



Value Creation at Immofinanz

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Immofinanz has embarked on the right course but much more potential exists

- While fundamentally Immofinanz (“IIA”) has embarked on the right strategy, we see the need for more decisive action now
 - **Cost:** Management has started to reduce the very high fixed cost base of IIA – we believe much more is possible, namely via headcount reductions and other operational efficiencies
 - **Office Vacancy:** Recent improvements of office vacancy rates down to below 13% (as guided for year end 2016) from 25% in April 2015 show that management is focused on this issue – we see more potential including a reduction in significant rent concessions
 - **CA Immo (“CAI”) combination:** A logical deal with huge synergy potential that will create the leading listed office player in Germany / Austria (office portfolio in Germany and Austria, including current development pipeline, of €4.5 billion¹ vs. €3.0 billion at Alstria²) and CEE – but the proposed structure is subject to many conditions and the timeline (at some point in 2018) is extremely vague and far out
 - **Over-capitalization:** As a result of its previous disposals (Logistics business, part of the Buwog stake) and together with c. €550m of the announced €1,000m Non-Core Disposal programme combined with the planned sale of its Russian operations (current book value of €1,077 million), pro-forma LTV at IIA would be 28% with a cash position of c. €910m³

1) Petrus estimate for 2020 based on current development pipeline for IIA and CAI, includes a minor number of retail properties.

2) As of 31/12/2016.

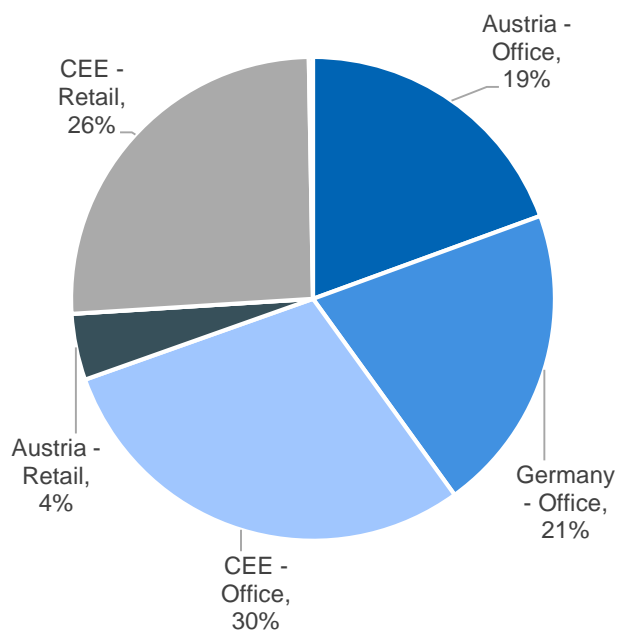
3) Based on the reported figures as of 31/10/2016 and assuming a total property disposal amount of c. €1,620m with a €100m loss (Russia related) resulting in a net debt amount of c. €1,090m and total property assets of c. €3,870m. We compute the property LTV by dividing net debt adjusted for CAI and Buwog stakes over total property assets.

We believe decisive action will de-risk the IIA / CAI combination and create a lot of value to shareholders

