



Building with conscience.

Sto SE & Co. KGaA, Stühlingen/Germany

# Consolidated interim report

For the period from 1 January to 30 September 2023



## Overview of the Group

	01 Jan 2023 - 30 Sep 2023	01 Jan 2022 - 30 Sep 2022	Change in %
<b>Turnover</b>	<b>1,325.5</b>	<b>1,381.6</b>	<b>-4.1</b>
Germany	561.8	595.4	-5.6
Outside of Germany	763.7	786.2	-2.9
<b>Turnover by segment</b>			
Western Europe	1,039.0	1,085.1	-4.2
Northern/Eastern Europe	129.4	136.8	-5.4
America/Asia/Pacific	157.1	159.7	-1.6
<b>Investments</b> (without financial assets and IFRS 16)	<b>25.7</b>	<b>24.5</b>	<b>+4.9</b>
<b>Employees (at end of the quarter)</b>	<b>5,903</b>	<b>5,839</b>	<b>+1.1</b>
Germany	3,195	3,174	+0.7
Outside of Germany	2,708	2,665	+1.6

(Figures in EUR million unless otherwise indicated)

## **At a glance:**

- **Turnover of the Sto Group down by 4.1 % to EUR 1,325.5 million in the first nine months of 2023**
- **Decline due in particular to negative weather conditions and increasing uncertainty among investors in Germany**
- **Turnover down by 5.6 % in Germany and by 2.9 % outside of Germany**
- **Group EBT below previous year**
- **As at the end of September, the number of employees in the Group up by 64 to 5,903**
- **Turnover forecast for 2023 as a whole adjusted: EUR 1.71 billion expected (previous forecast: EUR 1.76 billion; original forecast: EUR 1.91 billion); earnings forecast unchanged: EBT between EUR 117 million and EUR 142 million intended (in each case without factoring in the impact of an escalation of the Russia-Ukraine and Middle East conflicts)**

## Sector environment

In 2023, the **global economy** has been recovering very slowly from the consequences of the coronavirus pandemic and the Russia-Ukraine conflict according to the International Monetary Fund (IMF). Global inflation is also only gradually declining. In its World Economic Outlook (WEO) from October 2023, the IMF confirms its July forecast and expects global economic growth of 3.0 % for the current year (2022: 3.5 %), which is below the pre-pandemic level. For 2024, the institute expects a slightly lower increase of 2.9 %, after forecasting 0.1 percentage points more in July. The reasons cited for the subdued performance include the central banks' restrictive monetary policy to curb inflation, various geopolitical risks, and extreme weather events as well as the property crisis in China. Possible effects of the escalating conflict in the Middle East have not yet been taken into account in this outlook.

Economic growth in developing and emerging countries is expected to reach 4.0 % in the current year (2022: 4.1 %). Despite slightly weaker growth than expected in July, China is likely to contribute 5.0 % to this (2022: 3.0 %). According to the latest WEO, the gross domestic product of industrialised nations will grow by 1.5 % in 2023 (2022: 2.6 %), with the IMF improving the outlook for the USA to 2.1 % compared to the July forecast (2022: 2.1 %), while growth in the eurozone is predicted to be lower at 0.7 % (2022: 3.3 %). The weakness of the German economy is particularly noticeable here, which is expected to shrink by 0.5 % (2022: +1.8 %). According to the IMF, other major European economies are likely to expand: France by 1.0 %, Italy by 0.7 % and Spain by 2.5 %.

According to the Federal Statistical Office (Destatis), turnover in the **German construction industry** fell by 4.0 % in real terms (price-adjusted) in the first eight months of 2023 compared to the same period in 2022, while nominal turnover rose by 5.4 % due to high prices. Incoming orders were down 7.6 % in real terms and up 1.9 % in nominal terms on the previous year. The number of building permits for apartments recorded a drastic slump, falling by 28.3 % by the end of August, which could put considerable pressure on turnover in the future. According to Destatis, rising construction costs and increasingly unfavourable financing conditions are likely to have contributed to this. For 2023 as a whole, the Hauptverband der Deutschen Bauindustrie e.V. (Main Association of the German Construction Industry) expects a decline in turnover of 6 % in real terms in the German construction industry.

