Instone maintains high margin in more challenging market environment – new forecast for 2022: adjusted revenues EUR 600-675 million, adjusted net earnings EUR 40-50 million

- *Adjusted revenues of EUR 268.0 million (H1-2021: EUR 260.5 million) above previous year due to high pre-sales ratio; interest rate volatility has led to muted investor appetite*
- *Adjusted gross profit margin of 25.7 per cent below previous year's level; however profitability remains within target levels despite tougher market environment*
- *Decrease in earnings after tax to EUR 19.6 million (H1-2021: EUR 23.4 million) due to rising construction costs*
- *Independent appraisal report by BNP Real Estate Consult GmbH implies net asset value of the land plots and projects under construction as at 31 March 2022 at EUR 14.21 per share (EPRA-NTA)*
- *2022 guidance resumed: Revenues (adjusted) EUR 600 to 675 million, earnings after tax (adjusted) EUR 40 to 50 million; the margin guidance of at least 25.0 per cent remains nearly unchanged to previous forecast*

Essen, 10 August 2022: Although Instone Real Estate Group SE ("Instone") is not immune to the currently challenging operating environment resulting from the Russian war of aggression against Ukraine the company still maintains an attractive level of profitability.

Adjusted revenues have come out above previous year's level in the first half of 2022. However, the violent rise in interest rates has affected affordability and muted investor appetite and adversely affected sales speed and revenue recognition. In addition, construction material bottlenecks continue to have a negative impact on the construction progress.

The worsening building materials availability following Russia's invasion of Ukraine has led to a sharp increase in building materials and construction costs. Instone has so far been able to mitigate the negative effects thanks to a high share of pre-agreed fixed price construction contracts, subsidies for energy-efficient buildings and selected price increases in the first quarter. The increased construction costs are a key driver for the year-on-year decline in adjusted earnings after taxes. In recent weeks, first signs of easing construction material prices have emerged.

Due to increased interest rates and general macroeconomic risks including high inflation, we anticipate muted private and institutional investor appetite throughout the remainder of the year. As a result, the Management Board currently expects a significant decline in 2022 sales volume.

Accordingly, in the new forecast for the 2022 financial year, the Management Board expects adjusted revenues of EUR 600 to 675 million, a gross profit margin of at least 25.0 per cent and adjusted net earnings of EUR 40 to 50 million.

Instone maintains leading margin

Adjusted revenues amounted to EUR 268.0 million in the first half of 2022, still above the previous year's level (H1-2021: EUR 260.5 million). Instone has benefited from the high proportion of already sold projects, which are currently in the construction phase. On the other hand, the sharp rise in mortgage rates since the beginning of the year has impaired affordability for retail customer and led to muted demand among private and institutional investors, which adversely affects sales as well as revenues.

Despite the increasingly challenging environment, the adjusted gross profit margin remained at a respectable level of 25.7 per cent in the first half of 2022 (H1-2021: 29.4 per cent) in line with the margin planned for the entire financial year. In the second quarter, the margin was 22.5 per cent in spite of cost adjustments affecting ongoing projects. Instone's margins thus continue to be at a leading level, particularly in comparison with industry peers. The company is benefiting from a proactive early procurement of construction services, cost-conscious planning, the continued positive house price trend at the beginning of the year, and subsidies for the construction of energy-efficient buildings, all of which have mitigated the effects of the sharp rise in construction costs.

Due to the high share of fixed price contracts and the conservative cost budgeting for current projects, the Management Board expects a comparatively high operating margin also for the full financial year and anticipates a gross profit margin of at least 25.0 per cent, which is in line with previous guidance.

The decline in the adjusted gross profit margin has led to adjusted H1 2022 earnings before interest and taxes (EBIT) of EUR 35.9 million which is below previous year's level (H1-2021: EUR 41.1 million) despite a decrease in platform costs.

Adjusted earnings after tax (EAT) reached EUR 19.6 million (H1-2021: EUR 23.4 million) and fell over proportionately due to a slight increase in the tax rate.

"The direct and indirect effects of the Russian invasion of Ukraine on the procurement situation, the development of the interest rate markets and the general increase in uncertainty have also affected our business. Because of the current market environment, pent-up demand for German residential real estate will in fact continue to increase and our product will become even more attractive in the medium term. We are very well positioned for this future development," says Kruno Crepulja, CEO of Instone Real Estate Group SE.

Instone benefits from a strong balance sheet, particularly in the present environment

Instone continues to have a strong balance sheet, providing downside protection and financial flexibility. As of 30 June 2022 the loan-to-cost ratio (LTC), i.e. net financial debt relative to net contract assets plus inventories stands at 23.0 per cent (31 December 2021: 20.1 per cent). The ratio of net financial debt to adjusted earnings before interest, taxes, depreciation and amortisation (adjusted EBITDA) also remains at a low level of 1.8x (31 December 2021: 1.5x). Cash, including unused corporate credit lines, stands at around EUR 383 million as at 30 June 2022. In addition, the company has unused project financing lines of over EUR 300 million.

Also, to further strengthen its liquidity position and term out debt maturities, Instone has agreed a new EUR 50 million 5-year 4.5% corporate financing by way of a promissory note with a group of German pension funds.

Extensive project pipeline forms the basis for future growth

The expected sales value of the project portfolio (Gross Development Value, GDV) is around EUR 7.7 billion as at the quarterly reporting date (31 December 2021: EUR 7.5 billion). This represents a sound basis for revenue and earnings growth in the medium term.

Valuation report confirms significant hidden reserves in the Instone balance sheet

Instone has commissioned an independent appraisal of its entire project portfolio carried out by BNP Paribas Real Estate Consult GmbH as of 31 March 2022. The report implies reported book values of inventories and contract assets include hidden reserves of around EUR 113 million. Accordingly, as of 31 March 2022 Instone EPRA NTA per share amounts to EUR 14.21. On the basis of its inventories, Instone is able to generate significant added value through its development activities.

New forecast takes short-term uncertainty into account

The Management Board has issued a new forecast for the current financial year based on both the business development to date in 2022 and the current operating environment. In the coming months, the Management Board expects continued uncertainty with regard to demand and a reduced sales speed. At the same time, largely stable property prices are expected in a supply constrained market. Likewise, it is assumed that the disruptions in the international supply chains will continue with corresponding negative effects on the construction speed. In terms of costs, an increase in construction costs of around 15 per cent in 2022 is still to be expected.

Based on these assumptions, the Management Board expects adjusted revenues of EUR 600 to 675 million, an adjusted gross profit margin of at least 25.0 percent and adjusted earnings after taxes of EUR 40 to 50 million for 2022. The expected ranges correspond to 2022 volume of sales contracts of around EUR 350 million.

The complete half-year report and the presentation will be accessible on the Instone IR website on 11 August 2022 via the following link: Financial results.

The definitions of the key performance indicators mentioned in the statement can be found in the glossary on the company's homepage at: Glossary: Instone Real Estate Group SE

About Instone Real Estate

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 and institutional investors. We have developed more than one million square metres over the last 30 years. The company employs 486 employees at nine locations across Germany. As at 30 June 2022, the project portfolio comprised 54 development projects with an anticipated overall sales volume of approximately EUR 7.7 billion and 16,664 units.

Investor Relations
Instone Real Estate
Burkhard Sawazki
Grugaplatz 2-4, 45131 Essen
Tel.: +49 (0)201 45355-137
E-Mail: burkhard.sawazki@instone.de

Press Contact
Instone Real Estate
Jens Herrmann
Grugaplatz 2-4, 45131 Essen
Tel. +49 (0)201 45355-113
E-Mail: presse@instone.de