Instone achieves good result in a difficult environment with a largely stable earnings outlook for 2023

- *Adjusted revenues of EUR 621.0 million (2021: EUR 783.6 million) in line with adjusted targets; the impact of investor reluctance is clearly felt*
- *A continued high adjusted gross profit margin of 25.3 percent underscores the quality of Instone projects*
- *Earnings after tax of EUR 50.0 million (2021: EUR 96.9 million) reaches the top end of the adjusted forecast, also as a result of successful cost control*
- *Positive operating cash flow after investments of EUR 70.2 million secures a strong balance sheet despite high cash distributions including share buybacks*
- *The Management Board and Supervisory Board propose the payment of a dividend of EUR 0.35 per share to the AGM*
- *Forecast for 2023 assumes largely stable results: revenues (adjusted) of EUR 600 to 700 million, earnings after tax (adjusted) of EUR 40 to 50 million*

Essen, Germany, 16 March 2023: Instone Real Estate Group SE ("Instone") performed well despite the significantly more difficult general conditions in the sector and macroeconomic environment, and achieved continued decent profitability with a significantly positive cash flow. Overall, the business developed in line with expectations and reached the upper end of the targeted earnings range.

Adjusted revenues in 2022 were, as planned, below the level of the previous year. The sharp rise in interest rates has affected the affordability of real estate purchases and triggered increased short-term uncertainty among private and institutional investors. This had a negative impact on sales speed and therefore on revenue recognition. In addition, the shortage of materials continued to have negative effects on the speed of construction.

Supply shortages of key building materials as a result of the COVID-19 pandemic and the war in Ukraine, as well as rising energy costs resulted in a sharp increase in material costs and, therefore, construction costs. The continued high gross margin shows that Instone was able to significantly mitigate the negative effects, thanks to a high proportion of fixed price contracts, a high level of vertical integration and price adjustments in the first quarter. At present, however, there are signs of receding inflation.

Instone continues to maintain leading margin

Adjusted revenues in 2022 were EUR 621.0 million, below the previous year's level (2021: EUR 783.6 million) but in line with the adjusted forecast. Instone is benefiting from the high proportion of projects currently under construction that have already been pre-sold and have a volume of around EUR 3.2 billion. At the reporting date, 91.0 percent of these projects currently under construction had already been sold, thus largely securing the expected cash flows from these projects.

The adjusted gross margin was 25.3 percent (2021: 28.3 percent), still an attractive and industry-leading level despite the more difficult operating environment. The company is benefiting from fixed price contracts and scaling in purchasing, a high level of vertical integration and many years of expertise, as well as the positive price trend at the start of the year, which has mitigated the effects of the sharp rise in construction costs. As a result of lower revenues and the lower adjusted gross margin, adjusted operating earnings (adjusted EBIT) decreased accordingly, despite reduced platform expenses, to EUR 88.6 million (2021: EUR 155.7 million). Adjusted earnings after tax (EAT) reached EUR 50.0 million (2021: EUR 96.9 million) and have thus fallen slightly disproportionately. A slightly lower interest expense is offset by a normalisation of the tax rate.

Highly predictable cash flows from pre-sold projects under construction

Instone continues to have a strong balance sheet, which is a particular competitive advantage in the current macroeconomic environment. The ratio of net debt to contract assets plus balance sheet inventories valued at cost (LTC) as of reporting date amounts to only 20.8 percent (31 December 2021: 20.1 percent). At 2.8x, the ratio of net debt to adjusted operating profit before depreciation and amortisation (adjusted EBITDA) also remained at a low level, despite the current lower profitability (31 December 2021: 1.5x). Cash, including unused credit lines, amounted to around EUR 425 million as of 31 December 2022. In addition, the company has unused project financing lines of more than EUR 300 million. The measures initiated by the Management Board to further strengthen the balance sheet, such as temporarily refraining from the acquisition of land have had a positive effect here.

Against the backdrop of the large pre-sold volume, Instone again expects a significantly positive operating cash flow for 2023 and therefore a further strengthening of the financial profile.

"Even in a difficult environment for our industry, we can maintain attractive profitability and a strong balance sheet. This is also the focus for 2023. At the same time, we are ready to take decisive advantage of opportunities for investment as soon as the market stabilises", says Kruno Crepulja, CEO of Instone Real Estate Group SE.

Extensive project pipeline allows opportunistic investment strategy

The expected sales value of the Instone project portfolio (gross development value, GDV) as of the reporting date was approximately EUR 7.7 billion (31 December 2021: EUR 7.5 billion). The current size of the pipeline therefore allows for an opportunistic investment strategy and temporary restraint in land purchases. The part of the portfolio that is in the pre or already in the construction phase totals EUR 3.3 billion, of which EUR 3.0 billion, or around 89.0 percent, has already been sold. Overall, this provides a high degree of visibility with regard to the expected revenues and cash flows in the future and therefore offers strong risk protection.

High cash return to shareholders, including share buybacks

The Management Board and the Supervisory Board propose a dividend of EUR 0.35 per share to the Annual General Meeting. With a planned pay-out ratio of 30 percent of the adjusted net earnings after tax, the completed buyback of around 7.87 percent of the share capital has an enhancing effect on the dividend per share. With the planned dividend for 2022, the distribution for 2021 and taking into account the completed share buyback programme, a total pay-out exceeding EUR 80 million is therefore planned for a period of 15 months between March 2022 and June 2023.

Further expansion of ESG reporting confirms high focus on sustainability

Instone Real Estate is pursuing the strategic goal of reviewing all new projects in future with regard to the current EU Taxonomy Regulation criteria. In the 2022 financial year, a high rate of taxonomy-compliant revenues of 86.7 percent was achieved. Similarly, 94.2 percent of all 191 revenue-related individual buildings achieved taxonomy compliance, providing impressive evidence of Instone's sustainability focus and its leading position.

Forecast for 2023 assumes largely stable results

The Management Board expects sales speed to continue to be significantly reduced in 2023. Due to the currently low visibility, no major transactions with institutional investors will be included in the forecast. On the cost side, the Management Board expects cost inflation to recede and construction costs to rise in the mid-single-digit percentage range.

On the basis of these assumptions, the Management Board expects adjusted revenues of EUR 600 to 700 million for 2023, an adjusted gross margin of around 25.0 percent and adjusted earnings after tax of EUR 40 to 50 million. The expected volume of sales contracts for the financial year is above EUR 150 million.

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 Prime Standard of the German stock market. 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 plus years. The company employs 488 employees at nine locations across Germany. As at 31 December 2022, the project portfolio included 52 development projects with an anticipated overall sales volume of approximately EUR 7.7 billion and 16,209 units.

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