



Building with conscience.

Sto SE & Co. KGaA, Stühlingen/Germany

Consolidated interim report

For the period from 1 January to 31 March 2023



Overview of the Group

	01 Jan 2023 - 31 Mar 2023	01 Jan 2022 - 31 Mar 2022	Change in %
Turnover	361.8	368.0	-1.7
Germany	146.6	151.5	-3.2
Outside of Germany	215.2	216.5	-0.6
Turnover by segment			
Western Europe	288.0	294.7	-2.3
Northern/Eastern Europe	31.3	31.1	+0.6
America/Asia/Pacific	42.5	42.2	+0.7
Investments (without financial assets and IFRS 16)	6.0	5.6	+7.1
Employees (at end of the quarter)	5,771	5,773	0.0
Germany	3,125	3,134	-0.3
Outside of Germany	2,646	2,639	+0.3

(Figures in EUR million unless otherwise indicated)

At a glance:

- **Consolidated turnover decreases by 1.7 % in the first quarter of 2023 compared to the high value achieved in the previous year, mainly as a result of the weather conditions**
- **Gross profit margin improves to 50.6 % as compared to previous year (previous year: 49.7 %), but still lower than expected**
- **Negative Q1 result that is typical for the season is significantly more severe in comparison to the previous year**
- **At 5,771 employees, the size of the Group's workforce is virtually at the previous year's level**
- **Outlook for 2023 as a whole unchanged: without factoring in the impact of the Russia-Ukraine conflict, consolidated turnover of EUR 1.91 billion is anticipated, with EBIT expected to range between EUR 118 million and EUR 143 million**

Sector environment

According to the latest forecasts by the International Monetary Fund (IMF), the **global economy** is faced with its weakest growth since 1990. According to the World Economic Outlook that was released in mid-April, the increase in global gross domestic product (GDP), which had still reached 3.4 % in 2022, will slow down to 2.8 % in the current year. The IMF is forecasting a 1.3 % rise in GDP for the industrialised countries and is expecting growth of 3.9 % in the developing and emerging countries. The IMF believes that the main drivers of the global economy will be China (where the economy is likely to see a rapid revival and expand by 5.2 %) and India (which is expected to experience an increase of 5.9 %).

Elsewhere, the IMF has arrived at a more pessimistic assessment, particularly as far as the situation in **Germany** is concerned – where economic output is actually expected to shrink slightly in 2023: in April, the IMF revised its January estimate downwards by 0.2 per cent and is now expecting GDP to decline there by 0.1 %.

According to information from the Federal Statistical Office of Germany (Destatis), the amount of turnover generated in the German **construction sector** decreased by 8.0 % in the first two months of 2023 once adjusted for price changes. Due to the hike in construction prices, a nominal increase of 6.5 % was actually recorded compared to the same period of the previous year. Up to the end of February, incoming orders were down by 18.2 % in real terms, nominally decreasing by 4.4 %. There was also a dramatic decline in residential building permits: up to the end of February, the volume was 23.4 % lower than the previous year's value, which is said to be mainly attributable to the higher costs of construction materials and the increasingly less favourable financing conditions. According to Destatis, the number of permits granted for new single-family dwellings fell by 28.4 % in the first two months compared to the equivalent period of the previous year, with the number of permits for two-family dwellings dropping by as much as 52.4 %. In the case of multifamily dwellings, the decrease was 23.0 %.

Development of turnover

In the first three months of 2023, the **Sto Group** generated a turnover of EUR 361.8 million, which was 1.7 % below the high level achieved in the same period of the previous year (previous year: EUR 368.0 million). This decline was mainly the result of unfavourable weather conditions (characterised by frequent precipitation with low temperatures at times), which had a significant detrimental effect on the facade business in particular. By contrast, in the previous year, Sto was able to benefit from the good weather prevailing in most of the regions of relevance to the company. In the area of interior coatings, the figure achieved exceeded the previous year's value. Across the Group as a whole, currency translations had a negative influence of EUR 0.7 million overall. Within this context, the positive development of the US dollar and Swiss franc, in particular, had to compete with a significant depreciation of the Turkish lira as well as the Swedish krona and Norwegian krone. Once adjusted for the currency translation effect, turnover declined by 1.5 % during the reporting period when calculated in the national currencies.

In the segment of **Western Europe** – including Germany – the turnover volume decreased by 2.3 % in the first quarter of 2023, with demand not only being subdued by the effects of the weather but also by various other factors, including the uncertainty in Italy surrounding the changes in tax incentive policy. In **Northern/Eastern Europe**, turnover increased slightly by 0.6 % despite the predominantly negative currency translation effects. In the **America/Asia/Pacific** segment, we achieved a net increase of 0.7 % compared to the same period of the previous year. It was mainly at the subsidiary in China (where business development remained

extremely difficult) that considerable declines were recorded. In the USA, demand has likewise remained below the previous year's level in the course of the year to date, and the positive currency translation effect has not been able to compensate for this fully.

