



Topics on conwert

March 2015

- DeuWo's initial bid is a mistake, because it underestimates conwert 's real value
- DeuWo's initial bid is a mistake because they will need at least 75% to exert the required level of control
- We shall illustrate examples of undervaluation
- Our proprietary analysis supports an indicative estimate of €16.1 book value per share

conwert quick overview

	conwert	DeuWo	Buwog
Yield ¹	6.3%	7.0%	4.5%
Vacancy	10.4%	2.4%	4.5%
Avg. interest rate	4.3%	2.5%	2.4%
Property assets	€2.8b	€9.0b	€3.8b
LTV ²	54.5%	54.7%	50.1%
Market cap	€1.0b	€6.8b	€1.9b

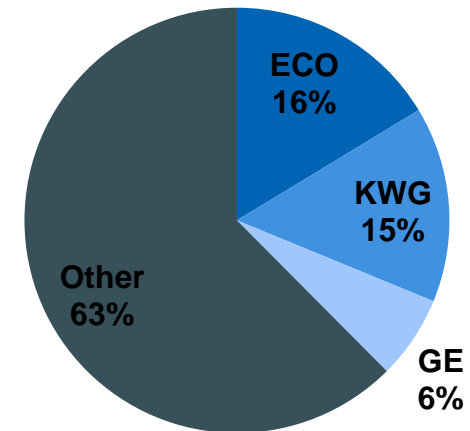
Conwert (our letter of 6th Jan 2015):

- Vacancies too high
- Costs too high
- Complexity too high
- Financing costs extreme
- Book values too low

1) Annualized net rental income / Property assets

2) Net debt / Property assets

Overview of property assets (€2.8b)



Characteristics:

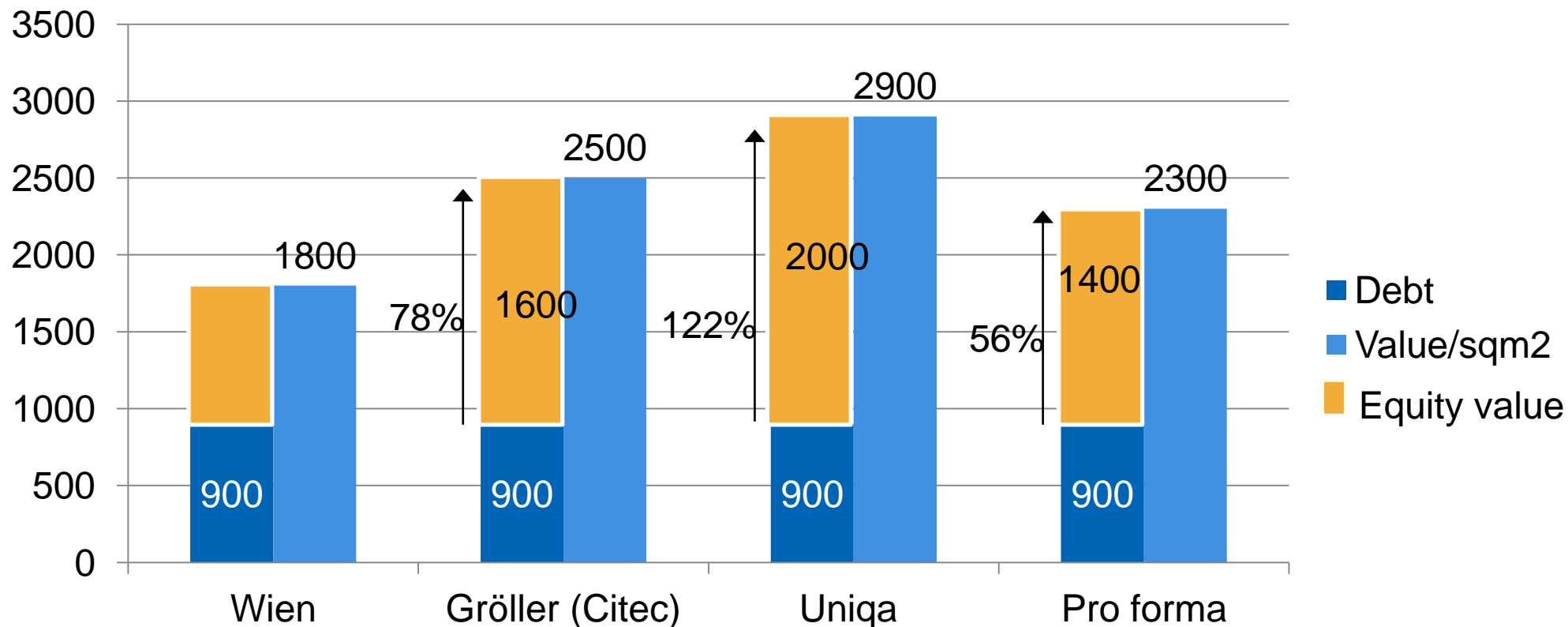
KWG: run for yield

ECO: secondary locations in G/A, commercial

Other: founders' purchases; high quality inner city locations in Vienna, Berlin, Leipzig, Dresden and Potsdam

