



# DEMIRE Deutsche Mittelstand Real Estate AG
# Conference Call – Half Year Results 2017

31 August 2017

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# Agenda

# Highlights Half Year Results 2017

DEMIRE DEUTSCHE MITTELSTAND REAL ESTATE

Office Building, Frankfurter Str. 29-35, Eschborn

# Highlights H1 2017

## Key financial ratios showed continued positive performance

| | |
|---|---|
| **Strategy** | » **Mid-term growth plan DEMIRE 2.0:** first key milestone implemented<br>» **Placement of rated and unsecured senior notes** in July 2017 to refinance liabilities at more favourable conditions<br>» **Significant reduction in interest expenses** resulting in a substantial increase in the Funds from operations (FFO I) and cashflows from 2018 onwards |
| **Portfolio** | » **Rental income** slightly decreased to € 37.2m (1H 2016: € 37.5m) due to the sale of non-strategic real estate in the last 12 months<br>» **Successful letting activities** of c. 30.000 sqm, mainly new lettings (c. 80%)<br>» **EPRA vacancy rate** down by 140 bps to 10.2% including property already sold<br>» **Like-for-like rental growth** of c. 2.1% in the first half of 2017 |
| **Financials** | » **Net-LTV** decreased further by 30 bps to 62.5% (31.12.2016: 62.8%)<br>» **Reduction of avg. annual financing costs** by 30 bps to 4.1% p.a. (31.12.2016: 4.4% p.a.), pro forma at 3.2 % p.a., taking into account recent issue of senior notes<br>» **Corporate rating** from S&P and Moody's with BB/Ba2 and stable outlook, bond rating BB+/Ba2 |
| **FFO & EPRA NAV** | » **FFO I** (after taxes, before minorities) reached € 4.9m<br>» **EPRA NAV per share** increased slightly to €4.61 (diluted) and to €5.55 (undiluted) |

Note: Performance of figures derived from profit and loss statement measured on y-o-y basis, changes of balance sheet items measured since fiscal year end 2016

# Portfolio & Market Update



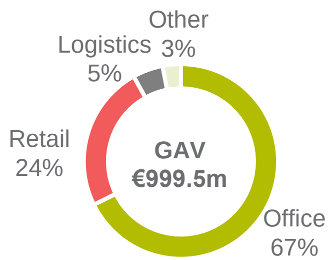

Gutenberggalerie, Gutenbergplatz 1, Leipzig

# DEMIRE at a Glance: First in Secondary Locations

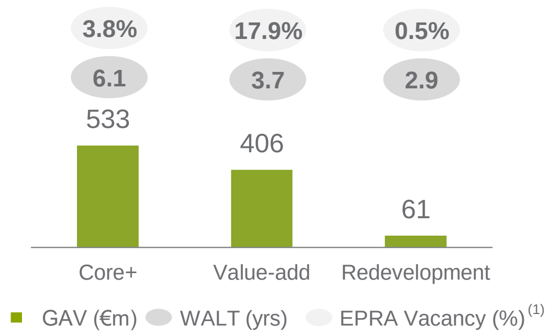



**Well Diversified Portfolio**

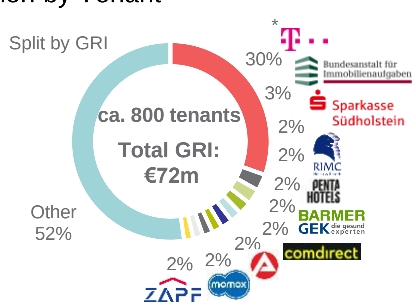
Distribution by Asset Class (2)




Distribution by Investment Cluster




Distribution by Tenant (3)




- » DEMIRE is a leading German public real estate company focused on high-quality commercial properties across secondary locations in Germany, i.e. cities in densely populated regions, which do not rank among the Top 7 cities
- » Sizeable ca. €1bn German commercial portfolio consisting of 91 assets(1) with Core+, Value-add and redevelopment investment approach
- » Diversified across office 67%, retail 24% and logistics 5% as well as other locations
- » Fully-integrated management platform with local expertise enabling active asset and property management
- » High quality tenant roster with 4.9 years weighted average lease term ("WALT") and additional upside from 10.2% vacancy(1)
- » Ca. €72m contractual rent per annum representing attractive 7.2% gross rental income yield

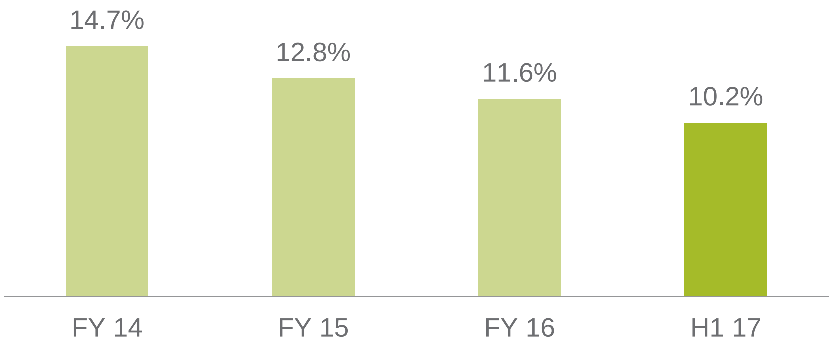
(1) As of 30th June 2017, excluding properties sold (signed but not closed); calculation as defined by EPRA BPR standards

2) Book value as of 30th June 2017
3) Based on GRI

# Strong Leasing Performance H1 2017

## Portfolio Optimisation by Vacancy Reduction…

EPRA Vacancy (%) (1)

