Instone continues positive business development in Q3 – 2021 earnings at or above previous guidance, first time guidance with 2022 earnings in line with 2021

- *Adjusted revenues increase significantly year-on-year to EUR 405.6 million (+39.2 per cent); further institutional deals after the end of the quarter were signed on schedule*
- *Adjusted earnings after tax of EUR 40.3 million (+61.8 per cent) show overproportionate increase*
- *Adjusted gross margin of 29.8 per cent reflects high demand for Instone products and sound construction cost management*
- *Approval of new project acquisitions with expected future revenues of around EUR 1.4 billion*
- *Instone reaffirms commitment to climate neutrality; first ESG rating by Sustainalytics ranks company among industry leaders (top two percent)*
- *2021 outlook: Increase in guidance for sales volume and expected adjusted gross profit margin to over EUR 1.0 billion (previously over EUR 900 million) and approx. 28 percent (previously 26-27 percent); revised range of adjusted revenues as well as adjusted earnings after tax between EUR 780 to 800 million and EUR 93 to 96 million, respectively*
- *2022 outlook: First time guidance for financial year 2022 with adjusted revenues between EUR 0.9 to 1.0 billion and expected EAT of EUR 90 to 100 million*

Essen, 17 November 2021: Instone Real Estate Group SE ("Instone") continued its positive business development in the third quarter of 2021. Adjusted revenues for the nine months to September 30, 2021 increased significantly year-on-year with over-proportionate growth in adjusted earnings after tax. Demand for Instone's products from both institutional and private investors remains strong. A further significant acceleration of growth is expected in the fourth quarter driven by institutional sales contracts already signed or expected to be signed post the reporting date. Prices for residential properties in German metropolitan areas continue to rise offsetting the effects from rising material costs. Supply chain bottlenecks remain a management focus. Delays in building permits for selected projects and construction progress have adversely affected revenues in the current fiscal year 2021. Management therefore expects revenues below previously communicated guidance. In contrast, margins are expected to increase above previously guided levels. Adjusted earnings after tax is expected to be between EUR 93 and 96 million. In addition, Management has increased the forecast for expected sales volumes for the financial year to more than EUR 1 billion.

The basis for medium-term growth has also been considerably strengthened in the current year. Year to date Instone has secured land acquisitions with a total GDV of around EUR 1.4 billion. Expected revenues for the project portfolio now stand at EUR 7.2 billion.

Also, Instone provides first time guidance for fiscal year 2022. Expected adjusted revenues of between EUR 0.9 and 1.0 billion reflect the risks relating to corona related delays in building right and building permit approvals as well as continuing supply bottlenecks. Adjusted earnings after tax are currently expected to be in the range of between EUR 90 and 100 million.

Instone enjoys dynamic growth in the first three quarters

Adjusted revenues in the first nine months of the current fiscal year 2021 rose by 39 per cent year-on-year to EUR 405.6 million despite delays in construction progress, particularly noticeable towards the end of the quarter. The German residential market continues its stable and broad-based upward trend. The Instone product continues to enjoy strong demand from both institutional as well as private customers. The retail sales ratio remains significantly above its long-term mean and a positive trend can also be observed in institutional sales. Further institutional sales with a total volume of around EUR 170 million signed after the reporting date. All outstanding institutional sales processes are progressing according to plan.

The adjusted gross margin of 29.8 percent (previous year 32.3 percent) remains elevated and above the internal target level of 25 percent. Instone's margin achievement also compares favourably to typical industry margins. Instone continues to benefit from positive price trends for German residential real estate in the metropolitan areas and a forward-looking procurement strategy. Ongoing house price inflation as well as stringent construction cost management including a strategy of awarding supply contracts early has proven to be beneficial in light of recent construction cost increases. As a result management now expects the 2021 adjusted gross margin at approx. 28 percent.

Adjusted EBIT for the reporting period also increased significantly to EUR 65.3 million (previous year EUR 50 million). As a result, despite investments in the platform for future growth, an attractive adjusted EBIT margin of 16.1 percent (previous year 17.2 percent) has been achieved.