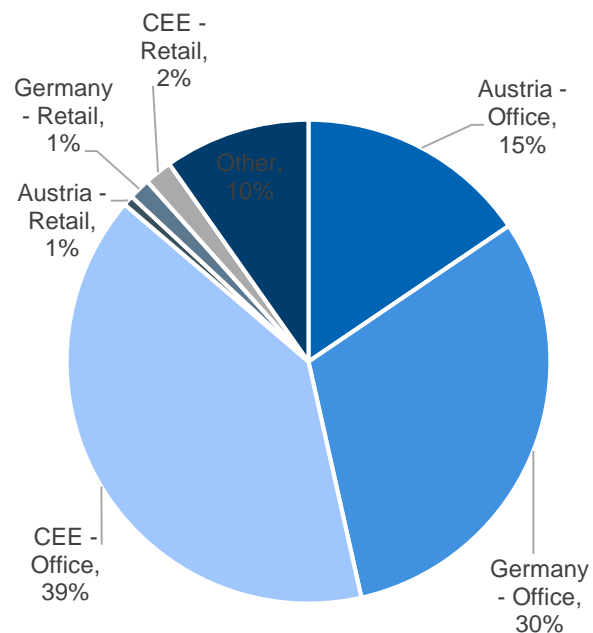
- Petrus Advisers believe swift and determined action is required to demonstrate the value of IIA and management's ability to deliver it
- We recommend a combination of operating measures and M&A going beyond the currently announced plans:
 1. **Russia:** Sale of the Russia portfolio at market prices; we appreciate this is not an easy task and encourage management to be creative including considering a partial sale and / or local refinancing
 2. **Sale of non-core assets:** Swift execution of the communicated non-core divestiture programmes at both IIA and CAI. IIA has announced a €1bn disposal program of which €270m has already been sold
 3. **Cash Deal for CAI at Euro 23.5:** Takeover offer to all shareholders of CAI at Euro 23.5 followed by conclusion of a profit and loss transfer agreement
 4. **Share buy-back:** Buy-back of IIA shares to offset the dilution from the convertible bond in January 2017
- We believe that such strategy will unlock significant value and will reduce the risk of the CAI merger failing – we calculate a share price potential of **€3.50 – 3.80 / share** for IIA

Combined entity will become a leading Ger/A Office player with a dynamic CEE portfolio

