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Transcription

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00:00 Operator

Ladies and gentlemen, welcome to the H1 reporting of Corestate Capital. 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 start today's presentation.

01:05 Dr. Kai Klinger

Good morning everyone, a very warm welcome to our earnings call today for the presentation of the results of the first half of 2018. As usual I would like to point you 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 with the highlights of the last couple of months and provide you with more details on our operations. Afterwards, Lars Schnidrig, our CFO, will guide you through the financials. Then Michael will end the presentation, followed by a 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.

01:33 Dr. Michael Bütter

Thank you, Kai, and a very good morning to all of you from my side as well. I have been Corestate's CEO for three and a half months now, so you might say that my first 100 days are over. What I can tell you so far is the following: Corestate is a great company, already delivering impressive numbers and we will continue to deliver on what we have promised. On top there is considerable upside for our dynamic company and exciting further growth opportunities in the market we currently work on. Please flip to page 3.

In the first six months of 2018, our assets under management in real estate have risen sustainably by more than 5%. I will give you more details on this on the next slide. All our figures and strategic acquisitions are perfectly in line with our budgets and external guidance, especially our biggest subsidiaries HFS and Hannover Leasing are delivering stable returns, and both could increase their new business on a notable scale since acquisition. We will continue to drive our business forward, which is why we have launched several new products and funds which are currently in the placement process with our clients, beyond our key products like High Street and mid-size cities, we are currently very active in value add retail space for fast-moving consumer goods or micro-living. One focus for us now is to grow the business further, and this is accompanied by optimizing and developing corporate structure for further profitable growth without losing our spirit as the fastest boat on the river. We want and improve our aspirations as a quality leader for our clients generating best returns in the market. This includes constantly enhancing and harmonizing our internal processes and standard, and that is why we have started a group-wide performance initiative called "Zugspitze" along with other ancillary projects to further optimize our future performance. After thorough analysis and kick-off of the conceptual projects phase in the first quarter of this year, we rolled out the program very successfully in the second quarter within the whole group. Focus are the organizational development, building a strong leadership team, attracting new talent on all levels for further growth, design of suitable salary and incentive systems for our employees, comprehensive streamlining of all relevant processes, optimization of compliance and IT systems and further complexity reductions on internal functions and structures. To give you just two examples: With the full integration of ATOS, we also shaped up our property management and other asset management functions in our micro living segments. In terms of the organization, I am particularly happy that we could win three very experienced hires as heads for our group functions in HR, IT and Corporate Communication. They have already demonstrated visible internal impact. An interesting approach in our strategic tool box is to strengthen our market position with promising cooperations. For instance, we initiated a collaboration with a fast-growing company a couple of weeks ago, focusing on general asset management and specialized niches. Our new cooperation partner has no own real estate investment team, but has to deploy a significant portion of its considerable client funds into real estate. The AUM growth of our cooperation partner is impressive and we will have an exclusive access to those funds in the future. As mentioned before, I am CEO now for about 100 days only and especially when it comes to collaborations and other innovative sources for accretive and sustainable growth you can expect more to come from me. Finally the capital market places enormous trust in our business model and this trust is also reflected by two more brokers with a buy-recommendation. Welcome on board Manual Martin and Georg Kanders. I may note that all covering brokers have a buy-recommendation on our stock. Please turn to page 4.

Let's speak about our AUMs more concretely. Our real estate assets on management have grown by more than 5.6% since the end of 2017 to 17.1 billion euro. In combination with our slightly shrinking non-real estate AUMs we were able to keep our total AUMs very stable at 22 billion euro. Beyond the overall increase we can show at the end of the reporting period a higher portion of residential assets, now at 34% of total AUM. Our rundown portfolio was reduced as planned from 5.7 billion to 4.8 billion,

