



# DEMIRE Deutsche Mittelstand Real Estate AG

## Conference Call – 1H 2018 Results

16 August 2018

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# Agenda

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Highlights 1H 2018 Results

Portfolio Update

Financials

Outlook



# Highlights 1H 2018 Results



# Highlights 1H 2018

## Strong Operational and Financial Performance

### PORTFOLIO

- » **Strong letting performance:** Letting activities of c. 37,900 sqm, thereof new lettings (c. 60%), average lease term of 4.7 years, WALT across portfolio at 4.7 years
- » **EPRA vacancy rate** down by 160 bps to 7.8%<sup>(1)</sup>, **Like-for-like rental growth** of c. 1.8 % in 1H 2018
- » **Rental income** slightly decreased to € 36.6m (1H 2017: € 37.2m) due to the sale of non-strategic real estate in the last 12 months, partly compensated by new lettings
- » **Valuation result** of investment properties of c. € 70.1m in 1H 2018 driven by operational performance and strong real estate fundamentals in the “Secondaries” (avg. value per sqm at € 1,152, 6.6 % GRI yield)

### FINANCING

- » **Net-LTV** strongly decreased by 760 bps to 52.5% (Year end 2017: 60.1%), positively affected by conversion of convertible bonds in May/June and higher cash at hand through 10% capital increase
- » **Average cost of debt** at 3.0% p.a.<sup>(2)</sup>
- » **Change of Control Senior Notes in June 2018:** acceptance of redemption offer came to a total volume of c. € 33.4m, financed via bridge facility

### FFO & EPRA NAV

- » **FFO I** (after taxes, before minorities) reached € 11.4m (1H 2017: € 4.9m) driven by lower interest expenses, improved tax burden and lower recurring SG&A's, half year results 2018 were also influenced by lower expensed capex as planned
- » **EPRA NAV per share** increased to € 5.69 (diluted, +15.2% vs. FY 2017), mainly due to strong valuation result and conversion of convertible bonds

### STRATEGY

- » **AGM** took place on 27th of June, new supervisory board member Prof. Dr. Alexander Goepfert, also elected as chairman, all agenda items were approved i.e. new authorised capital due to increased capital stock
- » **Focus 2H 2018 and beyond:** Acquisition pipeline/growth, optimisation of cost base and operational units, deleveraging

(1) Excluding assets held for sale (2) based on nominal interest



# Portfolio Update



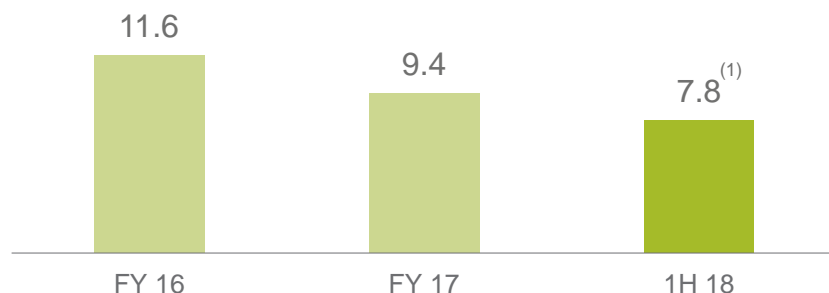
Office Building, Ohmstraße 1, Unterschleißheim

# Leasing Performance 1H 2018

## Improved Portfolio KPI's

### Portfolio Optimisation by Vacancy Reduction...

EPRA Vacancy (in %)

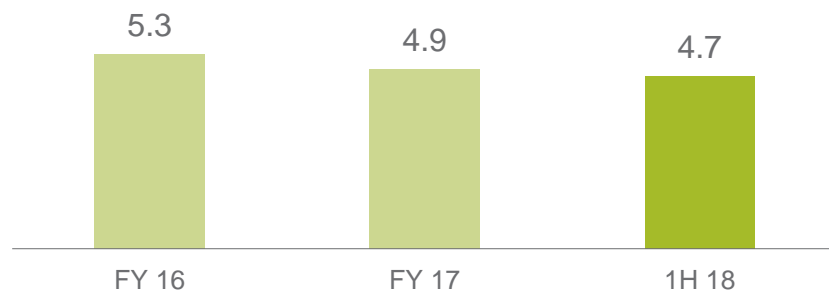


### Comments

- » **EPRA vacancy rate** down by 160 bps to 7.8%<sup>(1)</sup>
- » **Successful letting activities** of c. 37,900 sqm (c. 4.0% of TLA), thereof c. 22,700 sqm of new lettings and c. 15,200 sqm of renewals
- » **Like-for-like rental growth** of 1.8%, driven by c. 21% from indexations and step up rents, c. 70% due to vacancy reduction and c. 9% from increase of in-place rent

