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00:00 – Operator

Dear ladies and gentleman, welcome to the CORESTATE Q1 Results Earnings Call. At our customers' request, this conference will be recorded. As a reminder, participants will be in "listen only" mode. After the presentation, there will be an opportunity to ask questions. If any participant has difficulties hearing the conference, please press * key, followed by 0, on your telephone for operator assistance. May I now hand you over to Dr. Kai Klinger, Head of Investor Relations and Capital Markets, who will lead you through this conference. Please go ahead, Sir.

00:38 – Dr. Kai Klinger

Hello everyone, a warm welcome to our earnings call today for the presentation of the results of our first quarter in 2018. As usual, I would like to point you to a forward-looking statement and disclaimer warning on page 2 of our presentation. This applies to the presentation and all comments to be made today. I would also like to mention that everything is being recorded. A replay will be available on our website. Our new CEO, Michael Bütter, will start the presentation with the highlights of the last couple of months and provide you with more details about our operations. Afterwards, Lars Schnidrig will guide you through the financials, then Michael will end the presentation, followed by the usual Q&A session. The time frame for today's call is about 30 minutes, so I'm very pleased to turn the call over to Michael. Michael, please.

01:35 – Michael Bütter

Thank you very much, Kai, and good afternoon from my side. I am delighted to welcome all of you to my inaugural earnings call at Corestate. To start with, please allow some personal words before we start with our Q1 results. I've tied close links to Corestate during the last two years. As Senior Advisor, it was a true pleasure to develop and support the strategic steps over the past quarters, together with the team. Now it is even more of a privilege for me to lead and to be part of the senior management team of this special company since the beginning of May. It's fascinating and inspiring to feel the dynamic spirit on each project and every layer. It's in the Corestate DNA not to do every possible deal, but the most profitable ones, so we can offer the best for our clients and shareholders, which is the promise we as a company make. My personal promise is that I will continue this success story. After these introductory remarks, let's jump into our quarterly results, and start on page 3 with our most recent highlights. With my first working day two weeks ago, the realignment process of our management board and executive committee was completed. The group executives consist of, beyond myself, Thomas Landschriber, who is in charge of our comprehensive deal machinery, supported by Philip LaPierre as co-CIO. In addition, all organisational issues, including post-merger integration, and our newly built platform, are in the experienced hands of our COO, Stefan Scherrer. And, last but not least, our group financials, as all of you know, will continue to be perfectly managed by Lars, with whom I worked together for 6 years at Vonovia SE. Another important date for our governance was the 2018 AGM, held on April 27th in Luxembourg. All agenda items were approved with large majorities and, most importantly, a distribution of 2 euro per share was resolved. By doing that, we have doubled the pay-out per share since last year and given a strong signal for our general commitment to distribute about 50% of our net income to our shareholders. By all means, it was a decent proof to take our stock as an attractive yield play. Coming now from shareholder value and governance to our current operations. In general, our deal and financial performance indicate a promising start in 2018. I don't want to anticipate too much; Lars will give you more colour on our most recent numbers later on. In terms of the state of our corporate structure, we are ahead of our ambitious plans and projects. For instance, ATOS is now fully re-branded and integrated on all layers in our platform structure. Another important aim of 2018 is to further standardise our business processes and align operations as Corestate is getting bigger and, therefore, more complex. Flipping now from the left side of our balance sheet to the right. A crucial milestone in cleaning up our heterogeneous liability structure was the first senior unsecured bond placement which has simultaneously unlocked our DCM access. Lars will cover this in greater detail in a couple of minutes. In late February, we also made further progress on the equity side by improving the free float to more than 63% after major placements from two of our existing shareholders. We are now included in the SDAX since the middle of March. And we saw, last week, the initiation of another broker coverage from Kepler Cheuvreux, the sixth one with a clear buy recommendation. Welcome on board, Thomas Neuhold. Let's flip now to slide 4. Our general AUM development is in line with our assumptions. The basic trend is an expected decrease in our non-core legacy business from Hannover Leasing, compensated by an increase in real-estate exposure on attractive rates. Our AUMs in our core business went up by 3.7% since the end of 2017. And you can see the planned drop in our run-down portfolio of roughly 16% since the end of last year due to expiring products. In our real estate AUMs, the mix between our main products: office, retail, residential, and micro apartments is quite stable. On the right half of the chart, we've compiled some data on our sourcing pipeline which covers currently 5.5 billion euros. One quarter of that is already in exclusivity or in an LOI or DD process. Our pipeline reflects the AUM sourcing capabilities as one of our key strengths and a guarantor of our organic growth. As typical in the first quarter, we have seen a slight seasonal and, therefore, absolutely usual impact according to a restrained deal flow at the beginning of the year. Let's continue with slide 5. According to the strategic relevance in our group and as a main contributor to our EBITDA, we want to give you a little bit more colour on the HFS Mezzanine business with this chart. The simple figures are quite impressive. At the end of March, 1.2 billion euro of total fund volume was fully invested in 58, mainly German, real estate developments, with an average size of 15.4 million euro. Compared to the end of December, the relative share of residential projects went up to 80%, according to the well-known increasing needs in this product class, especially in the booming German metropolitan areas. More than 60% of finance projects are located in the popular top 7 cities, i.e. Cologne, Berlin, Hamburg, Munich, Frankfurt and Dusseldorf. Only a minor charge is invested in Switzerland and Austria. Please go now to the next chart on Page 6. Here, you see some examples of current launched and structured products. Firstly, High Street 8, with its investment strategy focused on creating a sizeable and well-diversified portfolio of prime retail properties throughout Germany. Like the successful seven predecessor funds, the targeted portfolio consists of five retail assets, in prime locations of stable, mid-sized cities liked Sindelfingen, Garbsen and Schwenningen. Currently, the assets are about 95% occupied. We expect a term of around 4 years, producing an attractive annual cash distribution of around 6%. Currently, the aggregated investment size is roughly 250 million euro, requiring an equity commitment of around 100 million euro. Another new product is called Corestate Opportunity Deutschland 1. The structure is more conservative and regulated through a German entity. One innovative element is to provide the fund with a tangible ISIN and other more bond-style documentation components, which gives investors more flexibility in terms of portfolio allocation. The fund offers a cash distribution of 4.5% per annum for a 7-year term with the relatively low leverage of only 50%. Investment synergy is focused on German commercial and residential properties that require active asset management. The fund has a target volume of up to 800 million euro and a corresponding equity contribution of 400 million euro. There is already a designated seed portfolio of 7 properties with a cross-asset value of around 264 million euro. Equity raising for both products is working at full speed. And now, with that, I am happy to turn the call over to Lars, who will guide you through our financials. Lars.