mainly in media and to a lesser extent in infrastructure assets. Our strong sourcing pipeline of 5.7 billion is up from 5.5 billion three months ago. With around 11% in exclusivity and another 15% in LOI. This makes me very optimistic about the upcoming months. We have a lot of very promising deals and projects ahead of us, that includes retail products focusing on fast moving consumer goods and portfolios in mid-cities, plus micro-living projects and much more. Please turn to page 5. We all experience the challenges of living in growing metropolitan areas every day. We at Corestate have offered real estate linked solutions in rewarding niches for severe urban needs for many years. One prominent example is our fast-growing product micro-living for students, young professionals and long-distance commuters. As market leader, we operate currently nearly 6000 apartments in Germany and we will soon expand this program abroad, such as to Spain, Austria and Switzerland as well as in an early stage to Poland, Belgium and the UK. Independent research institutes say that there are 1.4 million single apartments in Germany missing and we are meeting this growing demand. In the next two years, our portfolio will reach 10000 units. In connection with that, our subsidiary HFS delivers the missing bridge financing for mid to larger real estate development projects in metropolitan areas with a focus on housing. Most of this financing is made for projects in the so-called big seven cities in Germany. When you look into different research reports, you will see the shocking figure of 700000 apartments needed in these top seven locations alone. Since the financial crisis, banks as senior lenders finance a maximum of up to 65% of loan-to-value. And that is where HFS jumps in. As market leader by far, HFS is deeply inside the German real estate developments with a wide range of links for synergies and potential equity products. And last but not least we see several other options to meet the changing lifestyle in urban areas, e.g. we will set up a real estate solution for day care centers in German cities with a portfolio designed for 30 centers in North Rhine Westphalia, Bremen and Hamburg. The size will be 100 million plus. Germany is currently facing a severe shortage of more than 3000 centers.

Please turn to page 6 for more details on the HFS funds. The total fund volume end of June is slightly above 1.2 billion euro and is still growing. This reflects an increase in the last 12 months since consolidation in the Corestate group of more than 150 million euros. We are with 99% committed capital, more or less fully invested, and financing currently 57 projects with an average size of roughly 21 million euro and an average utilization period of 12 to 14 months, so there we are highly profitable and diversified. The vast majority of the capital flows into residential, with more than 75%, followed by retail and office. We focus on promising and growing metropolitan areas in Germany and selected areas in Austria and Switzerland. The big seven in German – Berlin, Hamburg, Munich, Cologne, Frankfurt, Düsseldorf and Stuttgart account for roughly 60% of all financing projects. The rest of Germany encompasses subsequent cities and prosperous mid-sized towns. According to our market-leading position and being the preferred mezzanine partner of all relevant mortgage banks in Germany, our experience development specialist from Genost get more or less every significant project on their tables to check and choose the most promising projects. The size of the assessment of a single project and individual risk, Genost can appraise efficiently all relevant developers, contractors and locations available on the German market, due to their leading and cutting-edge database. This comprehensive data and know-how base is one of the most important values of the business for customers, banks and our investors. With this I would like to hand over to Lars, please turn to page 7.

11:05 Lars Schnidrig

Thank you and good morning ladies and gentlemen. I now take the pleasure in guiding you through our financials. In the first six months of 2018 we saw a very attractive income stream in aggregated revenues of 126 million euros. When diving a bit deeper, you will see 26.2 million euro acquisition related fees and we expect more to come here in the second half of the year. We show nearly 68 million earnings from asset and property management, which since 2018 includes on a pro-rata basis the Coupon Participation Fee generated from HFS, amounted here to 28.4 million in the first half year. All other figures are in line or ahead of budget, so we delivered 16.4 million revenues from warehousing and real estate operations in H1, the only feature here will be that in the course of the year, when the share of rental income gets substituted from net gains from selling of major assets, according to the current placement procedures. Moreover, we are quite happy that we could already harvest with 15.1 million earnings from alignment capital the main part of our full-year budget in H1. On the flip side we expect slide shifts to promote and sales during the 4th quarter or some minor part, even to the next year. In a nutshell, as Michael already said, we are as a whole on a perfect pass to deliver on our financial targets of 2018. Please turn to page 8. This chart will give you more details on our key P and L figures with a focus on our expanses below the EBITDA line. Our operating expenditures which on the one hand reflect our already realized deals but also the precursory costs of the upcoming transaction in H2. On the other hand, regulation improves needs for institutional clients and digitalization causes higher back-, middle and front-office costs. This was also a major reason to establish best in class standards and processes via our Zugspitze project, which is at the end of the day the basis for accelerated further growth. This brings us to our G and A expenses and our one-off items for H1. First of all the roll-out of Zugspitze and ancillary projects with 1.8 million euros. Then we have Board changes and compensations with 6.7 million euro, thereof 2.2 million euro as non-cash IFRS accounting extract from the share allocation to the former CEO based on his stock program.

