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00:00 Operator

Ladies and gentlemen, welcome to the conference call of Corestate Capital Holding SA regarding the presentation of the nine months 2018 results. At our customer's request, this conference will be recorded, all participants will be in a listen-only mode. There will be an opportunity to ask questions. May I now hand you over to Dr. Kai Klinger, Head of Investor Relations, who will lead you through this conference.

00:37 Dr. Kai Klinger,

Hello everyone, and a very warm welcome to our earnings call today for the presentation of the results of the first nine months of 2018. First of all we have to apologize for the short delay and the incomplete pin code which was due to a technical small error by sending out the invitation. As usual I would like to direct your attention to the forward-looking statement and disclaimer on page 2 of our presentation. This safe harbor language applies to the presentation and all comments to be made 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, Dr. Michael Bütter, will start the presentation by discussing the highlights of the last couple of months and then provide you with more details about operations. Afterwards, Lars Schnidrig, our CFO, will guide you through the financials before Michael ends the presentation. This will be followed by the usual Q and A session. The time frame for today's call is about 30 minutes. It is now my pleasure to turn the call over to Michael, please.

01:53 Dr. Michael Bütter

Thank you, Kai, and good afternoon from my side. Let me start with some operational highlights in Q3. We have seen another promising quarter in the short history of our company. We realized organic growth in our real estate assets under management of more than 6%. The main source was institutional money in residential core and value add products in commercial. All of our operations are running full steam and well-prepared for year-end business. For instance we are currently marketing our High Street Eight Funds, the next baby, if you will, in our very successful High Street family. Another example is the fast-moving consumer goods fund which focuses on very solid food retail assets. As you perhaps know, we have very successfully placed our three trophy warehousing assets, Stadttor Düsseldorf, Danone Research Center in Utrecht and the Kronberg Palais, which together with our very positive operational performance, led to our nine month earnings being above budget. Thereafter we increased our financial guidance for the full year 2018, but more on this later on.

In terms of the further development of our corporate structure, we acquired CRM students, the largest independent operator of student homes in the U.K. on October 4. This deal marked an important milestone in setting up Europe's leading micro-living platform. Furthermore, everyone is talking about digitalization, well, we have launched a digital platform for real estate investments as a common approach of Hannover Leasing and Exporo, Germany's largest real estate crowd funding platform. And as we announced in the first half of 2018, we have massively delevered our company and reduced interest costs as well. Lars will tell you more about that in a few minutes. Please turn to page 4.

Let's speak a bit about the developments of our assets under management. We managed to increase our real estate assets under management organically by 6.2%, with residential still being the biggest chunk. As you can see, we now have about 23% of our real estate assets in micro-living. This reflects the proforma consolidation of CRM. Offices represent another 23% of our assets under management, while retail accounted for 18% at the end of Q3. We have also reduced our non-real estate portfolio as planned from 5.7 billion euro at the end of 2017 to 4.8 billion euro at the end of September 2018. One key element of why we look very optimistically into the future is our tangible transaction pipeline. We once again managed to increase this figure of potential deals to 5.8 billion euros, thereof roughly one quarter at an advanced stage.

Please turn to page 5. Let me give you a bit more insight on CRM students. CRM has a track record in managing student accommodations of more than 10 years, so they offer us loads of experience and know-how. They manage about 23000 beds in 145 locations in the U.K., representing about 3.2 billion euros in assets under management. CRM expects roughly 13 million euro in sales and an EBITDA of around 2 million euros for 2018. For years, CRM has outperformed the student market in the U.K., showing very solid organic growth long-lasting agreements. In contrast to Corestate, CRM is not responsible for the asset management of these student houses, but offers all crucial related services, including deal sourcing and feasibility assessments. Why did we acquire CRM? Our aim is to build Europe's leading micro-living provider. As independent sources speak about demand growing by 20% by the end of 2020 and we want to internationalize our asset base. CRM is the perfect complement to our existing asset management capabilities with a focus on German speaking countries. We paid about 14 million euros for the company, plus 3 million euro net in cash.

Briefly on our current portfolio: We now operate 28000 micro-living apartments in nearly 160 locations and five countries, another 2000 apartments are in development. And due to the huge appetite from international investors, we constantly screen the market for further opportunities. One example is Spain. Our first asset in Madrid is already open and the first students will be moving in soon. Two other land plots in Seville and Valencia have been secured and will now be developed. Another example is Poland. We bought a land plot for clients in Gdansk, home to one of the largest universities in the country and we will set up a micro-living property there. Please turn to page 6.

