CORESTATE Capital Holding S.A.

Q1 2021 Results

Conference Call for Analysts & Investors

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Transcript

Speakers:

Dr. Kai Klinger

René Parmantier

Lars Schnidrig

Dr. Kai Klinger

Hello, everyone, and thank you for joining us today on our earnings call for the presentation of our results for the first quarter of ’21. On the CORESTATE Investor Relations website you can find our earnings press release, the report and the corresponding slide deck.

As usual, I’d like to direct your attention to the forward-looking statement and disclaimer wording on page two of our presentation. This safe harbour language applies to the presentation and all comments we’ll be making today. I would also like to mention that everything is being recorded. You can replay the call and view the transcript on our Investor Relations website after the call.

On the call with me are our CEO, René Parmantier, and our CFO, Lars Schnidrig. We will guide you through the presentation, followed by the usual Q&A session. The timeframe for today’s call is about 30 minutes. Now, it’s my pleasure to turn the call over to René. René, the floor is yours.

René Parmantier

Many thanks, Kai, and a warm welcome from my side. Speaking about the highlights of Q1 2021 of course brings us, once again, to COVID-19. The third wave of the pandemic still impacts the real estate investment market and leads to delayed recovery that even intensified the usual seasonality in our business.

Nevertheless, we have a lot of reasons to be optimistic. For example, we managed to keep the acquisition fees in our real estate equity segment stable. We have a well-filled deal pipeline for both segments, equity and debt. This will lead to a significant upswing in our activities in the course of the year.

Long-term positive market drivers such as urbanisation, demographic changes and the interest rate environment remain in place. Particular good news is that our real estate debt segment enjoyed a good start into the year. COVID-19, however led, in one opportunistic fund consisting of commercial assets, to negative revaluation effects. This impacted our P&L.

We used again, and I cannot stress this enough, our balance sheet for highly-profitable bridge lending for financing real estate developments. This is, on the one side, highly attractive from an EBITDA perspective but absorbs, on the other side, parts of our cash pile at the end of Q1. That’s the reason why we, with an unchanged focused on deleveraging and reducing our debt, will significantly decrease this lending until the end of Q2. Our aim to significantly reduce net debt during 2021 is unchanged and

we're on a good path to deliver on this.

Let me get on to the acquisition of AFS. In brief, everything in time and on schedule. Closing is just a matter of days as we already received, in May, the regulatory approvals in Germany and Luxembourg. Then, the real work will start. We will entirely integrate the new operations to fully utilise the synergy effects. Just one fact here. Around 80% of AFS clients are new to the company, so plenty of room for growth and cross-selling here.

We evaluated our set-up and identified several areas for revenue and cost synergies. This has led to an enhanced corporate set-up with a centralised portfolio management face to the customer, a bundling of our sales forces, with a clear focus on investors, and a full range of new products like the very successful City Quarters fund or the Whole Loan fund. All in all, we have done nothing short of a full reshaping of our operations into a manager of the entire real estate value chain, and I can tell you from numerous talks to clients, they welcome this.

Please flip to page four. You know this chart from our previous calls. It shows the development of our assets under management, especially of our core business, real estate AuMs. We realised about 1% net organic increase in our real estate AuMs after revaluation effects. So, once again, growth in a difficult market and planned decrease of our non-core, non-real estate AuMs of around €100 million.

Let's take a deeper look into the segments we are operating in and compare them to the end of last year. This already mirrors our strategic reshuffling and the success of our new products. Residential and city quarters up, logistics and others up, office down. Micro living and retail, merely stable. All in all, we have around 50% of our real estate AuMs in equity, roughly one-quarter in real estate debt, and the last quarter in third-party property management. So, a very healthy diversification in my eyes.

And, as mentioned before, we have another record sourcing pipeline in real estate debt of around €500 million, representing a project volume of more than €2.0 billion. In real estate equity, we are in advanced contractual negotiation status for around €1.5 billion, of which around two-thirds in LOI stage, one-third in exclusivity. So, very promising new business ahead.