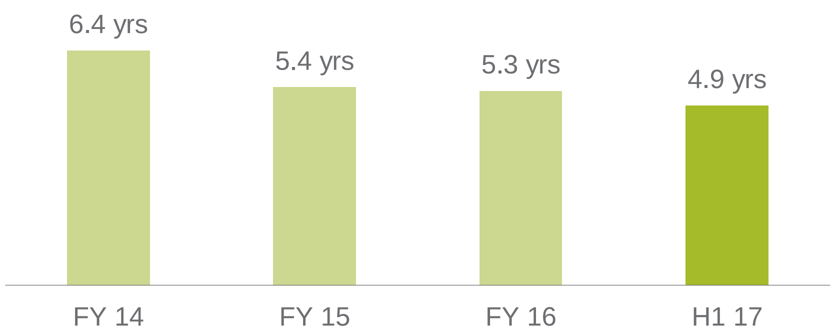



## Comments

- EPRA vacancy rate down by 140 bps to 10.2%(1)
- Successful letting activities of c. 30.000 sqm, thereof ca. 22,000 sqm of new lettings and ca. 8,000 sqm of renewals, average WALT of new contracts of 5.7 years
- Retention rate: 79% of rental contracts expiring in H1 2017 have been renewed in H1 2017
- WALT declined by 0.4 years due to sale of a property and related early cancellation of rental agreement

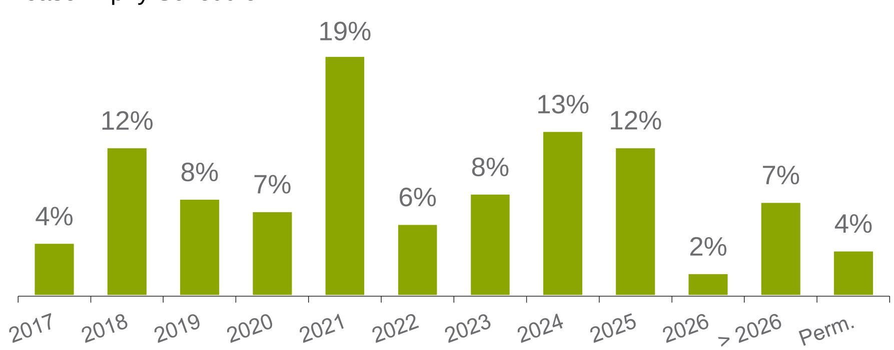
## …While Maintaining a Stable Lease Profile

WALT (years)




## Low Level of Upcoming Lease Maturities

Lease Expiry Schedule(2)



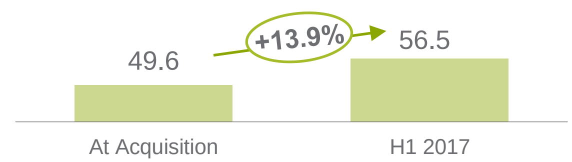

(1) As of 30th June 2017, excluding properties sold (signed but not closed); calculation as defined by EPRA BPR standards
(2) Over term of leases signed

# Case Study: “Kurfürstengalerie” Kassel

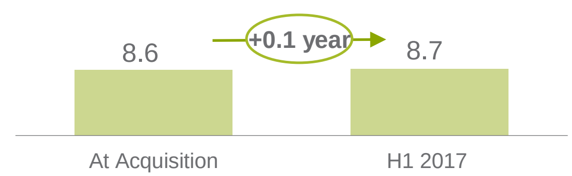
## Achieved Near Full Occupancy Within Only Ten Months


| | |
|---|---|
| **Acquisition:** | January 2016 |
| **Purchase Price:** | €49.6m |
| **Description:** | » Usage: Retail, hotel<br>» Lettable area: 21,450 m² |
| **Measures:** | » Substantial lease extension (WALT)<br>» Adapting the tenant structure<br>» Better external appearance |

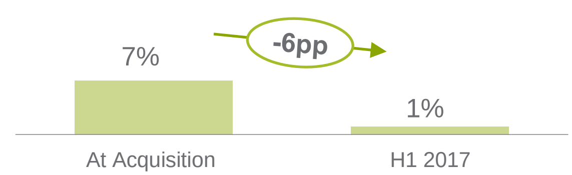
**GAV**
(€m)




**WALT**
(in years)




**EPRA Vacancy**
(%)

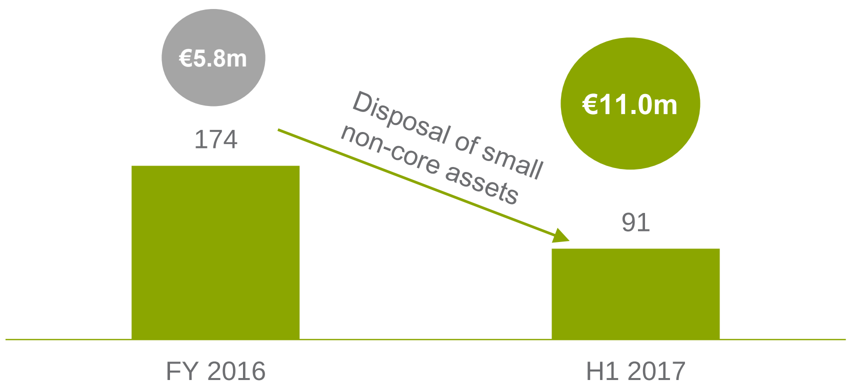


# Portfolio Update H1 2017

## Active capital recycling and Portfolio pruning

### Reduced # of Properties – Increased avg. Asset value

Number of Properties/ €m




### Comments

- # of real estate assets at 91 commercial properties vs. FY 2016 due to sale of non strategic assets
- Slightly lower Gross asset value and Gross rental income due to sales largely offset by…
- …like-for-like rental growth of 2.1 % and lower vacancy in the first half of 2017