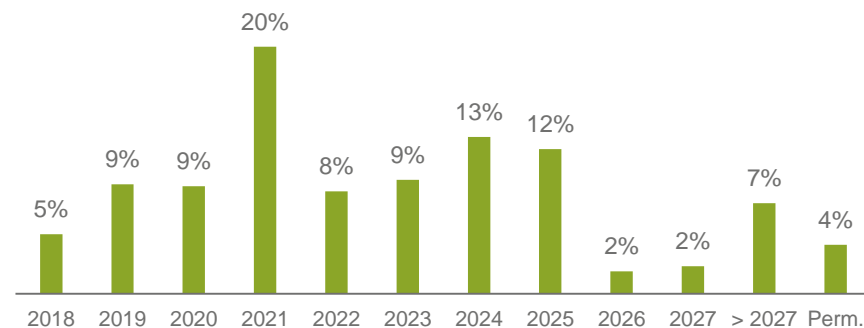
### ...While Maintaining a Stable Lease Profile

WALT (years)



### Low Level of Upcoming Lease Maturities

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



(1) As of 30<sup>th</sup> June 2018, excluding assets held for sale; calculation as defined by EPRA BPR standards

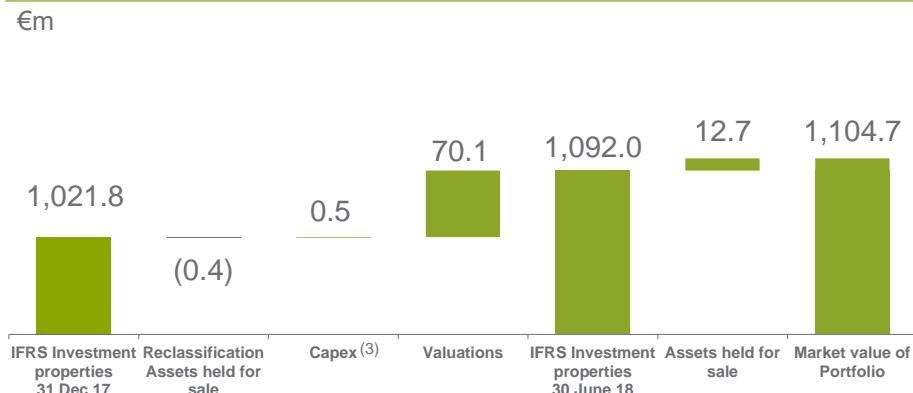
(2) Over term of leases signed



# Portfolio Breakdown

## Strong Valuation Uplift Driven by Improved Portfolio

### Development of Investment Properties



### Comments

- » **Market value of investment properties** increased by € 70.2m (6.9%) since end of 2017
- » **Average asset value** at € 12.7m (FY 2017: € 12.0m), increased due to valuation uplifts
- » **Assets held for sale:** no material changes during 1H 2018

### 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	574.4	37.1	9.1	6.5	2.8	5.7
Value added	42	463.2	31.4	5.6	6.8	13.7	3.8
Redevelopment	8	67.1	4.0	7.9	6.0	0.5	3.0
<b>Total (1H 2018)</b>	<b>87<sup>(4)</sup></b>	<b>1,104.7</b>	<b>72.5</b>	<b>7.1</b>	<b>6.6</b>	<b>7.8</b>	<b>4.7</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>
<b>Change</b>	<b>+1 unit</b>	<b>6.8</b>	<b>0.6</b>	<b>(1.4)</b>	<b>(40 bp)</b>	<b>(160 bp)</b>	<b>(0.2 yrs.)</b>

(1) Annualised contractual rent excluding service charges

(2) As of 30<sup>th</sup> June 2018, excluding properties sold (signed but not closed); calculation as defined by EPRA BPR standards

