

CORESTATE Capital Holding SA
H1 2021 Earnings Call
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Transcript

Speakers:

René Parmantier

Udo Giegerich

Dr Kai Gregor Klinger

Dr Kai Gregor Klinger

Hello, everyone, and thank you for joining us today on our earnings call for the presentation of our results for the first half year of 2021. On the CORESTATE Investor Relations website you can find our earnings presentation, our press release and the H1 report, which you can follow.

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 new CFO, Udo Giegerich, who 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 welcome from my side. Let me start by giving you an overview on the highlights and key messages of the second quarter of 2021. In general, our market and our own performance in this environment showed dynamic growth, both in revenues and earnings.

This includes catch-up effects, but also a somewhat normal upward development shaped by sustainable drivers. We benefit from this also because of the strategic transformation we initiated back in Q1, with a new and strong focus on our clients and set-up as a full service firm for the entire lifecycle of a Real Estate investment.

We see impressive growth and a booming market in Real Estate Debt, not only in Q2, with the financial structuring of one of the biggest single asset deals in 2021 at CORESTATE Bank, but also in the upcoming months, based on a very well-filled pipeline.

Our Real Estate Equity business is in line with our budgets and phasing and, typical for this sort of operation, will show an upswing with a little time gap in the second half of the year. We already feel the transaction market becoming more vibrant.

Our other segments reached stability in asset valuations, also driven by growing momentum in the Real Estate transaction market against the backdrop of notable progress in vaccination campaigns worldwide.

Speaking about what's on the menu for the upcoming months, we're fully on track to deliver on our financial outlook for the full year 2021 and we will also deliver on our net debt reduction ambition with a leverage target of below 3.0x.

Last but not least, our new fully-aligned management team is on board, with the exception of a COO, who will complete us hopefully soon, and the team is fully committed to our common goals as you can see from the fact that entire management board owns nearly 10% of the outstanding shares in CORESTATE. So, we strongly believe in this company.

I ask you to flip to page four. You see an overview of our assets under management on this chart. Our core business, Real Estate assets under management, went slightly down to €24.3 billion at the end of June, driven mainly by the termination of micro-living developments, but also the sale of some assets and typical seasonality in our investment management business. In parallel, the non-Real Estate AUMs also decreased, as planned, to €3.1 billion.

When we step a bit closer to the various sectors, we realise the ongoing, gradual shift of our clients to more basic risk/return profiles. You see this mirrored in the increase in residential and city quarters and in logistics and the slight decrease in office and retail.

Our Real Estate assets under management consist of 47% Real Estate Equity and roughly one quarter each in debt and third party property management. When I dare look into the upcoming months, we expect further growth in all business lines supported by a strong financing pipeline of around €0.5 billion of mezzanine business and a sourcing pipeline in advanced contractual status of around €1.5 billion for our Real Estate Equity operations.

I ask you to flip to page five. Let's now take a deeper dive into our newest family member, the CORESTATE Bank. The acquisition was signed in January and already closed in May, so very efficient deal execution including regulatory consent. Those days, the entity was called AFS. Rebranding and integration into our operations and client management is done, yes.

This acquisition came at perfect timing as the market is really booming out there in this segment, backed by a prosperous economic environment, ever more restrictive lending policies at traditional banks and a sharpened housing scarcity, especially in bigger cities in Germany, Austria and Switzerland.

So, the CORESTATE Bank hit the ground running. Our new colleagues structured and closed in May and June with a financing volume of more than €1.0 billion, the largest ever single-property project, the so-called FÜRST on Kurfürstendamm in Berlin. This has correspondingly generated a positive impact on our Real Estate Debt segment performance. In parallel, we're currently dealing with a pipeline of around €1.0 billion of already mandating financings or projects which are in preparation. In brief, the growth story will go on.