11:22 – Lars Schnidrig

Thank you, Michael, and a warm welcome to all of you also from my side. So let's start on page 7 with our aggregate revenues of close to 62 million euro in the first quarter of 2018, which is obviously a solid top-line start in the year. The main driver is our core business. This is reflected in our 80.2 million acquisition fees, and our 31.8 million asset and property management fees. The latter includes the corporal participatory from HFS. Both together represent approximately 80% of the total revenues generated in the first quarter. As a side note, according to IFRS 15, which is applicable from January 1st 2018, and after consultation with our auditor Ernst & Young, we include the Coupon participation fee funds from the HSS on a pro-rata temporary basis in this revenue position. To make this, for you, as transparent as possible, we report the HFS Coupon participation fees supplementary. Promote and sales fees are the most seasonal element in our fee pattern and will increase throughout the year as usual. 3 million euro in alignment fees are in-line with our budget. The 8 ½ million income from our warehousing business is, as expected, still a little bit restrained with his main contributor, rental income. This will change in the second half of the year when we have accomplished our placements in Dusseldorf, Stadttor and Utrecht DANONA and in Kronberg. Now let's go to the next page and look at our profit. I start with our expenses on real estate investment management and the G&As. A notable exception is a 1.4 million euro one-off for management board realignment. With a reported EBITDA margin of 60%, an adjusted EBITDA margin of 62.7%, we are quite in good shape for the first quarter. In the financial result, we show approximately 3 million positive effects on our derivative. The tax ratio is on the lower end of our typical range, between 10 and 15%. On the bottom line, we have a reported net profit of 28.5 million, which translates into a margin of 46%. The adjusted net profit is 34.7 million euro, representing a margin of 56%. Total adjustments on net profit level are in addition to the management realignment costs, the non-cash depreciation on our management contracts and inverse adaption on deferred tax assets. Now let's flip to Page 9. As Michael said already, end of March, the door opened to the debt capital market for Corestate. We issued a 300-million-euro senior unsecured bond with an annual coupon of 3.5% in a five year term. Standard & Poors, our rating agency, confirmed our rating, which is double B plus, with a stable outlook also for our instruments. Our aim is to harmonize and simplify our financing structure. The maturity profile is now extended. We are solidly financed and gained access, most importantly, to capital via the debt capital market which is an important source for further organic and inorganic growth. Let's go to the next slide where I show you the progress on leverage. Total debt including the 300 million profit from the recent bond issue, that's 889 million euro. The applicable cash is 382 million euro; therefore; net debt is 507 million euro. This results in an LTM, so last 12 months' leverage, i.e. the ratio of net debt to adjusted EBITDA, of 3.25, which is a considerable reduction from 4.2 at the end of 2017. Roughly 19 million in warehousing debt is allocated to our to-be-placed assets, Stadttor in Dusseldorf, Kronberg, close to Frankfurt, and DANONE Asset in Utrecht, with subsequent deconsolidation once they are placed. The deleveraging effect by placing these three assets is approximately another 1.2 multiplied like-for-like on the net debt with adjusted EBITDA. A good assumption, and that is not in addition to the three, a good assumption of additional debt from new warehousing assets could be between 50 and 100 million euros throughout the year. Now I hand over back to Michael who will finish with the outlook for 2018.