(3) Capitalisation of investments

(4) Increase of one unit due to split of property into two assets (one asset investment properties, one asset held for sale)

### 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	747.4	49.0	8.1	6.6	7.4	4.3
Retail	16	257.0	17.3	10.3	6.7	6.9	6.2
Logistics	1	64.5	4.2	2.2	6.5	16.6	1.9
Other	7	35.8	2.0	4.1	5.5	0.2	6.3
<b>Total (1H 2018)</b>	<b>87<sup>(4)</sup></b>	<b>1,104.7</b>	<b>72.5</b>	<b>7.1</b>	<b>6.6</b>	<b>7.8</b>	<b>4.7</b>
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# Market Valuation

## Top 5 DEMIRE Assets with Valuation Increase

### Valuation increase 1H 2018 – TOP 5 properties

	€m
Ulm, Zeitblomstr./Olgastr./Bahnhofplatz	8.7
Bonn, Bonner Talweg 100/Reuterstrasse	5.7
Flensburg, Eckernförder Landstrasse 65	4.5
Leipzig, Gutenbergplatz 1 a-e	4.2
Köln, Colonia-Allee 11	3.3
<b>Sub uplift</b>	<b>26.4</b>
<b>Total uplift</b>	<b>70.1</b>

### Comments

- » **Average value per sqm** increased to € 1,152, still way below replacement costs for German commercial real estate
- » **GRI Yield** of 6.6% for the total portfolio (FY 2017: 7.0%)
- » **Valuation uplift** in 1H 2018 driven by good operational performance and strong real estate fundamentals
- » **New appraiser Savills** (since 1H 2018) performed full due diligence/inspection on all assets