Depreciation on the management contract with 11.5 million euro and on the reverse side deferred tax assets and non-controlling interests on net profit level with -1.9 million euro. At the end of the day we can show compared to Q1 another very stable development in profitability on EBITDA levels with a margin on the adjusted EBITDA of 61.7%. In our financial result we had in Q1 a positive hedge accounting effect, on the other hand we have temporarily increasing interest expenditures from our bond issuance and later redemption of existing loans, simply to optimize prepayment fees. When you look at the bottom end of this chart, you see an attractive 58% adjusted net profit margin. Please flip to page 9.

Let me speak a bit about our key debt figures and leverage. After we successfully placed a convertible bond in 2017, and a senior unsecured bond in March 18, our debt was entirely restructured, simplified and financing costs significantly reduced. As of 30 June 2018, our total debt including bond and convertible was 776 million euro. We had a cash position of 183 million euro, so net debt was at 593 million euro and this leads to a net debt leverage based on the last 12 months adjusted EBITDA of 3.4 times. This figure includes 3 major assets currently in the placement process, these assets are the Stadttor in Düsseldorf, you all know that. A Danone Research Center in Utrecht and the Palace in Kronberg, all with an occupancy rate off 100%. So where do we stand in the selling process? We are in the final deal stage for all these assets, currently settling the final SPA's terms. On a like-for-like basis, the successful sales of these assets will be reflected in a leverage ratio of far below 3 times. In general, warehousing is a normal part of our business model, so we are currently showing two new assets on our balance sheet, Bochum and Rostock, the City Point in Bochum is located in the heart of the Ruhr area and the Warne Park in Rostock is one of the largest shopping center malls in the city, also with an occupancy rate of 100%. Both assets are specifically designed to be placed in funds soon. With that I would like to pass over to Michael again and please flip with him to page 10.

17:45 Michael Büttner

Thank you. At the end of the presentation let me give you some background on our agenda next couple of months. First Lars already spoke about deleveraging by placements of assets, which is one key priority for us. Secondly, we will continue to be very active in the micro-living segment in Germany and abroad. Thirdly we will once again deliver as specified, offering focusing on retail, especially for fast-moving consumer goods. This product will initially consist of four assets in German mid-size cities, all with an occupancy rate of 100%. Fourthly we will have initiated our European value-add investment program with a focus of a German market, but we may well also include properties in Spain, the Netherlands, Poland and the UK. Additionally our subsidiary HFS is currently launching their first mezzanine for the Spain market. All necessary licenses are already obtained, the staff is on board. Mid-term aspiration, volume in the first place is well above 100 million euro, the long-term target fund is significantly higher. Investment targets are class A real estate development in Spanish prime locations with clear and reasonable market exit. So all in all a very selected clear risk-sensitive approach. Finally, Hannover Leasing will offer a product with a volume of more than 50 million euros, specifically designed for retail investors. The funds will be deployed in an office and hotel asset in Darmstadt, south of Frankfurt. The office space is let for companies, the hotel is signed to Marriott for the next 20 years. To sum it up, our operations are working successfully and on full steam. Given our good results, we once again confirm our full-year guidance. We expect aggregated revenues of 230 to 240 million euro and adjusted EBITDA of between 155 and 165 million euro and adjusted net income of 120 to 130 million euros. Before I conclude today's presentation, let me invite all of you again to join our capital markets day in Frankfurt on 6 September. We have a great program with an update on strategy, figures, our investments and clients and on our HFS business. Now we would be more than happy to take your questions.

