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00:02 - Operator

Dear ladies and gentlemen, welcome to the conference call of CORESTATE Capital Holding S.A.'s publication of the Q1 2019 Results. 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 an 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 Kai Klinger, who will lead you through this conference. Please go ahead.

00:40 - Dr. Kai Klinger

Hello, everyone. A warm welcome to our earnings call today for the presentation of the Q1 results of 2019. As usual, I would like to direct your attention to the forward-looking statement and disclaimer wording on Page 2 of our presentation. The 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, 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 hand this over to Lars. Lars, the floor is yours.

01:24 - Lars Schnidrig

Thank you very much, Kai, and a very warm welcome to all of you. I may start my overview of the first three months of 2019 with a very simple statement: we had a very promising start and all our financials are entirely on track to deliver on our full-year target. I will give you some more details on our core business and our assets under management a bit later on, but let me just highlight one figure: our core business, real estate asset management, went up already close to 4% from the end of 2018 to the end of March 2019. This reflects the growth path of our business. We are operating in a very favorable market environment, and we will further benefit from this in the upcoming months. That's why we, typically for this time of the year, increased our warehousing and our temporary balance sheet usage to be able to offer our clients what they constantly ask for. Another strong indicator for further growth is our once again increased deal pipeline, which is now for the first time showing more than EUR 6 billion. We told you, when we acquired HFS (Helvetic Financial Services AG), Hannover Leasing and ATOS that we see cross-selling potential when it comes to clients and assets. And we again realized, especially between debt and equity, these chances in the first quarter of 2019, and we will go on doing so during the course of the year. Our clients continuously ask for our products. That's why we introduced a number of new offerings to meet the strong demand in the market. These include new residential funds focusing on Germany's bigger cities or several products for micro-living assets in Europe. Our opportunity fund continues to be a very successful story for our clients. Please turn to Page 4.

Let me speak about our corporate governance. Our aim, and my personal objective, is to establish an efficient organizational structure, enabling further growth and quality for our clients. We had, as all of you know, our AGM on April 26th in Luxembourg. All agenda items were approved with a great majority. This includes the distribution of EUR 2.50 per share out of our capital reserves. So far we gave a bit more than EUR 53 million back to our shareholders. So we continue being a growth stock with a very convincing dividend yield. And, as I said many times before, during the AGM we also confirmed our distribution policy of paying out roughly half of our earnings per share also in the future. Including our share buy-back programme, the amount of money we gave back to our shareholders adds up to around EUR 60 million. This programme was conducted between April 1st and April 25th, and we acquired 180,000 shares. Another important issue that was approved by the AGM was to enlarge our supervisory board from three to four members. Mr. Jonathan Lurie, a very experienced and very established real estate professional, was elected for a two-year term. Amongst other topics, the focus in the last couple of weeks has been to set up a sustainability-aligned management structure. This includes me being appointed as the new CEO, and the prolongation of Thomas Landschreiber's contract as CIO for another three years. We also strengthened our corporate management structure by establishing an executive committee for all group matters – including the CFO, the COO, the Chief Legal Officer, and Kai for Capital Markets and Communications – and, of course, a comprehensive operational committee dealing and coordinating our product offering, client relationships, transactions, asset management and other operative initiatives across all our branches, segments and reporting lines. These two new bodies will strongly support our efficient management structure and short-term decision-making. Now please turn to Page 5.

I am personally absolutely convinced that being transparent, ESG-compliant and sustainable will become more and more crucial for our industry and for ourselves. I will give you a very concrete example. When we speak to potential new institutional clients, they of course care about our assets, our experience and our set-up. But, first of all, they ask us: "How sustainably do you run your business?" I am a strong believer and supporter of the ESG sustainability strategy that is currently taking place globally. That is why we put so much work into our ESG implementation. This will lead to further improving efficiency, reducing operational risk and creating further trust in what we do. As a good corporate citizen, our aim of course is to combat climate change, being a very societal member of our community and a trusted and reliable partner for all our stakeholders. Let me briefly show you our ESG approach. We already signed the UN Principle for Responsible Investment. So, we are committed ourselves to sustainability in our everyday business. And we established a monthly ESG Committee to ensure that a structured process for group-wide roll-out plan is implemented. As such, we will publish our first ESG Report soon and we will make sure that ESG criteria are taken into account in all our products, services and operations. Now please turn to Page 6.