### All Three Clusters Generate Attractive Rental Yields

| | No. properties | GAV (€m) | GRI p.a. (€m) (1) | GRI p.a. (€/m²/ p.m.) (1) | GRI Yield (%) | EPRA Vacancy (%) (2) | WALT (Years) |
|---|---|---|---|---|---|---|---|
| **Core+** | 38 | 533 | 37.7 | 9.0 | 7.1% | 3.8% | 6.1 |
| **Value add** | 42 | 406 | 30.2 | 5.5 | 7.5% | 17.9% | 3.7 |
| **Redevelopment** | 11 | 61 | 4.1 | 9.1 | 6.7% | 0.5% | 2.9 |
| **Total (H1-17)** | **91** | **999** | **72.0** | **7.1** | **7.2%** | **10.2%** | **4.9** |
| **Total (FY 2016)** | **174** | **1,006** | **74.1** | **7.0** | **7.4%** | **11.6%** | **5.3** |
| **% / ppt change** | (47.7%) | (0.6%) | (2.8%) | 1.4% | (0.2%) | (1.4%) | (7.5%) |

### Attractive Yield and WALT Across Asset Classes

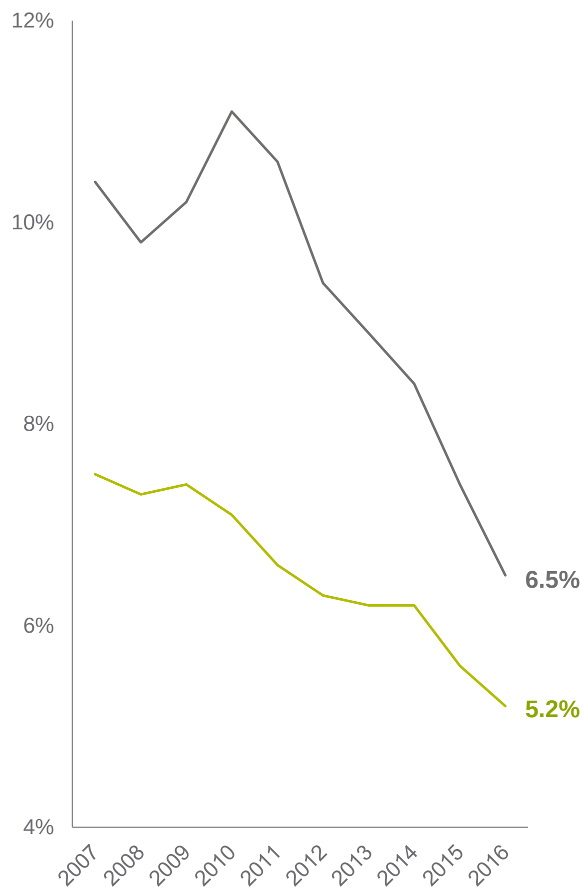
| | No. properties | GAV (€m) | GRI p.a. (€m) (1) | GRI p.a. (€/m²/ p.m.) (1) | GRI Yield (%) | EPRA Vacancy (%) (2) | WALT (Years) |
|---|---|---|---|---|---|---|---|
| **Office** | 62 | 672 | 48.5 | 7.9 | 7.2% | 8.0% | 4.6 |
| **Retail** | 16 | 241 | 17.5 | 10.4 | 7.3% | 11.2% | 6.4 |
| **Logistics** | 1 | 54 | 3.8 | 2.0 | 6.8% | 29.5% | 1.4 |
| **Other** | 12 | 33 | 2.3 | 4.7 | 6.8% | 4.3% | 6.7 |
| **Total (H1-17)** | **91** | **999** | **72.0** | **7.1** | **7.2%** | **10.2%** | **4.9** |
| **Total (FY 2016)** | **174** | **1,006** | **74.1** | **7.0** | **7.4%** | **11.6%** | **5.3** |
| **% / ppt change** | (47.7%) | (0.6%) | (2.8%) | 1.4% | (0.2%) | (1.4%) | (7.5%) |

(1) Annualised contractual rent excluding service charges
(2) As of 30th June 2017, excluding properties sold (signed but not closed); calculation as defined by EPRA BPR standards

# More Stable Real Estate Fundamentals of Secondary Locations vs Top 7 Cities

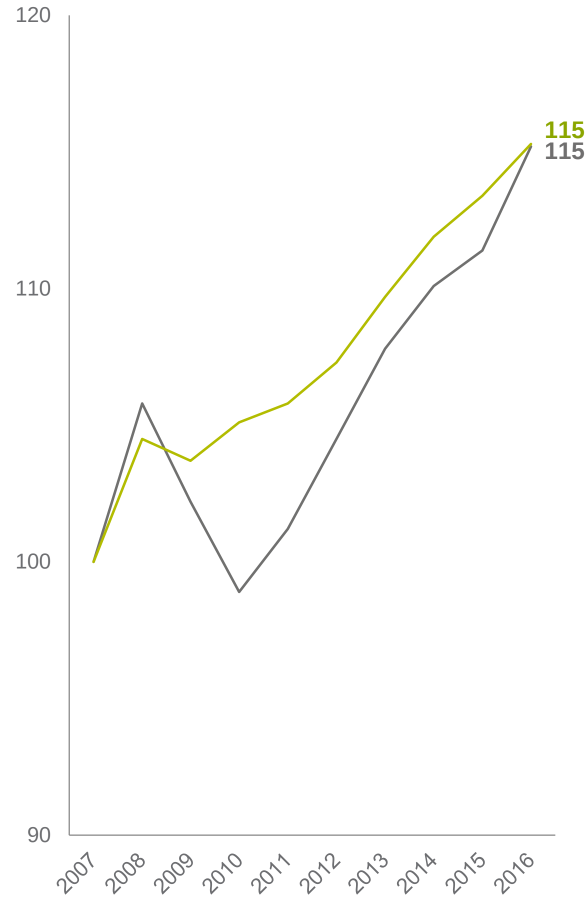
### Secondary Locations Have Lower and Less Volatile Vacancy Rates…

