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CORESTATE Capital Holding S.A.

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00:37 - Dr. Kai Klinger

Hello everyone, a warm welcome to our call today, for the presentation of the preliminary results of the financial year 2018. As usual I'd like to direct your attention to the forward-looking statement and disclaimer wording on page 2 of our presentation. The safe harbor language applies to the presentation and all comments we'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 CFO and interim CEO, Lars Schnidrig, will guide you through the presentation by discussing the highlights of the last 12 months, and then provide you with our financial guidance for the current year, 2019. This will be followed by the usual Q and A session. The time-frame 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, please.

01:26 - Lars Schnidrig

Thank you very much Kai, and very warm welcome to all of you. Before speaking about the full year 2018, let me quickly point out that we had an outstanding Q4 with strong operational results. If we compare 2018 to 2017, we can summarize: 2018 was a very, very successful year for Corestate. One example of many: Our real estate assets under management increased organically by more than 9%, which is in the upper end of our internal growth assumption. As you all know, we uplifted our guidance for 2018 in November, and now I am happy to tell you that we managed to outperform this increased guidance on all levels. Crucial part of the success story was, once again, our subsidiary Hannover Leasing, showing a record year. And what is very important: we managed to de-level the company to the lower end of our target range of net debt to adjusted EBITDA of between 2 and 3 times. We also accomplished cleaning up our balance sheet, so the debt side has become much better structured and more efficiently, by mainly showing the senior unsecured bond and the convertible, and finally we halved our financial costs to an average interest rate of below 3%. In October we acquired CRM, UK's largest independent operator of student housing. Already now, the integration is completed and we harvest the first fruits of this deal.

Let me briefly highlight our distribution to the shareholders. Of course, the bodies, especially the AGM, have to confirm this finally, but our first indication we gave several weeks ago is still valid: we plan to distribute €2.50 per share, which reflects an increase of 25% compared to last year's €2. Now please turn page 4.

After the termination of the employment and departure of our former CEO end of December, our management board consists of two people, both with a longstanding track record in real estate, deal making and finance. For the time being the responsibilities of the former CEO have been taken over by Thomas Landschreiber and myself in a very productive way. Thomas mainly focuses on clients, products and transactions; my responsibilities encompass typical holding functions and CFO topics. We have set up over the last 18 months a very senior, and well experienced second management layer, with hires from the "who is who" of competitors in asset management and the real estate investment industry. This makes our organization structure highly reliable and even if a potential succession in our management board will require more time, this gives the supervisory board enough room to act in a prudent, and sustainable way. Now please turn to page 5.

As said before, our real estate assets under management have increased from €16.2 to €20.7 billion including €3 billion from the CRM acquisition. So organically, our real estate AUMs grew by 9.3% in 2018. Overall, our AUMs, including CRM, went up by more than 15% to €25.3 billion. The biggest part of it is residential followed by office and rapidly growing micro-living. Our portfolio is dominated by residential, and its extension, micro-living, which together constitute nearly half of our portfolio. Our non-real estate AUMs were decreased as planned by €1 billion to €4.7 billion. One reason why we look very optimistically into 2019 and beyond is the once again strong sourcing pipeline consisting of more than €5 ½ billion potential transaction volume with one quarter in exclusivity or in LOI status. Please flip now to page 6.

Let me speak once more about our real estate debt business, HFS. As you all know, our focus with these activities is to benefit from the immensely growing need for urban living in Germany, but also in Austria and Switzerland. In the same time, we will very closely monitor and manage risk for this business by being very diversified and by having a clear focus on booming metropolitan areas. By end of December 2018, our committed front volume was slightly above Q3 and showed more than €1.2 billion. Since the acquisition in 2017, we have increased the volume roughly by €200 million, including very solid underlying interest rates. The number of projects stood at 55, and the average size of mezzanine tranche was roughly at €23 million, the overwhelming part in German residential projects in favorable locations. As you see on the lower part of the slide, we have about 70% of all lending volume going out Germany's top 7 cities, the other 30% to other booming cities in Germany, Austria and Switzerland. And, as you also can see, all are very well diversified. So, I could summarize: growing demand for a growing business, well diversified and ready for further positive development. Now please turn to page 7.

