

Instone with solid start to the year – Suspension of guidance due to significantly increased uncertainty and limited visibility

- *Adjusted revenues of EUR 118.5 million slightly below previous year's level (Q1-2021: EUR 128.1 million) as expected, prior year's figure benefited from institutional sales*
- *High adjusted gross profit margin of 29.7 percent underlines Instone's industry-leading profitability*
- *Decline in earnings after tax (EAT) to EUR 9.3 million (Q1-2021: EUR 15.8 million) is mainly due to the lower level of adjusted revenues in the first quarter, as anticipated*
- *Outlook 2022: Due to the significant increase in uncertainty resulting from the war in Ukraine, which, among other things, has led to an intensified shortage of building materials, it is not feasible to provide a concrete forecast for 2022 at this stage*

Essen, 11 May 2022: Instone Real Estate Group ("Instone") has made a solid start to the year 2022. In the first quarter, Instone was able to once again, maintain its industry leading gross margin.

The lower adjusted revenues and the bottom-line result in comparison to the previous year is attributable to the signing of institutional sales in the same period 2021. As institutional sales typically occur in the second half of the year, this period generally enjoys a higher share of revenues.

However, Russia's war of aggression against Ukraine is showing the first signs of possible negative effects on business development. In particular, after a temporary easing at the beginning of the year, availability of materials deteriorated again in a significant way since the start of the second quarter. Furthermore, a significant increase in energy and material prices, and thus in construction costs, has intensified.



As a result of this development, an adverse impact on construction progress in the current financial year is becoming increasingly likely. Moreover, the significant rise in interest rates may also affect the affordability of the Instone product for certain buyer groups.

Hence, the Management Board currently sees considerable short-term risks, particularly for the speed of construction and sales and thus for revenue recognition. Against the backdrop of this development and due to the limited visibility for the further course of business, the Management Board cannot currently provide a concrete financial forecast for financial year 2022.

High margin highlights the strength of the Instone business model

In the first quarter of 2022, adjusted revenue was EUR 118.5 million; as expected slightly below the previous year's level (Q1-2021: EUR 128.1 million). Due to the seasonal nature of institutional sales, the larger share of revenues is usually recognized in the second half of the year. The previous year's quarter benefited from the signing of several institutional deals limiting the comparability on a yearly basis. The sales ratio in unit sales in the first quarter remains stable above the long-term mean despite the rise in interest rates since the beginning of the year. However, with the start of the second quarter, the number of inquiries and reservations from private customers point to a gradual slowdown in momentum.

The high adjusted gross margin of 29.7 percent in the first quarter 2022 (Q1-2021: 31.6 percent) exceeds the expectations for 2022 as well as Instone's longer-term internal target margin of 25 percent. Instone margins remain at a leading level particularly in comparison with industry peers. Instone continues to capitalise on a very attractive project portfolio, on positive, though somewhat reduced, price trends for German residential real estate across Instone's core markets, as well as on its operational strengths. This includes Instone's strategy of proactive early procurements, close relationships to suppliers, unique cost conscious planning and not least superior construction management expertise.

Despite rising interest rates, residential prices are expected to develop slightly positively in 2022 as a whole. Due to the high level of already awarded construction contracts and the conservative cost budgeting for current projects, the Management Board expects a rather



robust development with regard to the communicated margin targets despite the significant increase in construction costs.

Due to lower Q1-2022 revenues versus the previous year period and considering the increase in platform costs, the result in the first quarter fell over-proportionately. Thus, the adjusted EBIT in the reporting period was EUR 17.0 million (Q1-2021: EUR 26.7 million). Adjusted earnings after tax (EAT) amounted to EUR 9.3 million (Q1-2021: EUR 15.8 million).

"From today's perspective, the effects of the Russian invasion of Ukraine will lead to continuing supply bottlenecks and rising construction costs. This will have a negative impact in particular on the speed of construction and thus on revenue recognition for the current year. For Instone, the focus in this more challenging environment is on realizing the value embedded in our project portfolio. In the medium term, our leading market position will open up further opportunities for Instone. In the short term, however, we cannot provide a reliable financial forecast for financial year 2022 due to limited visibility," says Kruno Crepulja, CEO of Instone Real Estate Group SE.

Strong balance sheet remains sound foundation for the business model

Instone has a strong balance sheet. The loan-to-cost ratio, i.e. net financial debt relative to net contract assets plus inventories (recognised at historic cost) stands at 21.8 percent as at the quarterly reporting date (31 December 2021: 20.1 percent). The ratio of net financial debt to adjusted earnings before interest, taxes, depreciation, and amortization (adjusted EBITDA) is at 1.8x, also a low level (31 December 2021: 1.5x). Cash, including unused corporate credit lines, amounted to around EUR 280 million as of 31 March 2022. In addition, the company has unused project financing lines of around EUR 160 million.

Extensive project pipeline provides basis for future growth

The value of the project portfolio (Gross Development Value, GDV) stands at approximately EUR 7.6 billion as at the quarterly reporting date (31 December 2021: EUR 7.5 billion). This constitutes a strong basis for medium-term revenue and earnings growth.

Suspension of 2022 guidance against the backdrop of significantly increased uncertainty



The Management Board is suspending its financial forecast for 2022. Revenue targets will not be achieved, mainly due to the shortage of materials described above and the resulting slowdown in construction progress. In view of a high share of already awarded construction contracts and conservative cost budgeting in current projects, the Management Board expects a rather robust development with regard to the communicated margin targets despite the significant rise in construction costs.

The war in Ukraine has led to significant additional disruption to supply chains and thus to worsening material bottlenecks. This in turn has an adverse effect on the speed of construction progress of our current projects. The cost of a wide range of materials including cement, steel, wood and all products related to oil and energy costs has risen continuously since the outbreak of hostilities; in some cases significantly. Further price increases are to be expected. For the current financial year, the Management Board currently expects year-on-year construction cost increases of around 15%. At the same time, the rise in interest rates has affected the affordability of the Instone product for certain groups of buyers. The short-term increase in uncertainty among Instone's customers could have an additional adverse impact on decision-making processes and sales speed. Due to current uncertainties and lack of visibility, particularly with regard to revenue recognition, the Management Board is unable to provide a reliable forecast for 2022 at this point in time.

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.de.instone.de/websites/instonereal/English/3600/glossary.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 and institutional investors. We have developed more than one million square metres over the last 30 years. The company employs 483 employees at nine locations across Germany. As of



31 March 2022, the project portfolio comprised 55 development projects with an anticipated overall sales volume of approximately EUR 7.6 billion and 16,607 units.

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