



# DEMIRE Deutsche Mittelstand Real Estate AG Conference Call – Q1 2018 Results

30 May 2018

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# Agenda

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Highlights Q1 2018 Results

Portfolio Update

Financials

Outlook

Update on Takeover / Change of Control Offer



# Highlights Q1 2018 Results



# Highlights Q1 2018

## Solid start into 2018 fiscal year

<b>PORTFOLIO</b>	<ul style="list-style-type: none"> <li>» <b>Good operational performance:</b> Letting activities of c. 29.800 sqm, thereof new lettings (c. 66%), average lease term of 4.9 years, WALT across portfolio at 4.8 years</li> <li>» <b>EPRA vacancy rate</b> down by another 80 bps to 8.6%<sup>1</sup>, <b>Like-for-like rental growth</b> of c. 1.6 % (Top 10 assets c. 5.8%) in Q1 2018</li> <li>» <b>Rental income</b> slightly decreased to € 18.3m (Q1 2017: € 18.5m) due to the sale of non-strategic real estate in the last 12 months</li> <li>» <b>Valuation result</b> of investment properties of c. € 32.1m in Q1 2018 predominantly driven by operational performance and strong real estate fundamentals in the “Secondaries” (avg. value per m<sup>2</sup> at € 1.100 per sqm, 6.8 % GRI yield)</li> </ul>
<b>FINANCING</b>	<ul style="list-style-type: none"> <li>» <b>Net-LTV</b> decreased by 200 bps to 58.1% (Year end 2017: 60.1%)</li> <li>» <b>Average cost of debt</b> at 3.0% p.a.<sup>2</sup> (Q1 2017: 4.1% p.a.)</li> </ul>
<b>FFO &amp; EPRA NAV</b>	<ul style="list-style-type: none"> <li>» <b>FFO I</b> (after taxes, before minorities) reached € 5.2m (Q1 2017: € 2.0m) driven by lower interest expenses and improved tax burden, compared to full year expectation first quarter 2018 was also influenced by lower capex as planned</li> <li>» <b>EPRA NAV per share</b> increased to € 5.29 (diluted, +7.1%) and to € 6.47 (undiluted, +8.5%)</li> </ul>
<b>Update on Takeover/CoC Offer</b>	<ul style="list-style-type: none"> <li>» <b>Tender offer</b> ended on 14 May 2018, 13% of shares (c. 7.8m) have been tendered</li> <li>» <b>Announcement of Change of Control offer</b> on 16 May 2018, so far not a single bondholder has accepted the CoC offer</li> </ul>



# Portfolio Update



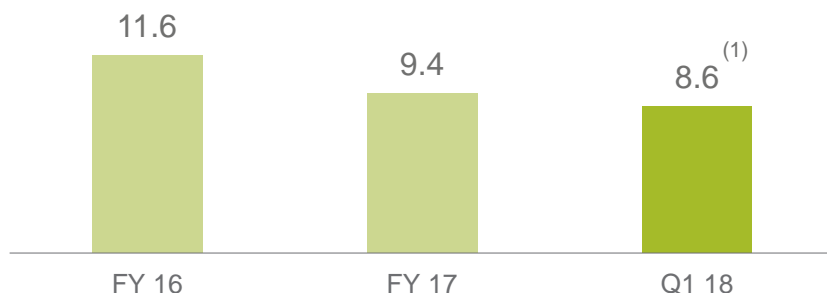
Office Building, Ohmstraße 1, Unterschleißheim

# Leasing Performance Q1 2018

## Continuous Improvement of Portfolio Quality

### Portfolio Optimisation by Vacancy Reduction...

EPRA Vacancy (in %)

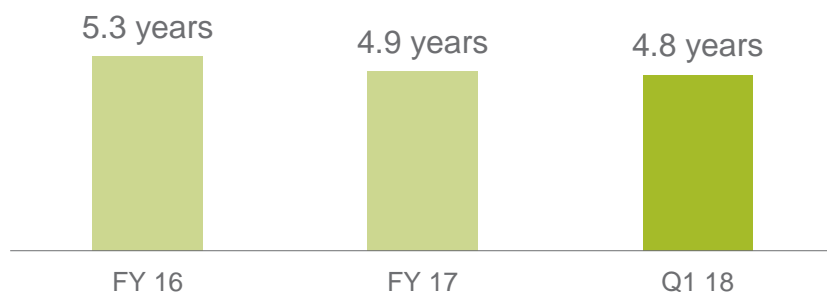


### Comments

- » **EPRA vacancy rate** down by another 80 bps to 8.6%<sup>(1)</sup>
- » **Successful letting activities** of c. 29.800 sqm (3.1% of TLA), thereof c. 19,700 sqm of new lettings and c. 10,100 sqm of renewals
- » **Like-for-like rental growth** of 1.6% (Top 10 assets with 5.8%), driven by c. 20% from indexations and step up rents, c. 70% due to vacancy reduction and c. 10% from increase of in-place rent