Let us speak about the key preliminary figures of 2018. Our aggregated revenues went up by around 50% from 195 million in 2017 to 292 million in 2018. Our guidance, which was only increased in November, stood at €270 to €280 million. After the attractive returns from the placement of our trophy warehousing assets in Q3, our Q4 showed the second strongest quarter in 2018. Main tailwind came from our new business with corresponding higher acquisition related fees and an excellent performance in our earnings from alignment capital - most of them are at Hannover Leasing. The adjusted EBITDA was increased by 50% from €123

million to €184 million, also outperforming our increased guidance, which indicated a level between €160 and €170 million. Our adjustments on EBITDA, reflecting mainly extraordinary items, in terms of the management change in H1, our performance project Zugspitze and a minor impact from acquisition of CRM back in October 2018 according to the consistency and the growing concern principals. Now please turn to page 8.

Our adjusted net profit also increased substantially, from €93 million in 2017, to a touch more than €135 million in 2018 by 46% and it's slightly above our guidance of between €125 million and €135 million. A burdening effect on our net profit came from a higher negative financial result, driven by our prepayment penalties from the clean-up of our financing structure and a higher impact from minorities in our equity investments predominantly at Hannover Leasing, for example in alignment capital vehicles, or in our trophy warehousing assets Danone and Stadttor. The reported net profits stood at €104 million and the earnings per share went up by 52% year over year from €3.24 to an EPS of €4.93, post minorities. As mentioned at the outset, we published the first indication for our distribution in November and re-iterated it now. Of course, the distribution is subject to final approval of our bodies, including our AGM. Nevertheless, our initial guidance of €2.50 per share would shape a pay-out ratio of about 50% with an EPS of €4.93. I would assume this being an impressive figure for a fast-growing company and will be also a good reference for the future. Very important for us was to establish a very solid balance sheet which was accomplished in 2018. Our financial leverage ratio went down from 4.2 times net debt to adjusted EBITDA at the end of 2017, to 2.1 times at the end of December, such we very comfortably arrived on the lower end of our mid-term target range of between 2 and 3 times. In combination with our improved free cash flow, we have enough leeway for further accretive growth. Now please turn to page number 9.

Lastly, let me give you our financial guidance for the full year 2019. We expect aggregated revenues of between €285 and €295 million, an EBITDA of between €165 and €175 million, and an adjusted net profit in the range of €130 to €140 million, the adjustments on net profit level reflecting the current practice in Corestate of PPA in amortisation of the past acquisition. We expect dynamic organic growth, in particular in our core business, real estate investment management, by more than 30%. Our latest acquisition, CRM students, will be fully included in our 2019 guidance. This guidance does not reflect any impact from potential further M&A activities. The full range of numbers will get published in our annual report on March 21st, and shortly after will follow the convening notice for our AGM end of April. With this, I hand back over to Kai.

12.14 - Dr. Kai Klinger

Thank you very much Lars. Lars and I are now happy to take your questions, please.

12:22 - Arkadin Moderator

Ladies and Gentlemen, we will now begin our question and answer session. If you have a question for our speakers, please dial 01 on your telephone keypad now to enter the queue. Once your name has been announced you can ask a question. If you find your question has been answered before it is your turn to speak, you can dial 02 to cancel your question. If you are using speaker equipment today, please lift the handset before making your selection. One moment please for the first question.

The first question comes from Thomas Neuhold (Kepler Cheuvreux). Your line is now open.

13:07 - Thomas Neuhold (Kepler Cheuvreux)

Good morning gentlemen, thank you for taking my questions. I have several ones, and I think it's the best if we go through them one by one. Firstly, on the 2018, I was wondering if you could give us an indication on the free cash flow generation in 2018 and what kind of inventories of your housing assets you carried at the end of 2018.

13:36 - Lars Schnidrig

Thank you, Thomas, it's Lars. So warehousing, I can say the final numbers you will see obviously in the year end report when we publish this on March 21st, therefore I really ask there for some leeway. Anyway, warehousing, positive, we will be I think even a touch less than 100. So, you remember, we were once higher, at 350, then we went down I think somewhere around 150 and now we are even better. So that is progressing better than even expected. Free cash flow statement unfortunately I can't disclose at this stage, but it will be definitely a positive outcome. So, I mean, it's not quantitative but qualitative, it will be a strong free cash flow statement, which you will see in the year end.