Let's have a look at HFS, our mezzanine financing business, which showed another strong quarter and decent lending development in the first nine months of 2018. The total committed fund volume is more than 1.2 billion euro, again slightly increased compared to Q2. Out of this we are currently financing 56 projects with an average mezzanine tranche volume of around 22 million euro, that is the actual utilized figure. Our key and foremost task is to manage the risks. We do this by knowing the market very well, knowing the developer and diversifying our investments in only very prospering cities. Therefore our core market remains the big and booming metropolitan areas in Germany. More than 75% of our financing goes to German residential and as you can see on the lower half of the slide, we have a clear concentration on the big German cities. And now I would like to hand over to our CFO, Lars, please turn to page 7.

08:51 Lars Schnidrig

Thank you and a very warm welcome also from my side, ladies and gentlemen. Let me please show you a picture of our financials for the first nine months of 2018. We received acquisition-related fees of 31.7 million, which represents an on-going solid fee floor and we expect this figure to go up seasonally in the fourth quarter. Our real estate assets under management will rise in Q4 according to the typical year-end rally in our industry, which will also be reflected accordingly in the acquisition-related fees. For instance we closed our High Street Seven club deal with an investment volume of 212 million, the successor program, High Street Eight, with a target volume of 250 million was already launched in April and made very good progress in its investing activities. A subsequent full closing is also likely in the next couple of months with corresponding fee streams. Another very stable revenue stream is our asset and property management fee, amounting now to 99.1 million, including 41.7 million in coupon participation fees on a pro rata temporis basis. As already mentioned, we were able to place three trophy assets very successfully with a total transaction volume of around 300 million euros. This boosts our warehousing gains. In the first nine months of 2018, we earned fees in warehousing and real estate operations of 72.3 million. Our alignment capital was 21.1 million, but please bear in mind that the main proceeds of 2018 are already earned and that this figure also includes gains from our asset disposal in aviation. All in all our aggregate revenues were 224.3 million and this impressive figure prompted our guidance uplift.

Please turn to page 8. On this chart you will see some key P & L figures, let me focus a bit on the expenses. Operating expenses reflected deal costs and also rising regulatory demands, our expenses for real estate investment management were 51.7 million, expenses for alignment capital at 7.8 million, warehousing expenses amounted to 18.3 million, predominantly due to costs for the sale of the three trophy assets. Our general and administrative expenses were 18.1 million, this figure is predominantly driven by extraordinary costs for setting the corporate structure as you know, and management changes in the first half of the year, but also reflects the fast-growing business of Corestate. Our EBITDA was 128.4 million and our adjusted EBITDA at 137 million, with a margin of more than 61% to sales. Depreciation and amortization was at 19.3 million, so our EBIT is 109.1 million with an EBIT margin of 48.6%. Our financial results were -17.5 million, negatively influenced by the prepayment fees in Q3, and in the first nine months by positive accounting effects, mainly from derivatives and the purchase price allocation in light of our acquisitions in 2017. Both effects are roughly on the same level and compensate each other. As already mentioned, in our H1 reporting we adjusted on EBITDA level one-off items as follows: For Zugspitze and ancillary projects, 1.8 million, for changes and compensation 6.8 million and in addition to the level of net profit, depreciation of asset management contracts, 16.6 million, deferred tax assets and non-controlling interests amount to -2.1 million. We achieved a net profit of 80.4 million and adjusted net profit of 103.6 million, which is a margin of more than 46%. Now please turn to page 9.

One of our foremost goals is to set up rock solid financials in order to enable further growth. Therefore we reduced our financial debt in Q3 by 119 million and net debt decreased by 220 million. Overall, we simplified our debt structure significantly, at the end of September 2018, our bank and other debt stood at 177 million, total debt, including the senior bond and convertible bond, amounted to 658 million. We also had 285 million in cash, so our net debt was at 372 million. Let me talk briefly about our leverage ratio, the ratio between net debt and adjusted EBITDA. Our aim was to reach a leverage ratio of between 2 and 3 times, as we told you quite regularly. And this goal has now been reached with a leverage ratio of 2.3 times. So all in all, our balance sheet is solid and ready for further growth, and as we are generating free cash flow, we definitely can exclude a capital increase in the foreseeable future. With this I would like to conclude my part and refer you back to our CEO Michael, please turn to page 10.