Office Market Vacancy



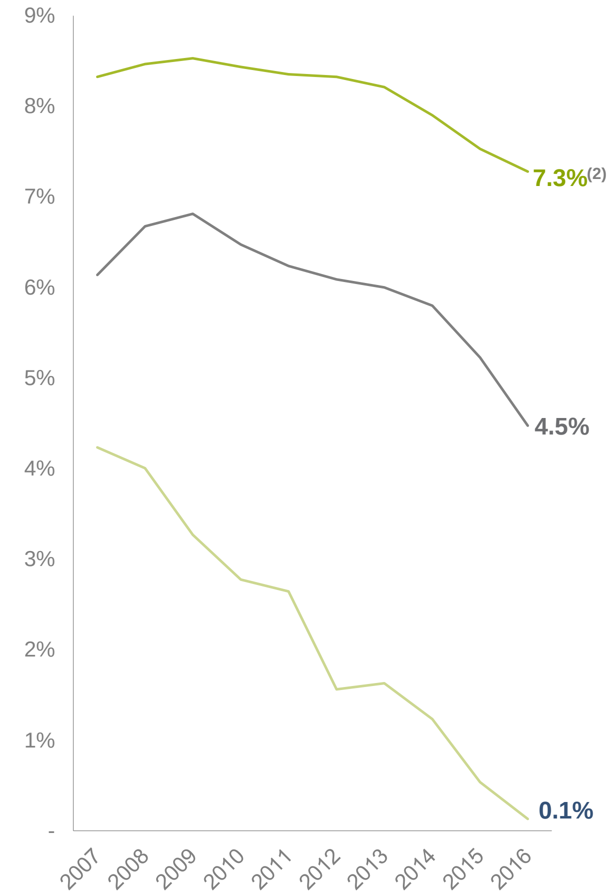

### …Resulting in Accelerating Rental Growth…

Office Market Rent (1)




### ...With Yields Providing Further Upside Potential to Compress

Office Market Gross Initial Yield Development




Source: PMA, Bulwiengesa, Bloomberg (1) Indexed to 100 in 2007 (2) Represents average yield for Class B-D cities as defined by Bulwiengesa

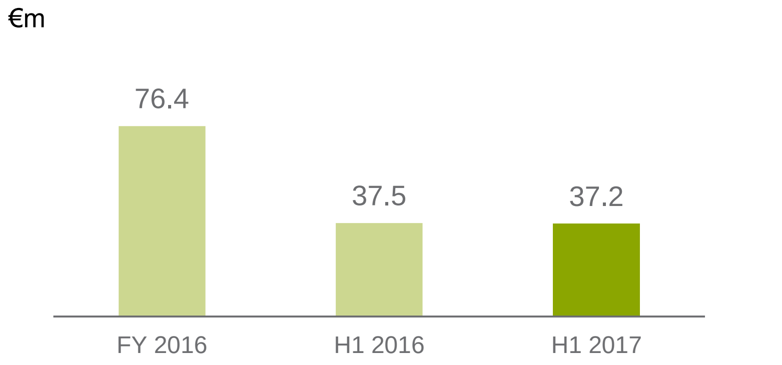
# Financials

DEMIRE DEUTSCHE MITTELSTAND REAL ESTATE


Office Building, Kuhberg 17-19 / Kieler Straße 1, Neumünster

# Selected P&L Positions

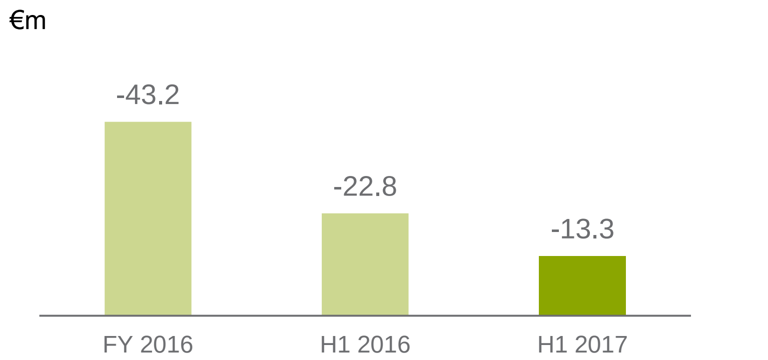
### Gross Rental Income



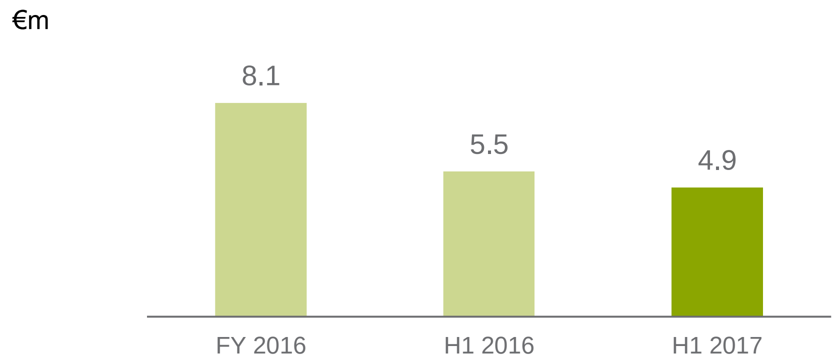

### Comments

- » Rental income slightly decreased to € 37.2m due to the sale of non-strategic real estate in the last 12 months
- » Financial result improved by 42% to € -13.3m driven by significantly lower interest expenses due to unscheduled amortization payment and successful refinancing
- » FFO I lower y-o-y due to higher taxes as expected, but multiple internal and external levers to drive FFO

