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CORESTATE Capital Holding S.A.

Results 9M-2021

10th November 2021 | 11:30 CET

Transcript

Speakers:

René Parmantier, CEO

Udo Giegerich, CFO

Dr. Kai Gregor Klinger, CMO

Dr. Kai Gregor Klinger

Ladies and gentlemen, thank you for joining us today on our earnings call for the presentation of our first nine month 2021 results. On the CORESTATE investor relations website you can find our earnings press release, the nine month report, and the corresponding slide deck.

As usual I'd like to draw 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 are making today. I would also like to mention that this call 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 the CEO, of course, the capital group, René Parmantier, and our CFO, Udo Giegerich. We will guide you through the presentation followed by the usual Q&A session. The timeframe for today's call is about 45 minutes. Now it's my pleasure to hand over to René. René, the floor is yours.

René Parmantier

Thank you, Kai. Good morning, ladies and gentlemen. A very warm welcome from my side. Firstly I'd like to start the presentation on slide three with a quick snapshot of the key highlights from the third quarter of this year. In view of the persistently low interest rates there are not really any alternatives to the real estate markets, especially for insurance companies and pension funds.

Sustained investment pressure, as well as a surplus in the market liquidity, ensure a high level of popularity for future-proof real estate asset classes. In other words the short- and long-term market drivers are fully in place and CORESTATE benefits from the economic upswing after the pandemic impact has eased up.

That's what our results already impressively show, and also what we have just received as encouraging feedback from our clients at Expo Real in Munich last month. In the last weeks and months we have consistently done our homework to enhance our business activities and our client reach. The company has shaped into a manager of the entire real estate value chain equally for the equity and debt side.

We have streamlined, bundled and strengthened our sales approach with a strong client-focus on the DACH region. And we have significantly fostered a real estate debt segment and our leading market position in debt financing business tremendously with a compelling AFS acquisition, now operating as CORESTATE Bank as I explained to you already in our last earnings call in August.

After restrained starts into fiscal year due to the pandemic we came up to speed with a strong second quarter on the real estate debt side, and now, in the third quarter, also the real estate equity made up for lost ground by benefiting from a significant resurgence in investment and risk appetite. CORESTATE thus delivered an outstanding double-digit growth in revenue and earnings in the first nine months, once again demonstrating a strong market position in our home turf.

We continue to play an active role of managing and financing the real estate economy while remaining highly selective and disciplined in our investment approach. Our positioning makes us a partner of choice, notably for our clients both on the investor side, as well as with developers and real estate brokers. We see impressive growth and a booming real estate industry not only in the last weeks, but also in the upcoming months and quarters, based on a very well-filled pipeline. I will come back to this later.

Please flip to page four. You see an overview of our assets under management on this chart. Our real estate assets under management went slightly down to €24 billion at the end of September, driven mainly by two planned maturities in the third quarter. One is of a property management portfolio in micro-living, with approximately €1 billion assets under management, and the other is a commercial portfolio of around €400 million. This in addition to the already-explained termination of a larger German micro-living fund of around $600 million in the first quarter.

At the same time we have fulfilled on behalf of our clients several transactions and investments with positive impact on our real estate assets under management, like recently the acquisition of a logistics portfolio in the Paris region, the VISION ONE office campus in the south of Stuttgart, and a newly-developed office campus in Augsburg, or the ongoing positive performance and turnover in our mezzanine funds. All of this came up to speed in the second and third quarter.

Half of our real estate assets under management consists of €11.7 billion of real estate equity, just under 30% or €6.8 billion of real estate debt as gross assets under management, and just over 20%, or €5.5 billion, stemming from third-party property management.

When I dare look into the upcoming months we expect further organic growth in all business lines, supporting by a strong financing pipeline of around €0.5 billion for our mezzanine business and a sourcing pipeline in advanced contractual status of around €1.6 billion for our real estate equity operations. In addition, we see at our CORESTATE Bank already-mandated financings of projects in preparation of close to €1 billion.