Please flip to page five. You see in this chart our HFS fund status as of end of Q1. The focus is unchanged, as risk management remains the crucial success factor in this business. Around 70% of our financing go to the top seven cities in Germany and around 70% is for residential or city quarter projects. The total commitment fund volume is around €1.3 billion, so merely unchanged.

The number of finance projects stood at 48 and the average mezzanine financing size was around €27 million. That's a bit higher than in the past, reflecting usual fluctuations and our approach during the crisis by focusing more on bigger developments like city quarters or superior conversion projects in A locations.

Let me give you some insights on our mezzanine business, into HFS operations in Q1, and please flip to page six. As you all know, in mezzanine financing everything comes down to risk-steering and project selection. In other words, where to give the money to and closely monitor the usage of the money. This is, in times of crisis, even more important, and that's why we've focused in residential or city quarter developments in Germany's top seven cities.

At the end of Q1, 28 different borrowers received mezzanine capital from us and, as you can see on the right side of the slide, the top five clients all focus on resi in the big cities and none has a share of more than 18% of the fund's capital. So, in times of crisis, we focus our counterparty relations to selected, well-established players, with a proven track record and long-standing relations. Currently, the average loan duration is around 18 months and we are working consistently towards reducing this also for the sake of higher profitability.

What's on the menu in the upcoming months in our real estate debt business? The market is providing significant tailwinds as traditional banks restrict their credit lending, while the market is eagerly asking for these financing solutions. Megatrends like demographic changes, urbanisation and increasing working flexibility are playing out in our favour and that's where we come in as the leading powerhouse with a scalable product platform and a clear focus. We already are the clear market leader in mezzanine lending but we will further strengthen this position by the issuing of new product, for example the Whole Loan, that has gotten a remarkable number of pre-commitments during the initial marketing phase.

Last but not least, our real estate debt business is very sustainable and profitable. Nevertheless, we still have untapped synergy effects in our client relations and the early involvement in developments create for our real estate equity business. Here, we expect annual synergies of our around €10 million until the end of 2024. With this, I would like to handover to our CFO, Lars. So, please flip to page seven and Lars, the floor is yours.

Lars Schnidrig

Many thanks, René, and also a very warm welcome to all of you from my side. Before we dive a bit deeper into our figures for the first quarter, please let me explain our new segmentation. We wanted to highlight the enhancement and increased significance

of the real estate debt business, so we split up our previous segment real estate investment management into two new segments, real estate equity, comprising acquisition and sales fees, as well as asset and property management fees and real estate debt, with the lines underwriting and structuring fees, real estate debt asset manager and coupon participation fees and income from bridge loans. All other income lines previously in warehousing and in alignment capital are now condensed in other segments.

Let us start with real estate equity. You all know the typical seasonality of our business or, in other words, we operate in a backend-loaded market. COVID-19, especially the third wave, even strengthens this. Nevertheless, we managed to keep acquisition-related fees at €2.0 million and asset and property management fees in Core and Core+ stable compared to last year's pre-lockdown first quarter.

Underwriting and structuring fees are showing €4.0 million, clearly reflecting the high turnover of the fund in the beginning of 2021. Driven by the pandemic, the coupon participation fee was reduced from €11 million to €8.0 million by higher risk provisioning and a minor impairment in one project. We spoke about this before. The temporary peak in bridge lending led to significantly higher income from bridge loans, up from €2.0 million to €6.0 million.

Our other segments were hit by around €5.0 million of negative valuation effects, driven by the publicly-endorsed measures to contain the second and, soon after, the third pandemic wave, especially the nationwide shutdown in Germany and co-investments in opportunistic retail assets in one fund. Thus, the income from other segments went down from €6.0 million to minus €3.0 million. All in all, we delivered aggregate revenues and gains of €37 million, down from €52 and, with this, we are well within our own budget and run rate to reach our full-year guidance.