### Financial result




### Funds from operations I(1)

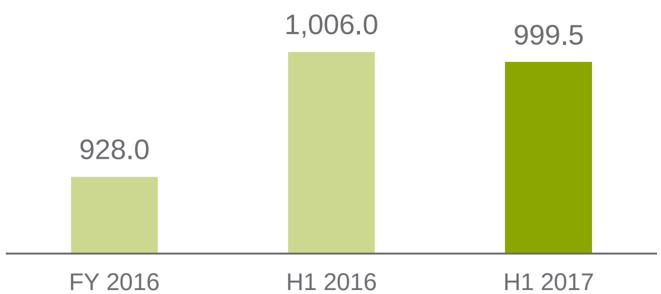



(1) After tax, before minorities

# Selected Balance Sheet Positions

### GAV

€m

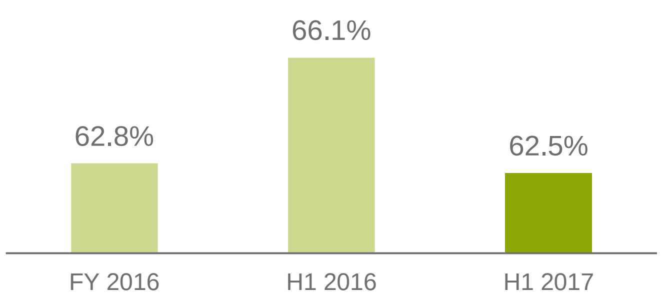



### Comments

- Growing asset base despite disposal of non-core assets
- Continued trajectory of de-leveraging and reducing average annual financing costs
- Tangible upside from additional refinancings

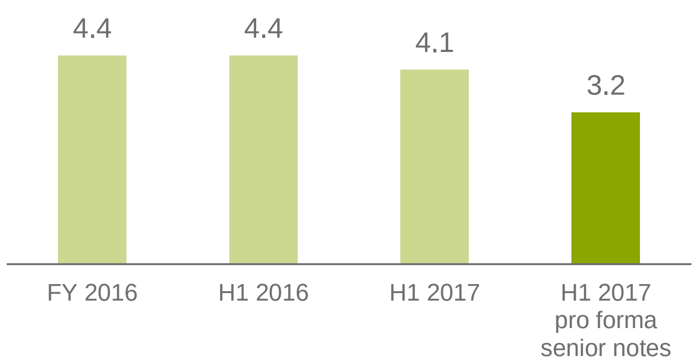
### Net LTV

€m




### Average annual financing costs

in %



# Successful placement of € 270m Senior Notes in July 2017

| | |
|---|---|
| **Issuer** | DEMIRE Deutsche Mittelstand Real Estate AG |
| **Issue** | Senior Notes |
| **Currency** | EUR |
| **Amount** | €270m |
| **Maturity** | July 2022 (5 years) |
| **Coupon** | 2.875% |
| **Spread** | +306bps |
| **Call protection** | NC2 (50%, 25%, par) |
| **Corporate rating** | BB / Ba2 |
| **Issue rating** | BB+ / Ba2 |
| **Distribution** | RegS / 144a |
| **Governing law** | New York law |

- Proactively refinanced c. €255m of debt maturing in 2018-2020, increasing average debt maturity to 5.3 years
- Bond ratings from S&P and Moody’s of BB+/Ba2 and company ratings of BB/Ba2 (stable outlook)
- Refinancing decreased the average annual financing costs from 4.1% p.a. to 3.2% p.a. pro forma
- Significant increase in financial flexibility with unencumbered assets increasing from €3m (0.3% of GAV) to €216m (22.0% of GAV)
- Increase in annual cash flow of c. € 9.0 million due to reduced interest and repayment expenses
- Effect on FFO I before taxes of c. € 5.6 million p.a. due to reduced interest expenses from 2018 onwards
- Establishing DEMIRE in capital markets will provide further strategic flexibility towards reaching our mid-term goal of € 2bn gross asset value, de-leveraging to 50% LTV and achieving investment grade credit rating

# Outlook 2017


Office Building, DEMIRE Headquarters, Robert-Bosch-Str. 11, Langen

# DEMIRE 2.0 – Positioning for the Next Growth Phase

| Targets | Mid-term Action Plan | | Attractive Growth Potential |
|---|---|---|---|
| **Market Leadership**<br>» DEMIRE to lead the German secondary commercial market segment<br>**Scale**<br>» Double portfolio size<br>» Significantly increase free-float market cap<br>**Deleveraging**<br>» Reduce LTV to 50%<br>» Obtain investment-grade rating<br>**Dividends**<br>» Pay dividends after period of accelerated growth and deleveraging | **1 Portfolio Level**<br>» Accretive acquisitions<br>» Active asset management | » Strong acquisition pipeline<br>» Reduce vacancy, improve NRI margin, focused capex spending | » Multiple tangible drivers of FFO growth<br>» NAV growth through rental increase and dedicated capex strategy<br>» Positive fundamentals in German secondary commercial market |
| | **2 Financing Level**<br>» Refinance expensive debt at lower rates<br>» Fund acquisitions with lower leverage | » €255m of expensive debt refinanced with a €270m bond, reducing average cost of debt to 3.2% p.a.<br>» Concrete review of financing options | |
| | **3 Group Level**<br>» Simplify corporate structure<br>» Cost optimisation, tax efficiencies, reduction of minority interests | » Implementation of first measures planned in H2 2017<br>» Implementation of second measures in 2018 | |

# Guidance 2017


| | |
|---|---|
| **Rental income** | **€ 72-73m** |
| **FFO I** (after taxes, before minorities) | **€ 8-10m** |

# Contact Details/Financial Calendar 2017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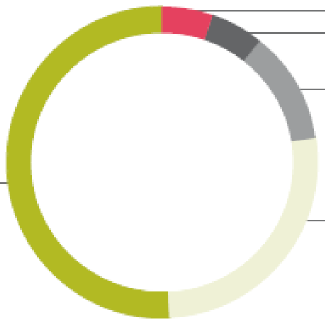
### *Shareholder structure [(1)]*




### *Financial Calendar 2017*

| Date | Event |
|---|---|
| 31 August 2017 | Publication Half-Year Report 2017 |
| 05-07 September 2017 | EPRA Conference, London |
| 18 September 2017 | 6th Berenberg/Goldman Sachs German Corporate Conference 2017, Munich |
| 20 September 2017 | 6th Baader Investment Conference 2017, Munich |
| 28 November 2017 | Participation in Analyst Conference German Equity Forum in Frankfurt |
| 30 November 2017 | Publication Nine-Month Report 2017 |

