

STEICO SE

Consolidated interim report on Q3 2017

The Green Shares

Q3 2017

- Stable growth and sustainable profitability



Natural building products for **healthier living**

Overview

Stable growth and sustainable profitability

Revenue growth in € millions



Gross earnings growth in € millions



EBITDA growth in € millions



EBIT growth in € millions



EBT growth in € millions



Growth in profit for the period in € millions



ADDITIONAL KPIS

	Q3 2017	9M 2017	9M 2016
	Adjusted for costs of capital increase		
1. Total operating revenue in € millions	€ 59.1 million	€ 172.3 million	€ 157.6 million
2. EBITDA margin as a percentage of total operating revenue	17.3%	16.3%	16.5%
3. EBIT margin as a percentage of total operating revenue	10.7%	9.5%	9.3%
4. Equity ratio (30 September 2017/*30 June 2017)	-	48.3%	43.4%*

As a result of the reclassifications due to the application of the BilRUG (German accounting directive implementation act), there are minor differences compared to the previous year's figures. Percentage increases calculated based on rounded figures.

The positive growth in the first six months was continued in the third quarter. Revenues in the first nine months were up 10.3% year-on-year, from € 157.1 million to € 173.3 million. In addition, earnings continued to grow. EBITDA in the first nine months was up 8.1% year-on-year, from € 26.0 million to € 28.1 million. EBIT grew by 12.3% to € 16.4 million (previous year: € 14.6 million). Net income for the period grew by 14.1% to € 10.5 million (previous year: € 9.2 million).

As a result of the successful capital increase from authorised capital gross funds from the issue of around € 25 million accrued to the STEICO Group in the third quarter of 2017 to finance its future growth. As a result the STEICO Group's equity ratio now totals 48.3% (43.4% on 30 June 2017).

Operating business was also very successful in the third quarter. After adjustment for the costs of the capital increase, it was the most profitable quarter in STEICO's history. The EBITDA margin increased to 17.3% (Q3 2016: 16.7%) and the EBIT margin increased to 10.7% (Q3 2016: 9.5%).

The company's management believes that growth will continue in the fourth quarter if premature winter conditions do not hinder construction work.

The company's management is forecasting growth over the year as a whole for revenues and also EBIT in the low double-digit percentage range.

Particularly positive impetus for 2018 is expected from the planned go-live of the new production lines for laminated veneer lumber and stable wood-fibre insulation materials made using the dry method.

Company profile

STEICO develops, produces and markets ecological construction products made of renewable raw materials. STEICO is the European market leader for wood fiber insulation materials.

STEICO is positioned as a system provider for ecological residential construction and is the only manufacturer in the industry to offer an integrated wooden construction system in which insulation material and construction components supplement each other. These include flexible and stable wood fiber insulation panels, composite thermal insulation systems, insulation panels with a reinforcing effect, as well as cavity wall insulation made of wood fibers and cellulose.

The construction elements comprise I-joists and laminated veneer lumber. In addition, the STEICO group also produces fiberboard (natural fibre boards) and operates in the wood trade.

The Munich-based company's products are used in new construction and when renovating roofs, walls, ceilings, floors and facades. STEICO's products allow the construction of future-proof, healthy buildings with a particularly high quality of living and a healthy atmosphere. STEICO's products offer reliable protection against cold, heat and also noise, and they permanently improve the building's energy efficiency.

I. ECONOMIC CONDITIONS

1. OVERVIEW

The European construction sector is continuing to enjoy an upswing. Current data from the European statistics office Eurostat from July 2017 show an increase in production in the construction industry compared to the same month of the previous year of 3.4% in the eurozone and 3.6% in the EU 28 countries.¹

In Germany, the STEICO Group's most important market, the construction sector also enjoyed positive growth. According to the German Federal Statistics Office, sales increased in all areas of the main construction industry. Revenues in building construction increased by 11.8% in July 2017 compared to July 2016.