Now, please turn to page eight. Let me speak about our cost structure. Basically, we realised several negative factors for our expenses as a temporary cost for our new strategic set-up, for the improvement of our product range and the bundling of sales, but these things will pay off well in the upcoming months, so the money is very well spent.

The OpEx ratio in the first quarter comes down to the inelasticity of our fixed cost base and we feel this especially in times of a somehow reduced deal appetite from clients. As you can see, our OpEx were kept merely stable with around €22 million in real estate equity, €2.6 million in real estate debt, and nearly €3.0 million in the other segments. Other income went down due to

lower reversals of provisions from €2.4 million in the last year's comparable quarter to below €1.0 million in Q1 2021. Our G&A expenses ended up at around €12 million, up from €7.0 million Q1 2020, reflecting HR and M&A-related one-offs. We aim to reach a G&A of between €30-40 million by year-end.

All in all, our adjusted EBITDA stood at nearly €1.0 million. Our D&A was remarkably lower, at around €5.0 as, for the first time, this figure is without any depreciation and capitalised asset management contracts from the HFS acquisition. Our net profit stood at minus €14.5 million and adjusted by expenses from the AFS acquisition, D&A and DTA, our adjusted net profit at around minus €9.0 million.

Let me underline again, these figures are not good but they are broadly in line with our budget and phasing throughout the year, so we stick clearly to our full-year guidance and René will give you some more background on this later on. Now, please turn to page nine.

Reducing our debt and, as a consequence, reaching a much better leverage ratio remain absolutely crucial for us. Therefore, let me speak a bit more about the key balance sheet figures and ratios. By the end of March, we showed a total financial debt, adjusted by around €27 million of rental and leasing liabilities, of €612 million. The biggest parts are two main financing instruments, the senior bond with €297 million and the convertible bond with €195 million. Our bank and other debt of around €120 million included €55 million of warehousing debt in our Giessen premise.

At the end of the first quarter, we had more than €60 million of cash, leading to net debt figure of €549 million. The cash pile was impacted by HR-related and minor other one-off costs. Higher, but as said before, very profitable bridge lending, some expenses for the new corporate set-up and sales structure and, last but not least, as we prepare the company for the next growth level once the pandemic impacts are waning.

Our net debt reduction plan includes the repayment of this bridge in the current Q2, but also placements from our balance sheet to be more precise from inventories, associates and joint ventures and out of the financial instruments, till year end of more than €80 million.

We are on track to deliver on this and a further amount of more than €60 million of co-investments will be turned into cash in the next year, so in 2022. Let me confirm once again our ambition to bring our financial leverage below 3.0x into our mid-term target range of between 2.0-3.0x. With this, I would like to hand back to you, René, and please flip to page ten. Thank you.

René Parmantier: Thank you very much, Lars. Let me finally give you some background on our road to guidance and the components of our financial outlook. We operate in a structural growth market. We expect a gradually decreasing COVID-19 impact and then a market upswing. We are well-positioned to benefit from catch-up effects.

We are seeing the first positive impacts from our advanced product range, especially in real estate debt, and from our newly-shaped sales team. We expect the closing of AFS any time soon and this, alone, will deliver around €16 million of revenues, €10 million of EBITDA and €7.0 million of net profit for the year running.

So, we expect, mirrored in our new P&L segmentation, to realise between €20-35 million acquisition and sales fees in equity, between €30-40 of underwriting and structuring fees in debt, and between €80-90 million of asset management fees in each of these two segments, including property management fees in equity and coupon participation fees in debt. The income from other segments will be between €5.0-20 million.

On this basis, we once again confirm our financial outlook for the full-year 2021 with aggregated revenues and gains of between €235-260 million, EBITDA of between €90-115 million, and adjusted net profit of between €50-75 million.