16:21 – Michael Bütter

Thank you very much, Lars. So what are our main goals for the rest of 2018? First and foremost, simply to execute our pipeline, serve our existing clients, and attract new customers both nationally and internationally. In order to increase our performance outside Germany we strengthen, for instance, our branches in London and Madrid. We're also confident about new business projects at Hannover Leasing. Our colleagues are currently very active in new club deals, for example. Another interesting prospect is the expansion of student housing concepts in selected European countries. And of course, we are constantly in a very structured process of market screening and preparation of potential acquisitions of asset managers and complementary asset classes in Germany or attractive regions abroad. Finding the right partner, however, takes time, diligence, and financial discipline, which we certainly have. So, clear commitment from my side to our conservative acquisition criteria, which supports lucrative deals only. Coming last but not least, our financial outlook. We have the comfortable situation of a sound start in our reporting year, so we confirm our financial targets' ranges for 2018 with aggregated revenues of between 230 and 240 million euro, adjusted EBITDA of between 155 to 165 million euro, adjusted net income of between 120 and 130 million euro. Our next crucial capital market date will be the publication of our half-year results this summer on August 14th. With that I'd like to conclude our joint presentation. Now we'd be more than happy to take some of your questions, and I hand over the call to the operator. Thank you so far.

18:30 – Operator

Thank you. Then, 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 is answered before it's 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. We have received the first question; it comes from Thomas Neuhold of Kepler Chevreux. Please go ahead, the line is now open.

19:17 – Thomas Neuhold

Good afternoon, gentlemen. Thank you for taking my questions. Actually, I have a couple of questions. Firstly, I was wondering on this 5.5 billion sourcing pipeline. If you could provide us with more details on which sectors, which product, and also which countries the acquisition buy plan is mainly composed of. The second question would be on the HFS business – it's a high-return business, it's excellent margins… Can you elaborate a little bit on the growth potential you see for this business in the next couple of years? And the third question would be on your internationalization strategy. In which countries do you plan to roll out the student housing activities, and can you provide us more details on your plans in London and Madrid going forward? And, and the last question from my side would be if you can you provide us with an update on the status of the integration of the big acquisitions last year at Hannover Leasing and HFS, thank you.

20:43 – Michael Bütter

Thank you, Thomas, for your questions. Lars?

20:47 – Lars Schnidrig

So maybe, to the pipelines. I discussed it with some of you, our investors. So, this is a pretty tangible pipeline for us. You see what we are exclusive, you see were we are on LOI status, and that is exactly covering the products we are working on and where we are generating our fees, so that's including, it's very well spread on our product lines, including residential, including high street, including retail, including office, including student accommodation. The exact split I will not provide because as I said, it's a tangible pipeline. But it's, what I can ensure you, it's very well spread about the product and, that, as Michael pointed out in his speech, simply, ensures the organic growth part. Secondly, you ask about the growth potential of HFS. We have a guidance out there; we will not give a guidance for 2019 now. Once we have that, we can elaborate more on the growth prospects also on HFS. And, however, as you know, also from our, from other companies obviously in Germany, in particular the Residential Development Groups in Germany, when you look at the grand collision paper the grand collision planning multi-billion of subsidies to drive further demand and this is exactly equal to I think it's 76 percent or up to 80 percent, where we are in development business of German residential units. So, therefore, depending on the market, but we are there to serve the market and, but, I can't give you, as I said, any guidance for the year beyond 2018.