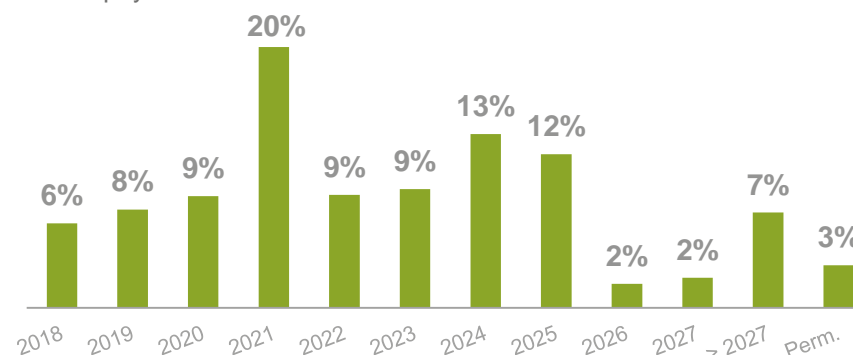
### ...While Maintaining a Stable Lease Profile

WALT (years)



### Low Level of Upcoming Lease Maturities

Lease Expiry Schedule<sup>(2)</sup>



(1) As of 31<sup>st</sup> March 2018, excluding assets held for sale; calculation as defined by EPRA BPR standards

(2) Over term of leases signed

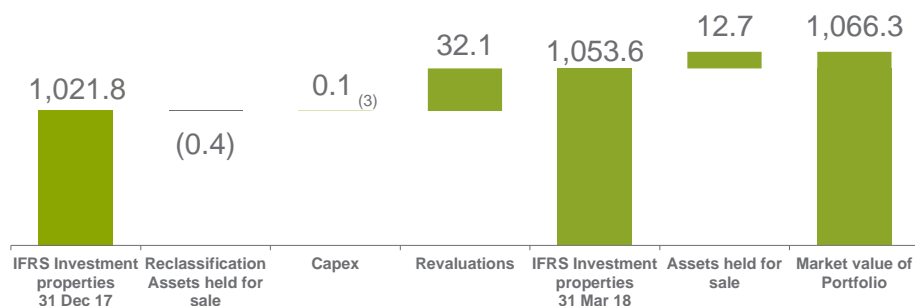


# Portfolio Breakdown

## Good Portfolio Performance drives Valuation uplift in Q1 2018

### Development of Investment Properties

in € m



### Comments

- » **Market value of investment properties** increased by € 32.1m (3.1%) in Q1 2018, mainly driven by good operational performance
- » **Average asset value** at € 12.4m (FY 2017: € 12.0m), increased due to valuation uplifts
- » **Assets held for sale:** no material changes since FY 2017

### All Three Clusters Generate Attractive Rental Yields

	No. properties	GAV (€m)	GRI p.a. (€m) <sup>(1)</sup>	GRI p.a. (€/m <sup>2</sup> /p.m.) <sup>(1)</sup>	GRI Yield (%)	EPRA Vacancy (%) <sup>(2)</sup>	WALT (Years)
Core+	37	557.7	37.0	9.1	6.6	3.1	6.0
Value added	42	441.7	31.3	5.5	7.1	14.4	3.9
Redevelopment	7	67.0	4.0	7.9	6.0	0.5	3.6
<b>Total (Q1 2018)</b>	<b>86</b>	<b>1.066,3</b>	<b>72.4</b>	<b>7.0</b>	<b>6.8</b>	<b>8.6</b>	<b>4.8</b>
<b>Total (FY 2017)</b>	<b>86</b>	<b>1.034,1</b>	<b>72.1</b>	<b>7.2</b>	<b>7.0</b>	<b>9.4</b>	<b>4.9</b>
% / ppt change	-	32.2	0.3	(0.2)	(20 bp)	(80 bp)	(0.1 yrs.)

