Building with conscience.

Sto SE & Co. KGaA, Stühlingen

Consolidated interim report

For the period from 1 January to 30 September 2021

Overview of the Group	01 Jan 2021 – 30 Sep 2021	01 Jan 2020 – 30 Sep 2020	Change in %
Turnover	**1,220.2**	**1,083.3**	**12.6 %**
Germany	541.2	506.5	6.9 %
Outside of Germany	679.0	576.8	17.7 %
Investments (without: financial assets and IFRS 16)	**27.7**	**21.8**	**27.1 %**
Employees	**5,764**	**5,656**	**1.9 %**
of which in Germany	3,157	3,024	4.4 %
of which outside of Germany	2,607	2,632	-0.9 %

(Figures in EUR million unless otherwise indicated)

Overview of the first 9 months of 2021

- **Turnover of the Sto Group up by 12.6 % to EUR 1,220.2 million in the first nine months of 2021**
- **As compared to the same period of the previous year, a plus of 6.9 % was recorded in Germany, and a plus of 17.7 % outside of Germany**
- **Earnings burdened by difficult situation on the procurement markets: gross profit margin significantly reduced; consolidated earnings as at September nevertheless above previous year**
- **As at the end of September, the number of employees in the Group up by 108 to 5,764, primarily through expansion of the companies consolidated**
- **Forecast for the year of 2021 as a whole unchanged: turnover expected to rise by 10 % to around EUR 1,578 million (2020: EUR 1,433.0 million); EBIT expected to be between EUR 95 million and EUR 110 million (2020: EUR 119.0 million)**

Sector environment

In the course of 2021, the **global economy** has increasingly recovered from the coronavirus pandemic and the International Monetary Fund (IMF) expects it to grow by 5.9 % for the year as a whole. In the industrialised countries, the increase is expected to be 5.2 %, with GDP likely to grow by 6.3 % in France, by 5.8 % in Italy and by 5.7 % in Spain. In the group of the four largest European countries, Germany has the lowest economic growth figure of 3.1 %. In the USA, the IMF expects growth of 6.0 %. For the developing and emerging countries, which have fewer resources to deal with the coronavirus pandemic and often have low vaccination rates, the experts anticipate a 6.4 % increase in GDP. In China, growth of 8.0 % is expected.

According to calculations by the Federal Statistical Office, turnover in the **German main construction sector** was 1.0 % lower from January to July 2021 than in the same period of the previous year, with the volume in building construction falling by 1.8 % and in civil engineering by 5.2 %. The real receipt of orders increased by 1.5 % in the first eight months; the nominal increase was 6.5 %, mainly due to the very sharp rise in construction prices. For the year as a whole, the HDB and ZDB associations expect nominal turnover stagnation in the industrial sector.

The Verband der deutschen Lack- und Druckfarbenindustrie e.V. (Association of the German Paint and Printing Inks Industry) predicts a 7 % decrease in volume for the entire **architectural coatings** sector in 2021 as a whole, for which the end of the boom in the DIY market is responsible in particular. In the professional market, sales and turnover growth in the low single-digit range can be expected. For the **EWIS market**, which grew significantly in the first nine months, the market research institute B + L Marktdaten GmbH anticipates an increase in volume of 5.1% in 2021.

Production in the **European construction industry** rose by 2.1 % in the first quarter and by 15.3 % in the second compared to the respective period of the previous year. The development then weakened: in July, an increase of 4.3 % was recorded, in August, production fell by 1.0 %. At the same time, European building construction companies surveyed by the ifo Institute have since been reporting considerable disruptions to their work since April. These disruptions are due to material shortages and significant rises in price expectations for construction work to be performed.

In the **USA**, construction investments have risen sharply in 2021 to date. Figures from Germany Trade and Invest (GTAI) indicate an increase in cumulative industry spending in the previous twelve months as at August 2021 of around 8.9 % as compared to the same period of the previous year year. In particular, the significantly increased private spending on the construction and modernisation of single-family homes ensured solid figures in the US construction industry. In contrast, public investment in residential construction and building construction declined overall. Government spending on civil engineering and non-residential construction also declined between August 2020 and August 2021.

In **China**, there were noticeable catch-up effects in the construction sector in 2021, according to the national statistical office, although the production value of the industry had already grown by a good 6 % in 2020 despite the pandemic. For the first six months of 2021, the authority registered an increase of almost 19 % compared to the same period of the previous year. The prices for numerous raw materials and primary products, however, have risen sharply. There were also increases in freight rates and lending rates, so that revenue development is likely to be subdued. In addition to the higher costs, there are repeated difficulties in transport, and there are also delivery bottlenecks in China for numerous raw materials and primary products.

Business development of the Sto Group

The Sto Group was able to continue its turnover growth in the third quarter of 2021, but, as forecast in advance, with less momentum. After the very strong growth in the first half of the year, the increase slowed down significantly, with delays on the construction sites in other trades increasingly occurring in the course of the third quarter, particularly in Germany, due to delivery disruptions. Abroad, catch-up effects were still noticeable in several countries, but in individual regions, especially in Southeast Asia and Australia, there were still significant restrictions due to the coronavirus pandemic.