Q AND A SESSION

21: 25 Thomas Neuhold (Kepler Cheuvreux)

Good morning gentlemen. Actually I have several questions, maybe we take them one by one? I would like to start with HFS, I wondered whether you can provide us with an overview of what you think is the long-term potential for HFS, assuming that a very benign market environment in the residential segment in Germany persists another couple of years? How much do you think that you can grow the business in the medium and long-term? And I looked at the Q1 presentation, I wondered why the average deal size increased so strongly from 15 million to 21 million from Q1 to Q2? That is the first question.

22:16 Dr. Michael Bütter

Thank you, let me answer your question as following: I think HFS has a great future ahead of us despite maybe the market, I am very positive in particular on the residential market where HFS is playing as a market leader best, they have enormous potential, as we just outlined, they see every project, every development in Germany, they can choose from the best projects, projects

which are not attractive to in particular Genost or our controlling at HFS, so we take care that we just take on the best projects, that gives us a comfortable feeling about that investment. You mentioned the 15 million average size we provided you with in Q1 that has risen to 20 million, I think that is still a very healthy size, a very small size for project developments, the increase is due to new projects that we took on, just because of the huge demand we are facing. HFS has enormous run in terms of new projects and we were very confident in getting new projects on board with a bit higher volume, but I think that is a healthy size if you compare it to other developments in the markets. And as we said, it is mostly residential, and the residential market will be a very attractive market for us for the next years because the demand is simply not meant. We have a lack of 700000 units, and it increases every year and that boom will continue in the next years despite the interest rates, that is my view. Lars, do you want to add something?

24:20 Lars Schnidrig

Well, you know my opinion, it is at 15 or 21, it is highly diversified, and you see it again on slide 6, we are in the top locations there. When we think about growing the business, we saw some impressive numbers in the last 12 months, so we also published this in the press release, 150 million, now we are also starting on a very, very selective business, going abroad, so therefore let us continue with the cherry picking and our approach growing business in a highly supportive market on a very selective base, again numbers are impressive the last 12 months.

25:12 Thomas Neuhold

The next question is regarding your warehousing activities, you (inaudible) of 150 million – how long do you think it will take to bring down the inventories? Is it a topic for 2019 or do you think you can do it earlier?

25:31 Lars Schnidrig

I think we have always been very transparent there and each and every earnings call and road trip presentation we stated that these three warehouse Assets Stadttor, Danone and Crown will be placed in 2018, and again, we are absolutely on track there, even a touch better than we expected, and we said it in the presentation, we are in the final negotiation of the SPA there. And to be clear, we are not higher in our inventories than we expected, we always said that a normal warehouse level is around 100, 150 million, and to be clear, if it is a touch more it is even better because it is very profitable, and it attracts clients. The three warehouse assets which you see on slide 9 of the presentation, two are of the aftermath of the Hannover Leasing transaction and one is a pure asset management game, the Kronberg asset from the former Corestate entity. So to be very clear there: We are absolutely on track, and the level you see with Bochum and Rostock are simply products that will be placed and funded as scheduled.

27:02 Thomas Neuhold

Thank you. And I was wondering if you could give us an update on your potential M and A pipeline?

27:11 Dr. Michael Bütter

As we said before, we will grow further, nationally and internationally, we are currently in process which I obviously cannot disclose for obvious reasons but we are in various processes to grow further on the M and A side as well, we will get back to you as soon as we can, once we can talk about it in more detail, but it is looking promising so you can expect something to happen.

27:51 Thomas Neuhold

Understood. And my last question is on the Zugspitze initiative, is this now finalized, or will you incur additional costs in the 2nd half of this year?