But, this is not the only reason why we've acquired this business. The strong client relations and early stage involvement in large Real Estate developments give us clear advantage also for our Real Estate Equity segment when it comes to follow-up deals and especially cross-selling opportunities. So, all in all, we are on a very good path here as well.

I ask you to flip to page number six. This chart, you know it from our previous calls, gives you intel on the usage of our Debt funds at HFS. The total committed fund volume was unchanged at around €1.3 billion and, at the end of June, we financed 45 projects with an average financing size of around €28 million.

The focus has not shifted since years and is with around 70% in residential and city quarters in Germany's largest cities. Currently, we gave funding to 26 different borrowers, the largest of which is not taking an exposure of more than 20%. We are absolutely convinced that this strategy was the basis for our remarkable performance during the crisis and will be the foundation for very profitable future in this business.

With this, I would like to hand over to our new CFO, Udo Giegerich. Let me add that I'm very pleased that you, Udo, are on board with your long-standing track record in various finance and IR roles. Please flip to page seven now and, Udo, the floor is yours.

Udo Giegerich

Many thanks, René, and a very warm welcome to all of you from my side. Please allow me some introductory words before I'd like to give you some information on our financials. Before I joined CORESTATE, I was Executive Vice President, Group Finance & Investor Relations at Uniper and CFO at 50Hertz.

So, I bring in vast transformation experience in very institutionalised environments, but I also had various touchpoints to the Real Estate and financial services industry with, for example, being responsible for building one of the most outstanding corporate headquarters in Berlin, the 50Hertz Netzquartier and also investing a substantial part of Uniper's pension assets in Real Estate.

Just one week ago I took over the responsibility for IR, Accounting, Tax, Controlling, Treasuring and Risk Management at CORESTATE. My key tasks in the upcoming quarters are clearly the development and implementation of a funding and refinancing strategy on the back of increased efficiency through integration and digitalisation of the processes.

The basis for all of this is an improved transparency and investor awareness for the transformation story of CORESTATE and subsequently leading to an increase in market cap. I'm looking forward to speaking to all of you, our dear investors and analysts,

personally in the upcoming weeks starting already this afternoon. Please be also aware I share the belief in the bright future of CORESTATE Group with my board colleagues and thus will, already starting today and in the next days, also invest in the stock myself.

Please turn to page eight. Please allow me to give you some information on our income lines. In very brief, we saw a strong recovery, especially in the second quarter, from the pandemic. Our Real Estate Equity segment delivered €7.0 million of acquisition and sales fees and €35 million of asset and property management fees, thus showing a steadiness in Core and Core+ products but also a slightly reduced income stream from micro-living development. We expect this segment to pick up momentum in the second half of 2021 and we already realise tangible signs for this in the market.

Real Estate Debt with underwriting and structuring fees of €28 million, asset management fees, including CPF, of €31 million and income from bridge loans of €10 million, simply bringing in very good results on the back of the new business at CORESTATE Bank and increasing CPF in Q2.

As part of our approach to reduce balance sheet exposure, we expect bridge lending and corresponding income to go down in the upcoming months. Though, we will still opportunistically take advantage of these highly profitable businesses in the future.

We reported some COVID-driven negative valuation effects in Q1, impacting our income from Other Segments but we saw a stabilisation in asset values in the second quarter, leading to income from Other Segments of €3.0 million, down from €7.0 million in the first half of last year. This all adds up to €113 million of aggregated revenues and gains, up from €96 million in the comparable period of 2020.

Please turn to page nine. With this chart I would like to show you our key P&L figures. Our opex ratio of 50%, clearly higher than usual and higher than we want to see in the medium-term, was driven by some seasonality effects, the inelasticity of our fixed cost base but also some extraordinary transformation costs for the above-mentioned business enhancement initiatives in our Real Estate Equity segment.

