Building with conscience.

Sto SE & Co. KGaA, Stühlingen/Germany

Consolidated interim report

For the period from 1 January to 30 September 2022

Overview of the Group	01 January 2022 - 30 September 2022	01 January 2021 - 30 September 2021	Change in %
Turnover	**1,381.6**	**1,220.2**	**13.2**
Germany	595.4	541.2	10.0
Outside of Germany	786.2	679.0	15.8
Turnover by segment			
Western Europe	1,085.1	957.0	13.4
Northern/Eastern Europe	136.8	121.1	13.0
America/Asia/Pacific	159.7	142.1	12.4
Investments (without financial assets and IFRS 16)	**24.5**	**27.7**	**-11.6**
Employees	**5,839**	**5,764**	**1.3**
Germany	3,174	3,157	0.5
Outside of Germany	2,665	2,607	2.2

(Figures in EUR million unless otherwise indicated)

At a glance:

- **Turnover of the Sto Group up by 13.2 % to EUR 1,381.6 million in the first nine months of 2022**
- **10.0 % growth within Germany and 15.8 % growth outside of Germany**
- **Income situation under pressure due to rises in procurement prices: gross profit margin falls from 52.5 % to 50.0 %**
- **Consolidated EBIT decreases in comparison with the same period the previous year despite a larger business volume**
- **As at the end of September, the number of employees in the Group up by 75 to 5,839**
- **Outlook for 2022 as a whole unchanged: growth in turnover to around EUR 1.79 billion expected; EBIT likely to range between EUR 114 million and EUR 134 million, and EBT to range between EUR 112 million and EUR 132 million (in each case without factoring in the impact of the Russia-Ukraine conflict, which cannot be reliably assessed in quantitative terms)**

Sector environment

In its October 2022 update, the International Monetary Fund (IMF) painted a bleak picture of the **global economy**. Despite the various negative influencing factors that are at play – such as high inflation, the Russian war of aggression against Ukraine, and the consequences of the coronavirus pandemic and climate change – global gross domestic product (GDP) is still expected to increase by 3.2 % in the current year. However, the forecast for 2023 has been reduced from 2.9 % to 2.7 % (2021: 6.0 %).

The IMF has likewise lowered its expectations for 2022 in relation to the world's three biggest economies comprising the USA, China, and the European Union, where it is now predicting growth rates of 1.6 % (2021: 5.7 %), 3.2 % (2021: 8.1 %), and 3.1 % (2021: 5.2 %) respectively. In 2022, GDP is expected to rise by 2.5 % in France (2021: 6.8 %), by 3.2 % in Italy (2021: 6.6 %), and by 4.3 % in Spain (2021: 5.1 %). Lagging behind the other major industrialised nations is Germany with an anticipated increase of 1.5 % (2021: 2.6 %). In the developing and emerging countries, the experts are expecting GDP to increase by a total of 3.7 % (2021: 6.6 %). The IMF stresses that the forecasts are extremely uncertain, stating that the future development of the global economy will depend heavily on monetary policy, on the development of the Russia-Ukraine conflict, and on any further disruptions that may arise because of the pandemic – such as in China.

According to information from the Federal Statistical Office of Germany (Destatis), real turnover in the **German main construction sector** actually fell by 4.3 % in the first eight months of 2022 (once adjusted for price changes), even though increased prices meant it was nominally 11.5 % higher than in the corresponding period of the previous year. The Hauptverband der Deutschen Bauindustrie (Main Association of the German Construction Industry or HDB for short) believes that growth in the construction industry is being affected in a multitude of ways, not only by the Russia-Ukraine conflict as the primary factor but also by the disruptions to international supply chains, the interest rate reversal, and the inflationary trend. In light of this, the HDB expects turnover for 2022 as a whole to decline by around 2 % in real terms.

The Verband der deutschen Lack- und Druckfarbenindustrie e.V. (Association of the German Paint and Printing Ink Industry) has likewise revised its forecast downwards for the current year and is now reckoning on an 11 % drop in demand in the area of **architectural coatings**. Within the **EWIS market**, the market research institute B+L Marktdaten GmbH is anticipating a decrease in quantity of 2.1 % compared to 2021.

According to EUROCONSTRUCT, **European construction services** for 2022 as a whole are going to exceed pre-coronavirus levels, largely due to the pent-up demand created over the course of the pandemic. Nevertheless, this industrial sector remains deeply affected by the massive increases in energy prices and material shortages being caused by the Russia-Ukraine conflict. In line with this, EU-wide production within the building industry slowed significantly over the course of the year according to information from Eurostat: although an increase of 5.9 % was recorded in the first quarter compared to the corresponding period of the previous year, there was an increase of only 2.3 % in the second quarter. In July and August, gains of 2.1 % and 2.3 % were reported respectively.