28:07 Dr. Michael Bütter

It is mainly finalized, but there may be some further smaller costs, but the bulk of work has been done and has significantly strengthened our platform, processes have been developed, we have a good foundation for our further growth, as I mentioned, we have also hired good people to further back our team and we are very confident that this will help us going forward, and in terms of costs, as I said, there will always be a little add-on but I do not see significant costs going forward.

29:00 Manuel Martin (Oddo BHF)

Good morning, two questions please. One is regarding the one-off costs – you listed the one-off costs on page 8 in your presentation, my question here would be if you expect more one-off costs to come by the year-end?

29:29 Lars Schnidrig

Morning, so as Michael just said, the only one that can come up is minor part for Zugspitze, and again to be clear, Zugspitze, after having analyzed the conception state in the first quarter, we have then the internal roll-out and productivity obviously started in the second quarter, and that will go towards the year, and otherwise we will only see as usual the adjustment – but that was not the question, you were talking about one-offs, so that is it.

30:05 Manuel Martin

Sorry, Lars, I could not understand the last part where you said adjustments, the line was quite bad.

30:20 Lars Schnidrig

I just said we are not talking about adjustments, e.g. our management contract, the depreciation, so regarding your question, regarding the one-offs, it is the only one regarding Zugspitze, that we have mentioned.

30:33 Manuel Martin

Okay, thanks. And second question, last question, I read in the press that there were rumors that you lost a team which was involved in the micro-living product. Could you comment on that? Is that true?

31:00 Lars Schnidrig

We can comment on that. What you read is no news to us, we already worked a couple of months on extending and renewing our staff at the apartments, so it is a stable business and we have new people in, there is no vacancy on any position, so we are fully staffed. That gives you an idea that was not a surprise to us, we worked months ago against that and were well prepared, and we were not very pleased with the press, to be honest, but we were not hit by that, to be very blunt. And I think we have a strong team on board and we have no operational issues.

32:00 Georg Kanders (Bankhaus Lampe)

Good morning from Düsseldorf, I have one question regarding the transaction fees – you mentioned that they might increase in the 2nd half, could you give an indication how much it is, is it more than 10% of the first half?

32:20 Lars Schnidrig

The acquisition rate, the acquisition fee, we do not guide, obviously our segments. So this is a typical run rate that we are in, but I don't give any guidance now on specific fee items but please always keep in mind that this is driven by seasonality and for the last ten years, Corestate is a stand-alone company at least, and the fourth quarter was usually driven by BCs, but please allow me that we do not guide specific fee items.

33:13 Georg Kanders

And then you mentioned that HFS wants to extend its business abroad.

33:22 Lars Schnidrig

That is true.

33:28 Georg Kanders

Are these neighboring countries of Germany, is it going to the West or even to the East or what?

33:36 Dr. Michael Bütter

Like we said, one of the markets we really like is Spain and HFS will have a significant impact there, we already said the high demand for the fund we are about to launch there. They will offer great returns, slightly below Germany, but for the fund like 15 or 16%, very attractive, the investor base will be pretty similar to the German funds. For the Spanish market we will concentrate only on prime locations like Barcelona, Madrid, Valencia – as I said, the short-term fund target is above 100 million. However, the long-term target fund volume will be significantly higher, we estimate like 300 to half a billion, so this is really an attractive

market for us. Regulatory approval is completed, the team on the ground, that is very important if you deal with development, is already in place, so this is the next growth step for HFS. Other locations, as we mentioned, in Poland and the Netherlands, we will look into with care, but again, this is further international upside you see.

34:54 Georg Kanders

And is this fund already going to start this year?

35:00 Dr. Michael Bütter

Yes, end of the year we will start with that fund and it will have a relevant P and L impact in 2019, that is fair to say, there is nothing to expect from that fund in 2018, that is a great prospect going forward.

35:25 Kai Klose (Berenberg)

First question regarding page 4, could you remind us of the 17.1 billion, how much this accounts to the HFS development service, and the second question is on page 9 of the presentation, regarding the new warehousing, do you have an indication what kind of properties you would like to own temporarily in the future on your balance sheet? Is it more retail or more office properties or other kinds of assets?