Let's now move over to the next slide, where we start a small tour through the assets under management of both core segments. On page five you see different split-ups of our €11.7 billion real estate equity assets under management. Beyond our specialities, like micro-living, logistics, or city quarters, the latter is sectioned under Other, more than half of the assets under management are core office properties, mainly in Germany, France, and Benelux. And, as a side-note, above 80% are core and core-plus investments. If we take a closer look at the different asset classes we can see what we are promising today, and what we have achieved on average for our clients since the inception of the fund or investment vehicle.

A weighted average return on equity of close to 8% across all investments, primarily in core and core-plus assets, is definitely something to be proud of, even against a backdrop of a decade of dynamic value uplift, and some additional patterns from pandemic-driven, sought-after asset classes such as logistics, or residential.

And, of course, this is not the end of the story. At the top-right of this slide you can see a sustainable and balanced maturity profile of this well-performing €12 billion asset base, with an average maturity in our real estate equity business of about five years, which is regularly improved by organic assets under management growth.

Please follow me now to page six of the presentation. Maybe I will move a little quicker through the next slides. This page is about our real estate lending business, where we are in charge for a gross asset value of €6.8 billion, or with our €1.3 billion mezzanine funds. This is based on track records of near-zero default rates over the past decade.

At the end of September we financed through three evergreen fund vehicles 45 projects with an average financing size of around €28 million, and an unchanged average loan duration of 1.5 years.

Please flip to page seven. The focus has not shifted since years. The vast majority is invested in the metropolitan areas in Germany, Austria, and Switzerland. Above 70% of the lending goes to the top seven cities in Germany. And even more important for the performance of the fund, roughly 70% are residential-anchored projects, which went through the crisis without any negative impact according to the ongoing high demand.

Currently we gave funding to 26 different borrowers, the largest of which is not taking a combined exposure of more than 18%. We are absolutely convinced that this strategy was the basis for our remarkable performance during the crisis, and will be the foundation for a very profitable future in this business.

On the investor side we saw more or less the stable development of the fund during the crisis. Based on the current performance of this high-return product, we feel very comfortable positioned in the months to come, and can show again further organic growth., especially if we think of cross-selling effects from our integrated platform for real estate equity and debt products, as well as our new senior loan offering.

But the proof is always in the pudding, and our excellent investment competence in choosing and managing the right projects and developers is revealed now. Please follow me now to page eight of this presentation.

CORESTATE ESG report, published at the end of September, demonstrates the impressive progress we've made in implementing our ambitious ESG plans. For example, CORESTATE was able to reduce CO2 emissions per square metre in managed properties by a remarkable 8% compared to the previous year, 6% more than planned. The energy consumption per square metre decreased by 7% over the same period. Target was 5%.

Water consumption was even reduced by 14% compared to the aim of 2%. This puts us on an excellent path to achieving our ambitious medium-term goals. Our quantifiable ESG targets and strategies set us apart from our competitors, as we not only deliver transparent and measurable results, but also carry out measures that are aligned with the EU Green Deal Action Plan.

With this I would like to hand over to my colleague, to our CFO Udo Giegerich.

Udo Giegerich

Many thanks, René. And a warm welcome to all of you from my side. I'd like to give you information on our income lines in very brief. After decent business development in the second quarter we have seen an ongoing recovery in the third quarter too. Our real estate equity segment delivered almost €19 million of acquisition and sales fees, and €53 million of asset and property management fees.

This indicates an improved investment climate, and reflecting a gradual recovery of the transaction market since April. But on the other hand, also slightly reduced income stream from asset management fees, mainly driven by a terminated micro-living development fund. We expect this segment to pick up further momentum by the end of the year as we are already in the home stretch for numerous client transactions.

Real estate debt with underwriting and structuring fees of €31 million, mainly driven by consolidation effects regarding the acquired CORESTATE Bank and a prosperous private debt market. We collect asset management fees, including coupon participation fees, of €47 million, and income from bridge loans of €14 million.

