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00:01 - Operator
Dear ladies and gentlemen, welcome to the publication of the half-year report 2019 of CORESTATE Capital Holding S.A. At our customer’s request, this conference will be recorded. As a reminder, all participants will be in a listen-only mode. After the presentation, there will be the opportunity to ask questions. If any participant has difficulties during the conference, please press * followed by 0 on your telephone for operator assistance. May I now hand you over to Dr. Kai Gregor Klinger, Head of Investor Relations & Capital Markets, who will start the conference today. Please go ahead, Sir.

00:42 - Dr. Kai Gregor Klinger
Hello, everyone. A warm welcome to our earnings call today for the presentation of our half year results. As usual, I'd like to direct your attention to the forward-looking statement and disclaimer wording on Page 2 of our presentation. This safe-harbor language applies to the presentation and all comments we will be making today. I would also like to mention that everything is being recorded. After the call, a replay will be available on our website. Our CEO, Lars Schnidrig, and I will guide you through the presentation, followed by the usual Q&A session. The time frame for today's call is about 30 minutes.

Now it's my pleasure to turn the call over to Lars. Lars, the floor is yours.

01:25 - Lars Schnidrig
Thank you, Kai. And also from my side, a very warm welcome to all of you. The first half of the year was a very decent one for CORESTATE. The markets remain in good shape for our business, and this is reflected in our figures and operations. Our core business, real estate assets under management, went up by 4.4 percentage since the end of 2018, reaching EUR 21.6 billion, a record high. We will give you some more details on our AuM a bit later on. We made a very important step in our international growth strategy by the signing of the acquisition of STAM Europe. STAM is a very well-established real estate investment manager in Paris with promising exposure to the French market, and will deliver after closing, most likely in the fourth quarter, another 8%–9% external growth to our real estate assets under management. Our operational performance in the first half, as well as in the second quarter of 2019, was fully in line with our internal budgets and our full-year targets. All our subsidiaries contributed to this.

For us, a clear and across-the-board commitment to the ESG standard is becoming more and more important. We have made our comprehensive approach and objectives transparent a couple of weeks ago by publishing our first sustainability report for the whole group. I will give you further details on our specific goals in a few minutes.

In typical seasonality, we have used our balance sheet strength for client exposure. This is reflected in the short-time increase of our warehousing activities, with promising assets, all in prosperous German cities and in the sweet spot of our clients' interest. As we regularly do, we already placed two assets from our warehousing – one in Bavaria, one in North Rhine-Westphalia – successfully this year. The others are also in different stages of the placement process, with a clear plan for the deconsolidation. We are closely monitoring the market conditions and the impacts on our product range and pipeline. And we realized an ongoing favorable economic environment for real estate in Germany and in Europe, with an unabated investor appetite for our offerings, especially in micro living and private debt. Now please turn to Page 4.

I would like to give you now a bit more color on our most recent acquisition, STAM Europe. They will bring in roughly EUR 1.9 billion assets under management, with a majority in office and logistics but also some very interesting residential products. STAM is expected to deliver around EUR 12 million sales in 2019 and an EBITDA of EUR 5.5 million. What is our general rationale for the acquisition? We want to, as mentioned several times before, establish a leading European real estate asset manager. And as such, France is a core place to be. We wanted to buy not only some assets in Paris and other promising cities, but to get along with people, combining deep knowledge, excellent contacts, and a commitment to our goals and strategy. That is why we make sure, through a staggered long-term incentive scheme, that the CEO and key management remain on board. The founder will step aside and retire as planned. And also very importantly, STAM brings in a new international client base, which is an ideal synergy approach. Lastly, we see very good chances to expand our already well-running network of micro-living assets into France. In general, we have assured confidentiality about the purchase price, but we can disclose that we will pay after final approval of the French regulator roughly 2/3 in cash and 1/3 in our own shares, where we can use our repurchased shares from April. The underlying multiples are on the upper edge of what we have paid in the past. Now please turn to Page 5.