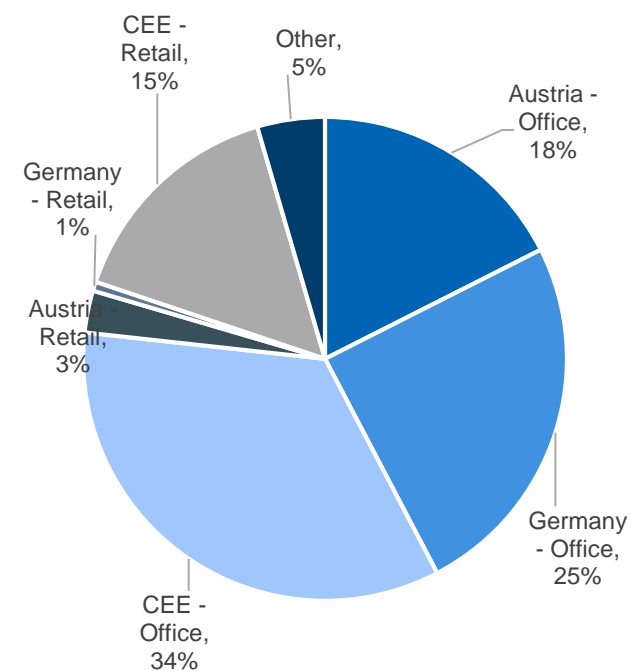
IIA Portfolio¹



CAI Portfolio²



CAI and IIA Portfolio Combined



Source: Company Data

Note: Data for standing investments only

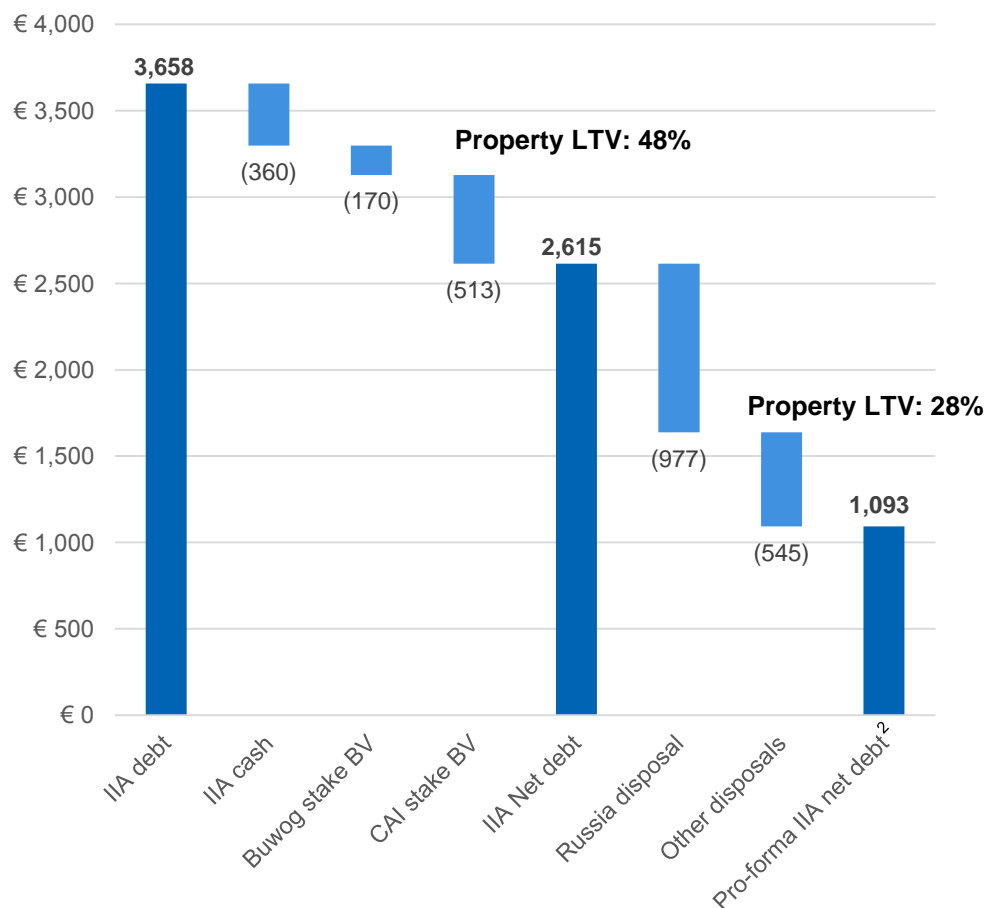
1) As of 31/10/2016, excludes Russian assets and assumes the development of the current pipeline for office in Germany.

2) As of 30/09/2016. Applies for each country the company's sector split as of Q3 2016.

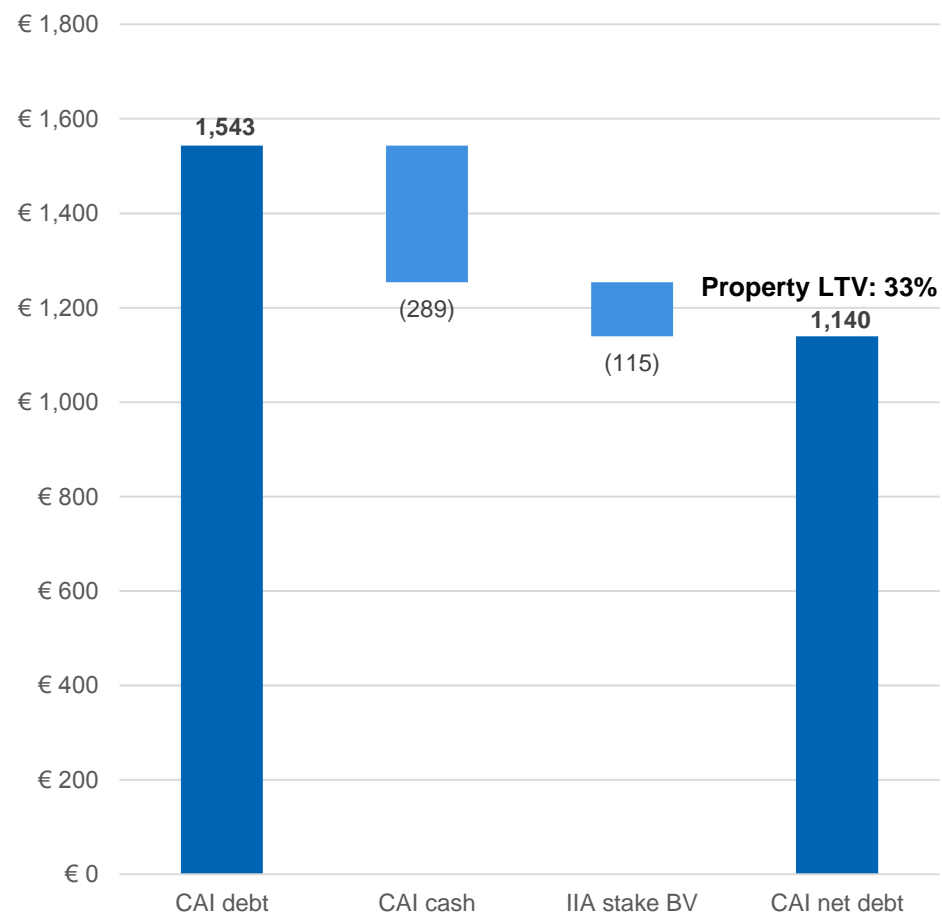
Both IIA and CAI are significantly over-capitalized