As part of our approach to reduce balance-sheet exposure we expect bridge lending and corresponding income to go down until the end of the year. We still optimistically take advantage of the high profitability of these products. We reported some COVID-driven negative valuation effects in Q1, impacting our income from other segments. But we saw stabilisation in asset values in Q2 and Q3, resulting in incoming from other segments of €5 million and a positive perspective for further upside in Q4.

This all adds up to €169 million of aggregated revenues and gains with an outstanding growth of roughly 18%, up from €143 million in the comparable period of 2020. Let's move to slide ten, please.

With this chart we would like to give you a little more background on our key P&L ratios. We had operational expenditure in the amount of some €88 million, up from €79 million last year. The OPEX ratio improved slightly, by more than 3% to 55.5%. The cost increase was mainly driven by consultation of the CORESTATE Bank, but also some extraordinary transformation costs for the aforementioned business enhancement initiatives in our real estate equity segment.

The main focus for the upcoming quarters and years will be on keeping the overall costs stable, by taking out complexity and using modern technologies and digitalisation, while increasing revenues and thus reducing the OPEX ratios.

D&A expenses of nearly €37 million include one-off expenses from M&A, and, as already mentioned, set-up costs for the strategic repositioning. Our EBITDA stood at €53 million, and the adjusted figure at €61 million, equates a significant rise of more than 32%. The adjusted EBITDA margin shows a clear improvement up by 4% to 36%, up from 32% in the first nine months of 2020.

Depreciation and amortisation, almost €24 million, include also consolidation effects from the acquired CORESTATE bank. This leads to an EBIT of €29.3 million after €21 million in the same period of last year. Our financial results came to -€14.8 million, and were nearly on the level of the comparable period of 2020. Our tax expenses stepped up €11.8 million, driven by a limited usage of group tax effects mainly after the consolidation of CORESTATE Bank.

However, we expect the market to leave a lower tax burden in Q4, due to the utilisation of our tax loss carried forwards from the implementation of, and the company profit transfer agreement and the fiscal unit for corporate tax purposes between our German entities.

Our net profit for the first nine months of 2021 stood at €2.5 million, corrected by M&A-related expenses around €8 million, depreciation of €17.6 million on PPA-related intangibles, and deferred tax liabilities of -€4.5 million, the corresponding adjusted net profit shows almost €24 million.

All these successful figures and a visible upswing in the last two quarters compared to the weakish start of 2021 verify that we are in line with our budget and phasing during the year, so we are surely on track to deliver on our financial outlook. Please flip to page 11.

As I told you already, one of the major tasks of us as a management board, among other things is a noticeable reduction of our net debt to reach a leverage ratio of around 3x until end of the year. And let me be very clear, with some smaller shifts from Q3 to Q4, we are steering the right course to achieve this ambition. I think you are quite familiar with this chart. What you can see at the end of September, we had €625 million of total debt, adjusted by €28 million of policing liabilities.

This contains €130 million bank and other debt, including €55 million warehousing debt. With our cash pie of more than €60 million, our net debt stood roughly stable at €564 million. This results to a financial leverage after the first nine months 20221 of 17.9x, or on an adjusted basis taking the lower range of our EBITDA outlook for the full year 2021 into account at a 6x leverage.

Against the backdrop of short time span until year-end, it certainly makes sense to provide you more colour on our path of that reduction until end of December, and explain the various sources in more detail. So please, move to the next page.

As you can see here on page 12, the crucial breaks of our cash conversation programme for 2021 and H1 next year to reduce our net debt by over €280 million. The starting point for Q4 is an operating cash inflow of more than €50 million out of our own fund structures from performance fees already earned. Another €50-70 million will come from the repayments and placements of our bridge loans. A future run rate for this position will be on a much lower level, below €50 million.

Added to this is €110-130 million from the placement of the Giessen retail asset, for which we are in exclusive negotiations with a preferred bidder on the basis of a structured sales process for a 100% sale.

In parallel, and included in this number, we are already on the finishing strait for the placement of the first tranche from the OpFund, and other smaller assets out of our associates and JVs. All of this with the clear target to close before year-end.

