

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

### **Consolidated interim report from the Management Board within the second half of 2017**

#### **At a glance:**

- **Sto consolidated turnover up by 4.1 % to EUR 981.8 million in the first nine months of 2017**
- **Turnover in Germany increases by 3.4 %; volume outside of Germany by 4.7 %**
- **EBIT and net earnings as at the end of September up on previous year**
- **Number of employees reduced by 35 to 5,368 as compared to the same day of the previous year**
- **Forecast for 2017 unchanged: consolidated turnover likely to rise by 3 % to around EUR 1,268 million; EBIT to increase to between EUR 80 million and EUR 90 million**

#### **Industry environment**

The international construction industry has remained largely on its course for expansion in 2017 to date. Production in the European construction industry rose by 1.9 % in the first quarter and by 3.7 % in the second quarter of 2017 as compared to the same period the previous year. According to Eurostat, the upward trend slowed down as the year progressed. According to the Federal Statistical Office, the German construction industry recorded a sharp rise in turnover of 6.5 % in the first seven months of the year. The number of

orders received also continued to increase: By the end of August 2017, it had risen by 2.6 % as compared to the same period the previous year; however, the rate has been slowing down since the middle of the year.

In the USA, where the upswing, which has lasted for many years now, continued on balance in the first nine months of 2017, GTAI reports that nominal expenditure on construction is expected to increase by about 5 % for the year as a whole.

### **Positive business development of the Sto Group weakens in the third quarter**

Sto SE & Co. KGaA was only able to continue the good development it had experienced in the first half of the year to a limited extent in the third quarter of 2017 as the growth momentum slowed down noticeably. Overall, the first nine months saw an improvement in consolidated turnover and result so that the forecast for the year 2017 as a whole remains unchanged.

### **Sto consolidated turnover up by 4.1 %**

In the first three quarters of 2017, Sto SE & Co. KGaA's consolidated turnover increased by EUR 38.7 million, or 4.1 %, to EUR 981.8 million (previous year: EUR 943.1 million). Growth was mainly achieved organically: Adjusted for first-time consolidation effects to the amount of EUR 5.3 million, resulting from the inclusion of the Hesselberg Bygg group into the Sto Group since 1 July 2016, as well as adjusted for the negative currency translation influences of EUR -2.1 million on balance, this meant a plus of 3.8 % as compared to the same period the previous year.

In the first nine months of 2017, turnover in Germany increased by 3.4 % to EUR 432.0 million (previous year: EUR 417.9 million) across the Group. A rise of 4.7 % to EUR 549.8 million (previous year: EUR 525.2 million) was reported outside of Germany. Compared to the first nine months of 2016, the

share of Group turnover generated outside of Germany slightly rose from 55.7 % to 56.0 % in the first nine months of 2017.

The segment of Western Europe recorded an increase in turnover of 3.2 % as compared to the previous year, with companies in the German-speaking regions and in Italy in addition to several companies in Germany, achieving especially high growth. By contrast, business in France, for example, was down on last year. At +11.6 %, the region of Northern/Eastern Europe achieved the highest growth rate, which was also due to the first-time inclusion of the Norwegian Hesselberg Bygg group for an entire reporting period. In contrast to the positive development in Scandinavia, business in Turkey remained significantly below expectations. The America/Asia segment experienced an increase of 4.4 % as compared to the previous year, with the still varying developments in Asia being offset by the positive demand in South America in particular.

The Sto Group's business development in October was slightly above expectations.

### **Noticeably improved earnings**

In the first nine months of 2017, the Sto Group saw a rise in material costs that was clearly disproportionate to the increase in turnover. The decisive factor was the marked increase in raw material and procurement costs since the beginning of the year, coupled with continued pressure on sales prices. Personnel expenditure, on the other hand, only increased marginally, especially since the number of employees had been slightly reduced as compared to the same day the previous year.

The business development in the first nine months of 2017 laid the basis for a significant improvement in the Group's earnings before interest and taxes (EBIT) as well as its net earnings as compared to the same period in 2016. This was also due to an extraordinary income of around EUR 3.9 million,

which resulted from the settlement of a court litigation proceeding in the USA in the third quarter of 2017.

### **Sound asset and financial situation**

The balance sheet of the Sto Group as at 30 September 2017 reflected the usual seasonal influences. The asset situation remained sound as of the reference date. Changes in individual balance sheet items compared to the end of 2016 fell within normal expectations. The financial situation of the Sto Group saw a positive development in the reporting period.

### **Investments reduced as compared to the previous year**

As at the end of September 2017, investments in property, plant and equipment, and intangible assets amounted to EUR 16.2 million as compared to EUR 20.7 million in the corresponding period of the previous year. The main focus was on the construction measures at Verotec GmbH in Lauingen, Germany, where the production, logistics, and office capacity are almost doubled. The project will be completed in 2017. In addition, various replacement and expansion investments were made in the Group.

### **Workforce reduced compared to same day of the previous year**

As at 30 September 2017, the Sto Group had 5,368 employees worldwide. In comparison to the same day of the previous year, this corresponded to a decline of 0.7 %, or 35 employees (30 September 2016: 5,403). Compared to the end of 2016, this meant an increase of 117 employees (31 December 2016: 5,251) due to seasonal factors.

As at the end of September, the workforce in Germany decreased to 2,910 employees across the Group (previous year: 2,942); outside of Germany, the number of employees remained almost the same at 2,458 (previous year: 2,461). Targeted restructuring measures in regions battling difficult economic conditions were contrasted with new appointments in countries with solid

medium-term growth prospects. Year-on-year, the percentage of the Group's workforce employed outside of Germany rose from 45.6 % to 45.8 %.

### **Forecast for the 2017 fiscal year confirmed**

For the year of 2017 as a whole, the Sto Group continues to expect an increase in turnover of 3 % to around EUR 1,268 million (previous year: EUR 1,230.7 million). As things stand, consolidated earnings before interest and taxes (EBIT) are also still expected to amount to between EUR 80 million and EUR 90 million (previous year: EUR 70.3 million). It is, however, difficult to predict the weather conditions, which have a significant impact on the company's turnover and earnings trends in the last few weeks of the year.

At the beginning of October 2017, Sto SE & Co. KGaA agreed on a cooperation with JONAS Farbenwerke GmbH & Co. KG, Wülfrath, Germany. With its modern plant and 77 employees, the family-run company is an efficient and highly productive manufacturer of wall paints and other water-based coating products on the professional market in Germany. In this context, the Sto Group will acquire a 49.8 % share in the JONAS company with effect from 31 December 2017. The investment will be included in the consolidated annual financial statements using the equity method.

The Executive Board

**Key figures (in EUR million)**

<b>Sto Group (IFRS)</b>	<b>9M 2016</b>	<b>9M 2017</b>	<b>Difference</b>
Turnover	943.1	981.8	+ 4.1 %
- of which in Germany	417.9	432.0	+ 3.4 %
- of which outside of Germany	525.2	549.8	+ 4.7 %
Investments (total)	21.0	16.2	- 22.9 %
Employees as at 30 September	5,403	5,368	- 0.7 %
- of which in Germany	2,942	2,910	- 1.1 %
- of which outside of Germany	2,461	2,458	- 0.1 %