14.34 - Thomas Neuhold

Understood. Then I was wondering if you could give us an update on the current market situation and growth opportunities, for which product in which market you currently see the best growth opportunities and looking at the chart on page 6 regarding HFS, I was wondering when you expect to do the first deals in Spain.

15:10 - Lars Schnidrig

Yeah, I mean we invested, I said in the call, heavenly in the extension of our residential business, I mean when you look at our portfolio, we have now close to half of it is residential and its extension micro-living, and this will continue. So, the acquisition of CRM, it seems to be a small acquisition from numbers, but it's a very important acquisition from a strategic point of view. So that will offer us- and we want to develop into this direction. One market leader that was Corestate in micro-living has acquired another market leader that is there, I mean in the UK, and is an independent company, and we will continue this, so therefore there we will see growth continue throughout Europe. That is on selective basis, for instance we have already acquired the one or the other plot, which we will disclose throughout the year and there we will continue our micro-living activities. There we simply follow megatrends, and that is very fostering. And as you know, we always say 5 – 10% organic growth, we saw now in the real-estate assets in 2018 9.2% which was even an uplift compared to the Q3, where we had 6.2, organic growth, and then we will continue with our other product lines, for instance Hannover Leasing actually had one of the most successful years since its inception, 37 years ago, roughly. Where are they? They are very active in core office, on the combined base, what we see that integration simply has happened obviously and it pays off now, in terms of synergies, we will even further develop also this business.

17:12 - Thomas Neuhold

And then I was wondering if you could give us an update on your M&A strategy, segments, markets and on what the buy brand potentially could look like, and regarding M&A, I was just wondering what your thoughts are currently, given the low market price that your stock is trading at the moment, do you think it's possible to make a deal which is not settled on a multiple basis and what your thoughts are on a potential share buy-back, isn't that the best possibility to deploy capital at the moment?

17:58 - Lars Schnidrig

M&A pipeline, so first of all the regulatory pressure on the smaller ones has definitely increased. So smaller ones have issues to get access to institutional clients, they are coping with the regulatory cost burden, so time therefore is very straight speaking and you asked, is there accretive deals, yes, there are. What is our strategy? Our strategy is definitely to get the right people, the right teams on board, and there we are very well prepared now because we have the platform now completely installed, and we have access to capital, we have cash. I'm very certain we will see something throughout 2019, but it's not only about just get the next acquisition in: it has to add value for our clients. So that means we buy other asset managers if they offer products which are requested by our clients. I'll give you one example: CRM acquisitions has a product which is absolutely demanded by clients, and that was the reason why we have acquired them. And also, this transaction obviously was highly accretive, not taking into account potential synergies going forward. So very positive about that, because the pressure on the smaller ones simply has increased throughout the time, and clients want to have larger platforms with more products.

19:43 - Thomas Neuhold

Thanks. And regarding my question on the share buy-back, is this something you are considering at the moment, given where the stock is trading at and you have roughly 200 mill. in cash on the balance sheet?

19:57 - Lars Schnidrig

I think the management has always in such a situation the option, and it is an option, but the question is how do you deploy your capital and currently, and these show also the 2018 numbers, this is a growth company and if we can invest going forward in this, what drives our fees, and that's at end of the day the products we are selling to your clients, we are managing for our clients then I guess this is also very, very valid option.

20:33 - Thomas Neuhold

Okay thanks. And my last question is on the potential CEO replacement, where do you stand here?

20:41 - Lars Schnidrig

The supervisory board has its own process. I know that the supervisory board is neither hectic nor panicked in this, because as said in the call, we have a very strong second management level. Thomas and myself continuing to manage this platform and I'm very convinced they will find the right person, or will, how you say, nominate the right person when the time is there. But please allow them also some time. It was a very short-term driven decision over Christmas, over New Year's, and effectively once they could then get into action with this process it's roughly 4 weeks ago.

21:29 - Thomas Neuhold

Okay. Thank you very much.

