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Operator: Ladies and gentlemen, good day and welcome to the Corestate Quarter One Results 2020 Conference Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Dr. Kai Klinger. Please go ahead, sir.

Kai Klinger: Hello, everyone. A warm welcome to our earnings call today for the presentation of the results for the first quarter of 2020. As usual, I'd like to direct your attention to the forward-looking statement and disclaimer wording on page two of our presentation. The safe harbor language applies to the presentation and all comments we'll 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, our new CIO, Nils Huebener, and I 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 Lars. Lars, the floor is yours.

Lars Schnidrig: Many thanks, Kai. And also from my side, a very warm welcome to all of you. When we speak about the highlights of the first quarter 2020, of course we need to speak about corona and its impact on us. We've summarized it in three keywords: responsibility, resilience, and recovery.

Firstly, and of course most importantly, responsibility, especially for our staff and our clients. We've done everything to ensure the healthiness as far as we can. Our staff is mainly working remotely and the clients' contacts are done by our calls or video sessions. This is not absolutely perfect, but our team has managed to keep up our operations and maintain the quality that our clients are expecting from us.

Resilience, when we started the year 2020, our ambitions were to continue on our growth path and to deliver on our guidance. Our deal team prepared in the first weeks a lot of transactions, and we were very optimistic to show a good year for the company again. This has changed dramatically. We realized not only a harsh slowdown in the real estate investment market, but also the clients' appetite has changed. My new colleague, our CIO Nils, will talk about this a bit later on.

What have we done to prepare ourselves for the new reality? We've shifted the focus from growth to de-risking the company, its operations, and its balance sheet exposure to preserve liquidity and ensure our financial flexibility.

One decision in this context was to waive the dividend for 2019. This decision was definitely not an easy one for us. But our foremost responsibility now is to ensure liquidity, and to set up the company in order to benefit from the upswing after the crisis. That's where we come to recovery. We and all our clients see the basic market drivers like demographic changes, urbanization, and the need for investing absolutely intact. So we expect the market to come back and we will see catch-up effects from shift of transactions latest in 2021.

The real estate investment market will benefit from the ongoing zero interest rate policy of the ECB. Let me please also speak a bit about our Q1 operations and results. As said, the start was promising. But all new investments came quite suddenly to a close down at the end of March when corona dynamic accelerated. Nevertheless, we achieved an organic growth of more than 2% in our core business, real estate assets under management. We will speak later about our assets and the various – in the various segments.

Now it's my pleasure to introduce to you, our new CIO, my new colleague Nils Huebener. Nils, the floor is yours, and all please flip to page four.

Nils Huebener: Thank you, Lars. Good afternoon to everyone. I am pleased to be here. I spoke to a lot of clients and potential investors over the last weeks. I am doing real estate investments since more than 20 years now for Deutsche Bank, for SEB, and also as global CIO for BNP Paribas real estate.

But I cannot remember markets to close down so quickly as it happened in the second half of March and beginning of April. Since then, everybody had to deal with a massive increase in near-term uncertainty on the political, macro-economical, operational and client side. This comes along and is partly also due to a credit crunch making financings for new investments difficult and more expensive, in particular in value-add or opprotunistic assets for developments.

On the deal sourcing side, we still see some market opportunities, especially currently of course in core and core+. But not comparable what markets have shown in normal days like in the years before. Real Estate investors are telling me that they are still looking for profitable and sustainable engagements, but currently most of them are waiting on the sidelines.

In terms of performance, so far various segments are hit differently from the crisis. But one must clearly distinguish between rental problems occurring on fund levels and delayed building projects which also have no direct impact on our balance sheet, but on the time schedule for reselling the assets. Our retail, hotel and leisure assets partly realized postponements, and to a lesser degree losses of rental payments on fund levels.

Residential proves once again to be very defensive as our portfolios are only in the larger and still prospering cities in Germany, Austria or Switzerland. So no negative news from them. Also our office portfolio is predominantly in bigger cities, especially in Germany, but also in the Benelux countries. So far we realized very limited negative impact here. And the same applies to our logistics assets we just acquired via STAM Europe.

When it comes to micro-living, a closer look is required. The student homes depend on the university's reopening schedules. Most of our facilities operate still on a high occupancy rate. Students or their parents hesitate to cancel the lease agreements.

