

## **Sto SE & Co. KGaA, Stühlingen/Germany**

### **Consolidated interim report from the Management Board within the second half of 2019**

#### **At a glance:**

- **Consolidated turnover of Sto SE & Co. KGaA up by 5.8 % to EUR 1,068.4 million by the end of September**
- **First-time consolidation effects and positive currency effects support operational growth**
- **Domestic turnover increases by 3.6 %, and turnover abroad by 7.6 %**
- **Consolidated EBIT and net income significantly up on the previous year**
- **Number of employees increases by 257 to 5,665 primarily as a result of first-time consolidations**
- **Outlook for the year 2019 as a whole unchanged: increase in turnover of 4.1 % to around EUR 1,387 million and EBIT of between EUR 81 million and EUR 91 million expected**

#### **Sector environment**

The **global economy** slowed down increasingly in the course of 2019. In October, the International Monetary Fund (IMF) revised the expected economic growth for 2019 downwards for the third time: from 3.2 % to 3.0 %. Compared to the July forecast, all regions will expand at a slower rate than expected. Germany is particularly affected by the weakening global economy. For 2019, the IMF now only expects growth of 0.5 % instead of 0.7 %.

In 2019, the construction industry in **Germany** was once again one of the sectors bolstering the economy. In the first seven months of 2019, turnover in the main construction sector rose by 7.7 % year-on-year. According to Destatis, both building construction (+5.6 %) and civil engineering (+9.0 %) recorded growth. However, the

Federation of the German Construction Industry (Hauptverband der Deutschen Bauindustrie) was disappointed with the development of new-building permits. From January to August 2019, a total of 228,500 apartments were approved for construction in Germany, which is 2.5 % less than in the same period of the previous year.

The sub-segment of building coatings, which is relevant to Sto, was unable to benefit from the ongoing construction boom in Germany. Demand in the EWIS market stagnated in the first half of 2019, and the Association of the German Paint and Printing Ink Industry (VDL) even expects a 1.1 % decline in volume in the area of building coatings (paints, varnishes, paste-form plasters/renderers/fillers) for the year as a whole.

The construction industry in **Europe** slowed increasingly over the course of 2019. According to Eurostat estimates, production in the first three months had increased by 1.5 % compared to the previous quarter. However, a minus of 0.5 % was recorded in the second quarter. Construction activity in the euro countries also declined in July (-0.2 %) and August 2019 (-0.5 %). According to the EUROCONSTRUCT network, positive momentum mainly comes from the infrastructure sector, while the building sector is growing at a slower rate.

In **China**, the sentiment in the construction sector remained mixed. According to the GTAI (Germany Trade & Invest), the sector continues to be one of the pillars of Chinese growth, but demand is gradually weakening. In the first half of 2019, the production value of the Chinese construction industry increased by 7.2 % (year of 2018 as a whole: 9.9 %). In the first seven months of the year, the value of realised property investments rose by 10.6 % as compared to the same period of the previous year. However, this growth was exclusively attributable to the residential construction sector (+15.2 %), as investment in office construction (-0.2 %) and retail spaces (-9 %) suffered a decline.

According to the GTAI, the construction industry in the **USA** remained confident and expects the number of construction contracts to continue to rise in 2019 despite difficult weather conditions and the government shutdown at the beginning of the year. According to the IMF, the economy picked up slightly in the first half of the year

despite the difficult global environment, supported by growth-promoting reforms such as tax cuts and interest rate cuts by the US Federal Reserve.

### **Business development of the Sto Group**

Sto SE & Co. KGaA was able to continue its growth in the third quarter of 2019. However, the momentum slightly slowed down in the course of the year due to the general conditions in the segments that are relevant to Sto, which had been more difficult as compared to those affecting the construction sector as a whole. Overall, an increase in turnover of 5.8 % was achieved in the first nine months. In addition to the favourable operating development, positive currency translation effects and first-time consolidations contributed to this growth. Adjusted for these effects, turnover in the Sto Group increased by 4.5 %. Earnings saw a markedly positive development from January to September: both earnings before interest and taxes (EBIT) and net income in the Group were significantly higher than the comparable figures for 2018.

### **Sto consolidated turnover up by 5.8 %**

Across the entire Group, Sto SE & Co. KGaA generated a turnover of EUR 1,068.4 million (previous year: EUR 1,009.7 million) in the first nine months of 2019. Compared to the same period of the previous year, this corresponds to an increase of EUR 58.7 million or 5.8 %. A total of EUR 4.5 million of the increase was attributable to currency translation effects, with the appreciation of the US dollar and the Swiss franc having a particularly positive impact. Added to this were first-time consolidation effects of EUR 8.9 million. These effects came from Liaver GmbH & Co. KG, Ilmenau/Germany, which was consolidated at the beginning of 2019, and Canadian company Skyrise Prefab Building Solutions Inc., in which Sto has held a majority interest since May 2019, as well as Unitex Australia Pty Ltd., which has been consolidated since 1 August 2019. Excluding currency translation and first-

time consolidation effects, the Sto Group's original turnover growth stood at 4.5 % compared with the same period the previous year.

