

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

### Consolidated interim report from the Management Board within the second half of 2020

#### At a glance:

- Consolidated turnover in the first nine months increases by 1.4 % to EUR 1,083.3 million mainly as a result of first-time consolidation effects
- Growth of 8.4 % within Germany; business outside of Germany decreases by a total of 4.0 % in light of the coronavirus pandemic
- Significantly improved earnings compared to previous year and expectations
- Number of employees in the Group was reduced slightly by 9 to 5,656 as compared to the same day of the previous year
- Forecast for the year of 2020 as a whole adjusted: turnover expected to amount to EUR 1,408 million and to hence come in slightly above the previous year's level (previous forecast: EUR 1,490 million); EBIT range expected to increase significantly to between EUR 106 million and EUR 116 million (previous forecast: between EUR 93 million and EUR 103 million)

#### Sector environment

In 2020, the **global economy** has been largely shaped by the coronavirus pandemic. However, from today's perspective, the economic downturn for the year as a whole will be somewhat less severe than previously expected. According to its most recent forecast in October, the International Monetary Fund (IMF) expects the global economy to contract by 4.4 %, thus revising its June forecast upwards by 0.8 percentage points. The IMF anticipates a minus of 6.0 % for Germany, while the US economy is expected to shrink by 4.3 %. In contrast, moderate growth of 1.9 % is forecast in China.

**Construction demand** in Germany has cooled noticeably in the course of 2020, but overall, the industry is still a pillar of the economy as a whole. According to the Federal Statistical Office Destatis, turnover in the main construction sector rose by

4.9 % from January to July 2020 compared to the same period of the previous year. The building engineering sector recorded an increase of 4.0 % while the civil engineering sector grew by 4.9 %. Actual order receipts declined by 3.3 % in the first eight months, which could be due to the postponement of planned construction projects because of the economic uncertainty.

Until the end of August 2020, the construction industry in **Europe** was in decline overall. After a still moderate decrease of 2.0 % in the first three months, production in the European construction industry fell by 10.3 % in the second quarter compared to the same period of the previous year, according to Eurostat. In July (0.0 %) and August 2020 (+2.4 %), construction activity picked up again somewhat overall. For 2020 as a whole, the EUROCONSTRUCT network expects construction output to fall by 11.5 %, with the coronavirus pandemic affecting individual countries to varying degrees. Particularly severe declines are expected in France, Italy, Spain, Great Britain, and Ireland.

In **China**, where the pandemic led to a drastic collapse in construction activity earlier in the year, economic activity has largely returned to normal. According to the Chinese statistical office, the world's second largest economy grew by 0.7 % in the first three quarters of 2020 compared to the same period of the previous year. However, according to GTAI (Germany Trade & Invest), the Chinese construction industry is lacking new projects due to the extensive restrictions in the first half of the year, which makes the industry expect a difficult year.

According to GTAI, the construction industry in the **USA** has also been substantially affected by the coronavirus pandemic. Although, according to the US government, GDP started to grow again from the middle of the year after significant losses in the first half of the year, the mood in the industry is subdued in view of the continuing dramatic incidence of infections.

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

The business development of Sto SE & Co. KGaA in the third quarter of 2020 was also largely shaped by the severe effects of the coronavirus pandemic. Overall, the Sto Group was still able to generate slight growth in the first nine months due to the

solid development at the beginning of the year and mainly due to positive effects from first-time consolidations. Negative currency translation effects have also been compensated. In comparison to the corresponding period of the previous year, net turnover grew by 1.4 %. Adjusted for currency translation and first-time consolidation effects, this resulted in a slight decrease of 0.4 %. Turnover, especially outside of Germany, was well below expectations as well as below the previous year's value. Across the Group, companies that are primarily engaged in business with building owners from the industrial sector were also affected by the economic downturn, such as the product area of industrial floors.

Consolidated earnings continued to show a very positive development: In the third quarter of 2020, both EBIT (earnings before interest and taxes) and EBT (earnings before taxes) clearly exceeded the previous year's values. From January until the end of September, the earnings figures EBIT and EBT improved considerably as compared to the corresponding figures of the previous year.