21:32 - Lars Schnidrig

Thank you, Thomas.

21:38 - Andre Remke (Baader Bank)

Good morning, Sirs. Also, from my side a number of questions starting with a more technical question on page 9 of the guidance. You refer to EBITDA, in the past it was adjusted EBITDA, does this simply mean that you do not expect any adjustments on that line for this year?

21:59 - Lars Schnidrig

Correct, Andre. We don't expect any adjustments on EBITDA level.

22:04 - Andre Remke

Okay. So, in the future you will probably always guide on EBITDA.

22:12 - Lars Schnidrig

Correct.

22:13 - Andre Remke

OK perfect. Then on your organic growth last year, 9%, is the same range of between 5 to 10% for this year a reasonable assumption?

22:32 - Lars Schnidrig

It is, Andre, yes.

22:35 - Andre Remke

Okay. And also, on page 9, you said in the first point, assumption and key levels, dynamic growth in core business, real estate investment management by above 30%. To what point refers the above 30%? Is it fee of the revenues from the real estate investment management, year on year you expect more than 30%?

22:06 - Lars Schnidrig

That's all correct. I mean, you saw that we had... Or you will see then also in the year end account that we-- and you saw it obviously already in the Q3 - that we had roughly 50 something net gains from the warehousing and, put it this way, the quality of fees will be transferred from warehousing segment to the real estate investment management segment in our guidance 2018. And this is roughly a touch more than 30% we will see there an increase in real estate investment management fees and yes, this is what I meant to say. Which is obviously positive because this is our core business and they see how the platform simply works...

23:58 - Andre Remke

Perfect, okay, thanks. Another question is on your leverage, on your deposition. The target leverage as you mention was 2 to 3 times, now with reaching the lower end, do re-think about the further deleverage of the overall company, or is this really the level of the target level also for the future, 2 to 3.

24:24 - Lars Schnidrig

For short term it will be 2 to 3, and we also want to have some leeway also for acquisitions so that means obviously already that this gives us some flexibility. So, to go below, I would definitely not see as an option in the short term, and as always said, medium term is for me 2 to 5 years, and world can change, but for the time being we keep it between 2 and 3, simply to have flexibility in terms of growth, organically and inorganically.

25:04 - Andre Remke

OK, perfect. Then the last question regarding HFS. In the past, you mentioned that some developments from HFS could potentially be turned into funds for your clients. We saw a large deal at the beginning of last year, but what about the mass products? Did the overall process in turning into own funds materialise last year? Could we probably get an indication on the volume, or maybe a ratio of completed projects turned into own funds?

25:46 - Lars Schnidrig

Yes, absolutely. So there, we definitely made and make progress. I said roughly close to half of our portfolio I think is now residential plus micro-living. This is definitely a product that is asked for, in particular by institutional investors, because they are yielding 3.5/4%, which is extremely attractive from their perspective, from their investment philosophy. You're right, we saw in 2018 one lighthouse transaction that was a BBK transaction with 670 million, we saw or we are in the process of, on a smaller scale, with some institutional investors, to place assets by our forward purchase agreements and to deliver the product, but I can't disclose now anything. Once we have closed the transaction, we will disclose them to the market, but this is definitely something which is one major – no, not major – which is a synergy in the platform.

26:57 - Andre Remke

But it's not likely that we, apart from these- I think large deal that we really can receive from your end a kind of ratio... what could be... is finished in development and what could be turned into funds.

27:21 - Lars Schnidrig

It is on an opportunistic base, but as you also may have seen we have heavily invested in our sales teams, with our new global head of equity raising, Douglas Edwards... And the demand is there, so that means the demand for this product, it's now February, see which of these demands will be materialised in larger projects throughout the year, but again, very positive about seeing their synergies coming up throughout the year, with institutional clients.

28.04 - Andre Remke

And in general, the margins regarding HFS within financing, can you confirm that this is rather stable?

28:14 - Lars Schnidrig

It is... I can confirm it is absolutely stable and obviously it is also driven by the current housing initiative of the German government. As you know they are planning to support the development of 1.4 billion flats that's the largest housing initiative since world war 2 - and our clients will definitely also play a certain role in this. And therefore I can say currently it's absolutely stable.