### *Share information (as of 30 June 2017)*

| | |
|---|---|
| **Symbol / Ticker** | DMRE |
| **Share price (XETRA)** | € 3.85 |
| **Market Segment** | Prime Standard |
| **ISIN** | DE000A0XFSF0 |
| **Market cap** | € 209m |
| **Free Float [(1)]** | 51.02% |
| **Shares outstanding** | € 54,257,744.00 |

(1) As of August 2017

# Appendix

DEMIRE DEUTSCHE MITTELSTAND REAL ESTATE

Office Building, Frankfurter Str. 29-35, Eschborn

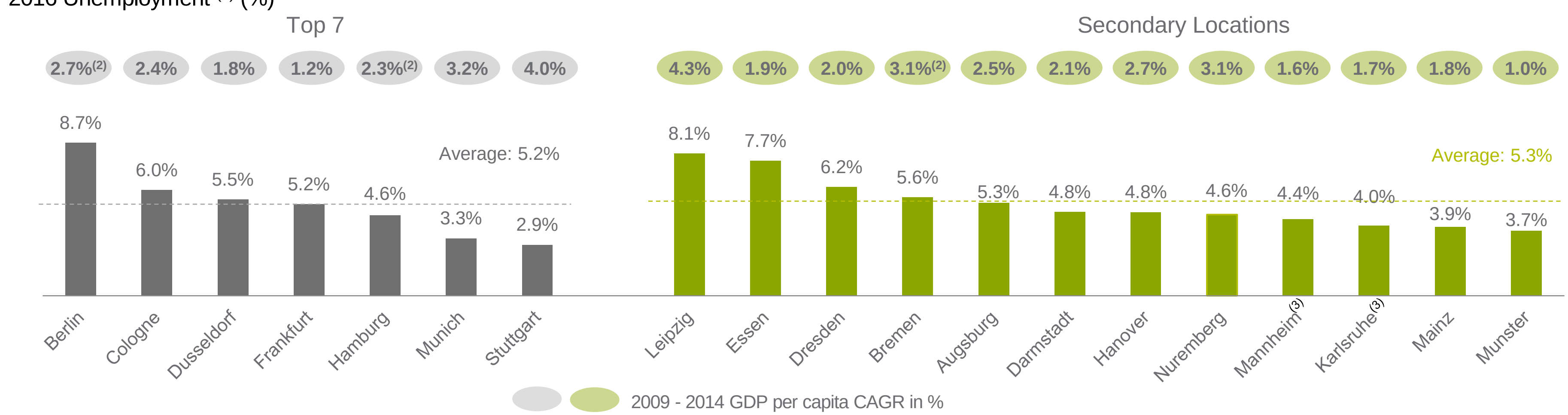
# Secondary Locations Exhibit Strong Macro Fundamentals…

### Increasing Focus on Secondary Cities

- Located in proximity to Germany's Top 7 cities, there are various secondary locations that are attractive and show upside potential
- They are characterised by an increasing focus of international investors, decreasing vacancy rates and continuously rising rents
- While there are still significant differences in magnitude between the Top 7 cities and secondary locations in terms of rent and yield, these markets show similar directional trends

### Comparably Low Unemployment Rate and High GDP per Capita Growth

2016 Unemployment [1] (%)



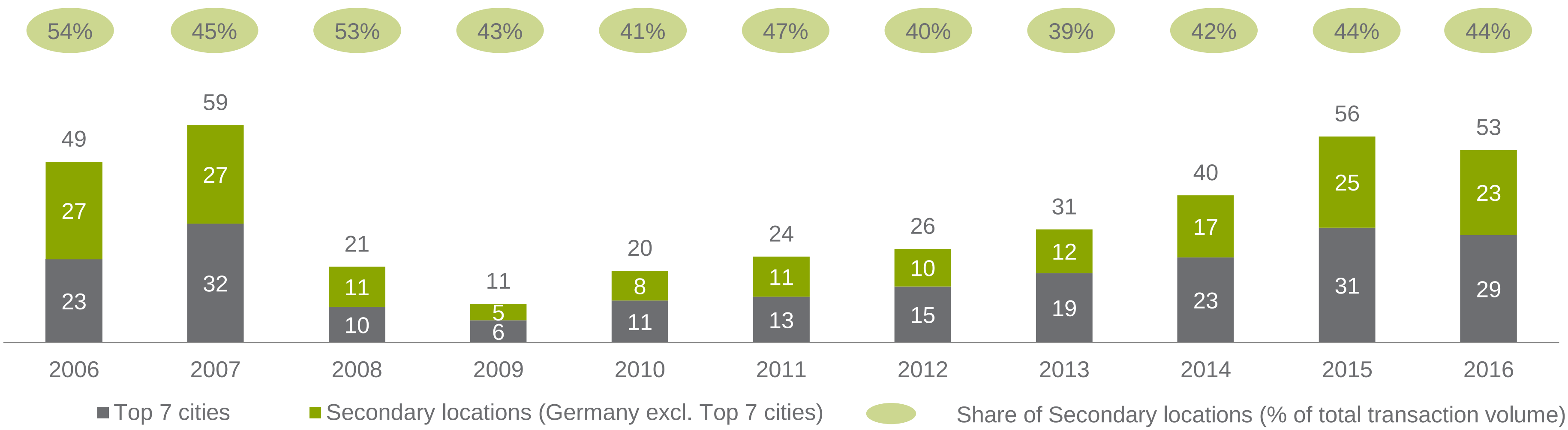

(1) Based on 2016 forecast
(2) Based on 2009 – 2015 GDP per capita CAGR
(3) Based on the respective region