#### Ulm, Zeitblomstr.



- ❖ Use: Retail
- ❖ GAV: € 77,600,000
- ❖ Net Rent p.a.: € 4.3m

#### Flensburg, Eckernförder Landstr. 65



- ❖ Use: Office
- ❖ GAV: € 21,400,000
- ❖ Net Rent p.a.: € 1.7m

#### Köln, Colonia-Allee 11



- ❖ Use: Office
- ❖ GAV: € 17,500,000
- ❖ Net Rent p.a.: € 1.0m

#### Bonn, Bonner Talweg



- ❖ Use: Office
- ❖ GAV: € 87,900,000
- ❖ Net Rent p.a.: € 5.6m

#### Leipzig, Gutenbergplatz 1 a-e



- ❖ Use: Office
- ❖ GAV: € 31,700,000
- ❖ Net Rent p.a.: € 1.7m

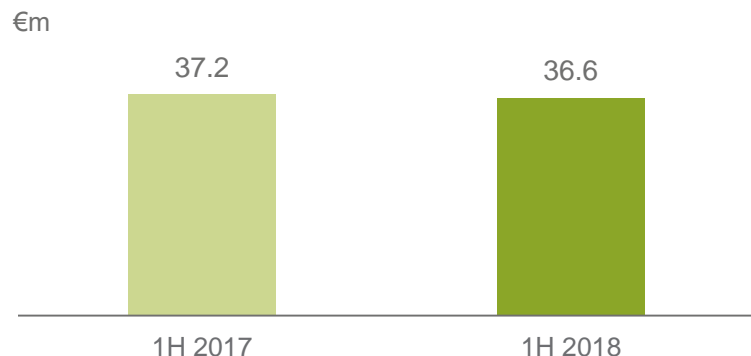
# Financials



## Selected P&L Positions

### FFO I Increased through Effective DEMIRE 2.0 Measures

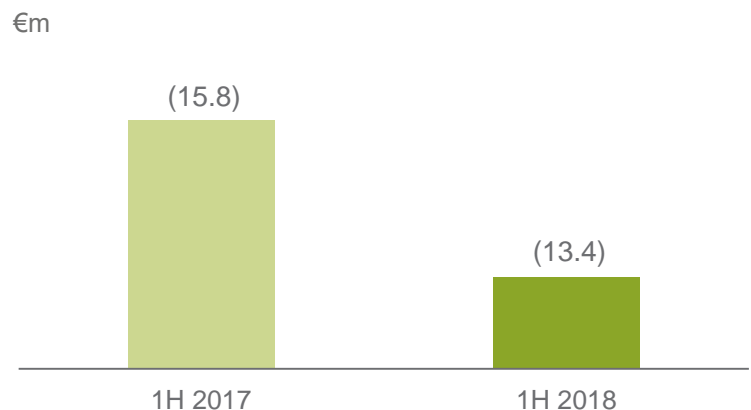
#### Rental Income



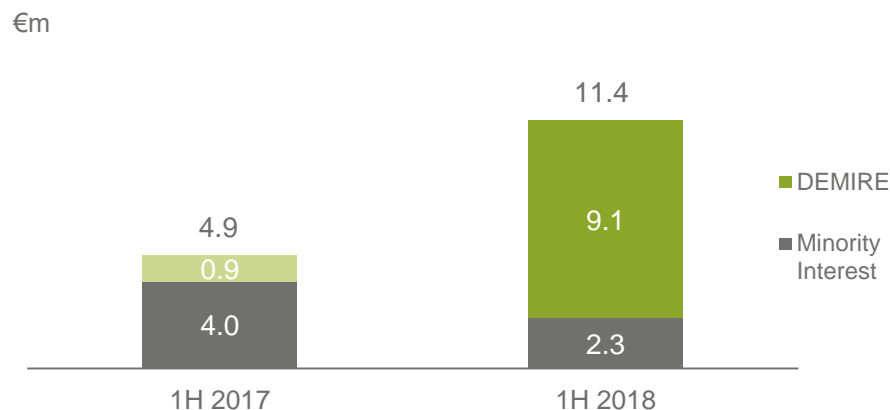
#### Comments

- » **Rental income** slightly decreased to € 36.6m due to the sale of non-strategic real estate in the last 12 months, partly compensated by new lettings
- » **Financial expenses** decreased to € 13.4m, y-o-y lowered by € 2.4m due to successful refinancing activities in 2017