In contrast, the statisticians reported a downturn in the number of planning permissions issued in Germany. Planning permission for residential accommodation was down by 6.6% from January to July 2017 compared to the same period of the previous year.² According to the Bundesverband freier Immobilien- und Wohnungsbaununternehmen (BFW - German association of independent residential construction companies), the lower number of planning permissions issued is due, in particular, to a one-off factor: a tightened version of the Energieeinsparverordnung (EnEV - energy savings regulation in Germany) came into effect in 2016, causing many people to fear an increase in construction costs. Many of those involved in the real estate sector thus filed for planning permission before the end of 2015 as a precautionary measure, in order to be able to still use the old EnEV regulations. These applications were approved after processing during the course of 2016 and they led to a surge in planning permissions granted in 2016.³ If we eliminate this effect, the positive trend has continued.

Timber construction continued to lead the positive growth in Germany in 2017. Planning permission figures for building construction fell in general in the first six months, however construction using prefabricated wooden parts for the construction of single and two-family houses increased by 4.1% from January to June 2017.⁴

In the United Kingdom, the most important sales market for I-joists, the construction sector has been relatively

stable despite the uncertainties caused by the Brexit negotiations. The Office for National Statistics recorded a downturn in construction activity of 0.8% in the three-month calculation through to August 2017, however in a month-on-month comparison private real estate construction increased by 2.3% from July to August 2017.⁵

2. INDUSTRY TRENDS AND COMPETITION

The excellent construction economy led to the prevailing price pressure for environmentally-friendly insulation products weakening slightly in the first nine months of the year. Given this background, STEICO was able to compensate for the increased costs of raw materials via a moderate price increase for stable wood-fibre insulation boards made using the dry method for the first time in several years. The price increase came into effect on 1 July 2017.

The positive growth for supporting structure products (I-joists and laminated veneer lumber) continued. Demand continues to be high for laminated veneer lumber in particular.

II. COMPANY GROWTH

1. DEVELOPMENT IN Q3

In the third quarter of 2017 the STEICO Group recorded revenue growth of 5.2% with revenues of € 58.7 million. (Q3 2016: € 55.8 million). Total operating revenue amounted to € 59.1 million (Q3 2016: € 51.5 million).

Gross profits in Q3 totaled € 26.6 million (Q3 2016: € 23.2 million), up by 14.8%.

EBITDA was up by 12.8% in the third quarter to € 9.7 million (Q3 2016: € 8.6 million). The EBITDA margin amounted to 16.4%, and 17.3% after adjustment for the costs of the capital increase.

EBIT was up 18.4% to € 5.8 million (Q3 2016: € 4.9 million). The EBIT margin amounted to 9.8%, and 10.7% after adjustment for the costs of the capital increase.

EBT amounted to € 5.6 million, up 19.1% year-on-year (Q3 2016: € 4.7 million). Net income for the period totaled € 4.1 million and was thus up by 24.2% compared to the previous year (Q3 2016: € 3.3 million).

1 Source: Eurostat; Press release dated 19.09.2017

2 Source: Eurostat; Press release dated 20.09.2017

3 Source: Zeit online dated 17.08.2017

4 Source: Statistics for planning permission, Deutscher Holzfertigbau-Verband dated 08.09.2017

5 Source: Office for National Statistics; Statistical bulletin dated 10.10.2017

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2. CAPITAL INCREASE EXECUTED

STEICO SE successfully implemented a capital increase from authorised capital on 20 September 2017. Gross proceeds from the issue totaled around € 25 million. A total of 1,280,315 new shares have been placed at a price of € 19.50 per share. STEICO plans to use the proceeds from the issue to further drive its growth.

For example there is a range of complementary products and divisions which will further reinforce and complement the STEICO natural construction system (insulation materials, construction products, engineered wood products). At present, the company's management is evaluating various options which could be implemented both via organic growth and also by acquiring potential acquisition targets.

In addition, the company's continued growth means that new production capacity has to be created on an ongoing basis. Even though STEICO is currently already investing in expanding its production capacity, new capacity has to be created in good time with a lead time of between one and three years.

Regular investments in increasing efficiency also aim to ensure that STEICO can expand on its cost leadership.

3. STATUS OF ONGOING INVESTMENT PROJECTS

Second production line for laminated veneer lumber

The first board was produced on the new production line for laminated veneer lumber on 13 September 2017. This means that construction work is around nine weeks ahead of schedule and continues to be within the budget.

Regular operations are expected to start during the first half of 2018. However, individual components of the new line, such as the veneer dryer, can already be integrated into production for the existing line, which means that the existing line can be run more efficiently with higher output.