Based on the last company's reports we estimate a property LTV of 48%¹ for IIA reducing to 28% following the disposal of Russia and ~3/4 of the non-core disposal programme and 33% for CAI

IIA net debt (€m)



CAI net debt (€m)



1) Unlike Petrus, IIA computes net debt by deducting cash from total debt and then dividing it by the property assets + the Buwog stake + CAI stake, using the same numbers as above this would translate into an LTV of 53.4%.

2) Additional €180m of the announced €1bn disposal programme to come not included.

Our assumptions for a CAI cash deal at €23.50 per share

- We believe cash generation will ultimately drive the value of a combined IIA / CAI – we use FFO I¹ as a recurring measure of operating cash flow
- **Cost Savings:** We see the potential for further operational efficiency measures at IIA including personnel (€10m p.a.²), other operating expenses (€10m p.a.³) and financing (€10m p.a.⁴)
- **Russia:** While we believe the Russian portfolio and in particular the Rostokino shopping mall has significant value, we conservatively assume a disposal at €977m (implying a further loss⁵ of €175m)
- **Non-core Disposal Programme at IIA:** We assume the partial disposal of Gerling as well as the disposal of non-core assets for a combined book value of c. €550m, in line with the announced €1.0bn of planned disposals (from which €270m of assets have already been sold meaning about €730m to be sold or in the process of being sold, which translates into €180m further sales potential not included in our base case scenario)
- **CAI cash offer at €23.50 / share:** In our base case we assume a 75% acceptance threshold (i.e. additional 48%) to ensure a domination / profit & loss transfer agreement can be put in place; financing would be supported by the proceeds from the Russia sale and Non Core Disposal programme. In the very unlikely scenario that 100% of shareholders accept the offer the resulting property LTV would be 62%. We assume €21m of synergies could be extracted from the merger

1) Petrus definition of FFO I = Rental revenues – expenses from investment property (including capitalized maintenance) – net operating expenses – net finance costs – cash taxes + dividends received. After the acquisition of CAI the FFO is adjusted to remove the cross dividend payments.

2) Assumes a reduction of 150 FTE.

3) From higher operational efficiency leading to lower costs per sqm.

4) Assumes a 35bps of interest savings on the overall debt.

5) On the carrying amount as of 31/07/2016, €100m on carrying amount as of 31/10/2016.

6) After taxes, includes revenues and cost synergies in line with what was communicated by IIA.

Illustrative transaction steps of the CAI cash deal – 1/3

IIA 31/10/2016

Assets		Liabilities	
Property	5,495	3,133	Debt
Buwog stake	170		
CAI stake	513	525	Convertibles
Cash & equiv.	360	867	Other
Goodwill & intang.	95		
Other	567		
		Equity	
		2,687	Equity
		-	12 Minorities
	7,201	7,201	

# shares out	966
Net debt	2,615
Property LTV	47.6%
Economic LTV	42.5%
LTV (IIA) ¹	53.4%

	<u>€/share</u>
IFRS book/share	2.78

	<u>€m</u>	<u>€/share</u>	<u>Yield on equity</u>
Recurring FFO I 2018E	81	0.08	3.0%
Recurring FFO I 2019E	104	0.11	3.9%

IIA Pro-forma Russia + Gerling (partial) + Non-core disposal

Assets		Liabilities	
Property	3,873	2,160	Debt
Buwog stake	170		
CAI stake	513	525	Convertibles
Cash & equiv.	909	867	Other
Goodwill & intang.	95		
Other	567		
		Equity	
		2,588	Equity
		-	12 Minorities
	6,128	6,128	

# shares out	966
Net debt	1,093
Property LTV	28.2%
Economic LTV	24.1%
LTV (IIA)	39.0%

	<u>€/share</u>
IFRS book/share	2.7

Total property disposal	1,622
Total debt reduction	973
Total equity impact	- 100

Estimated FFO I loss	6
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1) Property LTV computed using IIA's approach. Unlike Petrus, IIA computes net debt by deducting cash from total debt and then dividing it by the property assets + the Buwog stake + CAI stake.