28:50 - Andre Remke

So you see no real competition or emerging competition from- for mezzanine financing in the market.

29.02 - Lars Schnidrig

Of course, there was and is competition in this business, it is an attractive business, but we are not only market leader by size, we are also market leader by quality, and quality means that we are very reliable in execution and that is very important for our clients when they are bidding for attractive land plots in preferred cities. Therefore, we feel comfortable.

29:35 - Andre Remke

Okay, perfect, thank you very much.

29:38 - Lars Schnidrig

Thank you, Andre.

29:45 - Kai Klose (Berenberg)

Yes, good morning. Question: the EBTDA margin for 18 was 63% and it's in the upper end of the guidance for 19, the margin should be 59% while the profit margin is from 19 quite similar to 18. Is there a reason why the EBITDA margin should be so much lower compared to last year?

30:12 - Lars Schnidrig

No, there is no reason and I think there is a mid-point, and of course target is around 60%.

30:22 - Kai Klose

Okay, okay. Then a question on page 6, to how many clients has HFS been lending capital to? 55 projects and this is a split over how many hands?

30:42 - Lars Schnidrig

It's moving, obviously, because the whole portfolio turns around once a year, but around 20 to 30 developers throughout the republic, plus Austria and Switzerland.

30:55 - Kai Klose

And is this in any way different to the end of last year or the first half last year?

31:01 - Lars Schnidrig

No, absolutely not. Absolutely stable, Kai.

31:05 - Kai Klose

And how much of the mezzanine capital has been granted, has been given to Spain or what about the extension of it to Spain already?

31:05 - Lars Schnidrig

With Spain, we are in the very early stage, so we are looking and they are currently investigating– there are currently 3 projects and we do this in a very diligent manner, so on a small scale.

31:33 - Kai Klose

Okay, thank you.

31:33 - Lars Schnidrig

Thank you, Kai.

31:42 - Georg Kandera (Bankhaus Lampe)

Just one technical question, maybe I missed it during the presentation. You exceeded your guidance, increased by revenues and by EBITDA, and if I take the upper end, but not by the adjusted net income. Was the reason, was it simply due to increased minorities, or was it also tax items, or what was the reason that it did not feed through.

32:12 - Lars Schnidrig

Yeah, you got it, the main reason was the minorities, I mean we also exceeded it slightly, the net profit, but you are right, the main thing was the minorities.

32:25 - Georg Kandera

Okay, thank you.

32:27 - Lars Schnidrig

Thank you.

32:35 - Manuel Martin (ODDO BHF)

Good morning gentlemen. Just two questions, of a rather follow-up nature. On the figures 2018 again, maybe I missed that, you surpassed your guidance. Could you give us maybe a bit of flavour, what were the main drivers, was it mezzanine fees in Q4, or what, how could we think about that?

33:08 - Lars Schnidrig

So, as said in the presentation, main drivers were better acquisition fees and alignment capital, and overall I can state that when we lifted the guidance in November and where we are now, that simply the platform performed. Everything worked very well, there were many, many smaller fee patterns developed how we hoped that it will develop, but the main drivers were acquisition fees and alignment capital.

33:36 - Manuel Martin

Okay, thanks. Second question following up on the situation concerning the CEO topic. What's the current situation around the departure of Mr Bütter right now, is there a dismissal wage planned, or is that process completely closed, how could we see that topic?

34:01 - Lars Schnidrig

The... how did you say, dismissal plan? It was closed already. End of year 2018, beginning of January, so that's done, and since then the supervisory board is in a structured process to nominate a new one, and they do this in a very conscious way.

34:22 - Manuel Martin

But is there an indemnation planned or is it not possible to comment on this right now.

34:34 - Lars Schnidrig

No, otherwise you would see this in the adjustments.

34:04 - Manuel Martin

Okay. Thank you.

35:08 - Arkadin Moderator

As there are no further questions, I would like to hand back to you, gentlemen.

35:14 - Dr. Kai Klinger

Thank you very much for your interest, your attention and your questions. Lars and I will be on the road over the next two weeks and we will meet some or many of you in person. I will also be available for further questions after the call. And all the best for you, and happy Valentine's day!