For the current year, the Verband der deutschen Lack- und Druckfarbenindustrie e.V. (Association of the German Paint and Printing Ink Industry) expects sales in the area of **architectural coatings** to drop by 4 % with turnover expected to stagnate. Demand in the **EWIS market** has decreased significantly: According to a statement of B+L Marktdaten GmbH, sales in Germany fell by 18.0 % in the first three quarters of 2023, following a reduction of 1.2% in the same period of the previous year. The market research institute is currently forecasting a decline of 18.7 % for 2023 as a whole.

According to EUROCONSTRUCT, the construction volume in **Europe** will decrease slightly by 1.1 % in 2023 as a whole. The network has thus revised its previous forecast, which had assumed stagnation, downwards. The main factors behind the decline include the weaker momentum of the global economy, inflation, the change of direction in monetary policy and the resulting rise in interest rates. According to Eurostat, EU-wide production in the construction industry increased by 0.5 % in the first quarter compared to the same period of the previous year and fell by 0.2 % in the second quarter. An increase of 0.9 % was reported in July and of 0.2 % in August compared to the same months of the previous year.

According to the management consultancy and investment bank FMI, investment in building construction in the **USA** is set to fall by 2 % in 2023, with a significant decline expected in residential construction in particular. The main reasons for this are the sharply increasing financing costs, the shortages of building materials and bottlenecks in construction services. In contrast, growth is expected in industrial plant construction, which benefits from government subsidies.

According to data from the statistical office, the **Chinese** economy grew by 4.9 % year-on-year in the third quarter and is thus recovering faster than experts had predicted. GDP rose by 4.5 % in the first quarter and by 6.3 % in the second, although the comparative figures for 2022 were significantly impacted by the pandemic. The outlook is clouded in particular by high risks on the property market, as several large property developers are struggling with payments and high levels of debt.

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

The Sto Group's business performance in the third quarter of 2023 continued to be influenced by unfavourable weather conditions. The sometimes very low temperatures and frequent precipitation in the first half of the year were followed by pronounced periods of heat in several markets, which hindered the application of Sto products used in exteriors. In addition, there was a sharp increase in uncertainty and, as a result, growing reluctance on the part of investors in Germany, as the key political decisions for building owners have not yet been made.

### **Consolidated turnover below previous year's level**

In the first nine months of 2023, Sto SE & Co. KGaA generated **consolidated turnover** of EUR 1,325.5 million (previous year: EUR 1,381.6 million), which corresponds to a decrease of 4.1 % compared to the same period of the previous year. This includes a negative effect from currency translation totalling EUR 11.5 million. The Turkish lira, Swedish krona, and Norwegian krone in particular depreciated during the reporting period, while the Swiss franc, among others, gained in value. Adjusted for all currency translation effects, turnover declined by 3.2 % in the first three quarters.

In **October**, Group turnover was slightly up on the previous year, but remained below expectations.

### **Turnover trend across the segments**

The turnover volume in the segment of **Western Europe** – including Germany – fell by a total of 4.2 % to EUR 1,039.0 million between January and the end of September 2023 (previous year: EUR 1,085.1 million), with the decline resulting in particular from unfavourable weather conditions in several regions. In addition, there were special effects that led to increasing uncertainty among investors. These included the future legal framework and subsidy conditions for property developers in Germany, which have still not been finalised. Restrictions on state subsidies for energy-efficient building refurbishment in Italy also led to a noticeable reluctance to invest, although this weakened slightly in the third quarter. On the other hand, positive currency translation effects were noticeable in Switzerland. On the basis of the respective national currencies, a minus of 4.4 % was calculated across this segment.

Business performance in the segment of **Northern/Eastern Europe** was also affected by the unfavourable weather conditions, which hampered application of the products in several countries. The subsidiary in Norway was additionally burdened by the slump in new construction activities. Overall, segment turnover fell by 5.4 % as

compared to the same period of the previous year to EUR 129.4 million (previous year: EUR 136.8 million); adjusted for currency effects, there was a slight increase of 0.6 %. Adjusted for the decline in turnover of our Russian company OOO Sto, turnover growth in local currencies would amount to 3.9 %.

At EUR 157.1 million, turnover in the segment of **America/Asia/Pacific** was 1.6 % below the previous year's value (previous year: EUR 159.7 million), with development differing from region to region: although business development in the American Sto companies and in the Pacific region remained below expectations, it was consistently positive compared to the previous year. In China, on the other hand, the burdens resulting from the difficult market environment intensified and increasingly impaired the sales of the companies based in China. In local currencies, segment turnover increased by 1.5 % in a comparison of the nine-month figures.