For the first half of 2022 we have another €40-60 million designated as proceeds from the next tranche of placements from our co-investments. So to stress this again, debt reduction and financial de-risking is an important key for us. And we all in the management board clearly focus on the delivery. Our clear goal is to be ready to refinancing in spring 2022, safeguarded with a back-up track in the summer next year.

With this I would like to thank you for your attention, and please flip to page 13. René, turn to you.

René Parmantier

Many thanks, Udo. In an additional retrospect we can state that the German real estate market has proved its resilience during the pandemic, and remains very attractive for long-term investors. This is especially true for the ongoing recovery phase of the German economy. Looking forward we see that despite the continued presence of COVID-19, life, and with it the real estate industry, gradually turning to normality.

The clear and tangible outcome of Expo Real is that the real estate transaction market is already back in a very vibrant state, and brisk appetite on the investor side is visibly increasing further. Our real estate equity business is fully in line with our budgets, and, typical for our industry, will show a further transaction-driven upswing to year end.

So, speaking about what's on the menu for the upcoming months, we are fully on track to deliver on our financial outlook for the full year 2021, and we will also deliver on our net debt reduction plan with a leverage of around 3x. Against the backdrop of changing, of uncertainties in the investment market, we have seen slight shifts in different income lines over the course of the year.

For the full year 2021, we expect now acquisition and sales fees in our real estate equity business of between €25-35 million, and asset and property management fees of between €70-80 million. Our debt segment will show €40-50 million of underwriting and structuring fees, as well as on the midpoints of €85 million from asset management and coupon participation fees, including our bridge lending income. The other segments will deliver between €10-20 million.

Based on this I can once again fully confirm our financial outlook 2021 with aggregated revenues and gains of between €235-260 million, adjusted EBITDA of between €90-150 million, and adjusted net profit of between €50-75 million.

As usual with our nine month figures we would also like to give you a sneak preview for 2022. The main message is clear. Next year's operation will be driven by a normalised and less volatile investment environment with only a minor impact of the pandemic on business. We expect the real estate transaction market to pick up further momentum and ongoing high investment pressure on the institutional investors such as pension schemes or insurers.

This will obviously lead to an organic growth spurt in our core business, for which we are already excellently positioned today, with correspondingly further scope for more efficiency and profitability. Although we cannot give you a quantitative outlook as of today, this is scheduled for early March 2022. We can assure you that, until then, we will be working hard every day to improve our customer reach, product offering and competitive position, as well as our key financials compared to the recent years.

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 optimistic into the upcoming quarters.

One last note. Together with my colleagues from the executive board, we've decided to postpone our Capital Market Day, which we had originally planned for December, into next year after our full year 2021 results, on 8 March. Then we will certainly be in a better position to provide you with detailed background information on our published financial guidance for 2022 and on our key medium-to-long-term topics, with regard to the ongoing transformation process of our group and its business setup.

So, all in all, we are highly committed to our goals, and the entire company is very well on track to deliver what we've promised. With this positive outlook I would like to hand back to the operator and we are now happy to answer all your questions.

Operator	Ladies and gentlemen, at this time we will begin the question and answer session. Anyone who wishes to ask a question may press star followed by one on their touch-tone telephone. If you wish to remove yourself from the question queue you may press star followed by two. If you're using speaker equipment today please lift the handset before making your selections. Anyone who has a question may press star followed by one at this time. One moment, for the first question, please. And the first question is from the line of Kai Klose from Berenberg. Please go ahead.
Kai Klose	Yes, good morning. Just one question from me regarding page 12, and comparing that with page ten of the first half presentation. With the first half results you mentioned that there was a net debt target of below €320 million by the end of 2021. Can you indicate what kind of net debt target by the end of 2021 you now expect?
Udo Giegerich	Kai, thank you for the question. Here it's Udo. We have not defined a special net debt target but we have told you that we want to be in a leverage ratio of 3x.
Kai Klose	Okay, but with your first half numbers there was a net debt target mentioned. I was just wondering if this target has changed.
Udo Giegerich	There is no change to this target. The ambition is still to have a 3x leverage target.
Kai Klose	Thank you.
Operator	The next question is from the line of Manuel Martin from BHF. Please go ahead.
Manuel Martin	Hello gentlemen. A couple of questions from my side, please. Maybe if we can go through them one by one. The first question is the one on P&L. In the third quarter we have noticed strong revenue from sales and promote fees, which was realised I think something like €10 million, which supported strongly the real estate equity segment. Maybe

