongoing developments and those that will be completed this year, and those agreement has been made two or three years ago. And most of those, we have fixed price. And as indicated earlier, the yield on cost there has been around four, or above 4%. And nothing changed there.

Svante Krokfors

And a follow-up on that, also. Your investments for '22 are perhaps a bit on the low side. I know that, obviously, a lot of that is investments that have been decisions that have been made a long time ago, but does the increased cost level of construction impact your investment willingness?

Jani Nieminen

As I said, we have seen that we need to work a bit harder in order to find new projects. I would say, last year, the slight impact were because of timing issues, planning, building permits, things like that, not because of that we wouldn't been able to find new projects. We do have existing binding agreements with construction companies, providing additional 600 apartments.

Svante Krokfors

Thank you.

Jani Nieminen

Also, there was a timing issue last year.

Svante Krokfors

Thank you. And then, earlier, or at the end of last year, you announced the possible disposal of up to 3,600 non-core assets. Any progress in that?

Jani Nieminen

We will provide information in a timely manner, once the decisions are made. No new information there yet. We are evaluating the issue.



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Svante Krokfors

Thank you. And then, regarding the guidance. Erik., you gave some colour on that. So basically, if I read it correctly, should we assume that you are closer to 3% revenue growth if occupancy rates stay at current level? And if they would move up, let's say, some part where it used to be, then it should be closer to the higher end?

Erik Hjelt

So, as said, half of the 6% upper part of the range is coming through, if we are able to increase the rents and water charges and improving occupancy. So, that means, actually, that even if the occupancy would remain flat, like-for-like growth is going to be there because our target is to increase the rents in pretty much in the normal manner.

Svante Krokfors

OK. Thank you. That's all from me.

Operator

Thank you. Our next question comes from the line of Andres Toome of Green Street Advisors. Please go ahead. Your line is open.

Andres Toome

Hi. Good morning. I was just wondering if you could help us understand the occupational recovery potential in Helsinki. It seems to be a moving target. And I can appreciate that the government restrictions, obviously, have made it quite difficult to predict when the demand side recovers; but looking at the supply picture in Helsinki, it seems elevated. And just looking at the construction completions, and that's really a structural feature, right? So, on the back of that, what are you assuming in terms of rent growth potential for the next few years in your underwriting?

Jani Nieminen

Thank you for the question. As we've been providing colour, we did see an increasing number of work opportunities already last summer here in the Helsinki region. There was, because of COVID-19, uncertainty, and people were hesitating in order to move towards Helsinki region. Then, COVID-19 kicked in with Omicron variant, creating restrictions and more uncertainty. As soon as restrictions will be removed and there's a relief concerning the uncertainty so people believe that no restrictions will be entering again, we do believe that they start moving towards Helsinki region.

And even though the supply numbers are higher at the moment, we do see that as a temporary thing. And as urbanisation will continue, that supply will be observed from the market. So, mid-to-long term, we do still believe that we are creating like-for-like growth between 2.1 to 2.4% or 2.5% a year.



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Andres Toome

Thanks. And then, maybe also on the disposals. I guess you can't reveal much in terms of the process, but if you were to go ahead with disposal, where do you think to invest those proceeds? Is it to your pipeline, buying new projects, or are you looking to buy maybe other stabilised assets from Helsinki?

Jani Nieminen

I think that part of the question remains to be answered after decisions will be made whether we are selling something or not. Of course, there are different options: to invest all the money, invest some of the money and provide extra dividends. So, those combinations are all possible, but no decisions yet made.

Andres Toome

Thanks very much.

Operator

Thank you. Once again, if there are any further questions from the phones, please dial 01 on your telephone keypad now.

OK. We've had one further question come from the phone. That's from the line of John Vuong of Kempen & Co. Please go ahead. Your line is open.

John Vuong

Hi. Good morning. Thank you for taking my questions. Perhaps, also, on the leverage number. It's a number that has already been decreasing for the past, I think, two years or so, with stronger valuations. Is this a number you're comfortable with, given that it continues to get lower each year, essentially?