Our serviced apartments in Germany metropolitan regions covering below €250 million of our AUM, the picture is slightly more negative. The service departments target the mobile workforce, people staying for rather short periods in one place to work, but live somewhere else. These assets show temporarily clear, reduced occupancy rates.

We all do not know how long and how severe this crisis will be. But let me nevertheless try to give you a preview on what the next months, based on my numerous talks to the clients. As we speak, the first very careful and prudent steps to reopen public life in Germany are taken. And this will lead also to a revival of the real estate investment market, but of course very slowly.

Clients are carefully waiting to see who puts his toe into water first, and you may expect that the risk appetite is massively reduced. So the first moves will be in core or core+. Probably retail and hotel assets will be on the sidelines for a longer time. core and core+ currently means predominantly residential in the big German cities. That's not only what we here at Corestate can offer, but the core universe in general is something I personally bring a lot of experience, and a 20-year plus track record along.

Corestate's focus in the past years was to broaden the footprint in micro-living and value-add investments. These assets will not be the first on investors' list. And once the market has come back to a certain level of stability, the clients will look for higher yields and a bit more risk and then micro-living comes back on the menu.

With this, I would like to thank you for listening and hand back to you, Lars. And please flip to page five.

Lars Schnidrig: Thank you, Nils. As you all know, we had to postpone our AGM due to the corona-driven restrictions in Luxembourg. And we have now decided to hold the convention as a purely virtual one on June 5th. There are two main topics on the agenda: the election of a new supervisory board and the waiving of the dividend as said before.

The new candidates shown on this slide are the result of a very structured and diligent search process supported by an international executive consultancy. The main criteria were according to the principles of good corporate governance, diversity and gender, professional background, and experiences.

So let me quickly introduce the lady and gentlemen to you. Running for becoming the chairman of the supervisory board is Dr. Georg Allendorf, a former MD and head of real estate Europe at DWS, Deutsche Asset, who has accompanied very actively the establishment of real estate as one of the most booming alternative investment classes in Germany.

With a focus on capital markets law and compliance, Dr. Gabriele Apfelbacher was a very long time partner at the international law firm Cleary Gottlieb Steen & Hamilton.

Timothy Blackwell running for becoming the deputy chairman of the supervisory board can look back on a remarkable career and loads of experience in banking, especially with two of the world's largest financial institutions. He was Head of Europe at UBS Asset Management and Head of Real Estate Investment Management and Credit Suisse.

Also with a very reputable career in real estate fund management and banking, Marc Driessen was Managing Director and Vice President of Board of Directors at HansaInvest, and also a member of the management board of HSH Real Estate.

Bringing in longstanding experience in finance and accounting and as such running for becoming Head of the Audit Committee, Olaf Klinger currently serves as CFO of the MDAX company Symrise. So you see a range of prominent figures bringing in enormous competences and experiences that will definitely help our company in this time of the crisis. But also in managing the recovery afterwards and to support the growth of the group, post the crisis.

Now please turn to page six. You know this chart from our previous calls. It shows the development of our assets under management. And it's a very appropriate sum-up of our product offerings, the market's appetite, and our future growth path.

As I said before, our core business, real estate AUMs, have once again reached a new record high with an organic increase of more than 2% since the end of 2019. Our new acquisition STAM Europe was closed on 15th January and bringing in initially net assets of around €1.4 billion, another half a billion is already secured.

Our entire AUM figure is now at around €28 billion. Since the end of 2019, we have further reduced the non-real estate portfolio by €0.3 million – €0.3 billion, excuse me. So as these non-core assets have been nearly halved since we acquired them via Hannover Leasing in 2017.

When we dive a bit deeper into the segment, you'll see beyond a slighter shift due to the first time consolidation of STAM, we now have roughly 9% of our assets in logistics and other assets. The improvement of our logistic competence is an important step in the diversification of our product range.

Our sourcing pipeline on the right side of the slide also shows the impact of the crisis. At the end of 2020, we had a tangible pipeline of more than €6 billion. Currently, it is due to the crisis at €4.3 billion. Nevertheless, in absolute terms, deals in advanced status are still on a very high level of roughly €1.2 billion – €1.5 billion, which reflects our sourcing and delivering capabilities.

Please turn to page seven. Let me give you now the usual update on our mezzanine business at HFS. We could sum it up as follows. Once again, stable margins and again slightly growing fund volumes. At the end of March, the committed fund volume exceeded for the first time €1.3 billion based on high demand, attractive projects, and our capabilities to serve.