22:43 – Michael Bütter

Thank you. Your third question, Thomas, this is Michael, was on the international focus for, our new business. I can confirm that we're looking at other countries, particularly in London and Madrid. We are very focused at the moment on student housing activities, but we look also on other, our regional markets and other asset classes and we will keep an opportunistic approach. If we find an attractive region or an attractive asset class, we will push towards it and nicely execute any lucrative deals that come into our sight. I would like to expand our client relationships in London for that purpose. We also will continue to search for interesting M&A activities in Germany, but also internationally.

23:46 – Thomas Neuhold

Thank you. And the last question on the update status of integration of recent acquisitions.

23:53 – Lars Schnidrig

Yes, HFS is done. I mean, in all fairness, it was already done in the year-end call. So what does it mean? We have fully implemented two things. The first is the SAP platform, which was completed year-end 2017. That assures you that you can integrate and that you can harmonize all your financial accounting treatments, etc. And secondly, we have adopted our matrix structure, which HFS obviously is an important part of it. So that's done. Hannover Leasing, is, I would say it's a bigger company, obviously, as you know from our quarterly calls, but we don't want to continue with the segmentation, but overall I would say it's 95 percent done. There are still some bits and pieces, but the big work is really done. So you can see this as well in our former quarterly and year-end presentations. We have successfully realigned the teams there, we have successfully executed cost reduction programs. We have worked on many bits and pieces, and now I can say I can see this also in the business and therefore also in the overall numbers. They are back to business and, therefore, integration, as you know, on that part I would call it 95% done.

25:29 – Thomas Neuhold

Thank you very much.

25:32 – Operator

Thank you. The next question is from Andre Remke of Baader Helvea. Please go ahead, your line is now open.

25:39 – Andre Remke

Yes, good afternoon Sirs, and a special welcome to Dr. Bütter from my side. I have a number of questions, probably question by question. Starting with the follow-up on the deal pipeline, in the presentation, you mentioned by the end of last year you had 6 billion, now down to 5.5 billion. Is there - what is the reason for that? Is it - are there market reasons, or did you only execute some of 6 billion pipeline and now, naturally, it goes down? So it's only quarterly numbers but, to avoid that this is, could be a kind of trend. That's the first question, please.

26:27 – Michael Bütter

Yes, Andre, we are not concerned at all by that number, because it's quite usual in the first quarter that deals are coming slower to the market. So we, we see this as a seasonal aspect. We have also signs of a piling-up in the deal pipeline where we're really good into the second quarter. So, we're very confident that our pipeline will satisfy all of you.

26:59 – Andre Remke

OK, and so next question probably to Lars. What is after the-, especially including the senior bonds, what is now the, the current average cost of debt and, and what are the next, let's say, topics you may address on the liability sides? Because, you mentioned you will do it in a more or less complicated way. So, what are the next topics here?

27:30 – Lars Schnidrig

Yes, hi, I'm going to... Well, first of all, you see here the numbers, obviously, to the end of the quarter. And, as you know, we have placed the bond, actually, end of the quarter, and therefore we have started and that is a bit of a bigger task, which is well planned, but which takes some time. We have started with the first refinancing. As you know, we had some pretty expensive coupons in our debt profile. This we have taken out immediately, but we are not at the end of the road there. So, target structures always communicated, it's having purely unsecured debt on our balance sheet, and I'm very convinced that we will get there in due course. So therefore, to answer your question, average cost of debt today does not make sense because we are comparing, yes, apples with oranges. And since we have raised the bond for 3 and a half, but having refinanced all the patterns we are envisaging to refinance. So once we have this, I can give you a clear number, but if you want, for modelling purposes, which I would not recommend, at that stage, to mix it up, it levels around 3%. So, I know it's not a very satisfying modelling assumption, but on the other hand you absolutely, I'm sure you understand, that when you have raised the bond end of March that you don't refi, because this is also depending on optimizing your prepayment fees the next day, roughly 200 million. And then, finally, I'd love to, you asked also for what are the next steps, or did I answer it with you coming to the point that the target capital structure on the liabilities side will be unsecured debt. Or was there anything else?

29:22 – Andre Remke
No, this wasn't the main question. So the next topic I was really commenting to, to re-allocate the proceeds from the bond.