(1) Annualised contractual rent excluding service charges

(2) As of 31<sup>st</sup> March 2018, excluding properties sold (signed but not closed); calculation as defined by EPRA BPR standards

(3) Capitalisation of investments

### Attractive Yield and WALT Across Asset Classes

	No. properties	GAV (€m)	GRI p.a. (€m) <sup>(1)</sup>	GRI p.a. (€/m <sup>2</sup> /p.m.) <sup>(1)</sup>	GRI Yield (%)	EPRA Vacancy (%) <sup>(2)</sup>	WALT (Years)
Office	63	714.2	48.7	8.1	7.0	8.5	4.4
Retail	16	253.3	17.4	10.2	7.1	6.7	6.3
Logistics	1	64.3	4.3	2.1	6.2	20.1	1.7
Other	6	34.5	1.9	4.0	6.6	0.1	6.4
<b>Total (Q1 2018)</b>	<b>86</b>	<b>1.066,3</b>	<b>72.4</b>	<b>7.0</b>	<b>6.8</b>	<b>8.6</b>	<b>4.8</b>
<b>Total (FY 2017)</b>	<b>86</b>	<b>1.034,1</b>	<b>72.1</b>	<b>7.2</b>	<b>7.0</b>	<b>9.4</b>	<b>4.9</b>
% / ppt change	-	32.2	0.3	(0.2)	(20 bp)	(80 bp)	(0.1 yrs.)



# Market Valuation

## Top 5 DEMIRE Assets with Valuation increase

### Valuation increase Q1 2018 – TOP 5 properties

	EURm
Münster, Hammer Str. 455-459	2.6
Leipzig, Logpark	2.6
Ulm, Zeitblomstr./Olgastr./Bahnhofplatz	2.6
Bonn, Bonner Talweg 100/ Reuterstrasse	2.4
Ludwigburg, Uhlandstr. 21	1.9
<b>Sub uplift</b>	<b>12.1</b>
<b>Total uplift</b>	<b>32.1</b>

### Comments

- » **Average value per sqm** increased to € 1,100 per sqm, still way below replacement costs for German commercial real estate
- » **GRI Yield** of 6.8% for the total portfolio (FY 2017: 7.0%)
- » **Valuation uplift** in Q1 2018 driven by good operational performance

#### Münster, Hammer Str.



- ❖ Use: Retail
- ❖ GAV: € 9,930,000
- ❖ Net Rent p.a.: € 0.7m

#### Ulm, Zeitblomstr.



- ❖ Use: Retail
- ❖ GAV: € 71,500,000
- ❖ Net Rent p.a.: € 4.4m

#### Ludwigsburg, Uhlandstr.



- ❖ Use: Office
- ❖ GAV: € 8,700,000
- ❖ Net Rent p.a.: € 0.6m

#### Leipzig, (LogPark)



- ❖ Use: Logistic
- ❖ GAV: € 64,300,000
- ❖ Net Rent p.a.: € 4.3m

#### Bonn, Bonner Talweg



- ❖ Use: Office
- ❖ GAV: € 84,600,000
- ❖ Net Rent p.a.: € 5.6m

# Financials

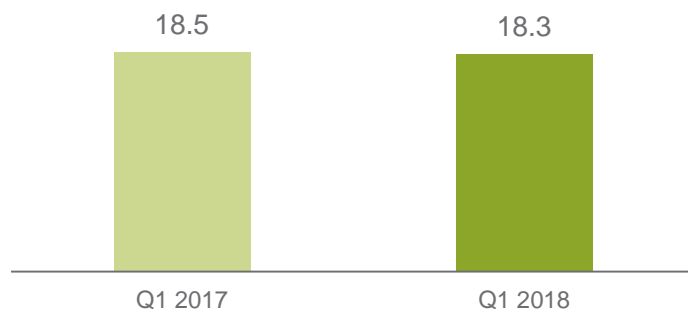


## Selected P&L Positions

FFO I more than doubled compared to previous year's period

### Rental Income

€m

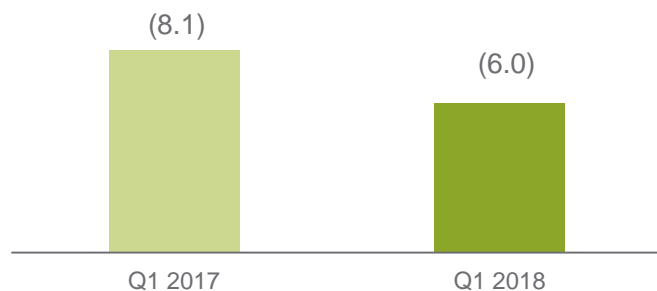


### Comments

- » **Rental income** slightly decreased to € 18.3m due to the sale of non-strategic real estate in the last 12 months
- » **Financial expenses** decreased to € 6.0m, y-o-y lowered by € 2.1m due to successful refinancing activities in 2017
- » **FFO I** increased y-o-y due to lower average recurring financing costs and lower tax burden - compared to full year expectation, first quarter 2018 was also influenced by budgeted lower capex