### **First-time consolidation effects lead to an increase in turnover**

In the first nine months of 2020, consolidated turnover of Sto SE & Co. KGaA amounted to EUR 1,083.3 million (previous year: EUR 1,068.4 million), of which first-time consolidation effects accounted for EUR 23.2 million. As compared to the same period the previous year, the Sto Group's companies consolidated grew by the German company VIACOR Polymer GmbH, Rottenburg am Neckar, which has been consolidated since 1 January 2020, the Canadian Skyrise Prefab Building Solutions Inc., in which Sto has held a majority share since May 2019, and Unitex Australia Pty Ltd, which has been part of the companies consolidated since 1 August 2019. In contrast, the companies consolidated no longer include the business operation of VeroStone GmbH, which was sold on 31 December 2019 as part of an asset deal. In this context, the company was renamed Sto BTV GmbH since the acquirers now operate under the name VeroStone.

In the first three quarters, turnover decreased by EUR 4.3 million as a result of currency translation effects, primarily due to the Norwegian krone, the Hungarian forint and the Chilean peso. The development of the Swiss franc had the opposite effect. Adjusted for all first-time consolidation and currency translation effects as well as the

effect from the sale of the business operation of Sto BTV GmbH (formerly VeroStone GmbH), consolidated turnover rose slightly by 0.3 % as compared to the same period of the previous year.

The Sto Group in Germany saw a tangible increase, largely thanks to favourable weather conditions at the beginning of the year and the first-time consolidation of VIACOR Polymer GmbH. From January until the end of September, turnover in Germany increased by 8.4 % to EUR 506.5 million compared to the previous year's value (previous year: EUR 467.4 million). Outside of Germany, the coronavirus pandemic also led to partially considerable turnover losses in the construction industry which could not be compensated for by growth generated through first-time consolidations. In net terms, volume generated in the Sto Group outside of Germany decreased by 4.0 % to EUR 576.8 million (previous year: EUR 601.0 million). This means that the percentage of consolidated turnover generated abroad declined from 56.3 % to 53.2 %.

In the segment of **Western Europe** - which includes Germany - an increase in turnover of 2.3 % was recorded in the first nine months due to the first-time consolidation effect in domestic business, although in several countries severely affected by the pandemic, such as France or Italy, the gap to the previous year could not yet be closed despite catch-up effects that have since been realised. A decrease of 9.0 % was recorded in the sub-segment of **Northern/Eastern Europe**, with the development differing largely from country to country. Companies in the Czech Republic and Norway, for example, had to cope with particularly severe slumps. The sub-segment of **America/Asia/Pacific** was able to achieve an increase in turnover of 5.6 % due to the first-time consolidation of Skyrise Prefab Building Solution Inc. (Canada) and Unitex Australia Pty Ltd. (Australia). Both in the Americas and in Asia, the coronavirus pandemic has had a negative impact on the business development over the course of the year to date, despite demand having gained momentum in several countries after the temporary easing of the corona-related restrictions.

In October, the turnover development within the Sto Group was surprisingly well below expectations and only just reached the previous year's level. The effects of the new wave of the coronavirus pandemic also had an impact, which again caused disruption in many regions.

## **Significantly improved earnings**

The Sto Group was able to markedly improve its EBIT and EBT in the third quarter of 2020 as compared to the previous year. In a comparison of the nine-month figures, significant growth rates were recorded for both EBIT and EBT. This very encouraging development was largely due to the increase in the gross profit margin which mainly resulted from procurement cost advantages and from product mix effects. Earnings were also positively impacted by distinct earnings-securing measures to compensate for the effects of the coronavirus pandemic.

## **Asset and financial situation remain very sound**

As at the reference date of 30 September 2020, the asset and financial situation of the Sto Group continued to be very sound. The majority of the changes in the balance sheet as compared to the 2019 year end resulted from the seasonal nature of the business and the expansion of the companies consolidated. In the first half year, Sto carried out a partial withdrawal from the syndicated loan in the amount of EUR 80 million as a precautionary measure to secure liquidity in light of potential risks from the coronavirus pandemic; of this amount, EUR 40 million were paid back on 31 August. The remaining amount is scheduled to be paid in time by the end of November.