In the entire reporting period, turnover of Sto SE & Co. KGaA increased by 12.6 % as compared to the first nine months of 2020. Adjusted for first-time consolidation and the net negative currency translation effects, organic growth was 11.2 %.

The initially very positive earnings situation has been increasingly burdened in the course of the year by the extraordinarily sharp rise in prices in the procurement and transport sector as well as by supply bottlenecks on the world markets, which also made processes considerably more difficult due to the limited availability of raw materials and bought-in products. The pressure on the gross profit margin increased significantly in the third quarter of 2021 compared to the previous quarters. Nevertheless, due to the very good business development in the first half of the year, consolidated earnings as at the end of September 2021 were above the value of the corresponding reference period.

Coping with the turnover volume, which was significantly higher than the original plan, and the challenges associated with the considerable disruptions in procurement put an enormous strain on the Sto employees in the reporting period. They have demonstrated exemplary commitment to ensure that the Sto customers receive the best service possible. The Executive Board would like to thank the workforce most sincerely for the dedication they have shown.

In October 2021, turnover in the Sto Group was above the previous year's value; earnings, however, came in below the previous year's value.

Changes to the companies consolidated

With effect from 28 February 2021, Sto SE & Co. KGaA acquired the remaining 50.2 % of shares in JONAS Farbenwerke GmbH & Co. KG, Wülfrath/Germany. The company, which now trades under the name of JONAS Farben GmbH, has been fully consolidated in the consolidated annual financial statement of the Sto Group since March 2021.

Consolidated turnover: growth rate normalised since mid-year

As at the end of September 2021, **consolidated turnover** of Sto SE & Co. KGaA increased by EUR 136.9 million to EUR 1,220.2 million as compared to the same period of the previous year (previous year: EUR 1,083.3 million). In the first nine months, a total net negative effect of EUR 4.6 million arose from currency translations. The US dollar, in particular, was depreciated in the reporting period, although the negative impact decreased compared to the middle of the year; the Swiss franc and the Turkish lira were also depreciated. The Swedish krona and Norwegian krone, among others, saw a positive development. Adjusted for first-time consolidation and currency translation effects, the Sto Group achieved organic growth of 11.2 % as at the end of September.

In **Germany**, the Sto Group turnover increased by 6.9 % to EUR 541.2 million (previous year: EUR 506.5 million) in the first nine months. Without JONAS Farben GmbH, which was fully consolidated for the first time, growth of 2.8 % was recorded. From the middle of the year in particular, delivery bottlenecks and the limited availability of raw materials and bought-in products increasingly led to disruptions on the construction sites, so that some projects could not be carried out as planned.

On the other hand, catch-up effects were still noticeable in some **markets outside of Germany** that had had substantial losses in the previous year as a result of the coronavirus pandemic. During the course of the year to date, several countries have also benefited from government-backed incentives to support energy-efficient building refurbishment. Compared to the previous year's value, Sto Group turnover generated abroad increased by 17.7 % to EUR 679.0 million (previous year: EUR 576.8 million) despite the currency translation effects, which were negative overall. The percentage of Group turnover generated abroad amounted to 55.7 %, compared to 53.2 % in the same period of the previous year. Growth in national currencies outside of Germany amounted to 18.5 %.

In the region of **Western Europe** – including Germany – business volume grew by 14.4 % from January to September 2021, taking into account first-time consolidation effects. Noticeable catch-up effects were seen in particular in the companies in France, Italy, and Spain. In addition, volumes were helped by government-backed incentives for energy-efficient building refurbishment in the residential construction sector, such as the “France Relance” initiative in France. Business in Switzerland, on the other hand, saw a relatively difficult development.

A rise of 9.4 % was recorded in the **Northern/Eastern Europe** sub-segment. While the companies in Northern Europe recorded growth across the board (helped by currency translation effects), the picture was different in Eastern Europe where the encouraging business development in individual countries was countered by monderate declines in countries such as Slovakia.

In the **America/Asia/Pacific** sub-segment, turnover increased by 5.0 % overall. Unfortunately, at the US company, the growth achieved was largely offset by the negative currency translation effects. The other American countries recorded largely encouraging rates of growth. In our markets in the region of Asia/Pacific, which were also badly affected by the coronavirus pandemic in the previous year, growth was recorded in most countries; however, the rate of growth was below expectations in all countries apart from China, due to the continuing negative impact of the pandemic.

Development of earnings burdened by high procurement prices

As a result of the drastically rising costs on the procurement side, for which it had previously not been possible to pass them on to customers in the form of necessary price increases, the gross profit margin and thus the Sto Group's earnings were significantly impacted in the reporting period.

In the third quarter of 2021, consolidated earnings were significantly below the previous year's value, despite the turnover growth achieved, in particular due to the significant pressure on the gross profit margin.