As in the past, this money goes predominantly to German residential developments, mainly to the top seven cities making currently up for more than 70% of the lending volume. Currently, we are financing 62 projects with an average size of around €22 million. Of course, we have since years done regular tests on the projects and on the borrowers. These analyses has been further intensified since the start of the crisis, but so far neither any negative results nor any approach to a critical risk level occurred. Nevertheless, the crisis might lead to longer building and building permit processes and to slower sales of apartments. So we cannot fully exclude that the repayment periods might be temporarily a bit longer than usual, although due to the emerged temporary credit crunch. Why do we think the business model will continue to work in and after corona? The massive housing scarcity in the metropolitan areas is something we and mainly all market participants expect to stay for longer.

In combination with very high and still further increasing regulation on the banking side, our leading market position in terms of size, quality, and speed in this niche, we have full confidence about the future performance of our private debt business. And please bear in mind, HFS is not only a very profitable business for us, it also opens the door for our asset sourcing to new projects in very early stages, such it will prove again being a well-running, cross-selling, and sourcing engine.

With this, please turn over to page eight. And I will hand over to Kai.

Kai Klinger: Thank you, Lars. Let me please show you on this slide our revenue streams by the end of March including the comparable figures to previous year's quarter. The slowdown of the investment market after a decent start in the first weeks is not yet fully reflected in the acquisition-related fees as they went up from €4.2 million in Q1 2019 to €7.7 million in Q1 2020 due to a strong January and February.

Our asset and property management fee showed also a very solid start into 2020 with an increase of around 25% year on year to €25.2 million. This reflects the long-term solidity of our core business model. Coupon participation fee has gone down from €13.3 million to roughly €11 million, predominantly due to the accounting effects from risk provisioning.

Our promote fees based mainly on a successful placement of value-add club deals. But as the market has slowed down, most of our projects here are put on hold until market uncertainty is again on a lower level. As said before, we have de-risked our company and as our operations with less active balance sheet exposure for clients and business purposes.

This affects also the income from bridge to mezzanine loans which went down from an extraordinarily high level in Q1 2019 of €5.7 million now to €1.6 million in Q1 of this year. The crisis can partly also be seen in adjusted valuation approaches for our income from alignment capital. Subsequently, this stood at €4.5 million after being at €11.4 million in last year's comparable quarter.

We still believe that our ability to warehouse promising assets during a short period of time for clients is a competitive advantage. But of course, this had to be put on the test bench and we have de-risked our approach here as well. This was mirrored in our income from real estate operations being halved to €1.9 million. This all leads to aggregated revenues of €51.7 million. So you can see our company is and will stay clearly operationally profitable.

Please flip to the next page to give you more color on our earnings. Initially, let me focus a bit on our expenses. In brief, our OpEx ratio went up from 45% in Q1 2019 to a bit more than 50% reflecting the reduced revenues especially in alignment capital and warehousing, but typically higher margins as described above.

Our expenses from real estate investment management stood at nearly €22 million, alignment capital expenses amounted to around €2.6 million, and warehousing expenses came out at €1.7 million which shows our reduced risk appetite in these line items. Our G&A expenses came out at €7.1 million. At the end of Q1, the EBITDA was €20.9 million.

We will speak a bit more about IFRS 16 on the next slide. But let me briefly mention that our D&A apart from capitalized management, asset management contracts, and here by the first time consolidation of STAM, was also impacted by this reporting standard. At the end of Q1, we had a DNA of -€8.4 million. Our financial result in Q1 stood at €2.5 million or -€2.5 million. Previous years' quarter was affected by much higher warehousing debts, and is therefore not really comparable. Lastly as always, our net profit adjustments below EBITDA line, the amortization of the capitalized asset management contracts amounted to €6.3 million in the reporting period. The DTA stood at -€0.8 million which leads to an adjusted net profit of €14.3 million.

Please turn to page ten. Let me give you some key balance sheet figures as of the end of March 2020. Above all and as I said many times now, our key priority is to preserve a robust liquidity position through 2020. Starting with our two major and long-term financing instruments, the senior unsecured bond was currently €295 million. And the convertible bond was €192 million adding bank debt of another €111 million. We had a gross financial debt figure of €598 million.

To take this figure comparable to the past and to our loan documentation, we adjust the IFRS 16 effects and deduct €25.4 million from lease obligation in our KPI reporting as many other companies. So our total financial debt stood adjusted at €575.3 million.

