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Research Update:

German Real Estate Company DEMIRE 'BB' Rating Affirmed Following Updated Shareholder Structure; Outlook Still Stable

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Research Update:

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Overview

- Following the closing of the mandatory tender offer period by new shareholder Apollo to DEMIRE's shareholders on May 14, 2018, AEPF III 26 S.a.r.l., an affiliate of Apollo Global Management LLC, and Wecken & Cie. now hold 76.52% of DEMIRE's share capital.
- We believe that the new majority shareholder Apollo will not affect DEMIRE's strategy, and in turn, have no impact on the company's credit standing at this time.
- We are therefore affirming our 'BB' issuer credit rating on DEMIRE and our 'BB+' issue rating on the company's senior unsecured debt.
- The outlook is still stable.

Rating Action

On May 29, 2018, S&P Global Ratings affirmed its 'BB' long-term issuer credit rating on German-based real estate company DEMIRE AG. The outlook remains stable.

We also affirmed our 'BB+' issue rating on the company's senior unsecured debt. The '2' recovery rating continues to indicate our expectation of 70%-90% (rounded estimate: 85%) recovery prospects in the event of a payment default.

Rationale

The affirmation follows the recent change of DEMIRE's ownership. We continue to believe that there is only a limited risk of a major shift in the company's strategy.

In March 2018, AEPF III 26 S.a.r.l., an affiliate of Apollo Global Management LLC, subscribed to a 10% stake in the company's shareholding capital through a capital increase (see "DEMIRE Ratings Not Immediately Affected By New Shareholder Apollo," published March 1, 2018, on RatingsDirect). Since then, Apollo has further increased its stake in DEMIRE as a result of the mandatory tender offer to DEMIRE's shareholders that ended on May 14, 2018.

We understand that Apollo, through AEPF III 26, now owns approximately 39.5%

of voting rights of DEMIRE, while Wecken Group owns about 37%. Together, the entities own 76.5% of DEMIRE's share capital.

Our belief that there is a limited risk of a substantial change in the company's strategy, including its midterm objective to reduce leverage, is supported by the strategic partnership signed between Apollo and Wecken Group. We will observe the situation, since a change in the financial policy could result in our reassessment of Apollo's role as a joint shareholder in DEMIRE and constrain our view of the company's financial profile.

Therefore, we assume DEMIRE will continue to grow its portfolio toward €2 billion of property value and reduce its reported net loan-to-value ratio to close to 50% in the near term, in line with the company's publicly announced midterm objectives.

In addition, we acknowledge the announcement of its change of control offer to the outstanding €400 million, 2.875%, senior unsecured notes, maturing 2023.

We will monitor the acceptance level of the change of control offer regarding its issued bonds and the progression of the implementation of the company's strategy. We will update our analysis if we believe the recovery on the senior unsecured bonds have changed, for example, due to the funding of the tendered amounts with secured debt, or if the company deviates from its stated financial policy.

Ratings Score Snapshot

Issuer Credit Rating: BB/Stable/--

Business risk: Fair

- Country risk: Very low
- Industry risk: Low
- Competitive position: Fair

Financial risk: Aggressive

- Cash flow/Leverage: Aggressive

Anchor: bb-

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)

- Management and governance: Fair (no impact)
- Comparable ratings analysis: Positive (+1 notch)

Related Criteria

- Criteria - Corporates - Industrials: Key Credit Factors For The Real Estate Industry, Feb. 26, 2018
- Criteria - Corporates - General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Related Research

- DEMIRE Ratings Not Immediately Affected By New Shareholder Apollo, March 1, 2018
- German Real Estate Company DEMIRE Assigned 'BB' Rating; Outlook Stable, July 17, 2017

Ratings List

Ratings Affirmed

| | |
|--|--------------|
| DEMIRE Deutsche Mittelstand Real Estate AG | |
| Issuer Credit Rating | BB/Stable/-- |
| Senior Unsecured | BB+ |
| Recovery Rating | 2(85%) |

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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