

STEICO SE

Interim report 9M/Q3 2019

The green share

Q3 2019

- Strong operating growth with significant earnings increase



Natural building products for **healthier living**

Overview

Strong operating growth with significant earnings increase

9M Revenue growth in € millions



9M Gross earnings growth in € millions



9M EBITDA growth in € millions



9M EBIT growth in € millions



9M EBT growth in € millions



9M Profit for the period growth in € millions



ADDITIONAL KPIS

	9M 2019	FY 2018	9M 2018
1. Total operating revenue in € millions	€ 215.9 million	€ 254.1 million	€ 184.5 million
2. EBITDA margin as a percentage of total operating revenue	20.8%	17.5%	18.1%
3. EBIT margin as a percentage of total operating revenue	12.4%	9.7%	10.6%
4. Equity ratio (as of Sept. 30 or Dec. 31)	52.1%	53.7%	53.1%

Percentage increases and margins calculated based on non-rounded figures.

The STEICO Group continued its growth in the first nine months of 2019 with new record-breaking figures.

Revenue in the first nine months improved by 14.7% to € 215.3 million. New record-breaking earnings were also recorded. EBITDA improved by 34.8% to € 45.0 million and EBIT lifted by 36.9% to € 26.8 million. Net income for the period improved by 45.2% to € 19.6 million.

It should be noted that the 9-month results are characterized by a positive special effect. In the third quarter, the Polish production company received a credit of around € 2.4 million to compensate for the sharp rise in electricity prices in the first half of 2019. The Polish government aims to use this compensation to alleviate the burden of the sharp rise in electricity costs for Polish citizens and companies.

The profitability of the STEICO Group was further increased even after adjustment for this effect. The adjusted third quarter was also the most successful in the company's history in terms of both revenues and earnings.

The positive trend is expected to continue in the coming months, although the fourth quarter may be affected by an early onset of winter. The Board of Directors therefore expects for 2019 as a whole revenue growth above 10% and an EBIT ratio around 10% (in terms of total operating revenue).

The Board of Directors also looks forward to 2020 in a positive light, even though the general economic conditions in a number of sectors have clouded over. Thanks to stable construction activity, especially in timber construction, growth is expected to continue with sustained good profitability.

Company profile

STEICO develops, produces and markets ecological construction products made of renewable raw materials. STEICO is the European market leader in the wood-fibre insulation materials segment.

STEICO is positioned as a system provider for ecological residential construction and is the only manufacturer in the industry to offer an integrated wooden construction system in which insulation material and construction components supplement each other. These include flexible and stable wood fiber insulation panels, composite thermal insulation systems, insulation panels with a reinforcing effect, as well as cavity wall insulation made of wood fibers and cellulose. I-joists

the construction elements comprise I-joists and laminated veneer lumber. In addition, the STEICO group also produces fiberboard and operates in the wood trade.

The Munich-based company's products are used in new construction and when renovating roofs, walls, ceilings, floors and facades. STEICO's products allow the construction of future-proof, healthy buildings with a particularly high quality of living and a healthy atmosphere. STEICO's products offer reliable protection against cold, heat and also noise, and they permanently improve the building's energy efficiency.

I. ECONOMIC CONDITIONS

1. OVERVIEW

The European construction industry is bucking the gloomy, general economic climate with a positive trend. Current data from the European statistics office Eurostat from July 2019 show a renewed increase in production in the construction industry compared to the same month of the previous year. In this regard, in particular real estate construction - the relevant market segment for STEICO - grew by 1.2% in the eurozone and 1.3% in EU28.¹

In Germany, the STEICO Group's most important market, the construction sector continued to remain at a high level. According to the Federal Statistical Office Destatis, although the number of building permits has declined slightly by a total of -3.4%, the number of building permits for the particularly relevant area of single-family houses has fallen only slightly by 0.3%. In contrast, the figure for two-family homes and multi-family houses was down by 4.1%.² At the same time, however, sales in the construction sector increased. Sales in the structural engineering sector were 2.8% higher in July 2019 than in July 2018. The carpentry and timber engineering sub-segment even grew by 9.6%. This illustrates the continuing trend towards building with wood.³

In the United Kingdom, the most important sales market for I-joists, the construction sector has continued to be stable. The Office for National Statistics recorded an increase in construction activity of 0.5% in the three-month calculation through to August 2019. Residential construction was particularly strong with an increase of 1.0% in privately implemented residential construction projects, +0.9% in commercially implemented residential construction projects and +3.6% in public residential construction projects.⁴

2. INDUSTRY TRENDS AND COMPETITION

Wood-fibre insulation materials and construction products

The STEICO Group faces intense competition in both ecological insulating materials and construction products. However, demand for STEICO products remains high due to the ongoing trend towards timber construction and consolidation in the market for wood fiber insulation materials.