For us as a company and for me personally, a clear and reliable ESG commitment is key for further entrepreneurial success. We not only see a lot of potential clients who simply expect us to deliver on ESG standards, so these issues become very commercial, but we also feel we need to do our bit on environmental and social questions. That's why we committed ourselves to a clear grid of quantitative and qualitative goals with short- and mid-term impacts – for example, the reduction of carbon dioxide emissions by 20% to 2025, an increase of energy efficiency of 30%, and to consume 20% less water also by 2025. You can see these and our other aims on this chart, and you can be sure that I will personally ensure we are doing everything that is needed to deliver on them. We already made steps to improve our Corporate Governance by implementing a new management structure, including an Executive Management Committee and an Operational Committee, an entirely new compliance regime, and enhanced risk management. Additionally, we have resolved our Senior Advisory Circle and enlarged our Supervisory Board. We are absolutely convinced that a large asset manager only gets new clients, especially from outside Germany and outside Europe, if he is INREV- and UNPRI-compliant. That is why we are a member of both. To demonstrate our ESG commitment, you will find our first ESG report published in June on our web page.

Speaking about the Internet, we also put a lot of efforts into our client service and digitalization in the first half of 2019, including a really compelling new homepage with a clear client focus, and an online portal for our customers. In addition, we launched our own digital distribution platform, accontis, which gives our clients access to our products, and which will be enlarged even further in the upcoming months. Now please turn to Page 6.

You know this chart from our previous calls. It shows you the development of our assets under management, and it is a very appropriate sum-up of our product offering, the market's appetite and our future growth path. As said before, our core business, the real estate assets under management, have reached once again a new record high, with an organic increase of 4.4% since the end of 2018. Simultaneously, our non-real estate portfolio went down in the first six months, as scheduled, by roughly EUR 0.4 billion AuMs. With the anticipated integration of STAM Europe, we will be slowly but surely approaching EUR 30 billion assets under management. When you look at the percentage distribution of our assets, you will realize that our main organic assets under management growth is coming from our asset classes micro-living, residential and office. Despite a close-to-fully-let status in appealing locations and very attractive returns, our retail assets are lagging behind in the backdrop of the current market sentiment towards off-line retailers. In general, we see an incredible demand in Germany, but also abroad for our student housing and service apartment product range. We will continue riding this very commercial wave, and bring several new assets to the market by year-end, for example in Cologne or Berlin. But this will not be the end. For the upcoming years, we will enter local markets, for instance, in Valencia, in Gdansk, in Salamanca, Düsseldorf, Hamburg, Zurich and looking heavily also to Benelux, Ireland and the Nordics.

Our steady sourcing pipeline remains more or less unchanged at around EUR 6 billion, with roughly one quarter in advanced contractual status and a higher percentage of transactions in the final stage of exclusivity, with ongoing due diligence procedures and SPA negotiations. This is one of many reasons why we are very confident about a prosperous second half of 2019. Now let's please turn to Page 7.

Let me speak a bit about HFS, our mezzanine business. In brief, we have stable margins and a stable fund volume. At the end of June 2019, the committed fund volume was around EUR 1.25 billion, of which, as usual, roughly 80% was drawn. This money goes predominantly to German residential developments, with an overwhelming majority in the top 7 cities. We are currently financing 57 different projects there. The average mezzanine tranche is around EUR 22 million, and we have charged at the end of June an actual interest rate of 19.52 percentage across all our projects, old and new. When you look at the distribution of our financing to the cities, you will realize that the six largest positions go out to the top seven cities and to booming Leipzig. So, as it was in the past, our main focus is risk diversification, and this is happening very effectively, as you can see on this chart. Now please turn to Page 8, and I hand over to Kai.

12:15 - Dr. Kai Gregor Klinger

Thank you, Lars. On this chart, you will find some basic information on our H1 revenue streams. All in all, our aggregated revenues amount to EUR 121 million, and that's completely in line with our budgets and operational objectives. We are also fully on track to deliver on our 2019 sales guidance. In the first six months, we had EUR 15.5 million acquisition-related fees, reflecting our growing real estate AuMs. We expect this figure to double in H2, driven by our compelling pipeline of new deals and strong client interest.