As at the end of September 2019, turnover in Germany increased by 3.6 % to EUR 467.4 million (previous year: EUR 451.2 million). Supported by currency translation and first-time consolidation effects, volume generated abroad increased by 7.6 % to EUR 601.0 million (previous year: EUR 558.4 million). This means that the percentage of consolidated turnover generated abroad rose from 55.3 % to 56.3 %.

In the reporting period, turnover in the segment of Western Europe - including Germany - increased by 5.5 % year-on-year. Sto recorded growth in France and Austria in particular. Volume in the region of Northern/Eastern Europe rose by 1.5 %, with the development differing largely from country to country. A significant increase of 11.7 % was recorded in the sub-segment of America/Asia, to which the Australian subsidiary has been provisionally assigned, and which also includes the Canadian Skyrise Prefab Building Solutions Inc. and Unitex Australia Pty Ltd. Both in the USA, where turnover growth was driven, in particular, by positive currency translation effects, and in China, business developed positively in the first three quarters.

In October, the turnover development within the Sto Group remained slightly below expectations, and almost at the previous year's level.

### **Improved earnings compared to previous year**

Compared with the development in the first three quarters of 2018, which had been burdened by a substantial increase in procurement prices for raw materials and purchased products, the Sto Group was able to markedly improve earnings in the period under review. The measures initiated to offset increases in the cost of materials as well as consistent cost management also had a noticeable impact.

## **Asset and financial situation remains sound**

As at 30 September 2019, the overall asset and financial situation of the Sto Group continued to be sound. Changes in individual balance sheet items compared to the end of 2018 mainly resulted from the usual seasonal influences, the first-time consolidations as well as the first-time application of IFRS 16.

## **Decline in investments**

During the first nine months of 2019, the Sto Group's investments in Property, plant and equipment as well as Intangible assets amounted to EUR 17.3 million (previous year: EUR 19.1 million), and were mainly attributable to customary replacement investments.

## **Rise in number of employees**

As at the end of September 2019, the Sto Group had 5,665 employees worldwide as compared to 5,408 employees on the same day of the previous year (+257 employees, +4.8 %). The companies consolidated for the first time in the reporting period had 162 employees on the reference date. In Germany, the Sto Group's workforce increased by a total of 142 to 3,042 employees as compared to the end of September 2018 (30 September 2018: 2,900), and abroad by 115 to 2,623 employees (30 September 2018: 2,508). Specific adjustments in regions battling difficult economic conditions were contrasted with new appointments in countries with short- and medium-term growth prospects. Year-on-year, the percentage of the Group's workforce employed outside of Germany decreased slightly from 46.4 % to 46.3 %. Compared with the end of 2018, the number of employees in the Sto Group increased by 332 (31 December 2018: 5,333).

## Outlook for 2019 as a whole unchanged

For the year of 2019 as a whole, Sto SE & Co. KGaA continues to expect an increase in consolidated turnover of 4.1 % to around EUR 1,387 million (2018: 1,332.4 million), and EBIT of between EUR 81 million and EUR 91 million (2018: EUR 81.9 million). However, considerable uncertainties arise from the weather conditions in the last few weeks of the year, which had provided a clearly positive boost to business performance in the same period of 2018.

## Investment in VIACOR Polymer GmbH, Rottenburg/Germany

With effect from 1 January 2020, Sto SE & Co. KGaA has acquired a 50.1 % interest in VIACOR Polymer GmbH, Rottenburg am Neckar/Germany. The renowned manufacturer of industrial floors and sports floor coatings complements the expertise of the Sto Group, whose portfolio also includes high-quality products for floor coatings under the StoCretec brand.

## Key figures (in EUR million)

Sto Group (IFRS)	9M 2018	9M 2019	Difference
Turnover	1,009.7	1,068.4	+5.8 %
- of which in Germany	451.2	467.4	+3.6 %
- of which non-Germany	558.4	601.0	+7.6 %
Investments (total)	19.1	17.3	-9.4 %
Employees as at 30 September	5,408	5,665	+4.8 %
- of which in Germany	2,900	3,042	+4.9 %
- of which non-Germany	2,508	2,623	+4.6 %