The construction industry in the **USA** is set to grow in 2022 but the expectations for the second half year have been noticeably scaled back. GTAI (Germany Trade & Invest) estimates that investments in building construction, in particular, are increasingly losing momentum. The main reasons for this are the ongoing supply chain problems, the shortage of skilled workers, and the rising financing costs.

In the **Chinese construction sector**, considerable declines have been recorded over the course of the year so far. According to information from the National Bureau of Statistics, the first eight months of the year saw a reduction of around 37 % in the construction of new buildings when measured in terms of surface area. Not only that but land purchases by real estate companies fell by nearly half compared to the same period of the previous year, with real estate sales dropping by around 28 % in terms of value. The biggest drop – at more than 30 % – was in the apartment sector. According to GTAI, the weakening of the Chinese real estate sector is particularly attributable to the development mistakes that have been made over recent years (whereby homes have been built in huge numbers without any regard for actual demand) and also to rises in interest rates.

Business development of the Sto Group

In the first nine months of 2022, the Sto Group managed to achieve a significant organic increase in turnover. The net growth in turnover in the third quarter was due to the increases in the sales prices that Sto was forced to introduce in response to the dramatic cost rises in the area of procurement. After the overall positive demand in the first half of the year, mainly in the facade business, development of sales remained below expectations, especially in July and August. Alongside other factors, the unusually high temperatures experienced in these months hampered work on construction sites.

Throughout the entire reporting period, the income situation was dominated by rising procurement prices, which put a lot of pressure on the gross profit margin. In the first half year, hefty cost increases were seen in virtually all areas but in the third quarter the picture became more varied, with energy-intensive raw materials and bought-in products affected by further considerable price rises.

A Group-wide increase in turnover of 13.2 % was recorded for Sto SE & Co. KGaA in the first nine months. Once adjusted for first-time consolidation effects and the currency translation effects that proved positive overall, growth came in at 11.7 %. As at the end of September, consolidated EBIT was below the level of the corresponding period of the previous year.

Once again, the Sto employees showed huge commitment in overcoming the substantial challenges faced during the reporting period, particularly with regard to procurement. As a result, we were able to ensure – largely satisfactorily – that our customers were supplied with the products they needed in the current financial year. The Executive Board would like to thank the workforce most sincerely for the dedication they have shown.

Group-wide increase in turnover

As at the end of September 2022, the **consolidated turnover** of Sto SE & Co. KGaA increased to EUR 1,381.6 million, up by 13.2 % compared to the previous year’s value (previous year: EUR 1,220.2 million). This figure also includes the positive effect of currency translations worth a total of EUR 14.1 million. The US dollar, the Swiss franc, and the Chinese renminbi, in particular, were all revalued in the reporting period, while other currencies, including the Turkish lira, took a negative turn. This was coupled with a first-time consolidation effect in the amount of EUR 4.8 million, caused by the change in the companies consolidated during the course of the previous year. Once adjusted for all first-time consolidation and currency translation effects, the turnover of the Sto Group increased by 11.7 % in the first three quarters of 2022.

In **October**, turnover exceeded the previous year’s value but remained slightly below expectations.

Across the Group, the growth in turnover in the first three quarters of 2022 was driven by prices. Both in Germany and at numerous foreign subsidiaries, price increases had to be implemented in the course of the year in order to counter the dramatic cost increases on the procurement side. By the end of September, **turnover in Germany** had seen a net increase of 10.0 % to EUR 595.4 million (previous year: EUR 541.2 million); meanwhile, in the **markets outside of Germany**, Sto managed to achieve a 15.8 % increase to EUR 786.2 million (previous year: EUR 679.0 million). In addition to positive currency translation effects in several countries, another key factor that contributed to this consisted of government initiatives aimed at supporting energy-efficient building refurbishment. The percentage of total Sto Group turnover generated outside of Germany amounted to 56.9 % compared to 55.7 % in the same period of the previous year.

In the segment of **Western Europe** – including Germany – turnover volume grew by 13.4 % to EUR 1,085.1 million in the first three quarters of 2022 (previous year: EUR 957.0 million). As well as benefitting from first-time consolidation effects, the companies in Italy and France – in particular – achieved high levels of growth thanks to the successful incentives provided for energy-efficient building refurbishment. Positive currency translation effects were the main factors noticeable in Switzerland.

Growth of 13.0 % to EUR 136.8 million (previous year: EUR 121.1 million) was achieved in the **Northern/Eastern Europe** segment, with both Northern and Eastern European companies developing well in the main.

In the **America/Asia/Pacific** segment, turnover increased overall by 12.4 % to EUR 159.7 million (previous year: EUR 142.1 million). Substantial currency translation effects boosted the growth achieved by the company in the USA. Meanwhile, in China, the measures taken to mitigate the coronavirus pandemic and the considerable slow-down in construction growth more than cancelled out the positive currency effects seen there.