In a nutshell, the market and its drivers are working massively in our favour and we will benefit from this in the upcoming months. With this, we will return to decent growth and profitability and make CORESTATE an attractive investment for shareholders again. With this, I would like to hand back to the operator and we are now happy to answer all your questions.

Operator: Ladies and gentlemen, at this time we will begin the question and answer session. Anyone who wishes to ask a question may press * followed by 1 on their touchtone telephone. If you wish to remove yourself from the question queue, you may press * followed by 2. If you are using speaker equipment today, please lift the handset before making your selections. Anyone who has a question may press * followed by 1 at this time. One moment for the first question, please. The first question is from Kai Klose, from Berenberg. Please, go ahead.

Kai Klose: Good morning. I've got a couple of questions, if I may. The first one, you mentioned at the beginning of the call that the acquisitions fees remained stable. Could you indicate what was the underlying acquisition volume?

Dr. Kai Klinger: Hi, Kai. It's Kai here. We had on the real estate equity around €200 million of new assets and on the real estate debt side, it is around €400 million.

Kai Klose	So, this is a combined number. I am just looking to page seven of the interim report, where we have the acquisition fees only showing in the equity business. So, this €2.0 million refers to the €200 million acquisition volume for equity?
Dr. Kai Klinger	Right. Exactly.
Kai Klose	Then, the same question on page seven of the report. Could you indicate why the asset management fees in the real estate equity went down relatively significantly while the underlying AuMs remained relatively stable.
Dr. Kai Klinger	Yes, of course. The main driver is a decrease in our development fees of around €2.0-2.5 million compared to last year where we have reversed these bigger micro living projects with one key client and the remainder, around €1.5 million, is linked to asset management fees at an opportunistic product which has a performance link on these asset management fees.
Kai Klose	So, what would you then define as a recurring asset management fee from the offset Q1 numbers?
Dr. Kai Klinger	We will definitely see here an uplift in the performance of the asset management fee and, of course, taking these public restrictions into account, Q1 will be the worst through the year.
Kai Klose	Of the €8.8 million, could you indicate roughly how much of that was recurring?
Dr. Kai Klinger	Recurring in ’21, everything, of course, but we will see there an upside on asset management fees through the year, so definitely a much higher level. Take our revenue split, where we want to achieve around €80-90 million for the entire year in this line item.
Kai Klose	The last question on my side would be on the coupon participation fee. You mentioned that because of risk provisioning and impairments the amount of the earnings contribution was lower. Could you elaborate a bit more on where that came from or what was the reasons for these two projects which you mentioned caused the write-downs?
Dr. Kai Klinger	It is again, Kai. It was only one project where we have seen an impairment on the project value and achieved only a lower rate of repayment on this project level and we are talking here about a mid-single-digit million amount. This is the reason, also back on the envelope math, coming from the €12-13 million as a run rate for our coupon participation fee, we have seen only €8.0 million in the first quarter.
Kai Klose	Many thanks.
Dr. Kai Klinger	Thank you.
Operator	The next question is from Manuel Martin, from ODDO. Please,

go ahead.

Manuel Martin: Gentlemen, two questions from my side, if I may. The first question is on the general expenses. It seems that the cost structure went up in G&A. Is this only related to one-offs and if you could just, maybe, bring some more colour to these one-offs? As far as I understood, you think you might have €30 million by the year-end in G&A. Maybe you can elaborate a bit on that because that seems to be higher than last year. That would be the first question, please.

Lars Schnidrig: Straight answer, we have around €6.0 million one-offs in the G&A and there are €3.0 million related to HR-related expenses, and approximately €3.0 million, €2.7 million are related to M&A transaction costs.

Dr. Kai Klinger: It is Kai. If you make your back of the envelope math and guide this or adjust this and then guide it to the year-end, we are talking about €25 million, maybe up to €30 million of total G&A for 2021.

Manuel Martin: Just to follow-up on it, has anything changed in that structure? HR-related, is it having less staff or having more staff? How can I read that?