14:53 Dr. Michael Bütter

Many thanks Lars, as I said before, based on our successful sales of the trophy assets and our solid operational performance, we assume an even better full year result than originally planned. We now expect aggregated revenues of between 270 and 280 million euros, which is from a mid-point perspective roughly 40 million euros higher than the previous guidance. The new guidance for the adjusted EBITDA is 160 to 170 million euro, plus 5 million compared to the original outlook. Our adjusted net income will be between 125 and 135 million euro, which also represents an increase of 5 million compared to the previous guidance. We could end this presentation with these impressive figures, but let me give you a sneak peak at 2019. Specific guidance will be published on February 14, 2019, together with our preliminary figures of 2018. Nevertheless we are very optimistic and excited about the first promising signals from our operations for 2019 and beyond. Our various fund-raising initiatives, including the newly created position of head of group fundraising, has already led to booming product demand from the client side. In combination with our strong pipeline of concrete transactions in innovative products and funds, this gives us all confidence in a very prosperous year for Corestate. We have had many requests and discussions with investors and analysts about a potential pay-out from our full year 2018 over the past months. To avoid too much speculation and in order to share with our internal views in a transparent way, we will give you an early indication on a potential distribution per share today. We carefully plan to distribute 2.50 euro per share, which would be an increase of 25% over this year and reflects an attractive underlying yield of roughly 6% on today's share price. Not bad for a fast-growing and M & A hungry company. But please bear in mind that this is our current and early indication, all necessary approvals need to be obtained. With this I would like to conclude and hand things back to the operator who will take your questions. Thank you very much.

Q AND A SESSION

18:11 Thomas Neuhold, Kepler Chevreux

Good afternoon. I have three questions basically, and it would be best if you take them one by one. The first would be on HFS, can you give an update on your expansion plans in Spain? Where do you stand there? When do you think the first projects will be realized and I was wondering if you see any cross-selling potential with your recent CRM acquisition?

18:46 Bütter

Thank you. For Spain the initial fund volume is mid-double digit million, we will increase slowly and healthily with very selective projects and counter-parties, only bigger cities such as Barcelona, Madrid, Valencia, Lisbon and obviously Class A lots developments. I think what we can say also from CRM, they are very well connected into the Spanish and the European market and we envisage some good synergies from that collaboration.

19:30 Neuholz

And the second question would be on your updated guidance: You mentioned in the quarter, you expect a strong development of acquisition fees and the coupon participation fee from HSS, normally you also receive performance fees in the 4th quarter – so typically the 4th is seasonally quite a strong one, yet if I look at the implied figures for Q4 both in terms of aggregated revenues and aggregated EBITDA it looks like you expect actually quite a weak quarter, even below the figures that you realized already in Q1 and Q2, so I was wondering if you can elaborate in a bit more detail why the guidance for Q4, is, at least on the surface, so conservative or did I miss something here?

20:24 Schnidrig

So, the updated or the increased guidance is out now and obviously as you know and as it is absolutely normal in this business, we are in transactions closing mood until the end, but obviously as usual we want to be sure that we get these transactions over the finish line, which we are confident of. So guidance is out there, as you said HFS, Coupon Participation fee, I think that is very transparent to model and all other transactions are reflected in the guidance that we have out there.

21:03 Neuholz

And if I compare the implied adjusted EBITDA figure and adjusted net profit figure for Q4, they are both on very similar levels, the difference between adjusted EBITDA and net profit is only 1.5 million, so are there any big additional adjustment between the adjusted EBITDA and adjusted net profit line in Q4 or question otherwise, is there hardly any financial result or taxes you modelled into your guidance in Q4?

21:40 Schnidrig
No, except the depreciation of the management contracts, in the 4th quarter, others, no. And as you also can see, the adjustments you see here now on the EBITDA level are the same as in the first half year.

22:00 Neuholz
My last question is on the progress you made in recent months on international sales activities, can you give us an update here?

22:15 Bütter
Yes, so we have visited Asia, Thomas the CIO and myself, we were on various trips and we saw increasing demand for our products and we will further work on this and our fund-raising team will do follow-ups with us on the various initiatives, so I am positive about that development.