Source: Destatis, Statistische Ämter des Bundes und der Länder, Oxford Economics

# … and Continue Attracting Significant Investment Volumes

### Share of Transactions in Secondary Locations Increases

Commercial Transaction Volume in €bn, Top 7 cities vs. Germany




### Comments

» Significant and liquid markets: accounted for ca. 45% of the commercial transaction volume in 2006-2016

» Growing markets: +26% CAGR in 2009-2016 for secondary markets

» Liquidity available even in downturn of cycles: the secondary markets had a market share on pre-crises level of ca. 53% in 2008 and ca. 43% in 2009

Source: PMA

# Income Statement

| Income Statement (€m) | H1 2016 | H1 2017 |
|---|---|---|
| Rental income | 37.5 | 1 37.2 |
| Income from utility and service charges | 8.7 | 9.7 |
| Operating expenses to generate rental income | (16.4) | (19.5) |
| **Profit/loss from the rental of real estate** | **29.8** | **27.3** |
| Profit/loss from the sale of real estate companies | 0.0 | 0.0 |
| Profit/loss from the sale of real estate | 0.1 | (0.5) |
| Profit/loss from investments accounted for using the equity method | 0.0 | 0.1 |
| Profit/loss from fair value adjustments in investment properties | 2 13.4 | 6.3 |
| Other operating income and other effects | 1.7 | 2.8 |
| General and administrative expenses | (7.5) | (7.0) |
| Other operating expenses | (4.7) | (4.8) |
| **Earnings before interest and taxes (EBIT)** | **32.8** | **24.1** |
| Financial result | (22.8) | 3 (13.3) |
| **Profit/loss before taxes (EBT)** | **10.0** | **10.8** |
| Income taxes | (4.4) | (5.2) |
| **Net profit/loss for the period** | **5.6** | **5.6** |
| Of which attributable to: | | |
| Non-controlling interests | 1.7 | 1.8 |
| Parent company shareholders | 3.9 | 3.8 |

**Comments**

1. Stable rental income due to new rental contracts and vacancy reduction, despite recent property sales
2. Revaluation uplift in H1 2016 distorted the profits in that period
3. Lower interest expenses due to refinancing measures in 2016 and the extension of the promissory notes in Q1 2017 all at better conditions

# Balance Sheet

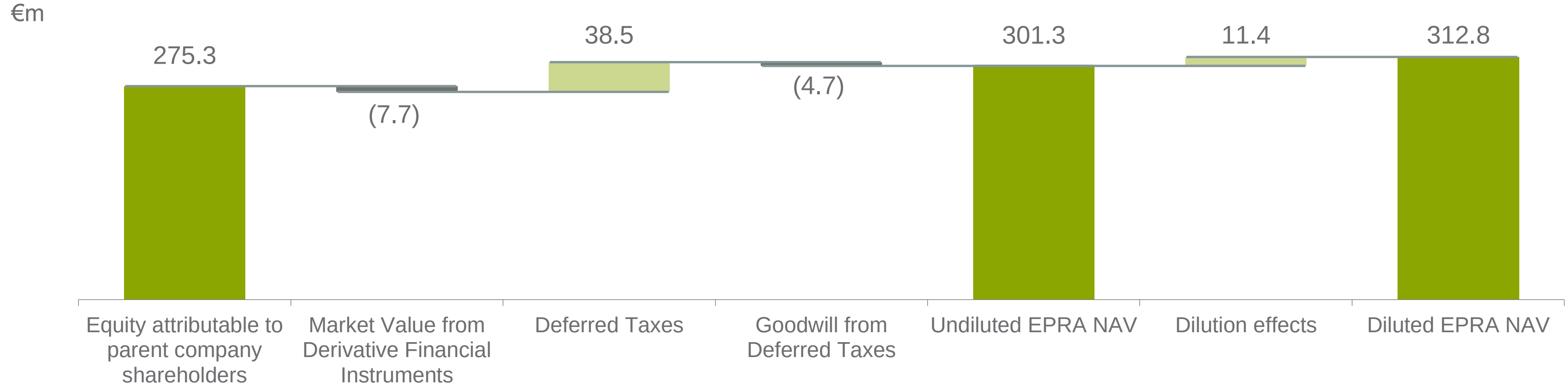
| Balance Sheet (€m) | FY 2016 | H1 2017 |
|---|---|---|
| **ASSETS** | | |
| Investment properties ❶ | 981 | 990 |
| Properties held for sale ❶ | 24 | 9 |
| Other assets | 58 | 66 |
| Cash and cash equivalents | 31 | 38 |
| **Total assets** | **1,094** | **1,103** |
| **EQUITY AND LIABILITIES** | | |
| Subscribed capital | 54 | 54 |
| Reserves | 218 | 221 |
| Equity attributable to parent company shareholders | 272 | 275 |
| Non-controlling interests | 37 | 38 |
| **Total equity** | **309** | **314** |
| Minority interests ❷ | 63 | 62 |
| Non-current financial debt | 621 | 622 |
| Current financial debt | 42 | 40 |
| Other liabilities | 60 | 66 |
| **Total liabilities** | **785** | **790** |
| **Total equity and liabilities** | **1,094** | **1,103** |