- » **FFO I** increased y-o-y due to lower average recurring financing costs, lower tax burden and recurring SG&A's - compared to full year expectation, 1H 2018 was also influenced by budgeted lower expensed capex

#### Financial Expenses



#### Funds from operations I<sup>(1)</sup>



(1) After tax, before and after minorities

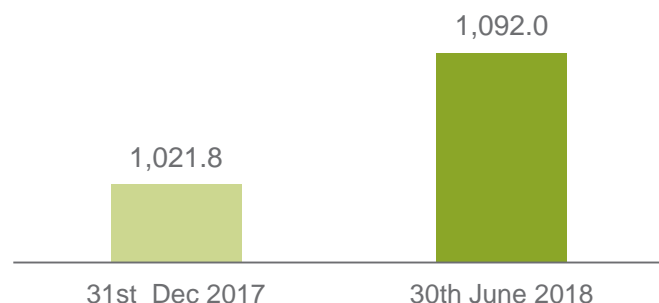


# Selected Balance Sheet Positions

## Investment Properties with Strong Value Increase

### Investment Properties

€m

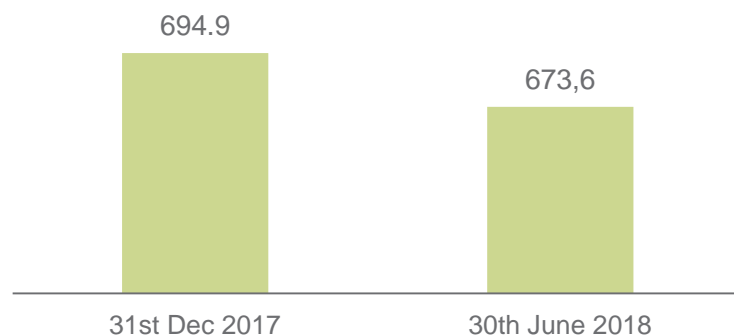


### Comments

- » **Gross Asset Value** increased based on positive valuation results of € 70.1m in 1H 2018
- » Significant increase in **equity** driven by positive profit for the period, 10% capital increase and conversion of convertible bonds
- » **Financial debt** decreased by € 21.3m mainly due to conversion of convertible bonds into equity and first time application of IFRS 9
- » **Cash at hand** at € 93.8m mainly increased through 10% capital increase (effective since April)
- » **EPRA-NAV per share** (diluted) increased by 75 cent per share (+15.2%)