22:55 Andre Remke, Bader Bank
Good afternoon, do you hear me? Thank you. First question also on your guidance, you increased revenues for the full year guidance up to 40 million and earnings are only 5 million. What is the reason here? Were you too optimistic for margins, because taking the mid-point of the ranges you have from margins above 60%, 53% so far, and now the new guidance is only 47%, so what is the reason here?

23:40 Schnidrig
So obviously with the placement of the three warehouse assets and there in all fairness a big complement to our asset management colleagues, because you know the story about Stadttor and you know the story about Kronberg, the letting up has been ´performed there and in combination with a tailwind from the market we simply could achieve better prices there than we were thinking at the beginning of the year.

24:12 Remke
So better prices mean higher revenues but that should also lead to higher earnings, because the stability on such deal is very high, or have I made a mistake here?

24:30 Schnidrig
Obviously two things, one is that throughout the year and this you see also in our cost base and also partially in our adjustments, we have costs that are quite common by institutionalizing t he business, then we also have generated costs. I said it in the script, the transaction volume was around 300, so that also incorporated, or that also is going hand in hand with costs for placing these warehouse estimates like legal advice, like valuations, etc.

25:10 Remke
And you talked about the typical Q4 rally, is this already confirmed by the deals or negotiations, as of today, so mid-November or is it a more general trend coming back to my question, so how is the remaining risk not to have a very strong 4th quarter?

25:43 Schnidrig
As you know, to get an appointment with the notary in December is quite challenging, so all I am saying is that we are in the middle of the transactions, once we have closed transaction per transaction, we will also usually publish this, but the full result is obviously now in the next weeks, going to be executed. But very positive.

26:05 Remke
And then a very last question on yesterday, some days ago you mentioned that you were launching a new opportunity fund. Just to discuss such a large fund a bit more in detail? What could be a realistic time frame to invest? Will it take one or two years? Or two or three? And potentially an indication of how many investors are involved here? I guess there were no co-investment stake from your side and very generally if there is a common trend to launch larger case funds in the future?

26:53 Schnidrig
So obviously you saw a press release, so usually it takes between six months up to 15 months to get it completely done, so this is something definitely for us that we want to get done in 2019, obviously. And we had, to let you know, very positive feedback on this fund.

27:27 Remke
And how many investors are involved? Or is it a dedicated fund for one investor?

27:33 Schnidrig
This is something that we cannot answer in this kind of a call, because these are on-going efforts and investors don't want to be approached now via a kind of call like this. Sorry.

28:00 Kai Klose, Berenberg
Good afternoon. I have three questions, the first one is on page 7 of the presentation for the 31.7 million acquisition related fees, what was the underlying transaction volume? What was the split between acquisitions and disposals? Secondly on the asset & property management fees, if you take out HFS, what was the split between asset and property management fees? And then the third question is on page 5 regarding the acquisition of CRMs, could you indicate a bit more on the underlying clients and also where the fees that you will get from that business will be booked? Will it be part of the asset management or of the property management fee segment? Thank you.

29:04 Schnidrig
Thank you, Kai, let's start with the acquisition fees, 31.7, this is only acquisition and not sales, so by our definition and it includes as well the transactions that we have done on the group on the real estate equity part but also the underwriting fee in HFS. Then the third question, I will come to the second, CRM will be booked under the property management fees and excuse me, I am not a stenographer, can you repeat the second question? I did not write it down.

29:45 Klose
It was regarding the split of asset and property management fee, 99 million, if you take out HFS, for the remainder, what is split?

30:18 Schnidrig
Sorry, I had to go through my numbers, so we have roughly 14 million property management fees and the remainder is the asset management fee.

30:50 Klose
Thank you. And on the acquisition related fee, you mentioned that it includes acquisitions for the group as well as for underwriting fees for HFS, could you indicate what was the acquisition volume for the group?

31:07 Schnidrig
Around 6 million for the group and the remainder is the underwriting fee of HFS.

31:18 Klose
And the six million refers to which kind of acquisition volume in euro million? Or euro billion?

31:26 Schnidrig
Roughly 600 million.

31:35 Georg Kanders, Bankhaus Lampe
I would like to come back to the discrepancy between the strong increase in the revenue guidance and the moderate increase in the adjusted net profit guidance – are there not any more investments e.g. in Zugspitze necessary? And do you now refrain from adjustments on this? Or have you become a bit more cautious?

32:20 Schnidrig
So Zugspitze, very minor, but it does not make sense for us now to adjust, put it this way, some 50 or 100 thousand, so very minor, this is really I would say 99.9 done.