1 Source: Eurostat; Press release 144/2109 dated 18.09.2019

2 Source: Destatis; Press release 365 dated 19.09.2019

3 Source: Destatis; Press release 396 dated 10.10.2019

4 Source: Office for National Statistics, 10 October 2019

Production of prefabricated components

The commissioning phase of the production line for prefabricated timber construction elements started in the summer of 2019. Significant sales from this segment are not yet expected in 2019.

The planned production of elements will be used, in particular, to meet demand in Poland and Eastern Europe. For example, the Polish government wants to greatly reinforce wooden construction, in order to boost the use of the country's renewable resources in the construction sector. At the same time, Poland and other Eastern European countries only have a limited number of wood construction companies with automated production, and most of these are already running at full capacity. As a supplier of end-to-end construction elements, STEICO pursues the objective of supporting the local wood construction companies with pre-production, thus increasing the total output in wooden construction.

By producing elements, STEICO plans to offer its existing partners an addition to its previous range of products and services. STEICO will not present itself as a producer of wooden homes.

3. STATUS OF ONGOING INVESTMENT PROJECTS

Investments in biomass and energy efficiency

The conversion to biomass for the production of heat and steam at the Czarnków and Czarna Woda sites has been largely completed. This will make it possible in future to dispense with fossil fuels for regular production operations. This is not only an important contribution to climate protection, but also minimizes the risk due to the increasing cost of CO₂ emission certificates.

The STEICO Group is currently countering the continuing rise in electricity prices with the construction of a first electric turbine at the newly constructed biomass power plant at the Czarnków site. In the course of 2020, part of the electricity required will thus come from own environmentally friendly production.

With its investments in biomass and energy efficiency, the STEICO Group is positioning itself as an ecological pioneer in the industry. At the same time, this will ensure a stable calculation basis in order to maintain profitability at the existing level in the future.

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4. CURRENT DEVELOPMENTS

Changes in the composition of the Board of Directors as of 1 January 2020

The Board of Directors of STEICO SE appointed Thorsten Leicht as Managing Director for Production with effect from 1 January 2020. Mr. Leicht succeeds Mr. Holger Jödecke, who is leaving the company on 31 December 2019.

In addition, Mr. Heiko Seibert (Managing Director for Sales) will also be leaving the company as of 31 December 2019.

Compensation for higher electricity prices in Poland

The Polish electricity mix is largely based on the generation of electricity from coal, with corresponding CO₂ emissions being released. Due to the rapid rise in the cost of CO₂ emission certificates in 2018, Polish energy suppliers were forced to raise electricity prices significantly in 2019. In addition to Polish private households, this also affected the operations based in Poland and thus also the STEICO production companies in Poland.

In order to at least temporarily alleviate the impact of the sharp rise in prices, the Polish government decided to introduce a compensation programme. As part of this programme, in the third quarter, the Polish production company received a credit of around € 2.4 million to compensate for the sharp rise in electricity prices in the first half of 2019. The credit increases earnings via the cost of materials.

Based on the information currently available, management does not expect any further credits from the compensation programme.

5. GROWTH IN THE THIRD QUARTER⁵

In the third quarter of 2019 the STEICO Group recorded revenue growth of 16.6% with revenues of € 75.7 million (Q3 2018: € 64.9 million). Total operating revenue amounted to € 75.4 million (Q3 2018: € 64.7 million). As a result, the third quarter enjoyed the highest revenues in the company's history.

Gross profits in Q3 totaled € 38.1 million (Q3 2018: € 28.4 million) and were thus up by 34.1%.

EBITDA was up by 61.0% in the third quarter to € 19.0 million (Q3 2018: € 11.9 million). The EBITDA margin is 25.2%.

EBIT was up 82.4% year-on-year to € 13.1 million (Q3 2018: € 7.2 million). The EBIT margin amounted to 17.4%.

EBT amounted to € 12.8 million, up 84.8% year-on-year (Q3 2018: € 6.9 million).