The largest portion of our revenues was once again asset and property management fees, with EUR 64 million, including a EUR 23.6 million pro rata temporis contribution from the coupon participation fee of HFS. The amount of the coupon participation fee decreased temporarily, slightly due to in-year valuation effects from fund accounting variations in repayments of bigger outstanding tranches and recommitments to new projects. This fluctuation will get caught up in the upcoming months, and actually, this has already happened in a larger part in July. Lars mentioned before interest margins, fund volume, quality of projects and locations, as well as demand for new investments, which are very stable and compelling. We also have high visibility on our promote fee for 2019, which will pick up in Q4 towards a small- to mid-double-digit million area. One main driver this year will be a bigger placement of bundled micro-living assets in Spain and in Germany, as well as some other smaller transactions where we are already in an advanced deal stage, with very high investor interest. Our impressive product performance is reflected in the revenue stream from alignment capital, showing our skin in the game in our assets, and thus mirroring any value uplift in attractive client dividends.

Maybe at this point, a smaller, quite technical explication on the new sub-position in the alignment capital, a P&L segment of our H1 report, “Gain/loss from fair value measurement of financial instruments related to Real Estate,” which was before included in the P&L line “Dividends from alignment capital.” Our accounting differentiates here between dividends, which were already resolved and distributed, and fair value assessed rise on an expected very likely dividend payment due to already generated or most likely to be generated gains in one of our investment vehicles.

Coming back to our revenue stream, our warehousing business and earnings of EUR 25 million is a snapshot of our short-term balance sheet exposure to further client growth. Therefore, we see increasing rental income and service charges in Q1 and Q2 of EUR 10 million in total, as well as around EUR 4 million from first successful asset placements into clients' funds. Here, you can assume more to come in H2. On the flip side, our, again, effective income from other warehousing activities of in total roughly EUR 11 million will be on a much lower level in H2 because the majority of these assets will get placed during this quarter. Please turn now to Page 9.

On this chart, you'll see some key P&L figures. Please let me focus a bit more on the expenditures. In brief, our expenses from real estate investment management stood at EUR 40.3 million. Alignment capital expenses amounted to EUR 4.6 million, and warehousing expenses came out at EUR 10.2 million. Our combined ratio of operational expenses stood at around 45%, so temporarily higher than our year-end picture will be. This was mainly due to accrued expenses for a number of transactions we expected to sign in the next couple of weeks and months. Rising costs for back- and middle-office services are also reflected in the OpEx figure. This mirrors what we've said several times: regulatory burdens, reporting duties and expanding client standards will continue to challenge asset managers, and only larger ones can mitigate this by scale. And this will mainly drive market consolidation and M&A activity in the future. As we speak about it, we also had in the second quarter of 2019 an increase in M&A-related costs, as well as a negative contractual onetime position of about EUR 2 million, which both led to a higher level of G&A expenses. On the other hand, our other income shows in Q2 a positive accounting effect from expiring obligations. The main impact comes from a lapse of prospectus liabilities from retail products in the U.S. and in Europe, on the level of our subsidiary Hannover Leasing, where have to reverse around EUR 6.9 million of underlying provisions.

Our EBITDA after 6 months stood at EUR 68.9 million, translating in an EBITDA margin of around 57%. The new IFRS 16 regulation, especially the requirement to treat rents as depreciation, had some minor effects on our EBITDA and D&A. Depreciation and amortization amounted to EUR 16.8 million, resulting in an EBIT of EUR 52.2 million. We spoke several times today about our usage of the balance sheet for further client growth. This, combined with the corresponding debt, led to an increase in our financial result. But once again, this balance sheet exposure will be reduced, and this will have an impact not only on our revenues and earnings, but also on our financial result.

In H1 2019, we had an unusually low tax rate of around 6% due to positive tax effect from deferred tax assets. But we expect to return to our normal corridor of between 12% and 14% tax rate by the end of the year. This delivers a reported half-year net profit of EUR 36.9 million. Lastly, as always, our net position adjustments below EBITDA line: the amortization of the capitalized asset management contracts amount in H1 to EUR 6.2 million, as well as DTA and non-controlling interest of minus EUR 0.9 million, leads to an adjusted net profit of EUR 47.8 million. Please turn now to Page 10.

Let me give you some key balance sheet figures as of the end of June 2019. In 2018, we put, as you all know, a lot of efforts in cleaning up the debt side of our balance sheet from the outcome of our major 2017 acquisitions. So we only have 2 major financing instruments: a senior unsecured bond with currently EUR 294 million and a convertible bond with currently EUR 190 million as well as bank and other debt standing at EUR 184 million, including EUR 127 million warehousing debt. Our cash amounted to EUR 45 million, which leads to a net debt figure of EUR 623 million. Thus, at the end of H1 2019, our LTM financial leverage ratio was temporary at 3.5x, following the in-year balance sheet exposure for clients. The assets booked in structured assets held for sale, inventories and other short-term assets will be placed with clients in the upcoming months. So, our financial leverage will go down to the lower half of our target range of 2x to 3x, at latest by end of 2019. This reduction of the financial leverage is a clear commitment from our side.