Dr. Kai Klinger: Obviously, it is a one-off for the termination of contracts with our people. If you look on the numbers of people which we have had in our company between year-end 2020 and the first quarter you see a clear decrease of staff in our company.

Manuel Martin: I understand. Thanks. My second question would be on real estate debt and the guidance. On page ten, the revenue split that we see here for real estate debt, the outlook, does it consist of HFS entirely, what we see here in real estate debt or how much AFS is inside these figures?

Dr. Kai Klinger: Yes, AFS is included here on a pro rata temporary basis and the numbers you can see on the same page on the fourth bullet on the upper side of the slide we have had there roughly €16 million of revenues from AFS and this is predominantly included in the underwriting and structuring fees of these €30-40 million. The remainder is the underwriting fee of HFS for newly-subscribed loans or bonds out of the fund.

Lars Schnidrig: And, this hasn't changed since the communication of the acquisition. We always said it is on a pro rata six-month basis.

Manuel Martin: I see. So, in these underwriting and structuring fees of €30-40 million, there is the pro rata temporary share of the HFS fees inside?

Dr. Kai Klinger: Yes.

Manuel Martin: Thank you.

Operator — The next question is from the line of Till Heimlich, from Pictet. Please, go ahead.

Till Heimlich — Hi. Good morning. I was wondering if you could provide a cash bridge to the 2022 maturity. When you think about today's cash holdings, the disposal proceeds you said would come in by Q2 and then also your next year, that gets you to maybe €200 million or so. Do you have a contingency or some sort of buffer for that? If something wouldn't materialise, then what do you think is the free cash flow you can generate from your EBITDA that you're guiding for?

Lars Schnidrig — What we said in the past you can see also on page nine in the presentation. To get to the €200 million, to pay back the convertible, the first bridge item is €118 million short-term bridge loans which will be repaid over the year but, of course, it makes no sense to let them, so to say, be a negative interest on savings account, therefore we lend them based on an unbelievable over-demand in the mezzanine business and obviously receive there 18-20%. So, however, this is going to planned, it is reserved for the payment of the convertible.

And, then the second, as always said, that we are planning in the second half of this year around the mid-point, €100 million placements from different sources, from our inventories, from our associates and JVs and the financial instruments. This will happen this year. This gives you another €100 million on mid-point. We said €80-120 million. So, these are the first €200 million.

Then, thirdly, even next year, and this is a normal course of business, when you look at our co-investments that we, every year, place some of these, around 30 investments to other clients and this will deliver another, we assume €60 million. So, when you ask about buffer, we don't need large working capital amounts.

Therefore, if you take the first two items, you have the €200 million plus our cash, which we show in the first quarter, of €63 million. You have, then, €260 million, obviously, and if you would need an additional buffer, which we currently don't see, then we have our placements from the co-investments in the next year plus, obviously, free cash flow production that will happen this year and that will happen next year.

So, overall, we use the cash currently very efficiently and I think on a very high economical base by bridge lending. Although it contradicts at the reporting date a lower leverage, that's correct, however, we want also, obviously, to earn money with this and we are very well-placed and prepared to deliver the €200 million but even more, as I just indicated. So, that's the plan going forward.

Till Heimlich: So, you're very confident about your ability to reduce net debt already for Q2, given that we are more than halfway through that quarter now?

Lars Schnidrig: Yes, absolutely. Again, maybe to give you some more flavour. If you would want the short-term bridge lending, this is really short-term money, just to give you the mechanism. Unfortunately, our fund is so over-demanded, which is obviously positive, but that means when further developers ask for money we are able to use our liquidity, in particular the €180 million, to provide them with loans. But, of course, it is short-term so that means once it is again liquidity in the fund, then we flip these short-term bridges either in the fund or it is simply paid back.