Lower financial debt due to the capital increase executed in the third quarter of 2020 as well as the positive operating cash flow in the first three quarters of 2021 have led to lower net interest expenses compared to the previous year (EUR-10.1 million vs EUR -15.5 million in 2020).

With a slightly lower tax rate compared to the prior year period, adjusted earnings after tax (EAT) in the first nine months of 2021 increased significantly by 61.8 percent to EUR 40.3 million (previous year EUR 24.9 million).

“Despite the adverse effects of the building material shortages and delayed building permits, Instone continues to benefit from the structural supply demand imbalance, stringent construction cost management as well as house price inflation and a highly attractive project portfolio. The increase in our 2021 margin target underscores the strength of our business model”, says Kruno Crepulja, CEO of Instone Real Estate Group SE.

Strong balance sheet remains important pillar for future growth

Instone’s strong balance sheet provides significant financial headroom for future growth. Based on EUR 112.0 million operating cash flow for the first nine months of 2021, Instone continuous to show moderate leverage. The loan-to-cost ratio, i.e., the net financial debt relative to inventories and contract assets stands at 15.6 percent as per the quarterly reporting date. The ratio of net debt to adjusted EBITDA amounts to 1.6x (31 December 2020: 2.8x). Cash, including unused corporate credit lines, amounts to around EUR 350 million at the reporting date. In addition, the company has unused project financing lines of over EUR 110 million.

Significant expansion of the project pipeline lays the foundation for future growth

The value of the project portfolio (GDV) has increased to around EUR 7.2 billion as of 30 September 2021 (31 December 2020: 6.1 EUR billion). Instone plans a step change in growth over the next few years, and intends to further expand its project portfolio.

Strong ESG rating reinforces commitment to sustainability goals

Instone is committed to the climate goals set out by the EU and the German government. For example, the group is aiming for climate neutrality by 2045. Moreover, Instone has completed the inaugural rating with internationally renowned ESG rating agency Sustainalytics. Instone immediately achieved a top rating and was ranked among the top two percent of global real estate developers. Instone strives to continuously improve its rating in the coming years.

“In light of the operational challenges we are satisfied with our financial performance for the nine months period to September 30 as well as the outlook for fiscal year 2021. Our first time Sustainalytics rating supports our aspiration to position Instone as an ESG industry leader. We will continue to expand our reporting as we consider ESG of strategic importance in developing our product as well as the company”, says Dr. Foruhar Madjlessi, CFO of Instone Real Estate Group SE.

Earnings guidance for 2021 revised

Management expects supply shortages of construction materials and delays in building permits for selected projects to adversely affect adjusted revenues for financial year 2021 and revises its guidance to EUR 780 to 800 million. Based on a stronger than previously expected adjusted gross profit margin of around 28 percent, adjusted earnings after tax are expected to be in a range of EUR 93 to 96 million.

Looking ahead to 2022, Management takes into account the still slow approval processes by the municipalities due to the corona situation as well as delays in construction progress owing to building material shortages. Hence, adjusted revenue of EUR 0.9 to 1.0 billion is expected. Adjusted earnings after tax are expected to range between EUR 90 to 100 million.

The definitions of the key performance indicators mentioned in the statement can be found in the glossary on the company's homepage at:
https://ir.en.instone.de/websites/instonereal/English/3600/glossar.html

About Instone Real Estate (IRE)

Instone Real Estate is one of the leading residential developers in Germany and is listed on the SDAX. The company develops attractive residential buildings and apartment complexes and also operates in the publicly subsidised residential construction sector. It also works on contemporary urban planning and the refurbishment of listed buildings. These are mainly sold to owner-occupiers, private investors wanting to buy to let as well as institutional investors. We have developed more than one million square metres over the last 30 years. The company employs 441 employees at nine locations across Germany. As of 30 September 2021, the project portfolio included 53 development projects with an anticipated overall sales volume of approximately EUR 7.2 billion and 15,913 units.

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