Illustration of Vienna's revaluation - shareholders' hidden reserve

If convert were valued appropriately

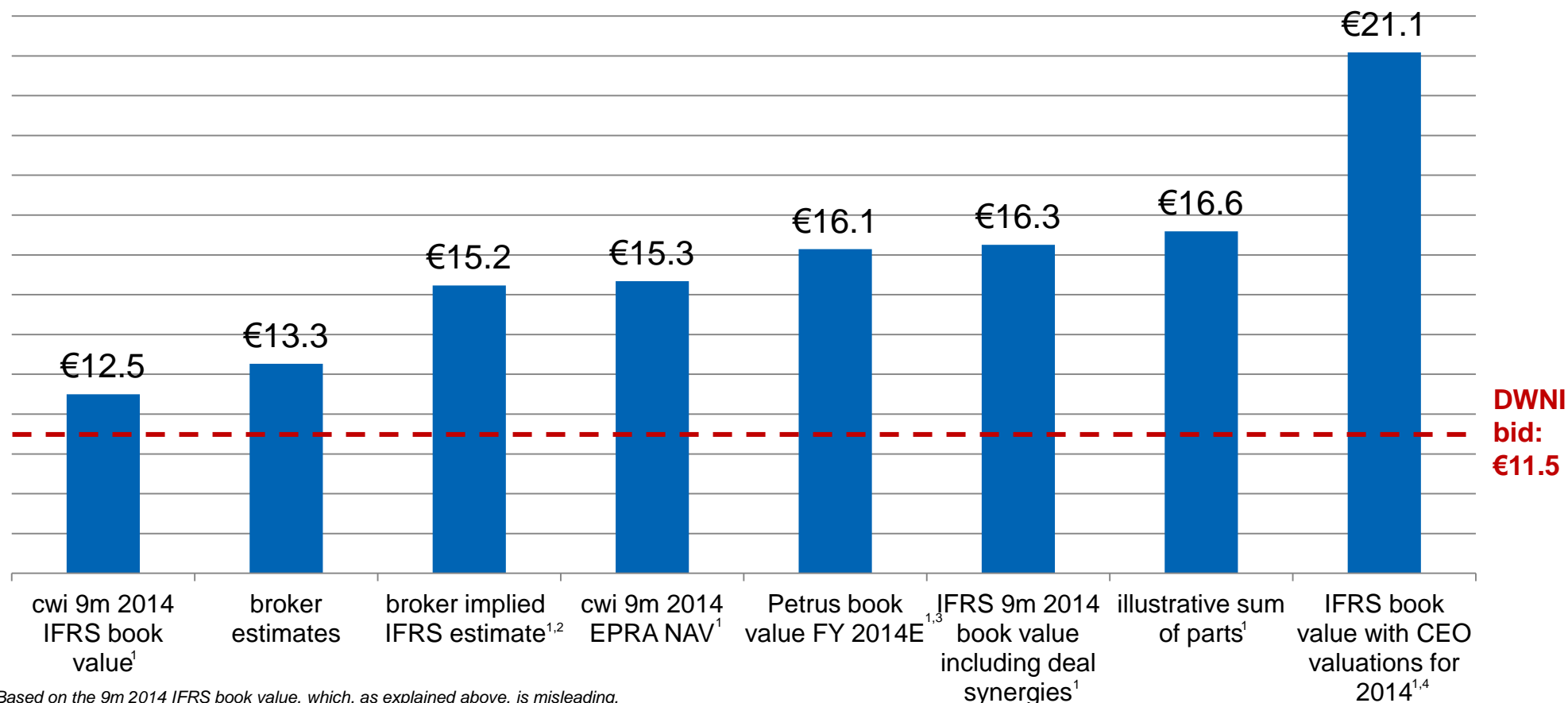


NAV uplift compared to current (assumes a 50/50 debt structure)

I convert bid – fair value analysis

DeuWo's initial bid is a mistake because it underestimates value

convert revalue their property portfolio once a year, in Q4. Therefore, the 9m 2014 book values are non-representative since they contain mostly devaluations during the year but not revaluation gains. Hence, IFRS Q3 2014 is highly misleading



1) Based on the 9m 2014 IFRS book value, which, as explained above, is misleading.