The main focus of the upcoming years will be to keep the overall costs stable through taking out complexity and usage of modern technology and digitalisation while increasing the revenues and thus reduce the opex ratio. The G&A expenses of nearly €24 million, up from €16.5 million in H1 last year, include one-off expenses from M&A and also set-up costs for the strategic repositioning. Our EBITDA stood at nearly €35 million with a clear improvement of margin to 35%, up from 27% in the first six

months of 2020.

D&A, roughly €17 million, include the first-time consolidation effects from AFS, now CORESTATE Bank. This leads to an EBIT of €17.5 million after €9.6 million in the comparable period of last year. Our financial results were kept nearly unchanged at €9.7 million and our income tax expenses, driven by limited usage of international tax loss carried forward within the group, was minus €7.4 million.

Our net profit for the first half of 2021 stood at €0.5 million, corrected by M&A-related expenses of €4.8 million, depreciation of around €13 million on PPA-related intangible and DTA of minus €3.3 million, the corresponding adjusted net profit shows more than €15 million. All these figures and a visible upswing in Q2 compared to Q1 are in line with our budget and phasing during the year. So, we are on track to deliver on our financial outlook.

Please turn to page ten. One of my first and foremost tasks as CFO of CORESTATE will be the reduction of net debt to reach the leverage target of below three until the end of the year and, let me be very clear, we are steering the right course to reach this. You see on the chart that at the end of June we had €620 million of total debt adjusted by €28 million for leasing liabilities. With our cash pile of more than €60 million, our net debt stood at €570 million.

Crucial steps on this will be a net debt reduction of more than €50 million in Q3 stemming out of bridge loan repayments and cash conversions from assets in our balance sheet. This will be followed by the deconsolidation of the Giessen premises currently in our inventories, further placements out of our balance sheet and repayments of more than €180 million in total in Q4 2021. Another €60 million or more are designated as proceeds from placements of our co-investments in 2022.

So, to stress this again, debt reduction and financial de-risking is key for us and we all, in the management board, will clearly focus on the delivery and we will focus on a more efficient management of our liquidity and define a de-risk funding strategy for the remaining debt. With this, I would like to thank you for your attention and please flip to page 11 and, René, I turn to you.

René Parmantier

Many thanks, Udo. I'm proud and grateful to have you on our newly-established management team. Together, we'll now clearly focus on stability and governance and costs and growth and revenues.

Let me speak about what's ahead of us. In brief, a very bright future and we will deliver on guidance in 2021. We already realise that the transaction market, including several catch-up

effects, is coming back remarkably and we will definitely participate here, especially supported by our advanced product range, tangible pipeline and the enhanced sales set-up. Last but not least, our Debt segment, with its unique financing platform, will continue to contribute with strong performances.

Our leading marketing presence in the Debt business and thus our direct access to developments at a very early stage also significantly supports our Real Estate Equity segment with new clients, additional investment opportunities and through a front position for assets and property management contracts.

For the full year 2021, we expect acquisition and sales fees in our Real Estate Equity business of between €15-30 million and asset and property management fees of between €80-90 million. Our Debt segment will show, on the midpoint, €40 million of underwriting and structuring fees and €85 million of asset management and coupon participation fees. The Other Segments will deliver between €5-20 million.

Based on this, I can once again confirm our financial outlook, with aggregated revenues and gains of between €235-260 million, adjusted EBITDA of €90-150 million and adjusted net profit of between €50-75 million.

In brief, a booming Debt business, an Equity business that is picking up momentum and all of this on the backdrop of long-term supportive market drivers. So, we look very, very optimistically into the upcoming quarters. With this very positive outlook and a very profitable second half of 2021, I would like to hand back to the operator and we're now happy to answer your questions. Thank you.

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're 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. The first question comes from the line of Kai Klose, from Berenberg. Please, go ahead.

Kai Klose

Good morning. I've got two questions, if I may. The first one is on page 23 of the first half report. Could you give us a bit more details on the accounting of AFS into CORESTATE's balance sheet? I saw there was €65 million in goodwill and €80 million in the other intangible assets. Could you give a bit more details how you came to these two numbers?