At the end of Q1, our cash position amounted to €81.5 million. So net debt was at €493.9 million. Our EBITDA of the last 12 months stood at €157.2 million. So the financial leverage was at 3.1 times. Including IFRS 16, it would have been at 3.3 times. As always said, our mid-term leverage goal is between two and three times. And this remains in place.

In April 2020, S&P kept its rating BB+ unchanged. Only adjusted the outlook from "positive" to "stable" due to the potential of future impacts and uncertainties from COVID-19 pandemic.

One important statement when it comes to our balance sheet and our debt instruments is: We do not have any substantial refinancing needs or repayment needs until the end of 2020.

So now please turn to page 11. And I'd like to hand over to Lars, again.

Lars Schnidrig: Thank you, Kai. Let me finally give you some intel on how we would weather the crisis, and what you can expect in the short and mid-term. Of course, I like the phrase, in the crisis cash is king as it states the simple truth. In uncertain times, you need to focus on robust liquidity first, but of course also remain operationally flexible and able to act on changing clients' demands.

That's what we have already prepared for the company for. We have elaborated a catalogue of cost-saving measures. And we are consistently working on this list of actions in order to further optimize the G&A and OpEx. So we can also say today, we will continue to be clearly profitable with our operations in 2020.

As already emphasized, we were in Q1 and will be for the next quarters very disciplined and cautious in our deployment of capital for instance in terms of warehousing or M&A. Of course, we always see the continuously risk and performance testing on our fund structures in all our operations, but this analysis have been intensified recently. So far, we have not identified any major risk to our operational or financial stability beyond the figures we showed you on the previous slides. But we will go on with this, obviously on a regular observation.

As we speak, half of Q2 is over. So we cannot give you full figures as of yet. But we already realized further negative impact on several P&L line items like alignment capital, warehousing, and promote fees.

As no one currently is able to predict how long and how deep COVID-19 will haunt us, we cannot give you reliable financial outlook as of today, but we will definitely do so as soon as we certainly can, most likely during Q3. As Nils from a market perspective indicated, we expect some catch-up effects from those transactions that have been planned or envisaged for Q1 or Q2, and are now being postponed to a post-crisis era, and we will prepare the company for this.

One main item in these preparations for the time after corona is to preserve financial flexibility. And that's why we reduced our net financial debt in medium term, and that's also why we have decided to adjust the payout ratio from 50% of earnings per share to at least 30%.

We are sure this is adequate for a company whose ambition to grow has not changed, but who also wants to deliver a decent dividend yield for its shareholders.

With this, I would like to hand back over to the operator for Q&A questions. We're looking forward to answering your questions.

Operator: Thank you. Ladies and gentlemen at this time, the floor is now open for your questions. If you would like to ask an audio question, you may do so by pressing star one on your touch tone phone. If you're using a speakerphone, please make sure that your mute function is turned off to allow your signal to reach our equipment.

Again press star one to ask a question. Now, we'll wait for just a moment to allow each person an opportunity to signal for questions.

Our first question comes from Kai Klose with Berenberg.

Kai Klose: Hello, gentlemen, good afternoon. I've got five quick questions and I may say it one by one. The first one is on the Q1 report on page 15. Could you give a split of the revenue from assets and property management fee in Q1?

Kai Klinger: Hello, Kai. It's Kai. Sure, we have on the asset management fee line around €17.7 million. The coupon participation fee was as mentioned around €11 million. Property management fee amounts around €7.5 million which is also a good run rate for 2020.

Kai Klose: Okay. The second question would be regarding the total expenses on real estate investment management. They've been up by 41% compared to Q1 last year. Could you indicate what's the reason for that?

Kai Klinger: More or less a couple of reasons. First of all, we have prepared ourselves as Lars mentioned in the beginning of the year for a very booming organic growth year. And therefore we have not only in 2020, but also in 2019 a certain the development of our cost ratio for real estate investment management and a higher cost base, due to investor service teams who are caring exactly about our revenue lines.

Kai Klose: So the third question is really –

Kai Klinger: – higher fixed costs and also in the beginning higher variable costs, I mean in January and February.

Kai Klose: Okay, and then so the third question would be could you give more details on the increase in the financial income to €2.7 million in Q1 from €800,000 in Q1 last year?