As you have already seen in our H1 P&L, the temporary use of our balance sheet for client purposes is quite profit-yielding and allows us to deploy our cash in a favorable way. In general, our long-term balance sheet proportions are healthy and in excellent shape. The equity ratio is again around 40%. Debt is long-term secured through two major instruments. The goodwill position from M&A will get tested periodically, with a lot of headroom and flexibility according to consistently prudent PPA procedures and underlying subsidiaries with thriving and growing operations. So please now turn to Page 11, and I'm happy to hand over again to Lars.

21:38 - Lars Schnidrig

Lastly, what can you expect from us in the next couple of months? As I said several times before, all our operations are running at full steam, and we expect a lot of deals to take place by the end of 2019. For instance, we have just signed at the end of last week another mid- to high double-digit million micro-living deal in a top 7 city in North Rhine-Westphalia, with one of our pension scheme clients. Furthermore, we are currently in the placement process for several promising assets in micro living, mixed use, and residential as well, on a stand-alone basis and in portfolio structure to institutional investors. So, since many weeks, all our transaction colleagues are doing extra hours.

One example is an initiative from our subsidiary, Hannover Leasing, to restart the open-end real estate fund business, with a promising product focusing on megatrends like urbanization and demographic changes. I cannot name all products and projects currently underway. But to drop a few, we will bring a retail asset near Düsseldorf to our clients, as well as a decent portfolio of micro-living assets in Spain and in Copenhagen. And we expect the placement of our latest acquisition in Bremen by year-end. In addition, we are very active in the two probably most promising cities in Eastern Germany, Leipzig and Dresden, where we will soon offer residential assets to our customers. In addition, we replace the before-mentioned different assets from our balance sheet with existing and new clients. HFS, our mezzanine business, will get expanded in different risk/return classes and, as such, opened up for new investors.

So in a nutshell, you see a company with all its operations in very good shape. And that's why we once again confirm our full-year targets. We will reach aggregated revenues of EUR 285 million to EUR 295 million, EBITDA of between EUR 165 million and EUR 175 million, and adjusted net profit of between EUR 130 million and EUR 140 million.

Now we can open the floor to our Q&A session. Before we start, I want to extend a very warm welcome to Julius Stinauer from Hauck & Aufhäuser. He has started his coverage last week. Welcome on board, Julius. With this, I will hand over to the operator to start the Q&A.

24:17 - Operator

Thank you. Dear ladies and gentlemen, we will now begin our Q&A session. If you have a question for our speakers, please dial 01 on your telephone keypad now. Once your name has been announced, you can ask a question. If you find that your question is answered before it is your turn to speak, you can dial 02 to cancel your question. If you are using speaker equipment today, please lift the handset before making your selection. One moment please for the first question.
The first question received is from Thomas Neuhold of Kepler Cheuvreux. Your line is now open, Sir.

25:12 - Thomas Neuhold (Kepler Cheuvreux)

Good afternoon, gentlemen. Thank you very much for my questions. I have several ones, so I think the best is if we go through them one by one. Firstly, on the results, I was wondering why the coupon participation fee dropped from EUR 28 million to EUR 24 million despite a pretty stable asset base. So what was happening there?

25:34 - Lars Schnidrig

Yes, Thomas. It's Lars. So first of all, as said, average interest rate is around 19.5%, so very stable. As you said, the committed fund volume is at a record high of EUR 1.25 billion. So what we see is that we have a slight decrease from in-year valuation effects in the fund accounting. So we have variations, when you compare it to the former year, in redemptions. So that means that we will see a rather larger cluster of repayments in the second half year. And what does it mean? That means we will catch up on the valuation effects, which we have seen in the first half year now.

26:20 - Thomas Neuhold

Okay. And a second question on the H1 result is: you mentioned a higher OpEx, especially accrued expenses for upcoming business and M&A-related costs. Can you quantify these two cost items, please?