The STEICO Group has invested around € 45 million in the second production line for laminated veneer lumber. The line is being financed via the existing syndicated loan agreement.

Second production line for stable wood fibre insulation boards made using the dry method

Construction work to install the second production line for stable wood fibre insulation boards made using the dry method is both on budget and schedule. It is expected

to go live at the start of 2018, with regular operations starting in the second quarter of 2018.

The STEICO Group has invested around € 7.5 million in this line. The line is also being financed via the existing syndicated loan agreement.

Production line for flexible wood-fibre insulation materials

The production line that STEICO was able to acquire for less than € 1 million from insolvency assets in April 2017 has now been taken down and moved. The individual components of the line will be installed at STEICO's various locations, the core components will be installed in Czarńków (PL). The new line is to be used, in particular, to produce thinner wood-fibre mats. In this regard, the company's management is anticipating additional capacity of around 130,000 cbm per year. At the same time, pressure can be taken off the existing line for flexible wood-fibre insulation materials at the Czarńków facility and it can be operated more efficiently. Installation work is expected to be finished at the start of 2018.

III. OUTLOOK

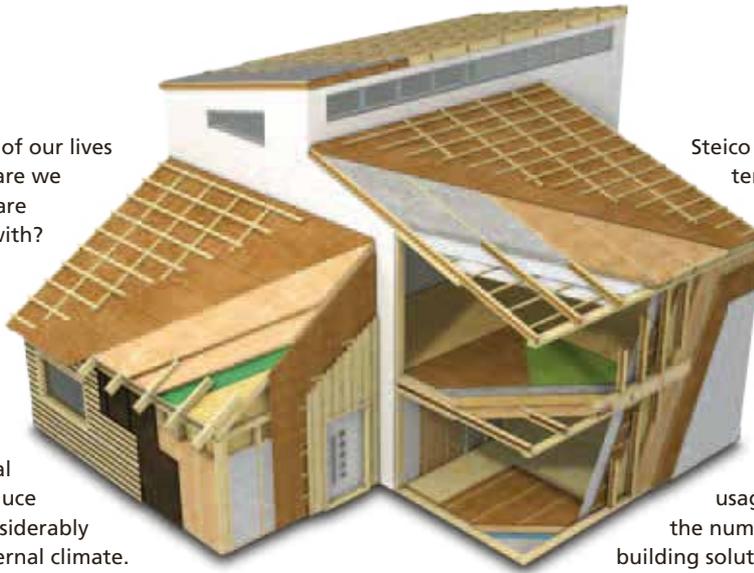
The company's management believes that growth will continue in the fourth quarter if premature winter conditions do not hinder construction work.

The company's management is forecasting growth over the year as a whole for revenues and also EBIT in the low double-digit percentage range.

The board of directors is also forecasting continued revenue and earnings growth for the coming year. The positive economy in the construction sector in most European countries will contribute to this, as will the unrelenting trend to wooden construction. In contrast, however, there is uncertainty concerning the course that the Brexit negotiations will take, and in the worst case this could have a negative impact on the UK construction sector.

Particularly positive impetus for 2018 is expected from the planned go-live of the new production lines for laminated veneer lumber and stable wood-fibre insulation materials made using the dry method.

We spend approx. 80 % of our lives in enclosed rooms. But are we always aware what we are surrounding ourselves with? STEICO has set itself the target of developing building products which consider the needs of both man and nature. Our products are therefore produced using sustainable natural materials. They help reduce energy use and add considerably to a natural healthy internal climate.



Steico insulation and construction materials, carry a number of distinguished 'seals of approval' which is a sign of high quality, healthy and functional building products. The raw materials used in Steico products are certified by FSC® (Forest Stewardship Council®) and PEFC® (Programme for the Endorsement of Forest Certification®), ensuring a traceable and fully sustainable usage of the raw materials. STEICO, the number 1 choice for your sustainable building solutions.

Natural Insulation and Construction Systems for New Builds and Renovations – Roof, Ceiling, Wall and Floor

	Renewable raw materials without harmful additives		Excellent cold protection in winter		Excellent summer heat protection		Energy Saving and increased property worth
	Weather tight and breathable		Excellent Fire Protection		Excellent sound protection		Environmentally friendly and recyclable
	Light and easy to handle		Insulation for healthy living		Strong quality control		Compatible insulation and structural building systems



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