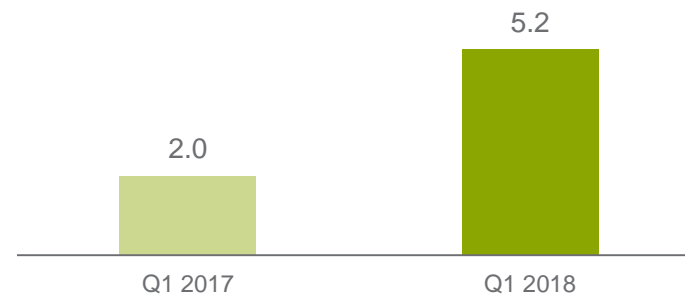
### Financial expenses <sup>(1)</sup>

€m



### Funds from operations I <sup>(2)</sup>

€m



(1) Calculation of expected run rate based on effective interest rates and current debt profile

(2) After tax, before minorities

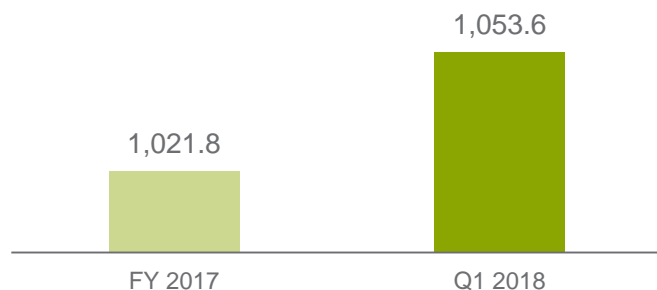


## Selected Balance Sheet Positions

No material changes except for Value increase of Investment properties

### Investment properties

€m

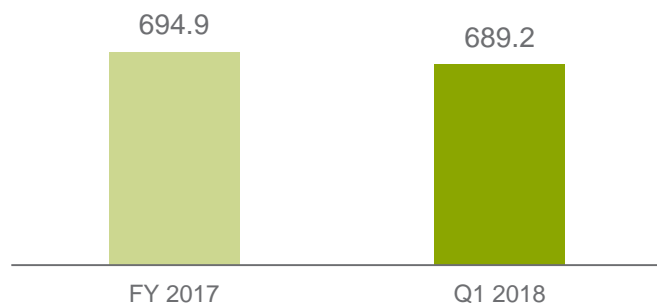


### Comments

- » **Gross Asset Value** increased based on positive valuation results in Q1 2018
- » **Financial debt** decreased due to amortization of short-term debt and payment of accrued interest
- » **Cash at hand** at € 69.5m, pro forma at c. € 92.5m from capital increase
- » **EPRA-NAV per share** (diluted) increased by 35 cent per share, mainly due to the positive valuation result in Q1 2018

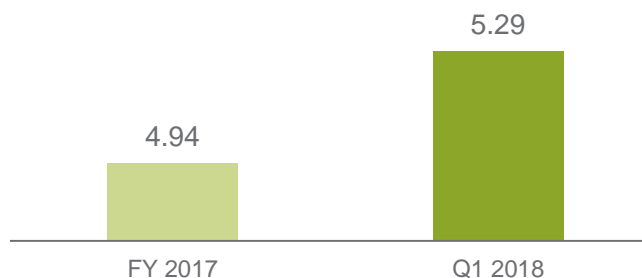
### Financial Debt

€m



### EPRA-NAV per share (diluted)

In €



# Financial Profile

## Good Credit Profile – Ready for the next Growth Steps

### Financing KPI's as of 31/03/2018

Gross debt (€m)	689.2
Net LTV (%)	58.1
Avg. cost of debt (%)	3.0 <sup>(1)</sup>
Interest rate fixed (%)	94
Unencumbered asset ratio (%) <sup>(2)</sup>	44

### Financing structure

Tranche <sup>(3)</sup>	Amount (€m)	Margin/Coupon
	31/03/2018	
Cash and Cash Equivalents	(69.5)	
New Senior Unsecured Notes	392.9	2.875%
Bank Loans	23.9	2.45% - 3.25%
Promissory Notes	141.9	4.00%
Total Fair Value REIT-AG Debt	117.2	2.37%
Convertible Bond	10.5	6.00%
Mandatory 2018 Notes	0.1	2.750%
Other <sup>(4)</sup>	2.6	
Net Total Financial Liabilities	619.6	