26:37 - Dr. Kai Gregor Klinger

Yes. Roughly, on the M&A side – it's Kai; hi, Thomas! – we are talking about EUR 2–3 million for one failed transaction and the STAM acquisition. Plus, we had another onetime effect, which I already mentioned, of about EUR 2 million from a compensation payment to one contractual obligation.

27:04 - Thomas Neuhold

And these accrued expenses for upcoming business, how much was that roughly?

27:09 - Dr. Kai Gregor Klinger

That's a very good question. And actually, I can't quantify it. But if you want, I will come back after the call and give you a rough number, but I have to double-check this with our controlling. So, at the end of the year, we can talk about between EUR 85 million and maybe EUR 95 million costs in our real estate investment management segment as a rough number.

27:39 - Lars Schnidrig

And maybe, Thomas – this is Lars – to give you some color around that, given that most of our business was closed in the second half-year, we, of course, have costs initiated to create, if you want, to prepare this business. And that means once the transactions are closed, these costs will not, so to say, realize again. And therefore, these are ramp-up costs, which is unfortunately the nature of our business given the seasonality.

28:13 - Thomas Neuhold

Okay, understood. And then the next question is on the mezzanine financing business. According to press reports, you supposedly have quite a high client concentration. I know you don't want to disclose single client exposure. But is it possible maybe to provide us with some color on your current structure in this business? Are there any clients that account, on a consolidated basis, for more than 10% or even 20% of this business?

28:41 - Dr. Kai Gregor Klinger

It's Kai. Thomas, unfortunately, we can't disclose this because at the end of the day, we would talk about a third party. And of course – but never mind – we have roughly 30 different developers currently that we are doing business with. There are bigger ones and smaller ones. Of course, predominantly, our risk is not so much the developer for itself, but it's the location and the project where we are in the second line of the book there. So, roughly, out of these 30 different developers, we have maybe 5 or 6 ones that we have bigger tickets with, but not really a certain cluster risk in a region or in a project.

29:41 - Lars Schnidrig

And maybe to add, the target is… You have always volatility because we have so much demand, obviously, in the top 7 cities from developers. And as you can see, the fund, I think for the first time, is at a record high at EUR 1.25 billion since the beginning of the year. So it can be volatile in terms of having larger exposures with one or two or three of these top five or six clients. But in general, our risk policy is around 15% max on the leading developers in Germany throughout the year. But, again, we would be stupid if the market is booming and we are in the right locations with the right project, and the right product – and the right product is residential – and not get this financed.

And please always keep in mind, I said this in each and every roadshow, that the German developer market is so highly fragmented, but the larger projects – and larger projects, that's currently the political will – can only be built by the larger developers, and these larger developers are our clients. So, per definition, in this business, if we want to support also the political will, you have exposures and also a larger exposure to the leading developers in this country.

31:15 - Thomas Neuhold

Okay. Maybe to put the question a little bit differently, we have more and more developers being stocklisted and there's access of equity in the debt market, and some of them raised recently fresh equity and debt, attempting to replace expensive mezzanine or other sources of financing. Do you think you can replace potential paybacks from such clients, as new clients were not stocklisted in the long run or in the midterm?

31:46 - Lars Schnidrig

100%. You see this in the fact that we use our balance sheet money because we have overdemand over the funds on a constant basis. In addition, please always keep in mind that we will further diversify in terms of the risk return products we are offering our clients, but we will also potentially substitute such paybacks that you are talking about, and we will go into new regions. So, talking about the “whole loan”, this is a multibillion business where we are competing with the still remaining mortgage banks. I think it's around five or six that are really active. And it's a clear advantage for the developer – so, for our client – if he has one partner in crime not only in terms of costs, but in particular, in terms of process. And as you know, process security is extremely important when it comes to financing residential developments in the top 7 cities. So, to answer your question, it is not only that we have overdemand, but in addition, we want rather to expand this business by going into other products, which are more risk-averse in this context.

33:18 - Thomas Neuhold

Understood. Thank you. And my last question is on the micro-living segment. You mentioned that you have roughly 6,000 units under development. Can you provide, please, more details on whether these units will go in the new existing fund structure when the developments will be finalized, the volume in terms of euros you were talking about? And what kind of different fees that you get out of this development project?