## **Investment sum increased**

During the first nine months of 2020, the Sto Group's investments in Property, plant and equipment as well as Intangible assets amounted to EUR 21.8 million (previous year: EUR 17.3 million). These were mainly related to the planned expansion of the production capacity in Austria and the construction of a new logistics building at Südwest Lacke + Farben GmbH & Co. KG as well as the usual replacement and expansion measures.

## **Slight decrease in workforce numbers year-on-year**

As at 30 September 2020, the Sto Group had 5,656 employees worldwide as compared to 5,665 on the same day of the previous year (-9 employees, -0.2 %). In Germany, the number of employees was reduced by 18 to 3,024 as compared to

the end of September 2019 (30 September 2019: 3,042). The addition of 58 employees at VIACOR Polymer GmbH was contrasted by the transfer of 70 employees resulting from the sale of the business operations of Sto BTV GmbH (formerly VeroStone GmbH). Outside of Germany, the workforce grew by 9 to 2,632 employees (30 September 2019: 2,623). Selective adjustments were once again made in regions battling difficult economic conditions, while targeted new hirings were made in countries with short- and medium-term growth prospects. Year-on-year, the percentage of the Group's workforce employed outside of Germany rose slightly from 46.3 % to 46.5 %. Compared with the end of 2019, the Sto Group's workforce increased by 123 employees, or 2.2 %, (31 December 2019: 5,533) especially due to the seasonal nature of business and first-time consolidation effects.

### **Forecast for the year of 2020 as a whole adjusted**

From today's point of view, Sto SE & Co. KGaA expects that the announced growth in turnover of 6.6 % to EUR 1,490 million in 2020 will not be achieved, while the previously expected EBIT range of EUR 93 million to EUR 103 million is likely to be exceeded. On the basis of the business development to date and against the background of the current development of the coronavirus pandemic, which could lead to crucial restrictions in large parts of the world, Sto anticipates only a modest increase in turnover to EUR 1,408 million as compared to 2019 (previous forecast: EUR 1,490 million; 2019: EUR 1,398.2 million). Consolidated EBIT is expected to fall into the range of between EUR 106 million and EUR 116 million, hence significantly exceeding both the previous forecast of between EUR 93 and 103 million and the previous year's level (2019: EUR 85.9 million). In 2020, earnings before taxes (EBT) are likely to increase more considerably than anticipated and to fall into the range of between EUR 103 million and EUR 113 million (previous forecast: between EUR 90 million and EUR 100 million; 2019: EUR 83.1 million), with a return on sales of between 7.4 % and 8 % (previous forecast: between 6 % and 6.7 %; 2019: 5.9 %).

It must be pointed out that the weather conditions in the last few months of the year, which are important for the Sto Group's business development, may still have a significant negative impact on the development of turnover and earnings in the 2020 fiscal year. On the other hand, opportunities could arise from weather conditions

that are unusually good for the season. Moreover, the visibility of demand for the remainder of the year remains significantly limited due to the coronavirus pandemic. In view of the current significant increase in the number of Covid-19 cases, the reactions of the respective governments and their effects cannot be assessed. The risks resulting from the coronavirus pandemic are described in detail in the risks and opportunities report of the 2019 Annual Report.

### Key figures (in EUR million)

<b>Sto Group (IFRS)</b>	<b>9M 2019</b>	<b>9M 2020</b>	<b>Difference</b>
Turnover	1,068.4	1,083.3	+1.4 %
- of which in Germany	467.4	506.5	+8.4 %
- of which outside of Germany	601.0	576.8	-4.0 %
Investments (total)	17.3	21.8	+26.0 %
Employees as at 30 September	5,665	5,656	-0.2 %
- of which in Germany	3,042	3,024	-0.6 %
- of which outside of Germany	2,623	2,632	+0.3 %