2) Reversionary potential from Victoria Partners for DeuWo (a company that revalued their portfolio 2.6% on average over the last 3 years) applied to cwi book value (a company that devalued their portfolio 0.3% on average over the last 3 years)

3) Fully diluted

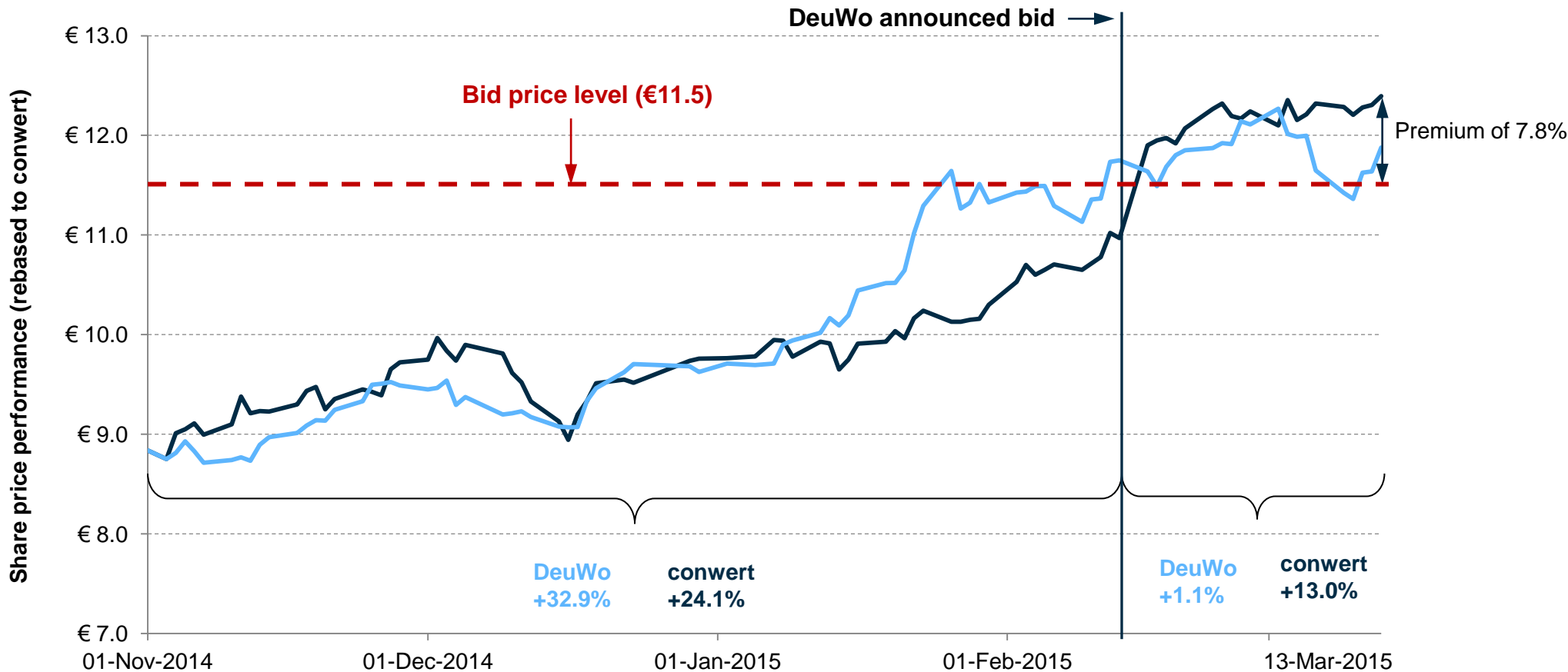
4) C. Schneider's view of fair value as per 1H 2014 conference call notes – €711m revaluation divided by 82.8m shares outstanding equals €8.6 per share of potential revaluations

DeuWo bid is a mistake given their ultimate goal of exerting control

	DeuWo current bid	Realistic bid
Majority & control	Seek 50% + 1 share, but want to exert full control	Full takeover for dominant majority of company
Board of directors / supervisory board	DeuWo wants to “cooperate” with existing shareholders’ supervisory board delegates	Only at >75% would DeuWo have the right to vote out the supervisory board members
Synergies	No synergies quantified	At >90% ownership can lift estimated €360m cost and €190m financial synergies NPV
Comments on property assets	“Need to write down” and “asset of questionable quality”	“Sum of the parts assuming portfolio disposal gives values of €16.6+ per share”

Rejection if no substantial increase. DeuWo shareholders appreciate the possible conquest of CWI

- DeuWo already priced at a substantial premium to NAV turbocharged by QE
- convert trading at a discount, not revalued to the same extent by QE
- Market values CWI on substantial premium to bid level¹
- DeuWo traded up, clearly shows market's comfort with the deal



Source: Bloomberg (13/03/2015)

1) 40% of convert (55% of free float) have changed hands since the bid's announcement, with event driven and merger arbitrage funds buying