32:40 Kanders
And is it just because you now had such a high profit that you are a little bit more cautious on costs? And is it something that you are more or less preparing a bit for the future?

33:10 Schnidrig
Sure, of course we have invested in staff, in IT throughout the year, that is not a secret, you remember that I always highlighted how we have built up the platform and that included staff, IT – and that produces, so this we will harvest in Q4 and in 2019, because these are typical costs, just imagine, keep in mind e.g. also our expansion to international equity raising, therefore we hired the one or the other pretty prominent fund raiser and that produced costs, correct, yes.

34:00 Manuel Martin, Auto BHF
Hello, two rather general questions. One refers to organic growth of assets under management, do you have or do you plan to give an indication for organic growth in assets under management per year that you would like to achieve? The second question relates to the dividend payment: How much of the warehousing gain is reflected in your announced dividend payment or is that Level something sustainable for the future? Maybe you could elaborate on that, please.

34:45 Schnidrig
Sure, so first to the dividend, that is definitely sustainable. We always said that we will let our shareholder participate in a very decent way and we see here a strong growth on the dividend by 25%, and that is pretty good for a growth company, at least I consider it to be. So, that means, only because the warehousing gains are here that has nothing to do with that, that we are prepared to pay the dividend. And the other was what? The first one?

35:28 Martin
Regarding organic growth indications relating to assets under management?

35:34 Schnidrig
I mean AUM growth is something that you want to see if you have always the same kind of AUMs, so given that we have so different kinds, I think it does not make sense, I would rather look at the revenues on the topline and there we always communicated that for a company like ours, organic growth between 5 and 10% mid-term is something we at least on this side of the table, want to achieve. Yes. And one thing to add, you saw despite the fact that we had all the growth, the integration, the deleveraging and all these things, we show here year-to-date in our core business more than 6% organic growth in AUM, which says a lot about our ambitions.

36:35 Norbert Kretlow, Commerzbank
Good afternoon, I had a question on the mezzanine capital and sort of a follow-up to the discussed organic growth. Could you give us an indication of the growth trends in the AUM and mezzanine capital, and with regards to mezzanine, can you also give us an indication about the latest trends in margins? I understand that mezzanine are a major earnings contributor, margins are above average, is there any thought of say price pressure showing up on the horizon or are the high margins that you generate defendable for the time being?

37:25 Schnidrig
Yes, so first – extremely strong growth obviously in the HFS business since we have acquired it, remember when we started the journey July last year the fund was roughly 1.05 and we are now in excess of 1.2, so that is a decent growth, and I always said we will continue that but we have as a market leader not by size but by quality the luxury that we can choose and cherry pick the projects, and we will continue this. And you see in reality, when you compare Q3 and Q4, that the tendency towards the Big Seven City has even been enlarged on the picture, that is very impressive, I think. So therefore we have growth, we will – what Michael said – see growth in Spain, if you put the numbers in context to the 1.2 billion you have already a strong organic growth, because it is also organic growth, it does not matter if it is in Germany or in Spain, we do not buy another mezzanine platform,

this is pure organic growth. Then the margins: I can clearly answer with a no. Why? Because we as the quality leader we are able to get these margins, why? Because our client pitch in the Big Seven cities, mainly, and there you need to be quick, I always refer to this example – if you want to buy a land plot in Munich as a developer, you don't have the luxury to look for financing for six or eight weeks, you need to be quick, and we can give them feedback within a week. And this is the price to get that in a qualified and sustainable way and for them having financing security. And in addition I can give you one more background: I talked to all of the German Pfandbrief banks during Expo Real and they clearly indicated to me that they highly appreciate the quality leadership with our underwriting and with our risk underwriting process. On genost, you know this company we have, where the qualified valuers work for us, so that is working very well and in all fairness the government actually helps us, because the government needs more than a million additional residential units by 2020, at least this is what Dr. Merkel said, and guess who will build this? Our clients! And therefore I do not expect this business at least to slow down, in contrast we will do everything to be part of this governmental initiative.

40:45 Klinger

Thank you for your attention and your questions, we highly appreciate your interest, and we apologize for the short delay and the technical inconvenience at the beginning of the call. Additional information: You find our just published 2019 financial calendar on the last slide of the presentation, and of course on our website. We will be on the road over the next weeks, and hope to meet many of you. I am available for answers, too, so all the best and thank you again.