33:50 - Lars Schnidrig

Many, many questions, Thomas, and I can't answer all of them at this stage. But in general, there are two cases. The one is what we have done in Germany very successfully – actually, Thomas and his team – for the last 10 years. So we have developed multiple service commendations there.

The second is, when we look abroad, and you take the case study which we developed, for example, in Spain. There, we currently have three projects where we are currently in placing models: Madrid, Valencia and Seville. One is in operations; one is under development; one is in planning status. And what are we doing? We are discussing this with larger international institutional clients, to further broaden our investor base. So, as you know, roughly 99% of our clients are German. So it's an ideal asset to attract international clients, and these international clients usually ask for more gross asset value than only three projects. So what we are doing is to elaborate and to execute a Spanish strategy with them.

When we're talking about our other developments or where we have secured land plots, like in Poland, for instance, then we take a new client in. So that means our organic growth will concentrate on undersupplied larger cities where this product is needed. But it will lead, at the end of the day, there, to us constantly growing our international client base because we have the right product, attractive yield, and international clients are simply looking for that.

35:51 - Thomas Neuhold

Okay. Thank you.

36:06 - Kai Klose (Berenberg)

Yes, hello. Good afternoon. I also have a couple of questions, if I may. The first one is on Page 38 of the report. Could you indicate or explain why we had a reduction in the asset management fees and the total AuMs went up by 4.4%?

36:22 - Dr. Kai Gregor Klinger

Maybe I will answer this question. The main impact of a slightly lower level of asset and property management will come from the participation fees. And so, with that, we also have a minor impact from variations and volatility in-year. But again, to underpin this, asset and property management will also go up by the end of the year.

36:56 - Kai Klose

Yes, property management fees went up in the first half compared to the first half of last year. But revenue purely from asset management fees went down to EUR 23.6 million from EUR 26.8 million in the first half of last year. Is that related?

37:17 - Dr. Kai Gregor Klinger

Maybe. There, we have some constructions in our structures where we have fund yields accounted in, and this gets in our P&L at the end of the fund year. So this is actually today in the fund, but we can book it only at the end of the fund year for itself.

37:47 - Kai Klose

Okay. Could you also indicate what you expect for the coupon participation fee for the full-year basis? Do you expect this to come out at the same level as of 2018?

35:58 - Dr. Kai Gregor Klinger

Yes, roughly. We are talking about around between EUR 50 million and EUR 55 million, maybe, on the upper end of that range.

38:09 - Kai Klose

And if I then add to that the reversal of provisions of about EUR 12 million in the first half, does this come on top of your earnings expectation for the full year? Or does this have to cover the partially higher costs which you have reported for the first half?

38:26 - Dr. Kai Gregor Klinger

So, currently, we have only the picture of the first half-year. We have to do many, many deals until end of the year. And we don't want to speculate too much about what will be the final picture at the end of the year. Currently, we feel very comfortable with our guidance. And of course, it can be that we have some accounting windfalls or accounting tailwinds, but now to speculate about a potential add-on on our guidance doesn't make any sense today.

39:00 - Kai Klose

Okay. And then I have another question on the micro-living properties, which you're currently planning to transfer into a fund. Do I understand it correctly that they are currently owned by CORESTATE? And if so, where do show up on the balance sheet? And if that's going to be transferred, what is the rough transaction volume?

39:23 - Lars Schnidrig

So, partly, you'll see them in the balance sheet, the land plots. But others are already placed, partly with our family office and ultra-high net worth clients.

39:46 - Dr. Kai Gregor Klinger

So the typical transaction part would be starting to acquire land plot then to structure, make the architectural, the planning, to structure an investment proposal and sell this to our same institutional clients. And then of course, it gets out of our balance sheet.

40:05 - Kai Klose

And is this also the EUR 6 billion development sourcing pipeline, which is shown on Page 6 of the presentation?

40:13 - Dr. Kai Gregor Klinger

No, that's not included, of course, because it's already signed. To acquire a land plot, we are talking about maybe a single-digit million amount. So the impact would be super minor.

40:28 - Kai Klose

Okay. And maybe the two last questions would be, could you indicate what was the signed and closed transaction volume in the year-to-date? And the last question, could you indicate or could you explain what is the progress by appointing another member of the Supervisory Board, which you indicated at the beginning of the year.

