

# MOODY'S

## RATINGS

### **Rating Action: Moody's Ratings affirms DEMIRE's Caa2 CFR, upgrades bonds to Caa2, outlook changed to stable**

---

08 Nov 2024

Frankfurt am Main, November 08, 2024 -- Moody's Ratings (Moody's) has affirmed the Caa2 long term corporate family rating ("CFR") of DEMIRE Deutsche Mittelstand Real Estate AG's ("DEMIRE" or "the company"). At the same time the senior unsecured rating of its €600 million note issuance now maturing in December 2027 was upgraded to Caa2 from Caa3. The outlook changed to stable from negative.

#### RATINGS RATIONALE

The rating affirmation and the outlook change to stable follows the implementation of DEMIRE's restructuring proposal, which we have considered a distressed exchange. Key elements of the restructuring included the extension of the remaining bonds to 2027 with a 5% cash interest and a 3% PIK interest in 2027, and provided some security to noteholder. In total the restructuring will reduce the bond volume by a total of notional of roughly €250 million resulting from cash payment of €50 million at par and a tender for €196 million of bonds at a maximum price of 76.25%. The company uses cash on balance sheet including disposal proceeds and a €93 million liquidity injection from shareholders to fund the payments. We do consider the shareholder loan provided by Apollo affiliates as debt given it does not meet our criteria to receive equity credit.

The upgrade of the bond rating reflects the new capital structure that contains a mix of instruments pro-forma for the restructuring. While the majority class of debt may remain unsecured for the next 12 to 18 months, unsecured debt remains structurally subordinated to sizeable secured debt, but is now senior to the shareholder loan.

The stable outlook balances improving gross leverage expectations with ongoing operational headwinds in the portfolio, structural concerns and execution risk for the disposal plan.

Going forward DEMIRE will aim to reduce debt through disposals as leverage remains

high and disposals are an essential part of the restructuring plan, including further paydown targets. We see material execution risks in selling DEMIRE's assets in a still weak German transaction market with economic weakness reducing investor appetite, but see high disposal volumes with moderate discounts as the main path to a sustainable capital structure.

We expect Moody's-adjusted debt/gross assets remaining below 60% (Q3 2024 was 59%). Our assumptions driving down balance sheet leverage expectations include some further single digit value decline expectations, CAPEX spending including tenant incentives required to manage an asset management intensive portfolio, adjustments to some balance sheet items like claims related to Cielo and LIMES, and our inclusion of the shareholder loan in debt. Those adjustments are overcompensated by the positive impact from bond repayments, including €30-50 million annual repayments from future disposal expectations, in the next 12-18 months.

As a consequence of our assessment of the shareholder loan being debt, a currently weakening earnings base from the asset pool, and the increased interest rate on the bond, Moody's-adjusted fixed charge cover will drop below 1x. Excluding the effect of the shareholder loan, on which interest can be deferred at the option of the issuer, fixed charge cover will stay above 1.5x in 2025. We do not consider EBTIDA created by discounted buybacks as sustainable earnings and would hence remove it from the calculations. At the same time we did not incorporate potential penalties in case of lack of bond repayment in 2025 and 2026 in our projections. Ultimately, DEMIRE will be required to find an equity solution for the shareholder loan in the next years, or sell materially more assets than we anticipate.

## LIQUIDITY

Following the restructuring, DEMIRE's liquidity remains tight and relies on refinancing of secured debt. As part of the restructuring, we estimate about €200 million has been spent post Q3 reporting on the repayment and repurchase of the bonds as agreed in the restructuring. The company had €165 million cash on balance sheet as of June 2024 and will use up to €93 million shareholder loan. We expect Moody's-adjusted CFO below €10 million for 2024 and 2025. €35 million outstanding debt is due in November 2024 and €38 million in 2025, which we understand the company aims to extend, but we consider may require asset management or some debt deduction. DEMIRE also aims to actively dispose of assets to address its liquidity needs and has started to sign first smaller disposals.

## FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade could occur if

- The company successfully disposes assets to meet the expected annual paydown of

debt in the restructuring agreement

- DEMIRE manages to crystallise value in its Fair Value REIT stake and other complex claims like Cielo
- DEMIRE manages to roll its upcoming secured debt
- Moody's-adjusted debt/assets reduces well below 60%, including Moody's adjustments on balance sheet items next to investment properties
- Interest cover remains above 1x

A downgrade may occur if

- DEMIRE's liquidity weakens
- Operational weakness in the asset portfolio makes further disposal and refinancing activities challenging

#### Structural Considerations

Unsecured bonds and secured property debt will be the main sources of debt for DEMIRE going forward. While the balance of unsecured debt will drop materially from the restructuring, secured debt will also decline compared to its H1 2024 balance as a consequence of the LIMES portfolio default and deconsolidation. Hence bonds will remain the majority class of debt by end of 2024 but trending down over time. At the same time, the bonds benefit from structural seniority to the initially €193 million shareholder loan provided by an Apollo affiliate, which supports the rating of the bonds despite subordination to material secured debt volumes.

The principal methodology used in these ratings was REITs and Other Commercial Real Estate Firms published in February 2024 and available at <https://ratings.moodys.com/rmc-documents/414558>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

#### REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

For any affected securities or rated entities receiving direct credit support/credit substitution from another entity or entities subject to a credit rating action (the supporting entity), and whose ratings may change as a result of a credit rating action as to the supporting entity, the associated regulatory disclosures will relate to the

supporting entity. Exceptions to this approach may be applicable in certain jurisdictions.

For ratings issued on a program, series, category/class of debt or security, certain regulatory disclosures applicable to each rating of a subsequently issued bond or note of the same series, category/class of debt, or security, or pursuant to a program for which the ratings are derived exclusively from existing ratings, in accordance with Moody's rating practices, can be found in the most recent Credit Rating Announcement related to the same class of Credit Rating.

For provisional ratings, the Credit Rating Announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating.

Moody's does not always publish a separate Credit Rating Announcement for each Credit Rating assigned in the Anticipated Ratings Process or Subsequent Ratings Process.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website <https://ratings.moodys.com>.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

The Global Scale Credit Rating(s) discussed in this Credit Rating Announcement was(were) issued by one of Moody's affiliates outside the UK and is(are) endorsed for use in the UK in accordance with the UK CRA Regulation.

Please see <https://ratings.moodys.com> for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the issuer/deal page on <https://ratings.moodys.com> for additional regulatory disclosures for each credit rating.

Oliver Schmitt  
VP - Senior Credit Officer  
Corporate Finance Group  
Moody's Deutschland GmbH  
An der Welle 5  
Frankfurt am Main, 60322  
Germany  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

Christian Hendker, CFA  
Associate Managing Director  
Corporate Finance Group  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

Releasing Office:  
Moody's Deutschland GmbH  
An der Welle 5  
Frankfurt am Main, 60322  
Germany  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

---

© 2024 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

**CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS,**

**ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.**

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the credit rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or

entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moodys.com](http://www.moodys.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of

section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.