Kai Klinger: There we have predominantly a hedging effect, a currency hedging effect from our alignment capital structures in the US assets on a US dollar basis.

Kai Klose: Okay. And the next question would be to indicate what is the amount of mezzanine warehousing debt or what was the amount as of Q1?

Kai Klinger: It was around – it was around €40 million to €50 million, but it was already or it went already down in April to a very low double digit million amount. I think we're talking there about €10 million or €20 million. So it was predominantly end of the quarter over the due date. And that's in hand with our measures which we've implemented on a higher sensitivity in terms of balance sheet usage and reduced in April.

Kai Klose: Thank you. And the last question would be on page seven and eight of the presentation. If I understood correctly, you mentioned regarding HFS that our projects are running more or less well. Could you kind of explain on page 8, what was the reason for higher risk positioning in HFS leading to a lower income from the coupon participation fee?

Kai Klinger: As general, in times of uncertainties, risk accounting and risk provisioning is an appropriate measure for the fund accounting, and this in our terms is externally served by Hansainvest. And therefore we have a temporary higher-risk provisioning in the first quarter and some shift of repayment of funds.

I think Lars mentioned this already within the course of the year. So, we are still feeling very comfortable in terms of the performance of the fund that we will be again in the same levels like in the last year, where we've had a similar effect in Q2 of 2019.

Kai Klose: Thank you.

Operator: Thank you. Our next question comes from Thomas Neuhold with Kepler Cheuvreux.

Thomas Neuhold: Good afternoon, gentlemen. Thank you for taking my questions. I have three questions. First on your mid to long-term strategy. You had to skip the dividend for 2019 and experienced now an almost 50% drop in earnings in Q1. I was just wondering, are you reviewing your strategy in order to make the business model less cyclical, and/or more resilient? And what should change in the long run from your point of view?

Lars Schnidrig: Hi, Thomas. It's Lars. So first of all, I think now it's about to de-risk the company and therefore use obviously also cash to deliver the company. When you're talking mid-term, I expect that will run throughout the mid-term. And as always said, we were actually on the way maybe even to achieve an investment grade rating.

For this, we would have been needed to be around the level of two in leverage. So I guess it's good for all of us if we take this rather as a target further to delever the company. Once having delevered the company, of course, distribution strategy can be adjusted, but I think this will definitely take some time.

Thomas Neuhold: I mean Mr. Huebener mentioned that – yeah, please go ahead.

Lars Schnidrig: However the 30% I think when you compared or when you take it including the organic growth we have shown in the last three years. So assuming in a normal market that we will continue between 5% and 10%, and then assuming a 30% payout ratio and so calculating on a total share return basis is still attractive for each and every investor. And the 30% then also for dividend funds, and that's why we came to the 30%.

Thomas Neuhold: Okay. And Mr. Huebener had mentioned that core and core+ will be the first segments to recover, you are more geared to the value add and opportunistic segments at the moment. Any plans to move the business model more to the more boring, sort of speak, core, core+ kind of product offerings?

Nils Huebener: Well to start with I would say. I mean obviously we're already doing quite a lot of core work in our residential market. And that's also where we see continued interest and also the pipeline that was mentioned is largely happening in that area.

In the medium term, I feel that also our core investors are actually expecting us to infuse the agility and proactive approach that we can offer from our value-adds. And core+ and value-adds approaches into our core approaches. So a lot of the discussions that we're having with mainly our institutional investors are actively requiring us to be active, agile asset and property managers. And that's more what we see us infusing into core.

Lars Schnidrig: And allow me to add, Thomas, the whole adjustments also in the management board, with Nils who has more than 20-year track record obviously in core and core+, but also in opportunistic, including the adjustment in the supervisory board.

There I'm very confident that also in the short term once the crisis is over this will give us additional access to clients which are more orientated towards core and core+, and therefore further to de-risk the company.

Thomas Neuhold: Okay, understood. The second question is on the alignment capital. You recorded quite a severe drop in earnings there. Can you please provide us with more details on your sector and country exposure in your investments? And you mentioned that you expect more operations in Q2. Is it possible that you might see a loss also in this segment because you have to write down some of your participations, each – in retail or hotels?

Lars Schnidrig: Maybe two or three of things to that. So first of all, obviously we have no valuation gains. So currently we're not showing there any losses. And I think we would be fools including our auditor if we would do otherwise. So going forward, I think the situation is currently in its markets like Spain for instance where the market is closed currently.