As usual on this chart, you get a bit more intel on our assets under management and our sourcing pipeline. For the first time ever, we reached EUR 26 billion assets under management, with a growth in real estate assets under management of nearly 4%, from EUR 20.7 billion at the end of last year, to EUR 21.5 billion by the end of March. The main growth for this additional EUR 750 million AuM is coming from new real estate equity products in the amount of roughly EUR 200 million, from CRM, which has also increased its assets under management with new property management contracts by EUR 250 million and from our mezzanine business, which delivers another EUR 300 million new AuMs. The distribution of these assets remains widely unchanged, with residential and micro-living accounting for more than half of it, and retail being a bit reduced. Our assets exposure remains unchanged, at 25%. Our non-Real Estate assets were slightly decreased, as planned, from EUR 4.7 billion to EUR 4.5 billion. One of the many reasons why we are looking very optimistically into the future is that, once again, we had a very strong sourcing pipeline. It exceeds, according to typical transaction fees analogy, EUR 6 billion, showing now around EUR 6.1 billion, with roughly one quarter in an advanced contractual stage. Now please turn to Page 7.

Let me speak once more about the real estate debt business HFS. As you all know, our focus with these activities is to benefit from the immensely growing need for urban living in the bigger cities in Germany, but also in Austria and Switzerland. At the same time, we are monitoring and managing risk for this business very closely, by being very diversified and by having a clear focus on booming metropolitan areas. At the end of March 2019, our fund value was on record levels, with EUR 1.26 billion. Since the acquisition of HFS in 2017, we have increased the value by more than EUR 200 million. Currently, the average interest rate we are charging is in the rate of between 19% and 20%, which has been very stable since we bought HFS. At the end of Q1, the number of projects stood at 61 and the average size of mezzanine tranches was roughly at EUR 21 million. The majority of these are in residential projects in Germany's top cities. As you see in the lower part of this slide, we have about 70% of our landing volume going out to Germany's top seven cities, and the other 30% to other booming cities in Germany, Austria and Switzerland. As you all know, the residential market in these cities is constantly booming, and the demand is growing. And, as you can also see, we are very well diversified. Now please turn to Page 8.

Let me please show you a picture of our revenue stream for the first three months of 2019. We received acquisition-related fees of EUR 4.2 million, representing a continuous fee floor, and we clearly expect this to go up seasonally in the next quarters. As I showed you before, we have a very promising pipeline of new products to serve to our clients in the next couple of months. This will lead to a significant increase in the corresponding fees. Another very stable revenue stream is our asset and property management fee, which amounts to EUR 33.5 million, including EUR 13.3 million in coupon participation fee on a pro rata temporis basis. Corresponding with our organic AuM growth, we will also see a slight increase during the course of the year. As usual, we expect to receive Promote Fees and Sales Fees in the last quarter of the year, so this line item will not remain at zero. Our revenues from alignment capital were strong at EUR 11.4 million, with seasonal tailwind reflecting an excellent performance of our co-investments, with consistently high dividends. As already stated, we have used the strength of our balance sheet to position us with warehouse assets that have steady and growing client demand. This was mirrored in EUR 9.6 million income from warehouse and real estate operations in Q1. All in all, our aggregate revenues were EUR 58.6 million. Now please turn to Page 9.

On this chart, you will see some key P&L figures. Let me focus a bit on the expenses. Operating expenses reflect deal costs, and also rising regulatory demands, but compared to 2018 we slightly reduced our costs, due to some extraordinary items booked last year. Our expenses for real estate investment management stood at EUR 15.5 million; expenses for alignment capital at EUR 1.5 million; and warehousing expenses amounted to EUR 3.4 million, predominantly due to the temporary rise in the amount of assets. In general, across all three line items, we are dealing with a total OpEx ratio of approximately 35%. Our G&A expenses were at EUR 3.6 million, and slightly below the previous year's figure. This quarter, we had no extraordinary adjustments on the EBITDA level, so our EBITDA was at EUR 38.7 million, with a margin of more than 65% to sales. Even for CORESTATE, this margin is high, and was mainly driven by extended warehousing business and alignment capital. It will go down, with more transactions over the next quarters, to closer to 60%. Depreciation and amortization stood at EUR 7.6 million, comprising mainly the purchase price allocations of our capitalized asset management contract from HFS, Hannover Leasing, ATOS and CRM. So, our EBIT came out at EUR 31.1

million, with a corresponding margin to sales of around 53%. Our financial result was EUR -7.4 million, especially negatively influenced by a smaller currency hedge accounting effect, which will be wiped out during this year, and by additional financing from our warehousing activities. In Q1 of last year, we had a neutral financial result, which was mainly driven by a positive derivative accounting effect. We achieved in Q1 2019 a net profit of EUR 21 million, and adjusted net profit of EUR 26.3 million, which is a margin to sales of more than 44%. The adjustments on net profit level comprise EUR 6.2 million of asset managements contracts and EUR -0.9 million of DTA and non-controlling interests. Now please turn to Page 10.

