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Contacts

Matthias Heck +49.69.70730.720
VP-Senior Analyst
matthias.heck@moodyys.com

Ramzi Kattan +44.20.7772.1090
VP-Senior Analyst
ramzi.kattan@moodyys.com

Anastasija Mazunina +44.20.7772.1536
Associate Analyst
anastasija.mazunina@moodyys.com

CLIENT SERVICES

Americas 1-212-553-1653

Asia Pacific 852-3551-3077

Japan 81-3-5408-4100

EMEA 44-20-7772-5454

DEMIRE Deutsche Mittelstand Real Estate AG

German real estate company DEMIRE gets credit-positive investment from Apollo Global Management

From [Credit Outlook](#)

On Monday, [DEMIRE Deutsche Mittelstand Real Estate AG](#) (Ba2 stable) announced a 10% capital increase in cash, subscribed to by funds managed by Apollo Global Management, LLC. DEMIRE will use net proceeds of around €23 million from the capital increase to fund future acquisitions. Apollo is planning takeover bids for all of the outstanding shares of DEMIRE and its 78%-owned fully consolidated subsidiary, Fair Value Reit AG (FVR). Apollo will contribute tendered shares in FVR to DEMIRE via capital increase in kind. The transactions are credit positive for DEMIRE because pro forma for the capital increase and the planned acquisitions, we expect that DEMIRE's effective leverage (as measured by Moody's-adjusted debt/gross assets ratio) will fall to just below 60.0% from 63.2% as of September 2017, and DEMIRE's control over its consolidated asset portfolio will improve.

We expect DEMIRE to continue its strategy of expanding its real estate asset portfolio to €2 billion from €1 billion as of September 2017. The company plans to use net proceeds from the capital increase and remaining proceeds of €35 million from [senior unsecured notes issued in September 2017](#) to fund its future growth. Assuming net proceeds of €23 million from the capital increase and a loan to value of its real estate asset portfolio of a maximum of 50% in line with DEMIRE's financial policy, we estimate that the company has funding for up to €80 million of acquisitions.

Apollo has confirmed its support for DEMIRE's strategic objectives (DEMIRE 2.0) of reducing its leverage and raising its credit strength to an investment grade level. Therefore, we do not expect Apollo's investment to affect DEMIRE's financial policy.

Apollo, a global alternative investment management company, has agreed to subscribe to all of DEMIRE's new shares, which will be issued at €4.35, an 11.3% premium to its closing share price on 26 February. Apollo also has agreed to buy shares from current DEMIRE shareholders, which will increase its stake in the company to around 12% from 0.28% currently. Moreover, Apollo has entered a cooperation agreement with the Wecken Group, DEMIRE's largest (29.91%) shareholder.

Apollo announced a mandatory tender offer to DEMIRE's current shareholders and a voluntary takeover offer to minority shareholders of Fair Value REIT-AG (FVR), which accounts for approximately 30% of DEMIRE's asset portfolio. If Apollo's offer for FVR is successful, it will delist FVR shares and transfer its FVR stake up to a maximum of 17% to

DEMIRE in exchange for additional new DEMIRE shares. Pending regulatory approvals, Apollo expects the tender offer to close by mid-June 2018 at the latest. After the completion of the transactions, DEMIRE will remain listed on the Frankfurt stock exchange.

DEMIRE's outstanding senior unsecured notes due in 2022 (and rated Ba2 stable) have a change-of-control clause that will be triggered if Apollo's stake in DEMIRE exceeds the one of permitted shareholders, currently totalling roughly 40% (30% for Wecken and 10% for Obotritia). The change-of-control clause provides additional protection to noteholders.

DEMIRE is a publicly listed commercial real estate company with gross asset value of around €1 billion and a focus on office, retail and logistics properties in secondary locations across Germany. Apollo manages funds on behalf of numerous pension and endowment funds as well as other institutional and individual investors, and had total assets under management of approximately \$249 billion as of 31 December 2017.

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