So I think we all share the view that the crisis may come to an end somewhere at the end of Q4. So therefore asking now if we will see there also devaluations. I can't see the future as this is happening. But assuming the crisis continues as we expected, I don't expect that. But I wouldn't exclude that of course, but I personally don't expect it.

Thomas Neuhold: Yeah, and your sector exposure and alignment capital, what is office, what is residential, what is retail, hotels, logistics if you can provide this?

Kai Klinger: The biggest parts are micro-living and micro-living developments. What Lars already mentioned in Spain where we see fully construction stopped on the construction places. But we have also some mixed-use buildings, so office, retail, and residential in there. We don't have the exact breakdown but I can provide this later on. So I'll have to double check what is the split up due to a single asset class or risk, and this is what you asked for risk proposition.

Thomas Neuhold: Thank you. And my last question is on the mezzanine business. You have 16% exposure to retail. Can you please elaborate a little bit on your retail exposure, how many projects, what kind of products, and which cities or countries it's located?

Kai Klinger: Actually, most of them are mixed-use buildings over three, four, five floors. In the first floor, you have a supermarket. Then you have maybe a dentist or some spaces for doctors or lawyers and other things in the second. And then in the upper floors, we have residential in. We are talking mostly about inner-city locations.

We're talking about bigger land plots and some of them are looking not really beautiful, but this is like how these developments are working today and retail space covers only a minor part of that. I don't have any projects in mind where we have a pure retail play or retail would be the main anchor of a building.

Thomas Neuhold: Yeah, thank you very much.

Lars Schnidrig: You're welcome.

Operator: Thank you. Our next question comes from Georg Kanders with Bankhaus Lampe.

Georg Kanders: Yeah, good afternoon. One question regarding the student home property management. So, so far it was virtually unaffected when I look at the property fee income? What is the potential risk for this and how far could it go down, because you do it for third parties. But how are the fees structured there?

That's my first question. And the second question is you had also small negative revenues from promote fees in Q1. And you said in Q2, it would be probably worse. Do you really expect then a payback of future paid fees or how is this meant?

Kai Klinger: Maybe I will cover this question. Is there any red carrot on our property management contract in student homes, of course. If we could achieve whatever 99% to 100% letting, then of course we get a small extra compensation or bonus in our contracts. But this is quite minor in terms of our fixed cost driven property management contracts. So, you can see maybe also compared to last year only a very minor dip there and this is not something which will change any game.

And a clearly no on the promote component. This was only to underpin that it's very unlikely that we will see some revenue streams from promote fees in the second quarter. And maybe I assume also in the third quarter of this year because the underlying transactions are more or less on a standby mode. I can't exclude anything for the fourth quarter. But for the near-term perspective, it's very unlikely that we can revitalize this transaction again.

Georg Kanders: Okay, thank you. Then it's clear for – didn't get it. I got it wrong a little bit. Thanks.

Kai Klinger: You're welcome.

Operator: Thank you. Our next question comes from Manuel Martin with ODDO BHF.

Manuel Martin: Hello, gentlemen. Three questions from my side if I may. The first question, to come back on core and core+ and value-add segments in your portfolio, do you have by chance a list or can you provide information of the split of the assets under management? And how much is core? How much is core+? How much is value-add, might that be possible?

Nils Hübener: Well first of all, I think we can provide additional information later on in terms of split and breakdown. If we talk about our main asset classes, clearly we are very strong on the residential side. That's as core as it can get in the moment. And I think that's also very much really the flavor of the month.

On the micro-living side, this is more – it's also what I mentioned already before. It's obviously more diverse because you have to really differentiate between the service department side, which

I see at the core+ and/or core+, and the student housing side which is driven by longer-term contracts which is the bigger part of the pipeline at the moment.

And clearly the rest of the portfolio for office and retail, most of the retail part is very much city centered core business. Clearly, there are underlying trends happening within retail that we all see and perceive. And on the office side, again most of the investment that is done in the recent years are the core and core+ end of the spectrum.

Manuel Martin: Okay. The second and third question are concerning the financial results. The second question is a follow-up question on your financial income. You said there was a currency hedging effect on US dollars. It's a related question, but I was a bit surprised, what is the US dollar exposure in your financials?