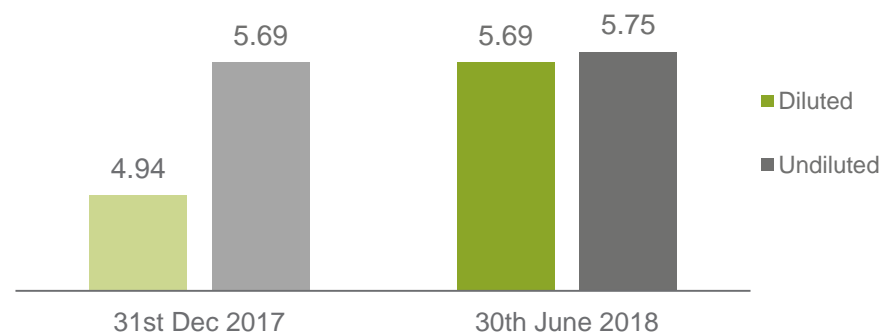
### Financial Debt

€m



### EPRA-NAV per Share diluted/undiluted

€



# Financial Profile

## Improved Credit Profile

### Financing KPI's as of 30/06/2018

Gross debt (€m)	673.6
Net LTV (%)	52.5
Avg. cost of debt (%)	3.0 <sup>(1)</sup>
Interest rate fixed (%)	94
Unencumbered asset ratio (%) <sup>(2)</sup>	47

### Financing structure

Tranche <sup>(3)</sup>	Amount (€m)	Margin/Coupon
	30/06/2018	
Cash and Cash Equivalents	(93.8)	
Senior Unsecured Notes	360.5	2.875%
Bank Loans	23.6	2.450% - 3.250%
Promissory Notes	134.7	4.000%
Total Fair Value REIT-AG Debt	115.7	2.090%
Bridge Facility	33.2	2.250% - 2.750%
Convertible Bonds	0.2	6.000%
Other <sup>(4)</sup>	5.6	
Net Total Financial Liabilities	579.8	

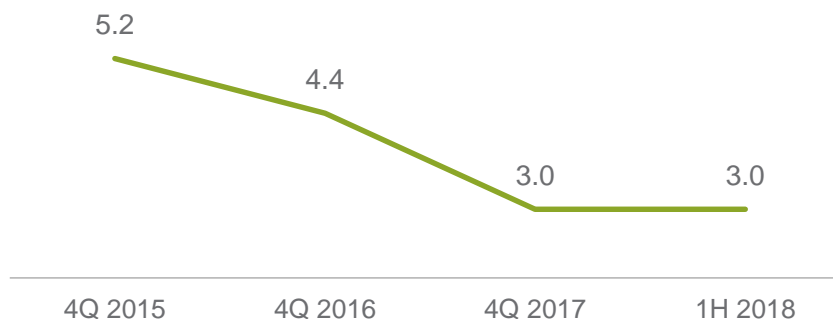
### Strong Track Record in Leverage Reduction

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

# Outlook





# Guidance 2018

Based on Current Portfolio



**Rental income**

**€ 71m - 73m**



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

**€ 16m - 18m**

## Contact Details/Financial Calendar 2018



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### Financial Calendar 2018

Date	Event
15 November 2018	Interim results 9M 2018

### Share information<sup>(2)</sup>

Symbol / Ticker	DMRE
Share price (XETRA)	€ 4.31
Market Segment	Prime Standard
ISIN	DE000A0XFSF0
Market cap	€ 315m
Free Float <sup>(1)</sup>	15.6%
Shares outstanding	73,081,078