	you can give some colour on that, please.
Dr Kai Gregor Klinger	Hi, Manuel. It's Kai. Maybe to give some background, we had with the pandemic, of course a certain backlog as a placement over the last one and a half years. So to say, this is the opened market again with, over the summer but we are able to place these entities, the reason we have seen a minor decrease in our AuMs over the second and third quarters. We are talking here about sales fees from investments which we are ready to place, and which are mature in terms of profitability. And if you look into the announcement we have sold the headquarters of Deutsche Bahn German railway in Berlin, which was announced a few weeks ago. And therefore a large part of this promote fee is coming from this.
Manuel Martin	Thanks for that. A second question is on your plans to shift the deleveraging the balance sheet around to Q4. Q3, that would have been just the beginning of, I think, €50 million. Any reason why the plan has changed, and how confident are you in Q4 on the deleveraging?
Dr Kai Gregor Klinger	We are still working on this deleveraging. And, as we continuously explained to you also in Q2, of course we are running these high interests also because we have some flexibility to shift dates of the repayments, and also because of the interest rate environment. It's also, from a profit perspective, better for us to shift potential repayments, and thus, if we were approached by clients to shift it again, we decided to do this for has made us not possible to deliver this €50 million which we announced on the Q2 results.
Manuel Martin	Thanks.
Udo Giegerich	Also we have received roughly €20 million of repayments of our mezz loan, but we have used this, and deployed this money again for short-term working capital over the next one and a half months, where we have supported transactions which will, at the end, also be supportive for our EBITDA or transaction fees.
Manuel Martin	Okay, thanks. My last question would be on your idea of the evolvement of assets under management in total, and combined with the guidance that we have seen you are decreasing your assets and property management fee guidance to a range of €70-80 million. Before it was €80-90 million. It seems there is a kind of conjunction between the decrease of your AuM and the management fee, I would guess. And maybe you could give us some idea how do you think the AuM growth would be for CORESTATE?

Dr. Kai Gregor Klinger	The major impact on our AuM decrease was a property management on student housing operation contract on UK. Of course there was a certain impact on our revenues, but the flipside is it has no impact on the profitability, because it's more or less neutral on the EBITDA side. So we have lost, there, some student homes. It gets compensated over time because we have already attracted new ones. This will increase our property management AuM then again. And the other major impact was already mentioned, termination of our micro-living fund, more than half a billion in the first half. Plus, a slight delay in organic real estate equity AuM growth which shifted to the fourth quarter. And of course if you lose one or two quarters through the year then you have minor income from the whole asset management here. And this is the main reason, actually. So at the end of the day a small postponement between quarters, but still very supportive for 2022.
Manuel Martin	Any targets that you have for 2022 in terms of AuM? I think in 2021 there won't be a lot more. Or maybe you can offer some light on that?
Dr. Kai Gregor Klinger	Thinking of core, so our previous 5-10% organic AuM growth in our core segment, meaning real estate debt and real estate equity. And of course we will provide much more colour for next year in the first quarter, with our closed accounts, books and records for 2021, and our guidance.
Manuel Martin	Thank you very much.
Operator	The next question is from the line of Philip Haessler from Pareto. Please go ahead.
Philip Haessler	Hello, Philip Haessler from Pareto. I have two questions, please. Firstly on the mezzanine exposure. Could you give us the figure of your exposure to the Adler Group, and secondly on the deleveraging plans, could you perhaps give a figure, where do we stand right now on the net debt levels? So as of today, Q4 is already 50% passed, so could you give us some figures? And also going forward do you plan to provide some transparency on the development of the net debt levels, or do we have to be patient until early March to know whether you've reached your targets or not? Thank you.
Udo Giegerich	Philip, thank you for your question. Firstly we cannot tell anything on specific client names. We are a regulated entity, and therefore we are not saying anything on specific clients. We have given you an indication of what is the biggest customer in the portfolio, but you cannot assume

