Instone continues its very solid performance in a still challenging environment; outlook for 2023 confirmed

- *Adjusted revenues in the first three quarters of 2023, at EUR 433.3 million (9M 2022: EUR 441.9 million), were virtually stable, mainly based on construction of sold units progressing according to plan*
- *A continued high adjusted gross profit margin of 25.5 percent (9M 2022: 25.8 percent) underscores the quality of Instone projects*
- *Sales amounting to EUR 91.3 million (9M 2022: EUR 250.2 million) are clearly below the previous year due to the current market situation; single unit sales to private investors had a good start in Q4*
- *Adjusted earnings after tax up to EUR 37.1 million (9M 2022: EUR 34.0 million) due to cost savings and higher at-equity result*
- *Positive operating cash flow contributes to further strengthening of the balance sheet (loan-to-cost: 21.0 percent)*
- *Outlook for 2023 reiterated: revenues (adjusted) of EUR 600 to 700 million, adjusted earnings after tax of EUR 40 to 50 million*

Essen, Germany, 9 November 2023: Instone Real Estate Group SE (“Instone”) continued its very solid performance in the first nine months of 2023, in a still challenging environment for the sector and for the economy as a whole. Based on construction of mostly sold units progressing according to plan, adjusted revenues were almost at the previous year’s level. With a continuing high adjusted gross profit margin, a reduction in platform costs and the positive contribution to earnings from the successful joint venture project in Berlin, adjusted earnings after tax were, as planned, above the previous year’s level. As a result, Instone is well on track to achieve its financial forecast for the full year 2023.

Demand for new build properties remains significantly below previous years. The negative effects of higher interest rates and the increased uncertainty of private and institutional investors remained clearly noticeable in the first three quarters. Nevertheless, sales contracts amounting to EUR 91.3 million, including one institutional deal, were concluded in the first three quarters (9M 2022: EUR 250.2 million). A moderate demand recovery in unit sales to private investors can be observed in recent months. Single unit sales started to pick up in the first weeks of Q4, supported by new sales starts.

Instone maintains leading profitability in a difficult market environment

Adjusted revenues in the first three quarters of 2023 amounted to EUR 433.3 million, almost at the previous year's level (9M 2022: EUR 441.9 million). Instone continues to benefit from the high proportion of projects that have already been pre-sold with a volume of around EUR 2.8 billion. Of the projects under construction, worth around EUR 3.1 billion, around 90 percent had been sold at the end of Q3, thus largely securing the expected cash flows from these projects.

The adjusted gross margin was 25.5 percent in the first nine months of 2023 (9M 2022: 25.8 percent), still an attractive and industry-leading level, with stabilising construction costs. The company benefits from fixed-price contracts and economies of scale in procurement, the structural advantages of a high level of vertical integration and many years of expertise.

On the cost side, we began to see the effects of the measures introduced to increase efficiency. Overall, platform and staff costs were lower than in the previous year.

In addition, the planned progress of the joint project Friedenauer Höhe, Berlin, has led to an increase in the at-equity result and also an increase in the operating result compared to the previous year. The adjusted operating profit (adjusted EBIT) increased to EUR 65.8 million (9M 2022: EUR 60.9 million). With slightly higher interest expenses and a slightly lower tax rate, adjusted earnings after tax (EAT) also increased noticeably to EUR 37.1 million (9M 2022: EUR 34.0 million).

Sales show signs of recovery in private customer business

In the first nine months of 2023, Instone sold properties worth around EUR 91.3 million, which remains well below the previous year's level (9M 2022: EUR 250.2 million). This continues to reflect the weakness in demand resulting from the rise in interest rates and the general uncertainty of both private and institutional investors. While the majority of institutional investors are still adopting a wait-and-see approach, private customer demand has shown signs of a moderate recovery in recent months, starting from a very low level. There are signs of a further demand acceleration, especially at the beginning of Q4. This was supported by a positive response to the sales starts of new projects. We confirm our forecast of selling properties with a value of more than EUR 150 million in 2023.

Rock-solid balance sheet combined with a large number of pre-sold projects provides a strong basis for future cash flows

Instone has a strong balance sheet, which is a key competitive advantage in the current market environment. The ratio of net debt to contract assets plus balance sheet inventories valued at costs (loan-to-cost, LTC) as at 30 September 2023 amounts to only 21.0 percent (31 December 2022: 20.8 percent). The net debt to adjusted EBITDA ratio is only 2.8x (31 December 2022: 2.8x).

Based on the planned cash inflows from pre-sold projects, a significantly positive operating cash flow was achieved in the first three quarters of 2023, which has led to a continuous improvement in key balance sheet figures in the last two quarters.

Cash, including unused credit lines, amounted to EUR 347 million as of 30 September 2023. In addition, the company has unused project financing lines of more than EUR 170 million.

“Our figures once again demonstrate that we maintain leading profitability and a strong balance sheet even in a difficult environment. Additional measures which we have taken to reduce costs and strengthen the balance sheet are also making a positive contribution. We therefore have reason to remain confident that we will emerge stronger from the crisis. We will be able to seize opportunities for growth once the market stabilises, but we do not expect a significant recovery in the transaction markets in the short-term,” says Kruno Crepulja, CEO of Instone Real Estate Group SE.

Large project pipeline continues to allow opportunistic investment strategy

The expected gross development value (GDV) of the Instone project portfolio as of the reporting date was approximately EUR 7.0 billion (31 December 2022: EUR 7.7 billion). In addition to completions, the moderate decline in the last quarter is also due to the change of use in one project. The current volume of the pipeline allows for the continuation of an opportunistic investment strategy, which is characterised by temporary restraint in land purchases. The part of the portfolio that is in the construction phase totals EUR 3.1 billion, of which EUR 2.8 billion, or around 90 percent, has already been sold. Overall, this provides high visibility with regard to the expected future revenues and cash flows. This significantly mitigates the risk profile of the business model.

The part of the portfolio under construction corresponds to around 5,300 residential units. A significant proportion of these, more than 900 apartments, are subsidized apartments. Instone is thus making an important contribution to mitigating the shortage of affordable housing in Germany, even in this difficult environment.

Outlook for 2023 confirmed

Based on the current business development, the Management Board has confirmed the financial forecast for the current financial year. For 2023, it therefore expects adjusted revenues in the region of EUR 600 to 700 million, an adjusted gross profit margin of around 25.0 percent and adjusted earnings after tax of EUR 40 to 50 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 of living space over the last 30 plus years. The company employs 475 employees at nine locations across Germany. As at 30 September 2023, the project portfolio included 48 development projects with an anticipated overall sales volume of approximately EUR 7.0 billion and more than 14,270 residential units.

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