Kai Klinger: It's our non-core portfolio. And actually, there we have media funds in there, which are most of them from US and not a Bollywood blockbuster. They're actually Hollywood based. And the second thing is we have also there fund-of-fund structures based from the legacy portfolio of Hannover Leasing where we have private equity investments in there.

Manuel Martin: Okay, the third and last question: I think your financial expenses were less in Q1 compared to Q4 last year. Could you elaborate a bit on that? Why did that improve?

Kai Klinger: Only that I got you right, you said we've had in Q1 of last year 2019. We've had on the financial expenses side, €8.2 million. In the fourth quarter of 2019, it was €7.7 million. And now we are at €5.1 million, and the main reason for that is that we have underlying warehousing exposure on our balance sheet which had first of all a higher underlying interest grid.

Sometimes we have also breakage fees. If we de consolidate assets from warehousing and this is of course linked with onetime costs, we don't talk about big amounts, but an accumulative effect.

Manuel Martin: Okay. So that means that in Q1 2020, you had a more favorable environment i.e., less warehousing, less breakage fees etc., is that right?

Nils Huebener: Exactly.

Manuel Martin: Okay.

Kai Klinger: Yeah, and usually in the first quarter and second quarter, you prepare or you seed your potential fruits to harvest for the second half of the year, and this actually doesn't happened this year because we keep our wallet close to our chest.

Manuel Martin: Okay, understood. Thank you.

Operator: Thank you. Again if you would like to ask a question, please press star one now. Okay, our next question comes from [Inaudible] with Baader Bank.

Lars Schnidrig: Hello, Andre.

Andre Remke: Yeah, hi. It's Andre Remke from Baader Bank. So a couple of questions also from my side, first starting with the deal pipeline you mentioned down by €2 billion. Could you elaborate to what extent the potential sellers or you at Corestate has taken a review on that and it's not anymore interested?

And also with regard to that, what kind of investments are mostly withdrawn or mentioned, value-add investments or what kind of asset types you're not any more interested in that? Any color on that would be helpful.

Nils Huebener: Yes, I'll take that, Nils Huebener speaking. Well effectively this was happening across the board because clearly we are in an environment where there is very little added to the pipeline. So a large part of the pipeline that we are seeing currently has obviously been building up. And we've also already made progress on many of the deals.

And as I mentioned already a negotiation or partly in exclusivity. And that's – a lot of it's coming from the beginning of this year. So now there's little added to that pipeline. And that doesn't really make a huge difference, whether we talk about value add or core or core+. It is happening all across the board. There's very little coming to market. Clearly if something is coming to market, it's more happening at currently at the core end, but it's really limited in terms of pipeline addition.

We see this going forward. Obviously, the interest is there. If you ask is that driven by the vendor or by the purchaser, in the end I mean they both effectively amplify each other. So people know that there will be limited direct demand, therefore they withhold sales. And people that would want to sell just don't have products new coming to the table. So it's a mutual process. And the same applies to our own position. Yes, we obviously have life requirements.

And there's a lot of things that we would want to buy tomorrow, from where we have committed investors. But there is maybe not the product coming to the table, at the same time also for the more value add. And we are withholding and that's one of the reasons why we've also stopped working on the warehousing projects and putting them to market as Kai just said before.

Andre Remke: And did you experience any kind of withdrawn equity commitment by your clients already?

Nils Huebener: Not on a wide scale, but you see obviously that people are reluctant, and that some are withdrawn. The majority and I think that's the good news in terms of the institutional investors and for our residential. That it's not the case, and we had a lot of demand there. We're working on a life deal, a large life deal as we speak. And clearly you're looking ahead. The message we're getting from the investors is that this is very much a temporary reaction, and people being cautious. The drivers and the appetite are still very much there.

Lars Schnidrig: And maybe let me add, we are not talking about cancellation. We are talking about that investors are hardly in a position to take positions now, and therefore committed equity is only shifted, but not cancelled.

Andre Remke: Yes, that would be my follow-up question, whether the cancellations or commitments are still in place, at least postponed? Yeah, okay. Thanks for that addition.

Okay, then a short question on the STAM acquisition. You mentioned a net impact of €1.4 billion. And Lars, I think you mentioned in the presentation €0.5 billion is already secured. Was it always the case because if I remember correctly, last year you already mentioned on a pro forma basis €2 billion, or is it also related to the COVID situation at the moment not to catch up to the full €2 billion?