The second question would be on page ten of the presentation. I just looked up the Q1 presentation where you say on page nine

- that the leverage, you have an ambition to bring it down to below three and now you say a year-end ambition of 3.0x, so not below 3.0x anymore. Could you indicate if this is just a change in working or if your ambition has changed that you don't target anymore a reduction to below 3.0x? Thank you.
- Udo Giegerich Kai, thank you very much for the questions and looking forward to speak to you personally. May I answer the second question first and then we answer the first question on the AFS. We clearly speak about a leverage below 3.0x, however this is still an ambitious way to go on. We have a plan to bring this down below three until the end of the year and we see already inflows from the repayment of the bridge loans and the deconsolidation of some assets.
- Dr Kai Gregor Klinger It's Kai here. Can you elaborate a little bit more what you want to understand based on our goodwill, our PPA for CORESTATE Bank?
- Kai Klose In page 23 we see that we saw quite a strong increase in the other intangible assets, which I assume is coming from AFS. Maybe a little bit more on how that number came up.
- Dr Kai Gregor Klinger Of course, it's part of the PPA and the goodwill allocation which we have done, together with our auditor, and based on the underlying working capital, which was allocated between CORESTATE Bank and us and the other assets which we have consolidated.
- Kai Klose Okay. Thank you.
- Operator As a reminder, if you'd like to ask any questions, please press * followed by 1 on your touchtone telephone. The next question is from the line of Anthony Duyck, from BNP Paribas. Please, go ahead.
- Anthony Duyck Good morning. Can you clarify what you mean by deconsolidating assets such as Giessen? Is that an outright sale? What do you mean exactly by that? Thank you.
- René Parmantier It's René, Anthony. Yes, exactly. It's an asset which is in Giessen and it is on the balance sheet with debt of around €55 million and equity around 30-somethnig and it's for sale. So, it's refurbishment. It was renovated and parts of the centre were repositioned and we have a very stable income on that but we want to sell. That's definitely the target, to deconsolidate it and to sell it, definitely.
- We're working on that but we're very relaxed on that. It's a good, well-placed shopping centre in a good area and it has good traffic, so it's not the typical High Street stuff. It has nearly €5.0 million of rent on an annual basis at the moment with a target of €6.2 million at the moment, but we're working on renting it out

and see good progress on that.

Anthony Duyck Understood. Thank you.

Operator The next question is from the line of Charles Watford, from PIMCO. Please, go ahead.

Charles Watford Hello. Thanks very much for taking my questions. I've got a follow-up on the Giessen one. If you deconsolidate Giessen, you lose a certain amount of debt automatically, so what's the debt which is assigned to Giessen?

René Parmantier What I said, it's around €60 million, something like that.

Charles Watford €60 million.

René Parmantier One of our targets for this year, Charles.

Charles Watford So, €60 million if you deconsolidate Giessen is effectively the debt you would lose automatically. Then, the second question is on the bridge lending repayments. I can see on the slides on page 10 that you're expecting €50 million in Q3. Do you have an amount that you've already received? Are you able to disclose that or is it all coming in in September?

Udo Giegerich We have already received something in July and there will be repayments in the coming weeks then because the client also has sold some assets and, therefore, there is free liquidity at the client side.

Charles Watford So, can I assume that €25 million of the €50 million have come in already?

Udo Giegerich Less.

Charles Watford Less than that?

Udo Giegerich Yes, less than that.

Charles Watford Okay. Then, in terms of the Q4, obviously there's a large number. I can understand €60 million from the Giessen but the other €120 million in that Q4 number in that €180 million of net debt reduction, can you give us some more detail on that? Some of that is the bridge loans which presumably is another €70 million out of the €120 million.

Udo Giegerich Yes. It is basically out of the bridge loans, then we have cash conversion placements from our fund business around another third and the remainder is then free cash flow.