40:50 - Dr. Kai Gregor Klinger

So actually, I don't have the final number, but we are talking about our transaction volume. Between signing and closing, of course, we are talking now maybe around EUR 1 billion already signed, closed transaction, and booked a little bit less. But if you want, I can double check this with our controlling and provide the number in the aftermath of the call to you.

41:24 - Lars Schnidrig

And regarding the Supervisory Board, we have started a process. So, what does it mean? I can't guarantee you when we will report their progress because, obviously, we want to have the right person. We will update once we have done that. But we are in the process.

41:54 - Kai Klose

Thank you.

42:02 - Andre Remke (Baader Bank)

Good afternoon, Sirs. Also from my side, a number of questions, starting with your acquisition, the expected 2019 sales and EBITDA. Could we take this as a good indication also for the future? Or how recurring will this result be for this year? That's the first question, please.

42:28 - Lars Schnidrig

So, the number we referred to was for the full year. And, this, you can assume that's recurring.

42:39 - Andre Remke

Okay. Then you had a net asset under management growth of, let's say, roughly EUR 0.9 billion. So, in the first half, what is based on investments? And what comes from potential valuation uplifts, if there are any?

43:01 - Dr. Kai Gregor Klinger

So valuation uplifts are quite minor. Actually, transactions are increasing AuMs by placing price to our clients. So actually, I don't have the valuation impact, but it would be.

43:16 - Lars Schnidrig

But it's minor. Full stop.

43:19 - Andre Remke

And so let's take the, let's say, EUR 1 billion net additions this year, what is the overall transaction volume? Is it all acquisition-related? Or does this also include any disposals in a meaningful size? Let's say, transaction volume is higher than this EUR 1 billion?

43:44 - Dr. Kai Gregor Klinger

No, actually, we only had disposals on our non-core portfolio of roughly EUR 400 million, EUR 0.4 billion. And there, we don't have any excess or sales fee in, because this is part of the rundown portfolio of Hannover Leasing, where we don't apply such fee structures. So roughly, in our real estate AuMs, the close to EUR 1 billion is a net and gross number.

44:15 - Andre Remke

Okay. Perfect. So, the next question. On your plans to expand the debt business, which you already discussed in the last call, you indicated some plans for the second half of this year. Speaking long term or midterm, what could be a kind of volume here? And what kind of margins? Will the margins be lower in the mezzanine business, due to the lower risk? Any indication here would be helpful. Probably not for this year but...

44:56 - Lars Schnidrig

Yes. So, given that there is a senior position and we compete there, therefore, with the senior mortgage bank lending, margins will be much lower. Absolute. So, you are really in the first rank in the so-called German Deckungsstock. Obviously, for 2020, I would expect a couple of hundred million, and then let's see how it develops – put it this way. But this is a multi-billion market. So, as usual, first, you need to enter this market, and then you can maybe take a larger share in this market. But again, for internal budgets for 2020, we're speaking of a couple of hundred million.

45:49 - Andre Remke

And so it will be a meaningful size?

45:51 - Lars Schnidrig
Yes. Sure.

44:54 - Andre Remke
Okay. Cool. So the last question. After the share buybacks, and using this for probably for STAM, are further repurchases possible? Or what are the criteria here? Will you only initiate further share buybacks ahead of potential M&A? Or could this be a strategy in general?

46:19 - Lars Schnidrig
So we have two main drivers for growth. And besides the European expansion of our micro-living activities, it's also M&A, and that will continue. So, that means, beside that and looking at the valuation of the stock, share buybacks are always an option. But, of course, you know that I can't disclose now when and if we do it, but you can be sure it's always an option on our side.

46:50 - Andre Remke
And what is the legal frame at the moment left? 10% or…? In your structure? Are there any limitations?

47:01 - Dr. Kai Gregor Klinger
Yes, of course, there are limitations, but we have renewed our potential program in our last AGM at the end of April.

47:14 - Andre Remke
So it's a usual 10%.

47:15 - Dr. Kai Gregor Klinger
Right.

47:16 - Andre Remke
Okay. Perfect. That’s it from my side. Thank you.

47:29 - Jörg Ganders (Bankhaus Lampe)
Hello from Dusseldorf. Regarding what is left open, could you provide the number of the property management fees? The second question I have is regarding the exposure to Spain. Is this then the volume of a separate fund in HFS? Or is it part of the existing funds?