(1) Holdings <3%

(2) As of 31<sup>st</sup> July 2018



## Appendix I: Additional Financial Information





# Income Statement

Income Statement (€m)	1H 2017	1H 2018
Rental income	37.2	<b>1</b> 36.6
Income from utility and service charges	9.7	8.2
Operating expenses to generate rental income	(19.6)	(17.3)
<b>Profit/loss from the rental of real estate</b>	<b>27.3</b>	<b>28.1</b>
Profit/loss from the sale of real estate companies	0.0	0.0
Profit/loss from the sale of real estate	(0.5)	0.0
Profit/loss from investments accounted for using the equity method	0.1	0.1
Profit/loss from fair value adjustments in investment properties	6.8	<b>2</b> 70.1
Other operating income and other effects	2.3	0.0
General and administrative expenses	(7.0)	<b>3</b> (9.5)
Other operating expenses	(4.8)	(4.4)
<b>Earnings before interest and taxes (EBIT)</b>	<b>24.1</b>	<b>84.4</b>
Financial result	(13.3)	<b>4</b> (22.0)
<b>Profit/loss before taxes (EBT)</b>	<b>10.8</b>	<b>62.4</b>
Deferred taxes	(3.5)	(17.4)
Current income taxes	(1.7)	(0.3)
<b>Net profit/loss for the period</b>	<b>5.6</b>	<b>44.7</b>
Of which attributable to:		
Non-controlling interests	1.8	5.2
Parent company shareholders	3.8	39.5

## Comments

- 1** Rental income, due to solid operative performance and new lettings, only slightly decreased compared to previous year's level, despite effective sales
- 2** High valuation gains in 1H 2018
- 3** General administrative costs in 1H negatively impacted by non-FFO relevant one-off costs amounting to c. € 4m (mainly consulting fees)
- 4** Financial result includes profit shares of minority interest amounting to € 8.8m, thereof € 6.5m accounting for valuation results. Last year's period includes interest gain of € 6m from call option revaluation for Bond 14/19

# Balance Sheet

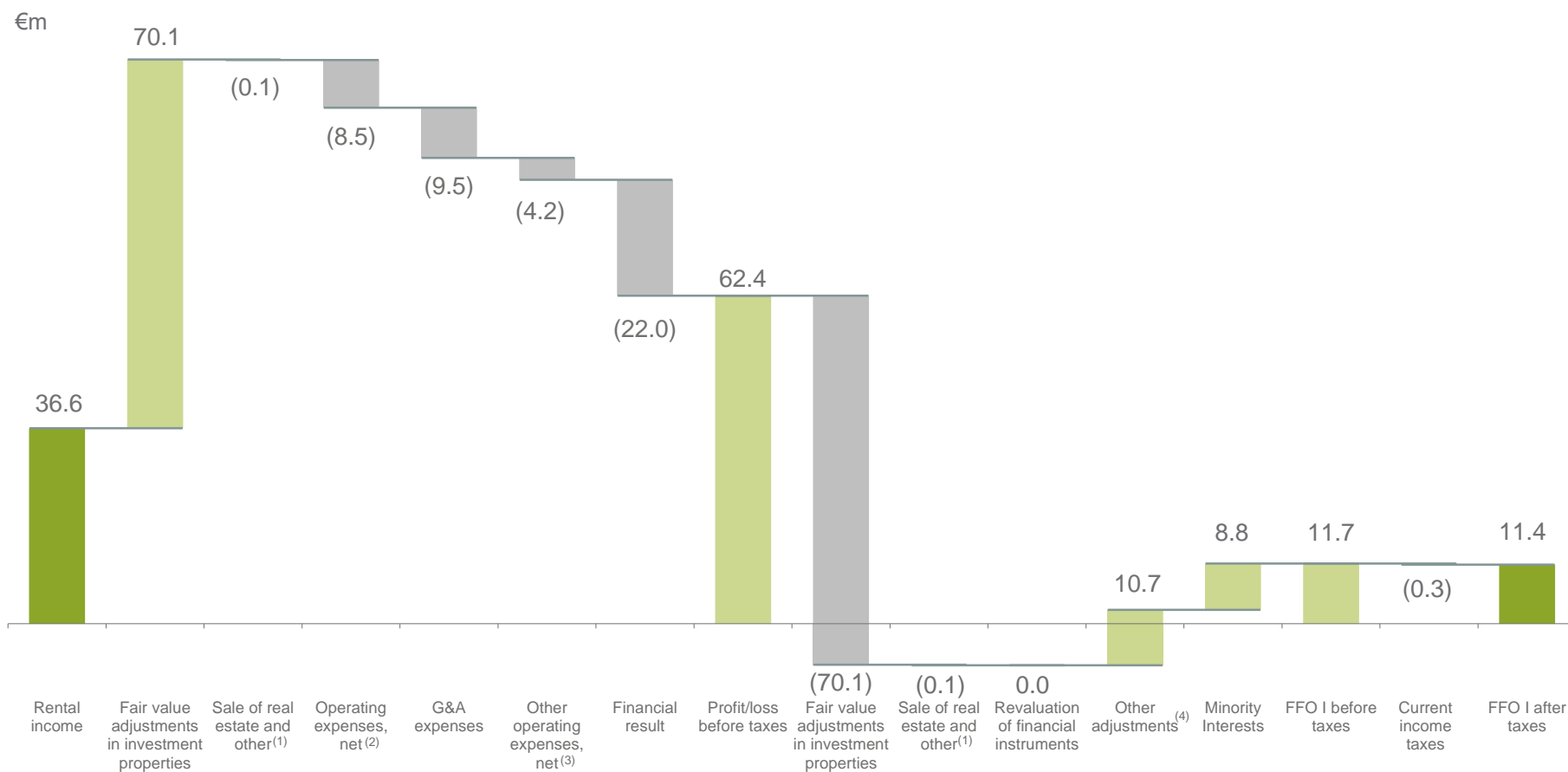
Balance Sheet (€m)	31st Dec 2017	30th June 2018
<b>ASSETS</b>		
Investment properties	1,022	1,092
Properties held for sale	12	13
Other assets	39	39
Cash and cash equivalents	74	94
<b>Total assets</b>	<b>1,147</b>	<b>1 1,238</b>
<b>EQUITY AND LIABILITIES</b>		
Subscribed capital	54	73
Reserves	231	292
Equity attributable to parent company shareholders	285	365
Non-controlling interests	34	38
<b>Total equity</b>	<b>319</b>	<b>403</b>
Minority interests	72	79
Non-current financial debt	666	622
Current financial debt	29	52
Other liabilities	61	82
<b>Total liabilities</b>	<b>828</b>	<b>835</b>
<b>Total equity and liabilities</b>	<b>1,147</b>	<b>1,238</b>