### Strong Track Record in Leverage Reduction

Net LTV in %



### Successfully reduced Cost of Debt

Avg. cost of debt in % <sup>1</sup>



(1) Based on nominal interest

(2) Calculated as share of unencumbered assets divided by total real estate assets (3) IFRS values (4) accrued interest payable

# Update on Takeover and Change of Control Offer

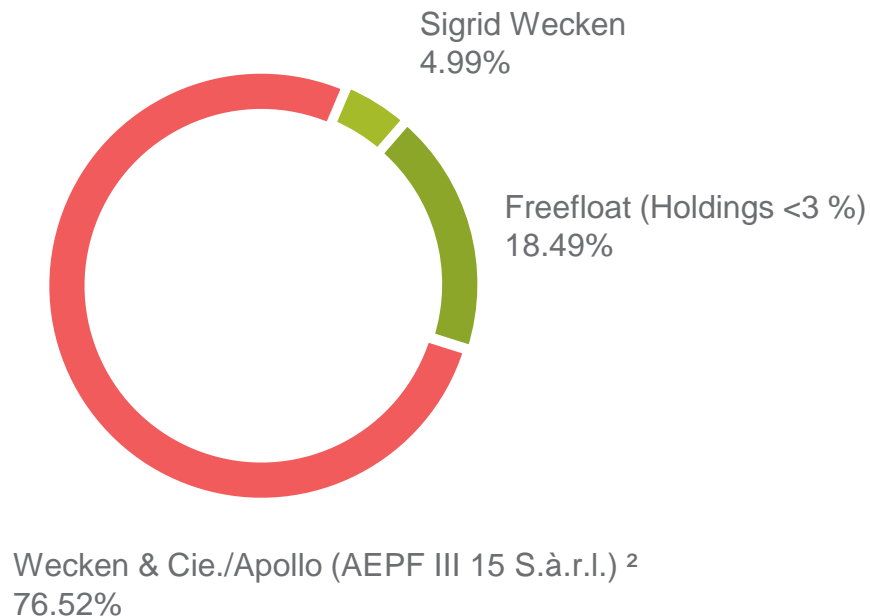




# Result of the Takeover Offer - Change of Control of Senior Notes 2017/2022

Apollo & Wecken at c. 77% stake - CoC offer announced on 16 May 2018

## Shareholder Structure <sup>1</sup>



## Update on Takeover Offer:

- » Mandatory tender offer for DEMIRE ended on 14 May 2018, c. 13% of shares (7.8m) have been tendered
- » Apollo/Wecken Group combined hold 76.52% of voting rights of DEMIRE
- » Additionally, Apollo also acquired convertible bonds in the total amount of roughly € 9.67m (currently not converted into DEMIRE shares)
- » Change of Supervisory Board planned, proposal on next AGM to appoint Prof Alexander Goepfert as new chairman of the board

## Update on Change of Control Offer of Senior Notes 2017/2022:

- » Based on the information stated in the public offer document published by Apollo on 16 April 2018, the management board and supervisory board concluded on a conservative interpretation of the change of control provision that a change of control under the indenture governing the senior notes has occurred on that day
- » DEMIRE has published a change of control offer in compliance with its obligations under the indenture governing the senior notes on 16 May 2018
- » DEMIRE has secured a Back-up bridge facility for change of control offer under the senior notes if need be
- » So far, acceptance level for the Change of Control has been zero

(1) As of 18 May 2018

(2) Incl. subsidiaries

# Outlook



# Guidance 2018

Based on current portfolio



**Rental income**

**c. € 71m - 73m**



**FFO I**  
(after taxes, before minorities)

**c. € 16m -18m**



## Contact Details/Financial Calendar 2018



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### Financial Calendar 2018

Date	Event
27 June 2018	Annual General Meeting, Frankfurt
16 August 2018	Half year results 2018
15 November 2018	Interim results Q3 2018

### Share information (as of 29 May 2018)

Symbol / Ticker	DMRE
Share price (XETRA)	€ 4.23
Market Segment	Prime Standard
ISIN	DE000A0XFSF0
Market cap	€ 246m
Free Float <sup>(1)</sup>	18.5%
Shares outstanding	59,714,658