In **Germany**, the turnover volume of the Sto Group fell by 3.2 % to EUR 146.6 million (previous year: EUR 151.5 million) and by 0.6 % to EUR 215.2 million **outside of Germany** (previous year: EUR 216.5 million). In comparison to the same period of the previous year, the share of total turnover generated outside of Germany increased from 58.8 % to 59.5 %.

Development of earnings

Due to the distinct seasonal nature of its business activities, Sto does not usually generate positive consolidated earnings in the first few months of the year. The rising costs on the procurement markets continued into the first quarter of 2023, particularly in the case of energy-intensive materials and bought-in products, although there was a drop in the price of various raw materials and bought-in products that are also used in other industrial sectors more severely affected by the economic slowdown.

At 50.6 %, the gross profit margin was higher than the previous year (previous year: 49.7 %) but still lower than expected. Sto intends to at least compensate for current and past strains from procurement in the previous year by further increasing its own sales prices over the course of the current year. Even though the number of employees remained largely the same, personnel costs increased. This was mainly due to pay increases based on collective wage agreements. Other operating expenses were also higher than the previous year. Overall, the deficit in the first quarter of 2023, which is typical for the season, increased significantly compared to the previous year's value.

Volume of investments

Group-wide investments in Property, plant and equipment, and Intangible assets amounted to EUR 6.0 million in the reporting period (previous year: EUR 5.6 million). Among other things, these focused on the ongoing installation of a second rotary kiln to expand production capacity at our location in Ilmenau, Thuringia/Germany and on measures associated with the long-term 'Retrofit' programme for modernising/replacing the production equipment.

Sound assets and liabilities situation

The assets and liabilities situation of the Sto Group continued to prove sound as at the end of March 2023. Changes in individual balance sheet items compared to the 2022 year-end fell within normal expectations and largely reflected the typical development of business in the first quarter.

Number of employees

As at 31 March 2023, the Sto Group had 5,771 employees working for it worldwide compared to 5,773 on the same day of the previous year. In **Germany**, the number of personnel decreased by 9 to 3,125 (31 March 2022: 3,134). **Outside of Germany** it increased by 7 to 2,646 (31 March 2022: 2,639). Across the Group, there were some new hires at companies with growth prospects along with adjustments in areas with difficult general economic conditions. The share of the Group's workforce employed outside of Germany stood at 45.8 % (31 March 2022: 45.7 %).

Outlook for the month of April

In April 2023, the turnover of the Sto Group was below the previous year's level and continued to fall short of expectations. Once again, this was primarily due to the unfavourable weather conditions in many countries where the Sto companies are active.

Outlook for 2023 as a whole

The future business development of the Sto Group faces numerous opportunities and risks, which are presented in the Risks and opportunities report in the Management report for 2022. Uncertainties particularly exist in the area of procurement, e.g. due to possible energy supply bottlenecks and the further consequences of the Russia-Ukraine conflict, which cannot be reliably estimated.

Without taking into account the impact of the further development of the Russia-Ukraine conflict, Sto expects business development to be positive for 2023 as a whole and, despite major challenges, anticipates that **consolidated turnover will grow** to EUR 1.91 billion (2022: EUR 1.79 billion). Sto forecasts earnings before interest and taxes (**EBIT**) to fall between EUR 118 million and EUR 143 million (2022: EUR 129.7 million), with earnings before taxes (**EBT**) of between EUR 117 million and EUR 142 million (2022: EUR 128.3 million). In light of this, the resulting **return on sales** is likely to be between 6.1 % and 7.5 % (2022: 7.2 %). Return on capital employed (**ROCE**) is expected to reach a value of between 14.8 % and 18.0 % (2022: 17.3 %).

The forecast is based on average weather conditions and presumes that economic development will be in line with the original expectations in the key regions. Furthermore, the forecast is based on the assumptions that the euro exchange rate will remain largely stable and that the Russia-Ukraine conflict will neither lead to any significant impairment of demand in the markets of relevance to us, nor to any restrictions regarding the conduct of business activities, nor to any impairment of the supply of raw materials, bought-in products, and energy at Sto.

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.

In the long term, there are great opportunities for growth as far as the Sto Group is concerned. The core business of facade systems mainly comprises external wall insulation systems (EWIS), a segment in which Sto occupies a leading position, and rainscreen cladding facade systems (RSC). Both EWIS and RSC play a key role in the energy efficiency of buildings and hence in sustainability. Particularly as a result of the internationally defined climate action targets, a surge in demand is expected.

Stühlingen/Germany, May 2023
Sto SE & Co. KGaA
represented by STO Management SE
Executive Board