Kai Klinger: No, Andre. It was actually planned because it was – if you want to say a swap. They have sold a very huge portfolio. And they have already committed this money again for logistics actually in France which is still a very booming asset class there, maybe much more than – or even more than here in Germany.

Lars Schnidrig: So this was rather successful. They have faced quite a very good – to a decent client plus, as Kai said, it was swapped, but yeah.

Andre Remke: And so it is the €500 million or €0.5 billion in rough cases, we should expect with the next reporting in terms of additional assets on the management. Is it right to assume?

Kai Klinger: So, at the end of the year, I'm not very sure how close you are with the French market, but there is currently still a full lockdown ongoing. Maybe as somebody from Munich yuóu are aware that Bavarian politicians are quite rude, but the French are even ruder. So it can also be that it would be in the third or the fourth quarter [of 2020].

Lars Schnidrig: So to be clear we are in the process of signing, but I can't of course guarantee you when that will be closed. In normal markets, I would say yes to the next reporting day. But in these days, I can't confirm, but everybody wants to get it closed as quick as possible.

Andre Remke: Okay, thank you. Also you see the increase in goodwill in the first quarter. Is this purely based on the STAM acquisition? And as you've presumably run through all your risk parameters over the last weeks, what is your view on the €600 million goodwill at the moment on the book. Do you see any risks for adjustments later in the year?

Lars Schnidrig: So it was purely STAM. And the view hasn't changed, as indicated in several calls before. We do have voluntary impairment tests in the half year. And of course we have two in the year end. And we have definitely quite a considerable buffer in our goodwill positions.

Andre Remke: Okay, that's good to hear. And the last question regarding assets under management in micro-living. If I calculate correctly, assets under management declined by €0.5 billion quarter on quarter. What is the reason here? Are these disposals or value adjustments?

Kai Klinger: There are actually several things. Yes, we have a very minor disposal in there. It was an asset which was double digit million amount. And the other things iI have to double-check actually. It could be a shift but it is definitely not a decline in value. So I will come back with this to you later.

Andre Remke: Okay, thank you. That's from my side.

Lars Schnidrig: You're welcome, Andre.

Operator: Thank you. Our last question comes from Kai Klose with Berenberg.

Kai Klose: Yes, it's me again, sorry. I've got two quick follow-ups. The first one is on page eight, and we had €7.7 million acquisition-related fees. Could you indicate what was the underlying acquisition volume which generated the €7.7 million?

Lars Schnidrig: I should know, actually I don't know it exactly. Maybe I'll answer this later on. But it has to be around €500 million to €600 million of AUMs.

Kai Klose: Okay, if you can give me the answer later on. So the second question would be –

Kai Klinger: Because Kai, the remainder is with HFS, just to be clear for the others.

Kai Klose: The second question would be on page ten regarding the debt structure. Could you just elaborate a bit on the covenants of the bond? And when it will be tested and how you feel – if you feel comfortable regarding the covenant testing, if we have a leverage ratio going up even a bit further in the second quarter? Thank you.

Kai Klinger: Yeah, these are incurrence covenants. So that means that there's o, if you want, so that's 3.5, but this is not an event default. This is quite simple, if we would be more on than 3.5 times, then we are not allowed to issue new debt which we won't anyway in no event. So therefore it's not an event of default.

And then there is an ICR covenant, obviously where we have much headroom. And therefore if you ask me, can I sleep well on these covenants? The answer's yes, because as I said, it's not an event of default.

Kai Klose: And the testing will be in – based on the first half results or later in the year?

Lars Schnidrig: So there is no regular testing in our documentation. It's only – it starts if we want to issue more debt. Then we have to do a covenant test. And if we are then higher than 3.5, we are not allowed to do so.

Andre Remke: And this is only by issuing unsecured debt order[?] that wasn't taking into account bank loans?

Lars Schnidrig: Other bank loans.

Andre Remke: Thank you.

Operator: Thank you. At this time, we have no further questions. So I'll turn it back to our speakers for closing comments.

Lars Schnidrig: So, thank you very, very much for your interest and your questions. We will now be on the road intensively, but of course only virtually. And so please don't hesitate to contact us if you have further queries. Please note that we will be publishing our Q2 report on 11th August. Many thanks, and all the best from our side.

Operator: Thank you. Ladies and gentlemen, that concludes the Corestate's Quarter One Results 2020 Conference Call. You may now disconnect your phones. And thank you for joining us today.