Net income for the period totaled € 10.4 million and was thus up by 110.5% compared to the previous year (Q3 2018: € 5.0 million).

The third quarter is thus also the most profitable in the company's history in terms of results.

Adjusted view of the third quarter

If the €2.4 million credit received to offset higher electricity prices is eliminated, the adjusted earnings for the third quarter of 2019 would be as follows:

Adjusted EBITDA would be around € 16.6 million, corresponding to an increase of 39.1%. The adjusted EBITDA margin would be 22.0%.

Adjusted EBIT would be around € 10.7 million, corresponding to an increase of 49.0%. The adjusted EBIT margin would be 14.2%.

Adjusted EBT (Earnings before taxes) would be around € 10.4 million, corresponding to an increase of 50.3%. The adjusted EBT margin would be 13.8%.

Adjusted net income for the period would be around € 8.0 million, corresponding to an increase of 61.9%. The adjusted margin for net income for the period would be 10.6%.

Even after adjusting the results, the third quarter would remain the most profitable in the company's history. This makes it clear that the STEICO Group was able to create a stable cost base for itself with its ongoing investments in

⁵ As a result of reclassifications there may be minor differences compared to the previous year's figures.

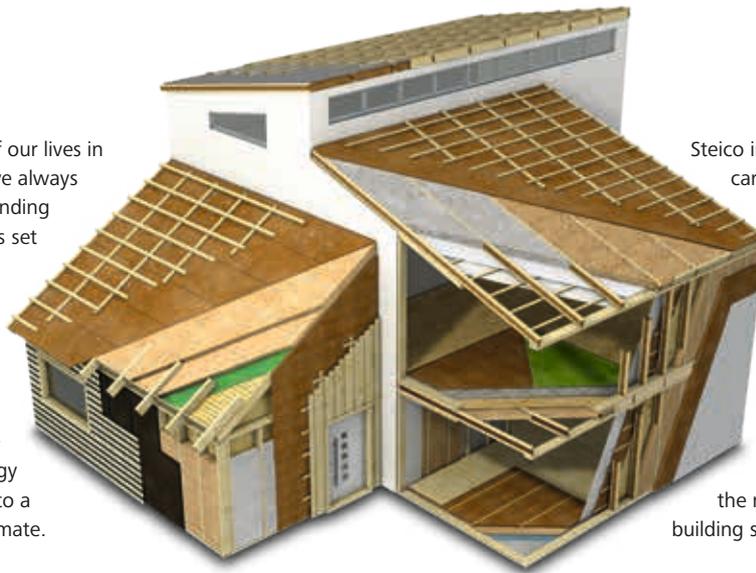
biomass and energy efficiency, which makes the company significantly less dependent on unforeseen price jumps in the energy sector.

6. OUTLOOK

The positive trend is expected to continue in the coming months, although the fourth quarter may be affected by an early onset of winter. The Board of Directors therefore expects for 2019 as a whole revenue growth above 10% and an EBIT ratio around 10% (in terms of total operating revenue).

The Board of Directors also looks forward to 2020 in a positive light, even though the general economic conditions in a number of sectors have clouded over. Thanks to stable construction activity, especially in timber construction, growth is expected to continue with sustained good profitability.

We spend approx. 80 % of our lives in enclosed rooms. But are we always aware what we are surrounding ourselves with? STEICO has set itself the target of developing building products which consider the needs of both man and nature. Our products are therefore produced using sustainable natural materials. They help reduce energy use and add considerably to a natural healthy internal climate.



Steico insulation and construction materials, carry a number of distinguished 'seals of approval' which is a sign of high quality, healthy and functional building products. The raw materials used in Steico products are certified by FSC® (Forest Stewardship Council®) and PEFC® (Programme for the Endorsement of Forest Certification®), ensuring a traceable and fully sustainable usage of the raw materials. STEICO, the number 1 choice for your sustainable building solutions.

Natural Insulation and Construction Systems for New Builds and Renovations – Roof, Ceiling, Wall and Floor



Renewable raw materials without harmful additives



Excellent cold protection in winter



Excellent summer heat protection



Energy Saving and increased property worth



Weather tight and breathable



Excellent Fire Protection



Excellent sound protection



Environmentally friendly and recyclable



Light and easy to handle



Insulation for healthy living



Strong quality control



Compatible insulation and structural building systems



STEICO
engineered by nature

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