## Comments

- 1 Increase of total assets driven by higher market value of investment properties and higher cash (settlement of the 10% capital increase in April 2018)
- 2 Significant increase of equity primarily driven by positive period result, 10% capital increase, conversion of convertible bonds and first time application of IFRS 9
- 3 € 21.3m reduction of financial debt relates to conversion of convertible bonds in equity and adjustment of the „Schuldscheindarlehen“ amounting to € 7.0m (first time application of IFRS 9)

# Funds From Operations (FFO) Reconciliation – 1H 2018

1H 2018



(1) Other includes (i) Profit/loss from the sale of real estate of € (0.01)m and (ii) Profit/loss from investments accounted for using the equity method of € 0.1m

(2) Includes income from utility and service charges of € 8.2m and operating expenses to generate rental income of € (17.3)m

(3) Includes impairment of receivables of € (1.9)m, other operating income of € 2.1m and other operating expenses of € (4.4)m

(4) Other adjustments relate to, among others, one-time refinancing costs of € 5.5m incl. legal and advisor fees, one-time legal and transaction costs of € 4.9m, one-time administrative costs of € 0.3m and net other operating expenses/income relating to prior periods of € (0.02)m in the half year ended June 30, 2018



## Appendix II: Additional Portfolio Information



# Overview of the Real Estate Portfolio by Region

## Property Locations

	Properties	Book value	Total rental space					EPRA Vacancy rate
				thereof office	thereof retail	thereof logistics	thereof others	
Status as at: 30/06/2018	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	137.1	85,110	85,110	0,000	0,000	0,000	0.7%
Bavaria	8	105.7	95,867	95,867	0,000	0,000	0,000	11.3%
Berlin	1	8.0	7,151	0,000	7,151	0,000	0,000	19.0%
Brandenburg	4	50.4	52,443	22,079	30,364	0,000	0,000	14.1%
Bremen	10	42.5	34,561	34,561	0,000	0,000	0,000	26.1%
Hamburg	1	9.0	3,990	0,000	3,990	0,000	0,000	0.0%
Hesse	7	132.4	71,218	44,185	21,495	0,000	5,538	7.8%
Mecklenburg- Western Pomerania	6	114.2	58,022	38,716	19,306	0,000	0,000	6.8%
Lower Saxony	4	15.1	21,754	5,289	16,466	0,000	0,000	1.2%
North Rhine-Westphalia	14	208.2	127,736	96,580	10,576	0,000	20,580	5.0%
Rhineland Palatinate	3	11.6	12,528	12,528	0,000	0,000	0,000	3.2%
Saxony	11	162.4	294,064	51,362	20,848	207,439	14,416	10.7%
Saxony-Anhalt	3	35.7	25,316	0,000	25,316	0,000	0,000	2.8%
Schleswig-Holstein	10	70.8	63,820	63,820	0,000	0,000	0,000	1.9%
Thuringa	1	1.8	5,505	0,000	5,505	0,000	0,000	0.0%
<b>Germany</b>	<b>87</b>	<b>1,104.7</b>	<b>959,087</b>	<b>550,099</b>	<b>161,016</b>	<b>207,439</b>	<b>40,534</b>	<b>7.8%<sup>(1)</sup></b>

(1) As of 30<sup>th</sup> June 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 30/06/2018)

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+	87.9	8.0%	38,353	-	2,292	5.6	6.4%	6.7
2	Ulm	Office	Core+	77.6	7.0%	47,527	0.8%	1,633	4.3	5.6%	6.4
3	Rostock	Retail	Core+	68.9	6.2%	19,306	3.0%	3,569	4.3	6.2%	4.3
4	Leipzig	Logistic	Value-Add	64.5	5.8%	207,439 <sup>(3)</sup>	16.6%	311	4.2	6.5%	1.9
5	Kassel	Retail	Core+	59.0	5.3%	21,495	5.9%	2,745	3.5	5.9%	7.5
6	Freiburg	Office	Redevelopment	39.4	3.6%	22,674	-	1,738	2.7	7.0%	2.7
7	Regensburg	Office	Value-Add	34.8	3.2%	29,219	-	1,191	2.6	7.4%	2.7
8	Düsseldorf	Office	Value-Add	34.2	3.1%	24,307	23.6%	1,407	2.0	5.8%	4.3
9	Eschborn	Office	Core+	33.1	3.0%	18,774	-	1,763	2.0	5.9%	6.5
10	Leipzig	Office	Value-Add	31.7	2.9%	23,220	5.4%	1,365	1.7	5.5%	3.4
Top 10 Properties				531.1	48.1%	452,314	5.7%	1,174	32.9	6.2%	4.8
11	Eisenhüttenstadt	Retail	Value-Add	28.5	2.6%	30,364	21.2%	939	2.3	8.2%	5.7
12	Lutherstadt Wittenberg	Retail	Core+	23.0	2.1%	14,710	4.5%	1,564	1.7	7.3%	4.9
13	Unterschleißheim	Office	Value-Add	22.0	2.0%	15,663	35.2%	1,405	1.0	4.5%	2.6
14	Flensburg	Office	Value-Add	21.4	1.9%	23,801	-	899	1.7	8.0%	2.7
15	Zittau	Retail	Value-Add	21.2	1.9%	17,422	4.3%	1,217	1.3	6.2%	11.0
16	Köln	Office	Core+	17.5	1.6%	9,108	-	1,921	1.0	5.6%	1.0
17	Quickborn	Office	Core+	17.0	1.5%	10,570	0.5%	1,608	1.2	7.2%	3.9
18	Neumünster	Office	Value-Add	16.9	1.5%	11,808	1.5%	1,431	1.0	6.2%	7.4
19	Langen	Office	Value-Add	16.6	1.5%	13,681	28.3%	1,213	1.0	6.3%	3.3
20	Stahnsdorf	Office	Value-Add	16.3	1.5%	17,110	-	953	1.9	11.8%	2.7
Top 20 Properties				731.5	66.2%	616,552	7.6%	1,186	47.2	6.4%	4.7
Other Properties				373.2	33.8%	342,536	8.0%	1,090	25.3	6.8%	4.6
Total Properties				1,104.7	100.0%	959,087	7.8%	1,152	72.5	6.6%	4.7

(1) As of 30<sup>th</sup> June 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 31,743 sqm