47:58 - Dr. Kai Gregor Klinger
So, the property management fee is EUR 14.8 million. And your question regarding Spain HFS, it's a different fund. Regulatory needs to be a different structure.

48:11 - Jörg Ganders
Okay. Thanks.

48:12 - Dr. Kai Gregor Klinger
Thank you.

48:17 - Operator
Before we come to the next question, as a reminder, if you would like to ask a question please press 01 on your telephone keypad now. And the next question is from Tom Carstairs from Commerzbank AG. Your line is now open, Sir.

48:17 - Tom Carstairs (Commerzbank AG)
Okay. Hello? Okay, I'm assuming you can hear me.

48:35 - Lars Schnidrig
Yes, we hear you.

48:37 - Tom Carstairs
Okay. Just to follow up on the coupon participation fee, we appreciate what you said about the first half year – EUR 23.6 million, I've got here for the first half. Can you give us any feeling for what the second half will be from a coupon participation fee perspective?

48:56 - Dr. Kai Gregor Klinger
As I already mentioned with Kai Klose, we are talking between EUR 50–55 million for 2019, and there it may be a touch more on the upper end of that range.

49:11 - Tom Carstairs
Okay. Thank you. Because my second question was going to check the EUR 50–55 million and what that referred to. Thank you.

49:19 - Dr. Kai Gregor Klinger
Perfect.

49:30 - Manuel Martin (ODDO BHF)
Thank you. Two questions from my side, one by one. The first question is regarding your non-real estate AuM that is fading away. Could you give us maybe an idea of which kind of margin this had? Because I might imagine that this improved a little bit your margin.

49:57 - Dr. Kai Gregor Klinger
Quite minor. We are talking there between or around 15 bps. So the EUR 400 million, which we have lost now has a super minor impact on our P&L. And of course, every new asset which we are currently putting in our AuMs, this is, of course, much higher-yielding. You're absolutely right.

50:21 - Manuel Martin
Okay. Thank you. Second question: could you give us some color on your fundraising activities domestically? And on an international basis, maybe you can give us an update there on where you are and where you want to go for the remaining year?

50:41 - Lars Schnidrig
Sure. So there is much progress and much on its way. As you are aware, the company at its stage today, with all the transformation that we have seen in the last two years, is in a stage now that it is institutionalized. And given that we have the right product and have also, I would really say, a market-leading comprehensive ESG strategy, that attracts clients. The combination between comprehensive client focus, stakeholder focus, ESG strategy and the right product attracts clients. So that means we are currently discussing our main products with several, larger, really top-notch institutional clients. And I'm very convinced that we will see some very prospering client relations, in particular in the second half of the year. And, as you may also know, we have started the group-wide equity raising in the form of our group-wide Head of Equity Raising, Douglas Edwards, who joined in January. We have paired up, meanwhile, with another female colleague, Sandra Burrows, who joined from Blackstone also more than a year ago, the whole client service team. So we are making progress there, and you will see this, as I said, in top-notch, highly-regarded clients throughout the second half of the year. And, of course, we will expand this in the next 1–3 years. That's an ongoing process now.

So I feel very, very comfortable that we have done the right steps there, not only in terms of how we have institutionalized the whole business, the whole strategy, but also that we have obviously – and this is a great complement to our colleagues – also developed the right product several years ago, and that is paying off now.

53:00 - Manuel Martin

Okay. Thank you.

53:07 - Operator

As there are no further questions, I hand back to the speaker.

53:11 - Dr. Kai Gregor Klinger

So thank you. Last but not least, we would like to welcome you to our second Capital Markets Day taking place in Frankfurt in the Hotel Sofitel Opera on September 12 between 10:30 a.m. and 3 p.m. The invitation, with a detailed program, will follow over the next couple of days.

So, we appreciate your interest, your attention and your questions today, and wish you a nice remaining summer holiday season. And, of course, we are looking forward to welcoming you in Frankfurt in mid-September, or maybe to meeting in person in one of our roadshows after the summer. Thank you very, very much.

53:47 - Lars Schnidrig

Thank you. Bye-bye.

53:51 - Operator

Ladies and gentlemen, thank you for your attendance. This call has been concluded. You may disconnect.