The prices of raw materials such as epoxy resins, titanium dioxide, as well as insulants saw particularly dramatic rises in the first nine months of 2021. There are also capacity shortages in the logistics sector, which leads to increasing freight costs. In long-distance transport, for example, the processes were hindered by capacity bottlenecks in silo tankers. The numerous different influencing factors are difficult to assess with regard to the further course of development, so that the rest of the year is also burdened with great uncertainty.

Nevertheless, due to the very good business development in the first half of the year as well as initiated earnings-securing measures, consolidated earnings as at the end of September 2021 were above the value of the corresponding reference period.

Increase in investment volume

As at the end of September 2021, Group-wide investments in **Property, plant, and equipment, and Intangible assets** amounted to EUR 27.7 million (previous year: EUR 21.8 million). Among other things, investments were made in the expansion of production capacities at the Villach location in Austria, which was completed at the beginning of the fourth quarter of 2021, and the construction of the new logistics building at Südwest Lacke + Farben GmbH & Co. KG in Böhl-Iggelheim, Germany, which is now also in operation. In addition, investments were made in the modernisation of the tunnel furnace at Ströher Produktions GmbH & Co. KG as well as in the usual replacement and expansion measures.

Sound asset and financial situation

As at 30 September 2021, the asset and financial situation of the Sto Group continued to be sound. The majority of the changes as compared to the beginning of the year resulted from the seasonal nature of the business and the expansion of the companies consolidated by JONAS Farben GmbH. The inventories in the Group were significantly increased as part of far-reaching provision planning in order to take account of the uncertainty on the procurement markets and the significant increase in the purchase price level.

Group-wide rise in workforce numbers

As at the reference date, the Sto Group had 5,764 employees worldwide compared to 5,545 at the 2020 year end (+219 employees; +4.0 %) and 5,656 on the same day of the previous year (+108 employees; +1.9 %). In **Germany**, the workforce increased by 133 to 3,157 employees since 30 September 2020 (previous year: 3,024), 94 of whom were employed at JONAS Farben GmbH.

Outside of Germany, the number of employees fell by 25 to 2,607 compared to the same day of the previous year. Across the Group the workforce was selectively reduced in regions battling difficult economic conditions, while there was a small number of new hires in countries with short- and medium-term growth prospects. The percentage of the Group's workforce employed abroad fell from 46.5 % to 45.2 %.

Outlook for 2021

For the last quarter of 2021, due to the more difficult general conditions, a further weakening of growth in the Sto Group, to the level already forecast in the reporting for the first half of 2021, is expected. Uncertainties arise primarily from the weather conditions, the renewed significant rise in COVID-19 cases and, in particular, from the unclear development on the procurement markets. The supply bottlenecks in the global markets, which in some cases are of fundamental importance, and the limited availability of raw materials and bought-in products may limit planned growth of Sto in the last few months of the year to a higher degree than anticipated. This is due to the fact that construction projects may not be able to be carried out as planned and catch-up effects may not be seen to the same extent as in the first half of the year. There is a risk that deliveries to building projects cannot be executed due to delays in the upstream trade work. The pressure on the gross profit margin due to the procurement price increases is likely to continue in the fourth quarter with less momentum.

In order to compensate for the previous cost increases, further necessary significant sales price increases are currently being worked on, for example by the sales team of Sto SE & Co. KGaA in Germany effective 1 November 2021. Opportunities could arise from the current good order backlog, advantageous shifts in the product mix depending on the weather, and ongoing earnings-securing measures.

According to our assessment, the currently sharply increasing energy prices are only expected to lead to further additional costs and rising inflation in the subsequent months.

Based on the current estimate, Sto continues to anticipate that consolidated turnover for the year 2021 as a whole will increase by 10 % to approximately EUR 1,578 million (2020: EUR 1,433.0 million). Consolidated EBIT is currently expected to fall between EUR 98 million and EUR 113 million (2020: EUR 120.8 million) and EBT between EUR 95 million and EUR 110 million (2020: EUR 119.0 million). Where the resulting return on sales is concerned, we are therefore expecting to see a value between 6.0 % and 7.0 % (2020: 8.3 %), and after allowing for the application of IFRS 16, we are expecting the return on capital employed (ROCE) to be between 14.8 % and 17.1 % (2020: 19.7 %).

For the Sto Group, there are great opportunities for growth in the area of facade systems in the medium term. A good building insulation, which can save a lot of energy and CO_2, is particularly important for climate protection worldwide. With a view to achieving the internationally defined environmental goals, it is vital to strengthen this area. Resulting from this, there is significant potential for sales of external wall insulation systems globally and Sto should also be involved here as one of the leading providers.

At the mid-point of 2021, Sto has started to implement the measures derived from the strategy review. These focus on three key objectives: improving growth, increasing profit, and expanding our core competence. The implementation of the 14 core initiatives initiated for this purpose has been delayed due to the current difficult situation on the procurement markets and the associated disruptions in the process flow, as the entire Sto organisation is currently and in the coming months will be focused on ensuring the usual high level of customer satisfaction. As a financial goal, the Sto Group is aiming for a turnover of EUR 2.1 billion and a return on sales of 10 % in relation to EBT by 2025.