**Comments**

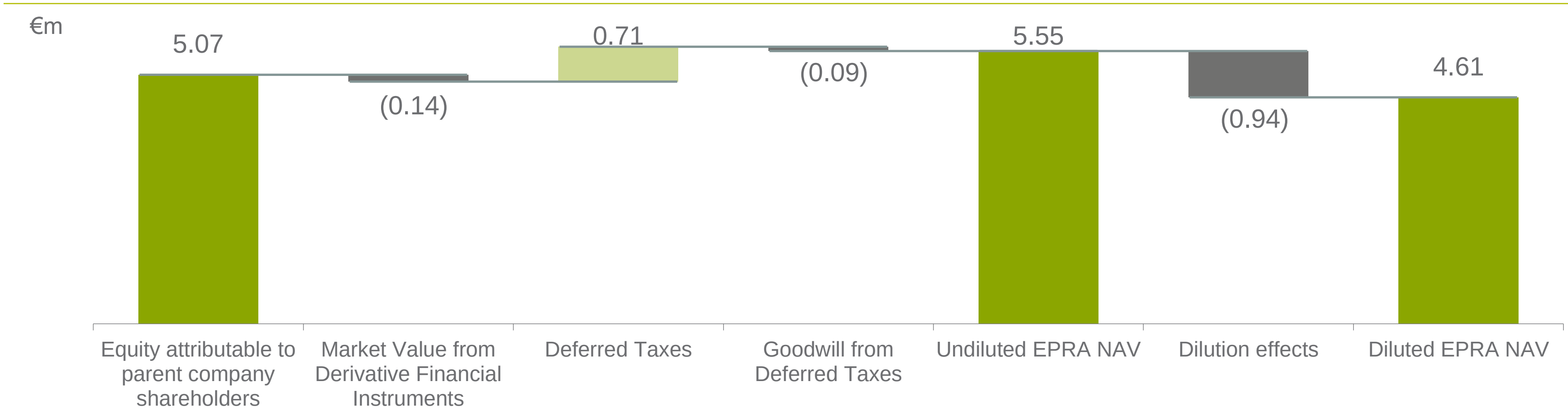
1. Investment properties have nearly tripled since the end of 2014; decrease between FY 2016 and H1 2017 is due to the disposal of smaller, non-core properties
2. Minority interests are attributable to equity capital of limited partners in real estate funds of Fair Value REIT-AG. Under German GAAP and G-REIT Act, these are recognised as equity

# EPRA NAV Reconciliation

**EPRA NAV Bridge (H1 2017)**




**EPRA NAV Per Share[(1)] Bridge (H1 2017)**

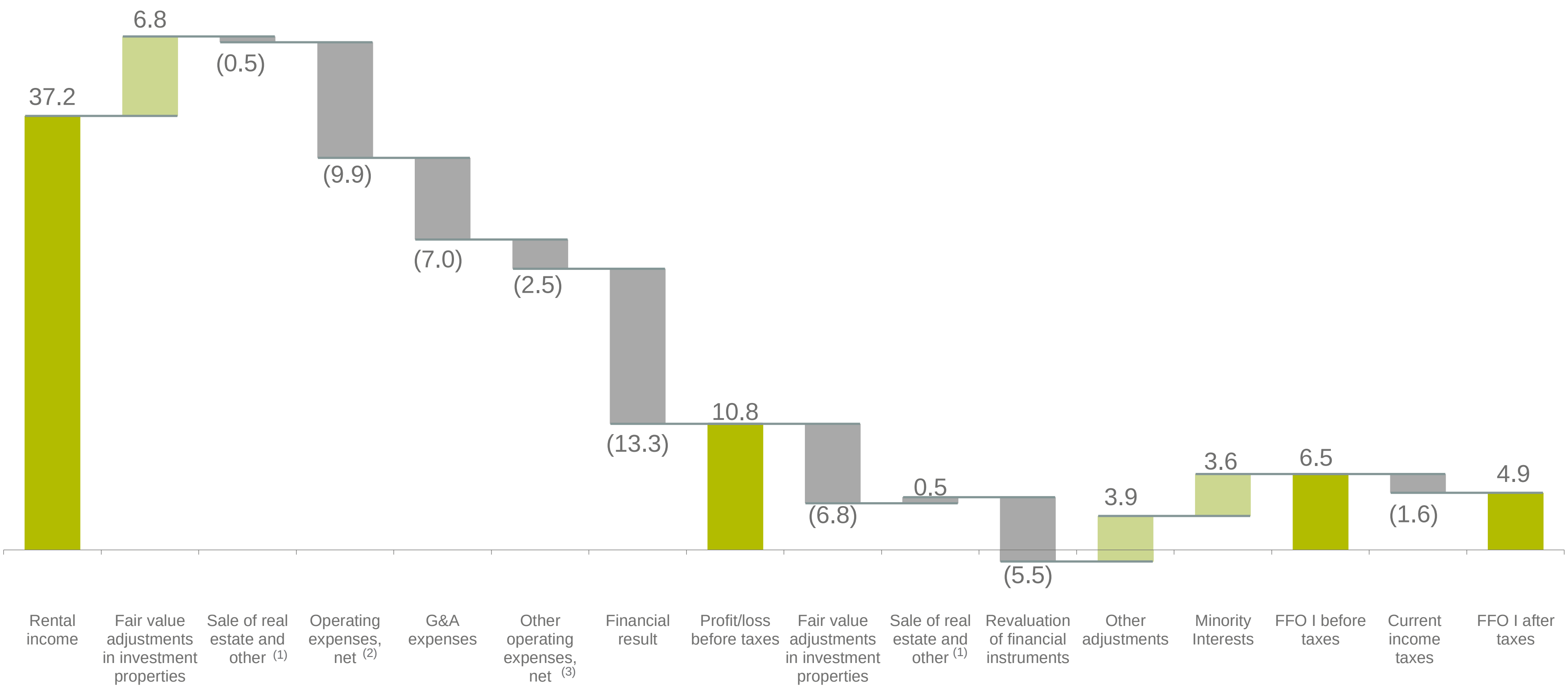



(1) At 30th June 2017, 54.3m basic shares and 67.9m diluted shares outstanding

# Funds From Operations (FFO) Reconciliation - H1 2017

**H1 2017**

€m




(1) Other includes (i), Profit/loss from the sale of real estate of €(0.5)m and (ii) Profit/loss from investments accounted for using the equity method of €65 thousand
(2) Includes income from utility and service changes of €9.7m and operating expenses to generate rental income of €(19.5)m
(3) Includes impairment of receivables of €(0.5)m, other operating income of €9.1m and other operating expenses of €(4.8)m