Charles Watford So, in Q4 you're expected somewhere in the region of €60 million of free cash flows?

Udo Giegerich No. €20-30 million free cash flow.

Charles Watford 20-30. So, sorry, it's the balance is a third. Good. Thanks very much.

- Operator Next question is from the line of Manuel Martin, from Oddo BHF. Please, go ahead.
- Manuel Martin Thank you. Hello, gentlemen. One question from my side regarding the Real Estate Equity business. The Real Estate Debt business sounds quite promising but on the Equity business you assume a picking up of activity in H2 of this year, also more clients to come. Do have a view on your AUM growth when it comes to the Real Estate Equity business? Any targets or a growth path there in mind?
- René Parmantier Thank you, Manuel. It's René. You have already seen in July/August progress on that which is obviously not part of the first half of the year. We had announced Augsburg, a small one yesterday. We acquired about €160 million of equity in our French business and we want to raise €1.0 billion at least. €1.0 billion, at least, to answer the question but we have a strong pipeline there and we will close a couple of deals now in the next couple of weeks.
- I repositioned the whole sales team and everything there at the beginning of the year, so that took some time as well but the team is now up and running. People can meet. We have our London sales people in yesterday and today. So, we're making good progress and we will sign and seal a couple of deals in the next couple of weeks.
- In September, a larger one. Maybe it is €1.0 billion, maybe it is more but we have a clear target, a clear guideline, and the second half of the year is obviously much, much stronger than the first half, historically and especially at CORESTATE.
- Manuel Martin I see. And, the €1.0 billion is the target for 2021 or is it a one year target, more or less.
- René Parmantier It's for this year, second half. That's what I meant.
- Manuel Martin Okay. Thank you very much.
- René Parmantier You're welcome.
- Operator As a reminder, if you'd like to ask a question, please press * followed by 1 on your touchtone telephone. Next question is from the line of Philipp Häßler, from Pareto. Please, go ahead.
- Philipp Häßler Hello. Philipp Häßler, from Pareto. I have two questions, please. Firstly, on the shopping centre in Giessen. You sound very confident that you will be able to sell Giessen in H2. Do I interpret this correctly, that you're already in discussions with a potential buyer?
- Secondly, on your EBITDA guidance for the full year, €90-150 million, if I take the H1 you've reached €40 million, Q2 €37 million. So, if I take Q2 times two, I end up at €115 million or

€114 million and you sound very bullish regarding the pipeline for Debt and Real Estate Equity. So, why haven't you raised the guidance or at least have said you are confident to reach the upper end of the guidance? Thank you.

René Parmantier

Thank you very much, Philipp. This is René. Let me answer. On Giessen, yes, we are in discussions on this asset since a couple of weeks already and I'm very confident there. On the other topics, I would like to hand over to Udo now to answer the question but I would like to say CORESTATE should not be in the position, especially after last year, to raise guidance. There's still a lot to do and we're working very hard and you've seen the first and the second quarter now. It looks much better and we're very confident but Udo, as our new CFO, please answer the rest of the question.

Udo Giegerich

Thank you, René. Yes, you are clearly right with your calculation. However, you also have to see that in Q2 we had a very large deal with the FÜRST in Berlin and we now have a good pipeline in place but not, again, these large deals anymore. Therefore, we clearly do not want to raise any outlook so far but we are optimistic to be, as we said, to reach the outlook and hopefully more on the higher half of the outlook range than on the lower half.

Philipp Häßler

Thank you. Very clear.

Operator

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

Dr Kai Gregor Klinger

Thank you very much for listening. We appreciate your interest and your questions. We will be on the road, unfortunately mostly online, after the summer break. Please be reminded that our Q3 figures are out on 10th November and our Capital Market Day will be held virtually again on 8th December. We look forward to speaking to you, so stay healthy and goodbye.