At the end of March 2019, our bank and other debt stood at EUR 186 million, including EUR 120 million warehousing debt. The senior bond and convertible bond amounted to EUR 481 million, leading to a total debt figure of EUR 667 million. As at the end of Q1, we had EUR 60 million in cash, our net expenses stood at EUR 607 million. Let me talk briefly about or leverage ratio – so, the ratio between net debt and adjusted EBITDA. As I stated several times above, we seasonally use our balance sheet for warehousing and client exposure, which will be reflected in fees in the upcoming months. For instance, we currently have EUR 81 million in structured assets for sale, including an ongoing placement process of Hannover Leasing to retail investors on our balance sheet, which will disappear after the deconsolidation thresholds are reached, in a short while. According to the high finance demand from attractive development projects for our mezzanine funds, we have also taken some of them on our balance sheet for a couple of weeks, to bridge the time gap until the fund has the flexibility to absorb it. The retention finance stake amounted at the end of March to roughly EUR 80 million, and is today already on a much lower level, due to the ongoing placing in our funds. We also increased our inventories in the first quarter, with distinctive warehousing assets that will get placed to our clients soon. All of this led to a temporary higher financial leverage of 3.3 times; in the second half of this year, this figure will go down again into our mid-term target range of between 2–3 times. Now please turn to Page 11.

What can you expect in the upcoming months from us? We will continue to execute our deal pipeline efficiently and successfully, and we will meet the growing demand from our clients. We will benefit from further group synergies, especially between debt and equity products, but also between our different other market offerings. Micro-living or student housing remains one of our core asset classes, as we see strongly rising demand from an ever more flexible working population and from students studying abroad. We are also looking for further derivatives of urban co-living, for instance for elderly people. And, of course, our constantly growing HFS business is immensely well suited to diversify its private debt offering with new product classes across the risk-return curve. On the M&A side, we are constantly screening the market for promising new partners in our Group, by using a structured process, and we feel very comfortable to show on this side another small- to mid-sized transaction over the next quarters. Lastly, let me confirm once again our financial guidance for the full year 2019. We expect aggregate revenues of between EUR 285–295 million, an EBITDA of between EUR 165–175 million and an adjusted net profit in the range of EUR 130–140 million. This guidance does not reflect any impact from potential further M&A activities. With this, I hand over back to Kai.

19:09 - Dr. Kai Klinger
Many thanks, Lars. I am now happy to take your questions. Please fire on.

19:17 - Operator
Thank you. Then, we will now begin our Q&A session. If you have a question for our speakers, please dial 01 on your telephone keypad now to enter the queue. Once your name has been announced, you can ask a question. If you find 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.

We have received the first question. It is from Andre Remke, of Baader Bank. Your line is now open. Please go ahead.

19:59 - Andre Remke
Yes, good afternoon. A number of questions. Maybe let’s take it question by question, starting with your warehousing business. You mentioned a volume increase. What is the exact volume as of March, and is this already the peak of this year? Did I get it right that you will not further increase your volume on your balance sheet? And, if this is the case, what would be the idea if further opportunities were to arise? This is the first question, concerning warehousing.

20:41 - Lars Schnidrig
Hi, Andre. So, in inventories you see EUR 142 million; these are three assets. I consider this as rolling, so that means that once we have placed, we may re-acquire. And, as you know, our guideline is around EUR 150 million. So that’s it. Then, we have two assets

in Hannover Leasing, which are currently in the placement process, which is rather technical. This is, so to speak, the revitalization of our Retail business, where we place these assets to retail investors. You will find this on the balance sheet under the line item "Assets held for sale". That's it. So, to answer your question, this is a range we are committed to and we will keep on doing so.

21:35 - Andre Remke

And did I get it right that you expect some of this already to go out by the end of this quarter, i.e. the second quarter, if you want to be in line with your 2–3 times net debt EBITDA?

21:54 - Lars Schnidrig

So, this may happen, but what we are currently doing on purpose is looking at which is the best way to place these assets and in which fund. And, therefore, this is a bit dependent on our placement strategy. So, it could be this quarter or it could also be the next quarter.