At Group level, Sto's **turnover outside of Germany** fell by 2.9 % to EUR 763.7 million in the first nine months of 2023 (previous year: EUR 786.2 million); less currency translation effects, the decline was 1.4 %. In **Germany**, the turnover volume fell by 5.6 % to EUR 561.8 million (previous year: EUR 595.4 million). The share of turnover generated in the Sto Group outside of Germany thus rose slightly to 57.6 % (previous year: 56.9 %).

### **Result lower than in previous year**

Compared to previous years, the gross profit ratio has stabilised further in the year to date at 53.3 % (previous year: 50.0 %), thanks in particular to the necessary sales price increases with which Sto has responded to the drastic increase in material costs in recent years, as well as consistent procurement management. However, the gross profit margin was still below the values of the years prior to 2021. Although there was a partial easing in some areas of the procurement market in the third quarter of 2023, the price level remained very high, particularly for energy-intensive raw materials such as cement or various purchased products such as mineral wool insulation materials.

Overall, despite consistent cost management in the first nine months, the Group result therefore remained below the previous year's figure and below expectations.

### **Investments largely stable**

In the first three quarters of 2023, Sto invested EUR 25.7 million in **Property, plant and equipment and Intangible assets** across the Group, compared to EUR 24.5 million in the same period of 2022. The focal points included the installation and commissioning of the second rotary kiln to expand production capacity at the Ilmenau site in Thuringia/Germany. In addition, Sto is continuously modernising and renewing the Group's production equipment as part of the long-term 'Retrofit' programme.

## Very 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 continued to be very sound. The majority of the changes as compared to the end of 2022 resulted from the seasonal nature of the business. Inventories were noticeably reduced as part of the optimisation of working capital, after they had been specifically built up in the previous year to ensure security of supply in view of the difficult procurement market situation. As at the end of September, the equity ratio stood at a solid 61.5 % (30 September 2022: 59.6 %; 31 December 2022: 62.4 %).

## Slight Group-wide increase in workforce numbers

As at 30 September 2023, the Sto Group had 5,903 employees worldwide compared to 5,735 at the 2022 year end (+168 employees; +2.9 %) and 5,839 on the same day of the previous year (+64 employees; +1.1 %). Since the end of September 2022, the workforce in **Germany** has increased by 21 to 3,195 employees (previous year: 3,174) and **outside of Germany** by 43 to 2,708 employees (previous year: 2,665). New hires were mainly made at companies in countries with short- and medium-term growth prospects, while the workforce was reduced selectively in regions with difficult economic conditions. Year-on-year, the percentage of the Group's workforce employed outside of Germany rose slightly from 45.6 % to 45.9 %.

## Risks and opportunities report

The business development of the Sto Group in 2023 has faced numerous opportunities and risks, which are presented in detail in the 2022 Management Report. This report also explains the structure of the risk management and internal control system (ICS) in detail.

The unpredictable weather conditions, which may affect the Sto Group's turnover, product mix and earnings performance, have a significant impact on the company's future business performance. In addition, the unpredictable effects of the Russia-Ukraine and Middle East conflicts are currently among the greatest uncertainties. At present, no assessable risks are apparent that could have a permanent and significant adverse effect on the income, financial, and asset situation of the Sto Group.

## Outlook for 2023 as a whole

In view of the business development to date and the current assessment of further developments, the turnover forecast for the year of 2023 as a whole has been adjusted. At present, Sto expects **turnover** at Group level to amount to EUR 1.71 billion for 2023 as a whole (previous forecast of August 2023: EUR 1.76 billion; original forecast of April 2023: EUR 1.91 billion; 2022: 1.79 billion). The earnings forecast remains unchanged. Accordingly, **EBIT** is expected to fall between EUR 118 million and EUR 143 million (2022: EUR 129.7 million) and **EBT** between EUR 117 million and EUR 142 million (2022: EUR 128.3 million). The resulting **return on sales** should therefore be between 6.8 % and 8.3 % (previous forecast: between 6.6 % and 8.1 %; original forecast: 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 %). This does not factor in the potential consequences of an escalation of the Russia-Ukraine and Middle East conflicts.

The forecast is subject in particular to the assumptions that the weather will be favourable, economic development in Sto's key markets will meet expectations, the

euro exchange rates of the relevant foreign currencies and the interest rate level will remain largely stable and there will be no restrictions in the performance of business activities or the supply of raw materials, purchased products and energy. In individual Sto companies, further necessary price increases are also planned, which are to be implemented by the end of the year.

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