29:33 – Lars Schnidrig
Exactly, but this is pure technique.

29:40 – Andre Remke
Probably brings me to the next question on your guidance. All the potential of savings on financing side at least partly, or in any case, included in your existing guidance, and the current guidance, or could we expect this as an, let's say, add-on.

30:03 – Lars Schnidrig
No, when we, when we performed the guidance, we anticipated this. And most of you know that, that we were aiming to issue a bond, what we have done, and therefore this is already included.

30:17 – Andre Remke
OK. My also further question on your guidance for this strong quarter with 35 million on net sides. It looks like market slide for the four quarters would end up with 40 million, so, I know things are not that easy, but probably from today's perspective, you are 10 to 20 million above your guidance. And you will not provide a new guidance here but, is it more in the direction of safety agreements or do we, should we expect in one or the other quarter, lower earnings, also as a potential outcome for the seasonality? Because we did not really happen on a comparable basis in history over the last couple of years and this is the reason why I'm asking.

31:13 – Michael Bütter
Thanks for the question, Andre, it's Michael. Clearly, this is a good start for us in the year. But it's far too easy just to multiply by four. However, we have no signs that a worst-case scenario happens here as well. So, we're confident with the first quarter, and let's see how it evolves, the year. As you know, deals come and go but we have, so far, we are confident with our guidance.

31:44 – Andre Remke
Okay, okay, so my very last question on your assets on the management volume. The, my number, a million, declined from long real estate assets on the management. I think you mentioned that there is for debate on planned maturities. Is this right or are there any opportunities also to, say, speed up? Because in general I would guess that the profitability on Non-Real-Estate is that high. What could be expected of the year in total or, is it always the case that, in the beginning of the year, the net security is front-end-loaded?

32:37 – Lars Schnidrig
Yeah, so furthermore it's pretty clear planned, and therefore also reflected in our business plan. And you are referring obviously to the asset management models, which are lower on that side and higher on the other side, which has come to, and therefore we are always saying we are not fans of only looking at AUMs and we are looking at profitability. Now this is clear planned. You simply see in Hannover Leasing, for instance, that was mainly reflected to the media funds when it's maturing and therefore that is, that is really technically easy to translate this into our business plan and on a spreadsheet. Yeah. So no surprises there.

33:25 – Andre Remke
Yep. That's it from my side, thank you very much.

33:28 – Lars Schnidrig
Thank you; my pleasure.

33:30 – Operator
Thank you. The next question is from Kai Klose, Berenberg. Please go ahead, the line is now open.

33:35 – Kai Klose
Yes, hello, good afternoon, gentlemen! I have a question in-, on the 18.2 million acquisition related fees. Was it just on acquisitions, or does it also include some revenues from transaction and sales fees? I'm asking because in your report we have the split of the acquisition and related fees between different, coming from different sources; that's why I question what is the split of these acquisition-related fees, and if it was only on acquisitions, what was the underlying transaction? What acquisition volume where you generated these 18.2 million of fees? And second question, could you maybe repeat what is the split, what is the bridge, from coming, in coming from the net profit of 28.5 million to the adjusted net profit of 34.7 million? It was a bit lost in between, so maybe could we repeat that? Thank you.

34:27 – Lars Schnidrig
So, first of all, it's only acquisition fees, but it's also including our upfront fees we get from HFS. So that's also there, if you remember, the 2.5% when we lend out the money. So that's the one. And the bridge, we have only three items there. For the first, it's the 1.4 million for the management realignment. The second is the close to 6 million of depreciation on the management contracts "Verwalterverträge". So it's exactly 5.956, and then we have, in the other, you have to deduct 1 million, 1.086 of deferred taxes, and then you can do the adjusted net profit.

35:16 – Kai Klose
Thank you. And just again, on the 18.2 million acquisition fees, does this refer to the 400 million of AuMs which you show on Page 4?

35:34 – Lars Schnidrig
Sorry, yes, in short, it's included. And, yeah, correct.

35:40 – Kai Klose
Thank you.

35:43 – Operator
Thank you, if there are no further questions I would hand back to you Dr. Klinger.

35:16 – Dr. Kai Klinger
So, thank you very much everyone for your interest. We are looking forward to our H1 call in mid of August. And, if you have got further questions, the IR team is happy to take it. So thank you very much and goodbye.

35:16 – Operator
Ladies and gentleman, thank you for your attendance. This call has been concluded, you may disconnect.