## Appendix I: Additional Financial Information





# Income Statement

Income Statement (€m)	Q1 2017	Q1 2018
Rental income	18.5	18.3 <sup>1</sup>
Income from utility and service charges	6.2	5.7
Operating expenses to generate rental income	(10.9)	(10.8)
<b>Profit/loss from the rental of real estate</b>	<b>13.8</b>	<b>13.2</b>
Profit/loss from the sale of real estate companies	0.0	0.0
Profit/loss from the sale of real estate	(0.2)	0.0
Profit/loss from investments accounted for using the equity method	(0.0)	0.1
Profit/loss from fair value adjustments in investment properties	0.2	32.1
Other operating income and other effects	1.6	1.2
General and administrative expenses	(3.6)	(3.1) <sup>2</sup>
Other operating expenses	(2.7)	(1.2)
<b>Earnings before interest and taxes (EBIT)</b>	<b>9.2</b>	<b>42.2</b>
Financial result	(5.5)	(11.7) <sup>3</sup>
<b>Profit/loss before taxes (EBT)</b>	<b>3.7</b>	<b>30.5</b>
Deferred taxes	(2.1)	(9.5)
Current income taxes	(0.7)	(0.2) <sup>4</sup>
<b>Net profit/loss for the period</b>	<b>0.9</b>	<b>20.8</b>
Of which attributable to:		
Non-controlling interests	0.8	2.6
Parent company shareholders	0.1	18.2

## Comments

- Rental income slightly decreased to € 18.3m due to the sale of non-strategic real estate in the last 12 months
- General and administrative expenses decreased mainly due to lower legal, advisory and audit costs
- Financial result increased mainly due to higher minority interests of € 5.7m due to significant valuation results in Q1 2018, interest expenses down to € 6m y-o-y (minus € 2.1m) thanks to refinancing activities last year
- Due to successful tax pooling in 2017 cash taxes have been reduced



# Balance Sheet

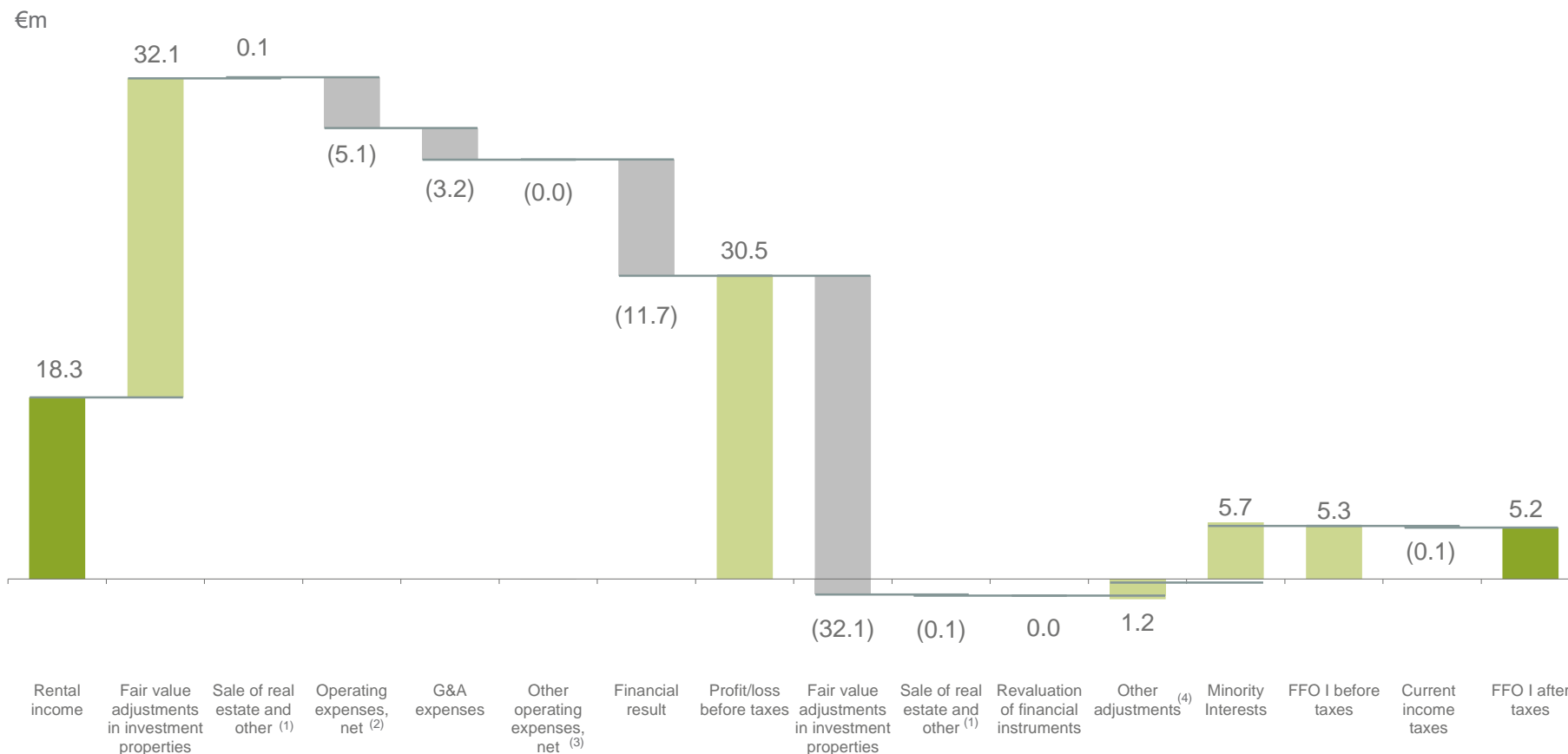
Balance Sheet (€m)	FY 2017	Q1 2018
<b>ASSETS</b>		
Investment properties } <b>1</b>	1,021	1,054
Properties held for sale }	12	13
Other assets	39	42
Cash and cash equivalents <b>2</b>	74	70
<b>Total assets</b>	<b>1,147</b>	<b>1,180</b>
<b>EQUITY AND LIABILITIES</b>		
Subscribed capital	54	54
Reserves	231	249
Equity attributable to parent company shareholders	285	304
Non-controlling interests <b>3</b>	34	36
<b>Total equity</b>	<b>319</b>	<b>340</b>
Minority interests <b>4</b>	72	78
Non-current financial debt	666	665
Current financial debt	29	25
Other liabilities	61	74
<b>Total liabilities</b>	<b>828</b>	<b>840</b>
<b>Total equity and liabilities</b>	<b>1,147</b>	<b>1,180</b>