	that this is Adler.
	Secondly, what was the second question again?
Philip Haessler	The net debt level as of today.
Udo Giegerich	The net debt level of today has slightly improved to what we have shown in the Q3 results.
Philip Haessler	And do you plan to give further updates, or do we have to be patient until early March, until we know whether we've reached the targets? Or will you, for example, announce once you've been successful in selling the Giessen shopping centre?
Udo Giegerich	When we have done larger transactions, like the sale of a Giessen asset, we of course would do a press release specifically on these larger sales. Also the buyer would like to have a press release on this.
Philip Haessler	Okay, thank you.
Operator	The next question is from the line of Alain Eckmann from UBS. Please go ahead.
Alain Eckmann	Good morning, everyone. On page 11 you showed that you have €61 million cash, but there's a small footnote that part of it is restricted. Can you share with us how much is restricted, and why it would be restricted?
Udo Giegerich	Greetings to Switzerland, Alain. The minor part of this €61 million is restricted and the main thing is €10 million is to Giessen.
Alain Eckmann	My follow-up question is in this case if you have some free cash, why didn't you buy back your bonds that trade at absolutely distressed levels?
Udo Giegerich	We were in a blackout period, as we have, I think, on an earlier conversation, already told you, until today when we finish this call. And then we will try and see what liquidity will be available in the markets.
Alain Eckmann	So you were restricted the last couple of months, or the last months?
Udo Giegerich	The last couple of weeks. The last couple of weeks, always the four weeks before a results presentation we cannot buy anything.
Alain Eckmann	And my last question, you mentioned that there was some shift in maturities and that you get rewarded nicely because of those. Why do the shifts in maturity happen? Is it because clients cannot pay? Or is there any other reasons? Is this trouble in the making, or is there a more

pleasant explanation for it?

Udo Giegerich: You know that the bridge loans and the mezzanine loans are given in the very early stages of a development. And if the allowance to build is given a few days later then the respective clients then needs also the money for a few days or a few weeks longer. But this is not a specific credit issue.

Alain Eckmann: So you wouldn't be aware of a credit issue in your portfolio as of today? Because you said so far you never had one.

Udo Giegerich: Yes.

Alain Eckmann: Thanks a lot from Switzerland.

Operator: The next question is from the line of Alexander Growh from Baader Bank. Please go ahead.

Alexander Growh: Hi, guys, thanks for taking my question. I have two questions. One is, can you give some numbers maybe on the cash balance as of today? And on the second one I just want to follow up on the €50 million of the bridge loans. Is it correct that you received €20 million but reinvested it, and the other €30 million was shifted to Q4? Thank you.

Udo Giegerich: The cash balance has slightly improved to the €70 million by end of October. And secondly, yes, you are fully right. We have received €20 million of the €50 million we announced on the first half year results, and we have invested it in activities, yes.

Alexander Growh: Perfect, thank you.

Operator: There are no further questions at this time, and I hand back to Dr Klinger for closing comments.

Dr. Kai Gregor Klinger: Thank you so much for listening. We appreciate your interest and your questions. We will be on the road, unfortunately mostly online. Do not hesitate to contact us if you have any further questions. On our website, on the last page of today's presentation, and in our nine-month report you can find our financial calendar for 2022. This includes a small change compared to previous years. We have moved the publication of our annual report in 2022 to the beginning of March, by two weeks, thus abandoning the previous practice to publish prelims at the end of February. We hope that is in your interest. Once again, thank you. We look forward to speaking to you soon. Stay healthy and good-bye.