

ISSUER COMMENT

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DEMIRE Deutsche Mittelstand Real Estate AG

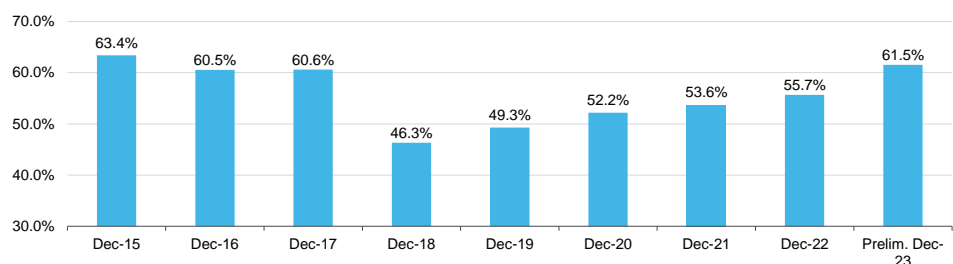
Restructuring addresses short term maturities, credit quality will depend on support details and business plan execution

On 6 September 2024 DEMIRE Deutsche Mittelstand Real Estate AG ("DEMIRE", Caa2 negative) announced approval for an amend and extend transaction to its 2024 bond. If executed, the transaction removes an immediate insolvency risk relating to its remaining €499 million bond maturity in October 2024 and reduces financial debt. The transaction gives the company time to execute its disposal plan. Nevertheless we will consider the restructuring as a distressed exchange once executed as the company avoids default with an extension of debt with losses to noteholders.

The contemplated restructuring involves an extension of the remaining bonds to 2027 with a 5% cash interest and a 3% PIK interest on the remaining bonds in 2027. Noteholders that agreed to a backstop agreement earlier in the process also received a fee. The bonds will be subject to new covenants of net LTV of 70% and ICR of 1.5x. The bond volume is reduced by a notional of roughly €260 million resulting from cash payment of €50 million at par and a tender for €209 million of bonds at a maximum price of 76.25%. The company will use cash on balance sheet including disposal proceeds and a €100 million liquidity injection from shareholders to fund the payments. Details of the shareholder loans are yet to be disclosed.

While intended debt reduction and the debt extension are positive, the future changes to DEMIRE's credit quality hinge on the details of the implementation including the shareholder loan, an updated view on the business profile including the structural challenges within the group, and the execution risk in its disposal and asset management plan. Based on preliminary information provided by the company, we estimate Moody's-adjusted gross debt/ total assets around 61.5% as of December 2023, as the company did not publish audited accounts for the financial year yet. Financial leverage would decline with bond repurchases but business plan success is key to credit quality improvements.

Exhibit 1
Leverage increased with declining property values
Moody's-adjusted debt/gross assets



All ratios are based on adjusted financial data and incorporate our Global Standard Adjustments for Non-Financial Corporations
Source: Moody's Financial Metrics™, company reports

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