Significant pressure on the gross profit margin

In addition to the significantly higher procurement costs, which we have not yet been able to pass onto our customers fully by raising our own prices and which have reduced the gross profit margin considerably from 52.5 % to 50.0 % compared to the same period of the previous year, the higher freight costs were some of the other factors that put the income situation of the Sto Group under strain.

In the third quarter, procurement prices continued developing differently depending on the nature of the goods. In particular, the prices of energy-intensive raw materials and of bought-in products increased even further. In the third quarter, and therefore in the first nine months of 2022, consolidated earnings remained below the previous year's value overall.

Investment volume less than previous year

In the first three quarters of 2022, Group-wide investments in **Property, plant, and equipment** as well as **Intangible assets** amounted to EUR 24.5 million (previous year: EUR 27.7 million). Investments were focused, among other things, on the installation of a second rotary kiln with a view to expanding production capacity at Liaver GmbH & Co. KG in Ilmenau, Thuringia/Germany. The measure is expected to be completed in 2023. In addition, Sto invested in ongoing, long-term measures for modernising or replacing the production equipment.

Sound assets and liabilities situation and financial situation

As at the end of September, the assets and liabilities situation and financial situation of the Sto Group were extremely sound. The majority of the changes as compared to the beginning of the year resulted from the seasonal nature of the business. To date, inventories have been built up substantially to safeguard our ability to deliver in light of the uncertain supply situation. Alongside this, there has been an increase in current trade receivables. In addition to the higher business volume overall, this is also attributable to the larger percentage of consolidated turnover generated outside of Germany, since longer average collection periods are the norm there.

Slight Group-wide increase in workforce numbers

As at 30 September 2022, the Sto Group had 5,839 employees worldwide compared to 5,697 at the 2021 year end (+142 employees; +2.5 %) and 5,764 on the same day of the previous year (+75 employees; +1.3 %). Against the backdrop of an overall cautious recruitment policy, the workforce in **Germany** has increased by 17 to 3,174 (previous year: 3,157) and **outside of Germany** by 58 to 2,665 employees (previous year: 2,607) since the end of September 2021. New hires were mainly made at companies in countries with short- and medium-term growth prospects, while the workforce was reduced selectively in regions battling difficult economic conditions. Year-on-year, the percentage of the Group’s workforce employed outside of Germany rose slightly from 45.2 % to 45.6 %.

After the end of the reporting period

At the beginning of November 2022, Sto SE & Co. KGaA acquired the remaining 48 % of the shares in Sto Italia Srl, Empoli/Italy from the previous minority shareholders. The Italian subsidiary, which had already been fully consolidated into the Sto Group, currently has more than 50 employees and focuses mainly on the product segment of external wall insulation systems.

Outlook for 2022 as a whole

The outlook for the year of 2022 as a whole remains unchanged: without factoring in the impact of the Russia-Ukraine conflict which cannot be reliably assessed in quantitative terms, Sto expects **consolidated turnover** to increase to around EUR 1.79 billion (2021: EUR 1.59 billion). The Sto Group’s **EBIT** is expected to range between EUR 114 million and EUR 134 million (2021: EUR 124.5 million), and its **EBT** is still anticipated to be between EUR 112 million and EUR 132 million (2021: EUR 127.9 million). The resulting **return on sales** is hence likely to be between 6.3 % and 7.4 % (2021: 8.0 %). and the return on capital employed (**ROCE**) to be between 15.9 % and 18.7 % (2021: 18.9 %).

The weather conditions, which have a significant impact on the business development of Sto SE & Co. KGaA, not only pose risks but also offer opportunities for the development of turnover, the product mix, and of earnings up to the year end. Furthermore, the forecast is based on the following assumptions: the construction site processes will not be hampered by any additional delays associated with particular trades, the economic trends in Sto’s key markets will be in line with expectations, the EUR exchange rates for the foreign currencies of relevance to Sto’s business and the interest level will remain largely stable, and the impact of the coronavirus pandemic will not intensify in the final months of the year. Another important condition for achieving the targets is a continuous supply of gas. To counteract the considerable pressure being exerted on the gross profit margin by rising procurement and energy costs, various Sto companies will have to take further steps to increase prices, some of which have already been implemented.

The **amount invested** in the course of 2022 will fall short of the originally announced budget of EUR 63 million, particularly as a result of time delays and the postponement of various major projects. Instead, it is likely to be around the EUR 48 million mark.

For the Sto Group, there are great opportunities for growth in the area of facade systems in the medium term. Good building insulation, which can bring about huge energy and CO_2 savings, is of major importance worldwide, particularly from the perspective of climate protection. 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.

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.

Stühlingen/Germany, November 2022
Sto SE & Co. KGaA
represented by STO Management SE
Executive Board