## Comments

- 1** Investment properties increased due to valuation uplift in Q1 2018
- 2** Cash at hand at approx. € 70m, mainly decreased due to interest payments for the bond 2017/2022, pro forma at € 93m due to 10% capital increase (settlement in Q2)
- 3** Relates to c. 22% minority shareholders of Fair Value REIT AG and RETT blockers
- 4** 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, includes reclassification of certain RETT Blocker

# Funds From Operations (FFO) Reconciliation – Q1 2018

## Q1 2018



(1) Other includes (i) profit/loss from the sale of real estate companies of € 0m, (ii), Profit/loss from the sale of real estate of € 0 thousand and (iii) Profit/loss from investments accounted for using the equity method of €(0.1)m

(2) Includes income from utility and service changes of €5.7m and operating expenses to generate rental income of €(10.8)m

(3) Includes impairment of receivables of €(0.1)m, other operating income of €1.3m and other operating expenses of €(1.2)m

(4) Other adjustments relate to, among others, one-time refinancing costs of €0.8m (before hedging costs) incl. legal and advisor fees, one-time legal and transaction costs of € 0.25m, one-time administrative costs of € 0.2m and net other operating expenses/income relating to prior periods of €0.01m in the quarter ended March 31, 2018

## Appendix II: Additional Portfolio Information





# Overview of the Real Estate Portfolio by Region

## Property Locations

Status as at: 31/03/2018	Properties	Book value	Total rental space	thereof office	thereof retail	thereof logistics	thereof others	EPRA Vacancy rate
	Number	(€m)	(m <sup>2</sup> )	(m <sup>2</sup> )	(m <sup>2</sup> )	(m <sup>2</sup> )	(m <sup>2</sup> )	(%)
Baden-Wuerttemberg	4	129,4	85,130	85,130	0,000	0,000	0,000	1,8%
Bavaria	7	100,1	95,837	95,837	0,000	0,000	0,000	10,8%
Berlin	1	5,9	7,150	0,000	7,150	0,000	0,000	5,9%
Brandenburg	4	48,6	52,422	22,079	30,343	0,000	0,000	13,6%
Bremen	10	41,2	34,561	34,561	0,000	0,000	0,000	28,1%
Hamburg	1	9,0	3,973	0,000	3,973	0,000	0,000	0,0%
Hesse	7	132,2	71,192	44,183	21,471	0,000	5,538	7,8%
Mecklenburg- Western Pomerania	6	113,3	58,117	38,811	19,306	0,000	0,000	6,8%
Lower Saxony	4	15,2	21,753	5,288	16,466	0,000	0,000	1,2%
North Rhine-Westphalia	14	201,2	127,721	96,564	10,576	0,000	20,581	8,0%
Rhineland Palatinate	3	11,6	12,528	12,528	0,000	0,000	0,000	4,1%
Saxony	11	156,9	304,490	51,396	20,835	217,968	14,291	12,6%
Saxony-Anhalt	3	35,7	25,316	0,000	25,316	0,000	0,000	2,6%
Schleswig-Holstein	10	64,3	63,819	63,819	0,000	0,000	0,000	1,9%
Thuringa	1	1,9	5,505	0,000	5,505	0,000	0,000	43,3%
<b>Germany</b>	<b>86</b>	<b>1.066,4</b>	<b>969,515</b>	<b>550,197</b>	<b>160,941</b>	<b>217.968</b>	<b>40,410</b>	<b>8.6%<sup>(1)</sup></b>