When I am saying short-term, I'm talking about weeks, I'm talking about months but definitely not about years, so we have this line item fully under control and we can steer it, I wouldn't say on a day-to-day basis, but at least on a weekly basis and this is what we are doing.

Till Heimlich: Thank you.

Operator: The next question is from Stefan Chappot, from ZKB Asset Management. Please, go ahead.

Stefan Chappot: Good morning and thanks for taking this question. It is a follow-up to what you were just elaborating on. If this short-term lending business is so attractive and there is so much demand for it, and I think you said close to 20% interest that you can generate on this, what is the longer-term plan, then, to continue to be involved in this type of business as it seems to be extremely attractive since the money that you're currently employing there will be needed to pay down the converts next year? What's the longer-term plan?

Lars Schnidrig: The longer-term plan hasn't changed. We want to use these funds to reduce the net debt by paying back the convertible. That is the first thing. Second thing, and that is a strategic element which has been executed in the beginning of the year with the AFS acquisition, we will and we are in the middle of doing so, further enhance our equity-raising on the AFS side.

What does it mean? We have currently, as stated in the past by the way, a pipeline of around €400 million. So, we have asks from developers to provide them loans around €400 million but the fund of more than €1.0 billion is currently fully-employed, as it was always in the past.

So, the solution to your question and also for us is very comfortable. Once we have increased our equity-raising efforts, so that means simply gathering more equity, that was one reason why we have acquired AFS. Please keep in mind around 80% of AFS clients are completely new to HFS, so there's no

overlap basically, or a very small one.

To answer, again, your question, we will reduce our short-term bridge lending because we will increase our fund equity money and there, by the way, we get more or less the same rate, around 17-18% interest paid.

Stefan Chappot

Excellent. Thank you. Then, final question. I think you were referring to recovery and I think you used the word catch-up effect. Can you elaborate a bit on what that is and how you see that playing out?

Dr. Kai Klinger

Of course, what we mentioned before, we struggled in the first quarter still as the entire real estate investment management market, in restriction and lockdowns. Of course, you will see a much more booming market, and this is not only in the real estate investment management, this is for the entire economy in the second half of the year.

Of course, people who are a little bit more reluctant or were reluctant in the first quarter to spend money and to invest in projects have to fulfil their own budgets in the second half and, bear in mind, we are still in a lower-for-longer interest environment. Even if you would see a small hike on the inflation side in the last couple of weeks the baby boomers are still out there and they spend every single month and year money to the pension schemes, and this money has to be invested and we, of course, are a natural partner on the real estate side to do this for these insurers and pensioners.

Lars Schnidrig

And, never forget, also historically, the first quarter is always the relative weakest quarter. Why is this the case? Because everybody is closing year-end in the real estate business, so that means in the first quarter you start negotiating, structuring, buying the assets that are going to be placed in the second half of the year.

So, therefore, the double seasonality is now the first quarter, as usual, although I have to point out that we haven't seen this, obviously, in the debt business because it is anticyclical. COVID-19 rather helps there because banks tend to lend less. But, on the real estate equity side we will see then, obviously, we have also broken now the third wave in COVID. So, all of this will help then to generate obviously catch-up effects we call it, yes, but from our point of view in our budget and in our phasing, we are always budgeting the first quarter as the weakest. Then, you have the catch-up effect, which we don't call internally catch-up effect because this is the normal course of business that you're going to place the assets that you are going to place the assets that you have acquired in the first and second quarter, which you place in third and fourth quarter.

Stefan Chappot — Perfect. Thank you.

Operator — There are no further questions at this time and I would like to turn back to Dr. Kai Gregor Klinger for closing comments. Please, go ahead.

Dr. Kai Klinger — Thank you so much for listening. We appreciate your interest and your questions. We will be on the road, unfortunately only online in the upcoming weeks. Do not hesitate to contact us for any further questions you may have, and please be reminded that our half-year figures are out on August 11th and our AGM will be held on June 28th. We look forward to speaking to you, so stay healthy and goodbye.