35:55 Lars Schnidrig

So first it is approximately 7 billion contribution from HFS, and then secondly, I think it will be a mixture of both and it is definitely something obviously which our clients aim at, but Michael can explain.

36:22 Dr. Michael Bütter

Yes, we will be opportunistic with that, if a good opportunity arises we will take it and analyze it prior to any decision. But as Lars said, we are not bound by any asset class.

36:30 Andre Remke (Baader Bank)

Good morning, a number of follow-questions on M and A and partnerships. You mentioned your position via cooperations and partnerships – does it mean that real M and A will become less likely for you or too expensive? So now turning to the point to cooperate with other companies? Or are these completely different topics? What are your thoughts on that? That is my first question, please.

37:24 Lars Schnidrig

It definitely means that we do not stop our M and A, neither in Germany nor abroad, so we will continue to do that. A cooperation is just an additional means of further growth for us, it could secure by the collaboration I mentioned today significantly equity pipelines, and that obviously is another means of further growth for us, so we will play on all the mentioned fields – organic growth, M and A, nationally and internationally and cooperations as well. This is just maybe new for us as Corestate that we also extend our market by looking for professional partners, and we are just we are very glad that we found one and there will be more to follow.

38:18 Andre Remke

Perfect. And a follow-up on your new project, Zugspitze, overall how should we see it: Is it more to reduce costs or to prepare for higher growth?

38:30 Dr. Michael Bütter

It is rather the latter than the former, however, once you look into processes, into your functions, you can obviously also generate some cost-savings at a later stage but first and foremost it is about having a stable platform for further significant growth. You have to do your homework first before you go out into the world, and that is what we did. And then we feel far more comfortable than maybe a year ago, having worked on those processes. Will cost effects occur? In the mid-term yes, but I would not speculate on savings now, it is more important to have a stabilized platform.

39:21 Andre Remke

Okay, this is clear, thank you for this clarification. On page 9, the debt bridge: You stated to reduce net above 170 million at least, in the former presentation 190 were mentioned for the three projects, so where does the delta come from? Do you expect lower proceeds and the 170 million – is this a net number, so the new warehouse asset, you mentioned the two, are they already included as of June in your balance sheet?

40:00 Lars Schnidrig

So you may remember beginning of the year, end of the year, I was always talking about four Warehouse assets in the placement process throughout the year 2018 and one was deconsolidated that was the Denkmal Münster, and obviously there was also debt repaid. Can you repeat your 2nd question?

40:30 Andre Remke

Does the 170 million include – is this a net effect, i.e. you have two further warehousing assets which obviously will not reduce the debt?

40:45 Lars Schnidrig

So the 170 million is the related debt if we sell or place these three assets, it is a pure debt.

40:55 Andre Remke

And the two new warehousing assets already entered your balance sheet as of June?

41:00 Lars Schnidrig

Yes, you see this in the inventories, so inventories went up to in total 351 million and this includes the two new warehouse assets Bochum and Rostock, and that exactly fits the run rate I was always envisaging around 100 to 150 million.

41:24 Andre Remke

The next question: You mentioned the 300 million proceeds to replace more expensive debt going forward, when should we expect this to happen or will we see a similar number in the course of debt for the 3rd quarter than for the 2nd quarter?

41:47 Lars Schnidrig

So costs will decrease and as always also envisaged I always said from the senior unsecured bonds, these were 300 million euro, we take roughly 200 million euro for refinancing and of that 200 million euro we have already carried out around 100, a touch more, then we have the delta, I always said we take for warehouses, so you see the new warehouse assets in our balance sheet, so there is a remaining part which will be refinanced end of the year, and again these some smaller loans and usually what you want to do is simply there are also fixed rate loans, you want to minimize the prepayment costs and that is why we decided for economic reasons we shift to the year-end. So to answer your question: This exercise will be done by year end.

43:21 Dr. Kai Klinger

Thank you all of you, we have slightly postponed our Q3 reporting date by one day to November 14, 2018, for technical reasons.