22:15 - Andre Remke

Okay, perfect. Then, another question: you mentioned in the past and also in your press release, I think today, that you are enlarging your offer to clients of private debt offerings. Could you elaborate a bit on that? Is it comparable to the mezzanine business with the same margin? Will it be provided also by HFS? What could I understand on private debt offerings?

22:47 - Lars Schnidrig

Sure. Look, this platform, HFS, has grown since its inception from EUR 50 million to EUR 1.25 billion, so it's a success story, and currently we are only offering one product. And, as you rightly said, mezzanine predominantly in Germany or in the DACH region for housing developments. So, the question is: can we enlarge our offering by offering our clients different risk-return profiles – which has actually been demanded? So, I am saying can we offer different pieces in the capital structure? And this is what we are currently looking into. Also, we started, as you know, to expand to Spain, and many countries have the same regulatory hurdles for developers, and we are trying to close these gaps, but we will do this in a very disciplined and very risk-averse way, and by maximizing the value of HFS. But we will definitely see some things over the course of 2019 in this field.

24:02 - Andre Remke

You will roll it out this year, and with a large impact next year?

24:09 - Lars Schnidrig

Correct. And maybe we want to highlight once again that we are a market leader with only one product. So it's definitely normal for us to try to diversify our product chain from our existing platform. And this is what we are looking into now.

24:27 - Andre Remke

Okay. Perfect. Then, also, to remain on the HFS financing business, on Page 7 you stated the original breakdown of financing – the bulk remains on Top 7. It is unchanged. I recognized a slight change is the rest of Germany, where the volume more than doubled from last time. What is the reason behind that? Do you have a broader approach now? Or do you find these cities as more attractive? And what does it mean for your risk profile as a business?

25:15 - Lars Schnidrig

In Germany, and that is the good thing if you are in this business, the need for housing is in each and every city. And you know this: we have in Germany 180 cities that have more than 50,000 inhabitants. So, this is huge. And being in the right locations means that you really pick up the rest of Germany. I would also consider that when you are in the right locations you will have the prospering that means positive GDP, economic growth later. And these I would rather consider in the rest of Germany. So that means I cannot give you now a breakdown for each and every city we are in. But you can be sure – and this I can confirm because, as you know, I am also on the supervisory board of HFS – that we will stick quality-wise to the maxim "location, location, location". But it does not make sense to split further if you already have a large portion in the top 7 cities, plus we are talking in Germany of the top 10–15 cities. And that is why we keep it there.

26:31 - Andre Remke

Yes, understood. So, it's not a sign of increasing the risk appetite to do more business.

26:40 - Lars Schnidrig
Definitely not. I don't have the data in front of me now, but when you compare Q3 of last year to Q4 of last year I think we saw the other direction: we saw from 60% to 70% landing in the top 7 cities. And I think that is the best argument when it comes to quality.

27:05 - Andre Remke
Yes, okay. So the final question is the usual question on M&A. I was wondering if you could provide an update on that. What is the current market environment? Are there any changes compared to three months ago? Are there more or less opportunities? Any comment on that would be great.

27:26 - Lars Schnidrig
Yes, absolutely. I feel very comfortable in further developing the platform. Why? Because the requirements from clients, the requirements on the regulatory front, the requirements of ESG… everything around what we can deliver to a smaller asset manager has grown tremendously. Take 2016 to 2018: the asset management businesses that have adopted the ESG criteria have grown significantly, also from the investors' and the clients' side. Therefore, we know what we have here, and we will further develop to the best-in-class. We will expand our asset management business throughout Europe. We have now invested heavily in the last 20 months into the whole infrastructure. As you saw also in our presentation, we heavily invested in ESG. So, this is all one aim. We want to be the preferred partner of our client, and I am very confident that we will achieve this. So that means, in turn, if you are a smaller asset manager, it is harder to cope with all these requirements. And, therefore, if you ask me "are there more or less opportunities?" I would say there are more opportunities. Why haven't we acquired since year-end? Because we are very, very disciplined and I in particular want to have the right partner on board. That is the only thing that counts. The aim is not only to grow the AuMs, but also to offer your clients – or our clients – additional products. And everything else we invest with our teams every day into the infrastructure to be the preferred partner for our clients, and also for the wider community, so for all our stakeholders.

29:21 - Andre Remke
Okay. Perfect. That's it from my side. Thank you.