Convertibles: mandatory redemption is unlikely; higher bid is needed



- For mandatory cancellation a share price of €14.651 and €16.065 is needed¹
- Bond investors have an advantage: guaranteed coupon + ride on equity deal
- Deutsche Wohnen offered €111,868 per nominal €100,000 of the 2016 bond and €119,295 per nominal €100,000 of the 2018 bond, clearly below the current market prices² and substantially below a realistic offer price for arbitrage funds
- Full takeover of the convertibles would require a mandatory redemption, if:
 - they buy back 85% of the bond, the remaining 15% would be squeezed out
 - the share price goes above 130% of the conversion price for the 2016 convertible or above 150% of the conversion price for the 2018 bond (see above)
 - if there are changes to the tax rules in Austria leading to additional costs to the bond issuer

1) for 2016 and 2018 maturities respectively

2) Prices as of 19/02/2015

Current IFRS book value hides significant upside from property revaluation

- The company has a long story of lagging portfolio revaluations while other peers have consistently marked up their own books:

Deutsche Wohnen AG (€m)	2009	2010	2011	2012	2013	2014E	Cumulative adjust. 2009-2013
Investment properties	2,836	2,821	2,929	4,615	8,937		
Fair value adjustment	0.0	47.2	40.0	119.2	101.3	715.0 ¹	307.7
FV adj. in % of inv. properties	0.0%	1.7%	1.4%	4.1%	2.2%	8.0%	
Avg 5yrs (09-13)	1.9%						
Avg 3yrs (11-13)	2.6%						

conwert Immobilien SE (€m)	2009	2010	2011	2012	2013	2014E	Cumulative adjust. 2009-2013
Investment properties	2,517	3,238	2,829	2,511	2,868		
Fair value adjustment	1.6	2.4	0.3	-37.2	6.5	295.0 ²	-26.4
FV adj. in % of inv. properties	0.1%	0.1%	0.0%	-1.3%	0.3%	10.3%	
Avg 5yrs (09-13)	-0.2%						
Avg 3yrs (11-13)	-0.3%						

- Management also believes there is a significant undervaluation (up to €711m) as Clemens Schneider said during the H1 2014 call:

“Interesting to hear is what is the real estate price per square meters in these six hubs that we have here. And you don't have it on this slide, but maybe I want to tell you, in Berlin, the average price per square meter is €1,760; in Leipzig, it is only €900; in Potsdam, it's €1,400; in Dresden, it's €1,200; and last but not least, unbelievable, Vienna is €3,100”³

→ These market valuations lead to an IFRS book value of €21.1 per share

1) Based on Victoria Partners' revaluation estimates

2) Petrus estimates

3) Direct quote from H1 2014 call

DeuWo stands to profit from significant cost savings

- An acquisition from Deutsche Wohnen would allow for significant savings; we see potential for a reduction of about 60% on personnel and other operating expenses stemming from the closure of conwert's headquarters and reduction of conwert's workforce, among other "easy wins". This should more than double the €10m of savings to be achieved in 2015 as guided by conwert management.¹
- We also see significant savings on effective interest rates, not only from a lower interest rate but also from the cancellation of ineffective swaps

	Offer price		
	14.50	15.00	15.50
Discount to cwi IFRS book (Petrus est.)	10.2%	7.1%	4.0%
DW 2015E Net income	353.8	353.8	353.8
CWI 2015E Net income	34.4	34.4	34.4
Combined net income	388.2	388.2	388.2
Operational cost savings ²	20.8	20.8	20.8
Savings from debt refinancing ²	10.9	10.9	10.9
Extra costs from acquisition financing ²	-15.8	-16.4	-16.9
Combined adj. net income	404.1	403.5	403.0
Current # of shares	294.7	294.7	294.7
EPS 2015E DW	1.200	1.200	1.200
Combined 2015E EPS	1.371	1.369	1.367
Accretion (fully phased in)	14.2%	14.0%	13.9%

1) 9m 2014 results presentation page 21

2) Based on a 75% share ownership

Our answers to some public DeuWo concerns

- “Significant devaluation of ECO assets is needed”: The main issue with ECO seems to be related with management’s inability to reduce vacancies effectively; the current yield on the portfolio is 6.7% with vacancy standing at 17.7%¹. If vacancy is reduced to the same level as the peer TLG (vacancy of 4.6%²), we would get to a similar yield of 7.4% (7.7% for TLG). If we then applied the €100m write-downs mentioned by some brokers, we would get to a 9.5% yield, which clearly seems excessive.
- “Up to €100m of financial costs from the breakage of swaps”: We believe that, currently, the swaps provide mostly downside risk to the banks acting as counterparty, therefore, we believe up to €5m of savings could be achieved by repaying those swaps.
- “Quality of property portfolio is questionable”: conwert holds prime real estate assets in sought after locations in Austria and Germany. Furthermore, we believe their portfolio to be undervalued by up to €150m in Vienna and €145m in Germany.

1) Source: H1 2014 report

2) Source: 9m 2014 report