(1) As of 31<sup>st</sup> March 2018, excluding properties sold (signed but not closed); calculation as defined by EPRA BPR standards

# Overview of Top 20 Assets

## Top 20 Properties (as of 31/03/2018)

City	Asset Class	Cluster	GAV (€ m)	Share (%)	Space ('000 sqm)	EPRA Vacancy (%) <sup>1</sup>	GAV/sqm (€)	GRI p.a. <sup>(2)</sup> (€ m)	GRI Yield (%)	WALT (Years)	
1	Bonn	Office	Core+	84,6	7,9%	38,353	-	2.206	5,6	6,7%	6,9
2	Ulm	Office	Core+	71,5	6,7%	47,527	1,2%	1.504	4,3	6,1%	6,6
3	Rostock	Retail	Core+	67,9	6,4%	19,306	3,5%	3.517	4,3	6,3%	4,4
4	Leipzig	Logistic	Value-Add	64,3	6,0%	217,968	20,1%	295	4,3	6,6%	1,7
5	Kassel	Retail	Core+	57,8	5,4%	21,471	6,0%	2.692	3,5	6,0%	7,7
6	Freiburg	Office	Redevelopment	37,8	3,5%	22,674	-	1.667	2,7	7,3%	2,9
7	Düsseldorf	Office	Value-Add	33,8	3,2%	24,304	23,1%	1.391	2,0	6,0%	4,2
8	Regensburg	Office	Value-Add	33,4	3,1%	29,219	-	1.143	2,6	7,7%	2,9
9	Eschborn	Office	Core+	32,3	3,0%	18,774	-	1.720	2,0	6,1%	6,8
10	Eisenhüttenstadt	Retail	Value-Add	28,5	2,7%	30,343	22,9%	939	2,3	8,1%	5,7
Top 10 Properties			511.9	48.0%	469.939	9.1%	1,089	33.6	6.6%	5.1	
11	Leipzig	Office	Value-Add	28,4	2,7%	23,220	6,1%	1.223	1,8	6,2%	3,4
12	Lutherstadt Wittenberg	Retail	Core+	23,0	2,2%	14,710	3,9%	1.564	1,7	7,3%	5,1
13	Zittau	Retail	Value-Add	21,1	2,0%	17,411	3,2%	1.212	1,3	6,3%	11,1
14	Unterschleißheim	Office	Value-Add	19,4	1,8%	15,663	36,8%	1.239	1,0	5,1%	2,9
15	Flensburg	Office	Value-Add	17,1	1,6%	23,800	-	718	1,7	10,0%	2,9
16	Quickborn	Office	Core+	16,8	1,6%	10,570	0,6%	1.589	1,2	7,3%	3,9
17	Meckenheim	Office	Redevelopment	16,3	1,5%	7,650	-	2.131	1,0	6,1%	4,8
18	Neumünster	Office	Value-Add	15,8	1,5%	11,808	1,6%	1.338	1,0	6,6%	7,6
19	Langen	Office	Value-Add	15,4	1,4%	13,681	27,2%	1.126	1,0	6,8%	2,9
20	Kempton	Office	Value-Add	14,7	1,4%	16,795	2,0%	875	1,0	6,8%	1,8
Top 20 Properties			699.9	65.6%	625.247	9.0%	1,119	46.4	6.6%	5.0	
Other Properties			366.5	34.4%	344.267	8.1%	1,065	26.0	7.1%	4.5	
Total Properties			1,066.4	100.0%	969.515	8.6%	1,100	72.4	6.8%	4.8	

(1) As of 31<sup>st</sup> March 2018, excluding properties sold (signed but not closed), calculation as defined by EPRA BPR standards

2) Annualised contractual rent excl. service charges  
3) including other external spaces of 44,000 sqm