29:36 - Georg Kanders (Bankhaus Lampe)
Good afternoon. This is more or less a follow-up question regarding what Andre asked on the balance sheet. So, the other short-term assets have increased massively. Is this a reflection of the warehousing of loans for the HFS fund? Is this correct?

30:02 - Lars Schnidrig
Yes. That's a very good question. It was also the circuit to our leverage: so you saw that cash has been reduced significantly, and we took the decision due to a high demand that we could not serve from our HFS fund – because they were fully committed – to take out balance sheet cash and to lend it out temporarily in HFS warehousing. So a strong demand, therefore obviously cash is less, and therefore net debt is higher. But in this particular situation, I would always prefer to get a decent 20% on the cash I lend out compared to paying a negative interest rate when it's on our accounts. So, finally, to answer your question: yes, this is short-term bridge financing that we take out for some weeks, when the fund is, so to speak, fully employed.

31:05 - Georg Kanders
And then, did I get it right that you mentioned that a part of this has already been reduced during this quarter?

31:13 - Lars Schnidrig
Correct.

31:14 - Georg Kanders
Okay. Thanks a lot.

31:26 - Kai Klose (Berenberg)
Yes, hello. Good afternoon. I have a question also on Slide 7, on the 61 finance projects that HFS is currently doing. Is the increase coming from the new number of developers, or is the existing number of developers doing more projects with HFS?

31:49 - Lars Schnidrig
So, we could increase our client base, actually. We currently have around 30 clients and Kai, as you know, it's a rolling project. Once they are re-financed and that fund, as I said before to Mr. Kanders, usually we have – at least since I have been here – more demand than supply of the cash equity that we contribute.

32:24 - Kai Klose
Okay, thank you. And is it, then, also right to say that the lower coupon participation fee in Q1 of this year compared to Q1 of last year is only temporary? Or do you expect it for the full year? And were there any specific reasons as to why this was lower compared to last year?

32:48 - Lars Schnidrig
So, you are absolutely right. It's temporary. So, for us, as I also said in the presentation, the margins are extremely stable. So, the current average interest rate is at 19.8% with a slight volatility, obviously, throughout the year. So, to answer the question, it is temporary, yes.

33:14 - Kai Klose
So, would you then expect this to pick up more towards the end of this fiscal year, or already over the next quarters?

32:24 - Lars Schnidrig
Throughout the next quarters.

33:27 - Kai Klose
Okay. Two last questions. Could you indicate how much of the increased debt position on the balance sheet is HFS-related? And the last question would be: could we have a split of the asset and property management fee split by asset management fees and property management fees?

33:48 - Lars Schnidrig
So, you asked for the debt position of HFS. Under "Other short-term assets", we have an increase of EUR 81 million, and this corresponds to our warehouse balance sheet bridge lending on HFS. Property management fee was around EUR 7.7 million.

34:18 - Kai Klose
Thank you.

34:29 - Manuel Martin (Oddo BHF)
Hello, gentlemen. Two questions from my side. Question 1 is regarding the guidance of aggregate revenues and gains, which is EUR 285–295 million now for 2019. Is it fair to assume that there will be a good part of that coming from warehousing, maybe like last year, around EUR 80–90 million? That would be the first question.

35:00 - Lars Schnidrig
Manuel, definitely not. Clear answer. I think we have clearly communicated the warehousing one-off effects from last year, and you can effectively assume warehousing being around 25–30 million. To be very clear, we stated that we overcompensated these one-off effects by a roughly 30% increase in our top line item under "real estate investment management".

35:40 - Manuel Martin
Okay. Thanks. The second question is concerning the repurchased shares. Is there anything you would like to do or are going to do with these shares? Maybe you have some plans around that.

35:58 - Lars Schnidrig
As you know, we can't say much about share buy-backs. However, obviously that is always an option. As I also stated, we have acquired 180,000 shares. We will use this for upcoming M&A transactions. So, these will be wisely spent.

36:35 - Manuel Martin
Okay. Thank you very much.

36:38 - Operator
Thank you. As there are no further questions, I will hand back to you.

36:45 - Dr. Kai Klinger
Thank you so much. I have an additional short final hint: we have shifted our Capital Markets Day from September 5th to September 12th.A separate invitation to this event will follow by email. Lars and I will be on the road in the next couple of weeks, and maybe we will meet some of you in person. Thank you so much.

37:13 - Lars Schnidrig
Thank you. Bye-bye.

37:16 - Operator
Ladies and gentlemen, thank you for your attendance. This call has been concluded. You may disconnect.