Erik Hjelt

Hi, John. Thanks for the question. Yes, our strategic KPIs, they are unchanged, and we are quite nicely in line with those figures. So, that's, of course, the starting point. And then, that buffer case gave us room to manoeuvre, if you like, so we are able to grab the opportunities in the market. So yes, the buffer is quite sizeable at the moment, but as said, we are in line with our strategic KPIs.

John Vuong

OK. Thanks. And I suppose that does not necessarily mean that you're willing to adjust your return requirements for any acquisitions you are making?



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Erik Hjelt

We haven't really changed our acquisition criteria, and as Jani earlier said, it's important for us that we have access for different sources of growth, through our own developments and through acquisitions. And so different times, the waiting in these sources, of course, varies. And that's important for us, so we are able to grow according to our strategy even without acquiring something. But yes, we are looking into the market. And if we find something suitable, of course, then we look all criteria, not only yield requirements, but the quality of the property or the portfolio, and the location, and so on and so forth. So, it's a combination, but so far, we haven't changed our investment criteria.

John Vuong

OK. That's helpful. Thank you.

Operator

Thank you. And we've had one further question come through on the phone. That's a follow-up from Svante Krokfors of Nordea. Please go ahead. Your line is open.

Svante Krokfors

Yes. Hi, again. One more question regarding construction cost increases. Official number, 3.5, but Jani said that you feel that it's higher. Could you quantify that and perhaps also give some colour on where you especially see increases in costs?

Jani Nieminen

As I said, it seems that that this type of indicators seem to be a bit low because they follow a longer period of time. I would say here in Helsinki region, they are most likely between 3.5% to 5%.

Svante Krokfors

OK. That's helpful. Thank you.

Operator

Thank you. And as there are no further questions from the phones at this time, I'll hand the floor back to our speakers.



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Niina Saarto

OK. Thank you. We have also some questions in the chat. I believe that we have already discussed part of those, but first question is, how much do housing allowances account for turnover?

Jani Nieminen

Housing allowances seems to be a topic which pops up once in a while. We've been providing all the time information that it's not a piece of information that we follow. Housing allowance is a system here in Finland which provides subsidies for people in need for a certain period of time. Those allowances typically paid for the individual, which then decides whether to spend it on rents or something else, like, for example, grocery. So, we don't follow that issue or that topic. We don't gather that information.

I would say it's good to keep in mind that, look at the offering we provide for people. We provide solutions mainly for working people in excellent micro-locations, with public transportation, providing additional services. So, it's not something we follow.

Niina Saarto

OK. Then, a question on yield compression. Have you seen any U-turns in yield compression trends? I guess there have been some transactions already at under 3% yield requirements in Helsinki, but have you seen any changes during Q1?

Jani Nieminen

It seems that there's still a lot of appetite towards the Finnish rental resi market from international players. Construction company SRV sold one tower in Kalasatama to international investor. It seems that they were willing to pay quite an aggressive yield. It seems that there are some ongoing portfolios in the market and a lot of appetite. So, remains to be seen what kind of yields will be paid, but a lot of appetite towards the market.

Niina Saarto

Very good. And then, another question on occupancy ratio that was low, especially in Helsinki region. How do you expect or model this to develop in 2022? And have you seen already some signs of better or worse in Q1?

Jani Nieminen

The visibility has been a bit limited during COVID-19, so it's not easy to model occupancy development. But as we've been providing information, things have been better already last year in other parts of Finland, and cities like Turku and Tampere are coming back to basically normal in rental market. Here in Helsinki region, it's been more of a question concerning the uncertainty and possible restrictions and when COVID-19 goes away. And restrictions now being lightened, hopefully, no



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restrictions are coming again, and uncertainty will be removed. That will have a positive impact towards urbanisation. People will start travelling, start taking the work opportunities here in capital region. At the end of the day, Helsinki region is the economic heart of Finland. It will be the winner in urbanisation game. So, it will start growing, but the visibility is limited at the moment.

Niina Saarto

OK. It seems that the other questions have been discussed more or less already. And as we don't have any further questions, it's time to thank you all for joining us today. Kojamo's Q1 interim report will be published on 12th of May. Hope to see you all then. Thank you very much, and goodbye.