Illustrative transaction steps of the CAI cash deal – 2/3

CAI 30/09/2016

Assets		Liabilities	
Property	3,429	1,543	Debt
IIA stake	115		
Cash & equiv.	289	525	Other
Goodwill & intang.	10	Equity	
Other	392	2,166	Equity
		0	Minorities
	4,235	4,235	

# shares out	95
Net debt	1,140
Property LTV	33.2%
Economic LTV	29.7%

	<u>€/share</u>
IFRS book/share	22.7

	<u>€m</u>	<u>Yield on equity</u>
Recurring FFO I 2018E	93	4.3%
Recurring FFO I 2019E	107	4.9%

Illustrative transaction steps of the CAI cash deal – 3/3

Additional 48% in CAI get tendered into IIA's cash offer

Assets		Liabilities	
Property	7,302	3,919	Debt
Buwog stake	170		
IIA stake	-	525	Convertibles
Cash & equiv.	336	1,392	Other
Goodwill & intang.	72		
Other	959		
		2,473	Equity
		530	Minorities
	8,839	8,839	

% of CAI ownership after offer	75%
# share owned	25.7
# of CAI shares to acquire	46
Acquisition price (€)	23.50
Amount needed (€m)	1,078
% financed with cash	80%
% financed with debt	20%
Cash spent	862
New debt issued	216

# own shares bought	55
# shares out	911

Net debt 3,938

Property LTV	53.9%
Economic LTV	47.3%
LTV (IIA)	55.0%

	<u>€/share</u>	<u>Accretion/Dilution</u>		<u>€m</u>	<u>€/share</u>
IFRS book/share	2.71	-2.4%		172	0.19
			Recurring FFO I 2018E		
Net merger adjustments to FFO I ¹	3		Recurring FFO I 2019E	208	0.23

1) Includes €21m of after tax synergies, adjustment for cross dividends, and added interest to finance part of the CAI acquisition.

Valuation considerations – 19-20x LTM FFO I is a realistic benchmark



- A combined IIA / CAI pro-forma for cost savings & synergies will be the leading listed office real estate player in Germany/Austria with an attractive CEE exposure¹
- Expected FFO I yields of 5.1% in 2018 and 6.5% in 2019² will demonstrate the strength and value of the real estate portfolio and will make it the best-in-class operator in the industry
- On that basis, we deem a valuation range of 19-20x LTM FFO I a reasonable assumption for our valuation

	Ticker	Share price	Market cap	Discount to IFRS NAV	Implied FFO I multiple			Implied FFO I yield		
					2016	2017	2018	2016	2017	2018
IIA	IIA AV	1.71	1,647	-38.7%	n.m.	23.9x	19.4x	n.m.	4.2%	5.1%
CAI	CAI AV	18.80	1,793	-17.2%	24.1x	21.2x	19.2x	4.2%	4.7%	5.2%
Germany/CEE peers										
S Immo	SPI AV	11.30	754	4.6%	30.6x	25.9x	22.0x	3.3%	3.9%	4.5%
Germany peers										
Altria	AOX GY	11.55	1,770	2.4%	23.9x	21.6x	19.4x	4.2%	4.6%	5.1%
TLG	TLG GY	18.00	1,214	20.2%	17.6x	17.1x	16.2x	5.7%	5.9%	6.2%
WCM	WCMK GY	2.94	388	27.6%	64.7x	22.8x	22.8x	1.5%	4.4%	4.4%
Average				13.7%	34.2x	21.8x	20.1x	3.7%	4.7%	5.1%

Source: Petrus estimates, broker estimates, Bloomberg as of 10/03/2017

Note: Given the different definitions of FFO used across the industry as well as different policies regarding capitalization of maintenance expenses we computed FFO after capitalized maintenance not only for IIA and CAI but also, based on broker estimates, for the closest peers.

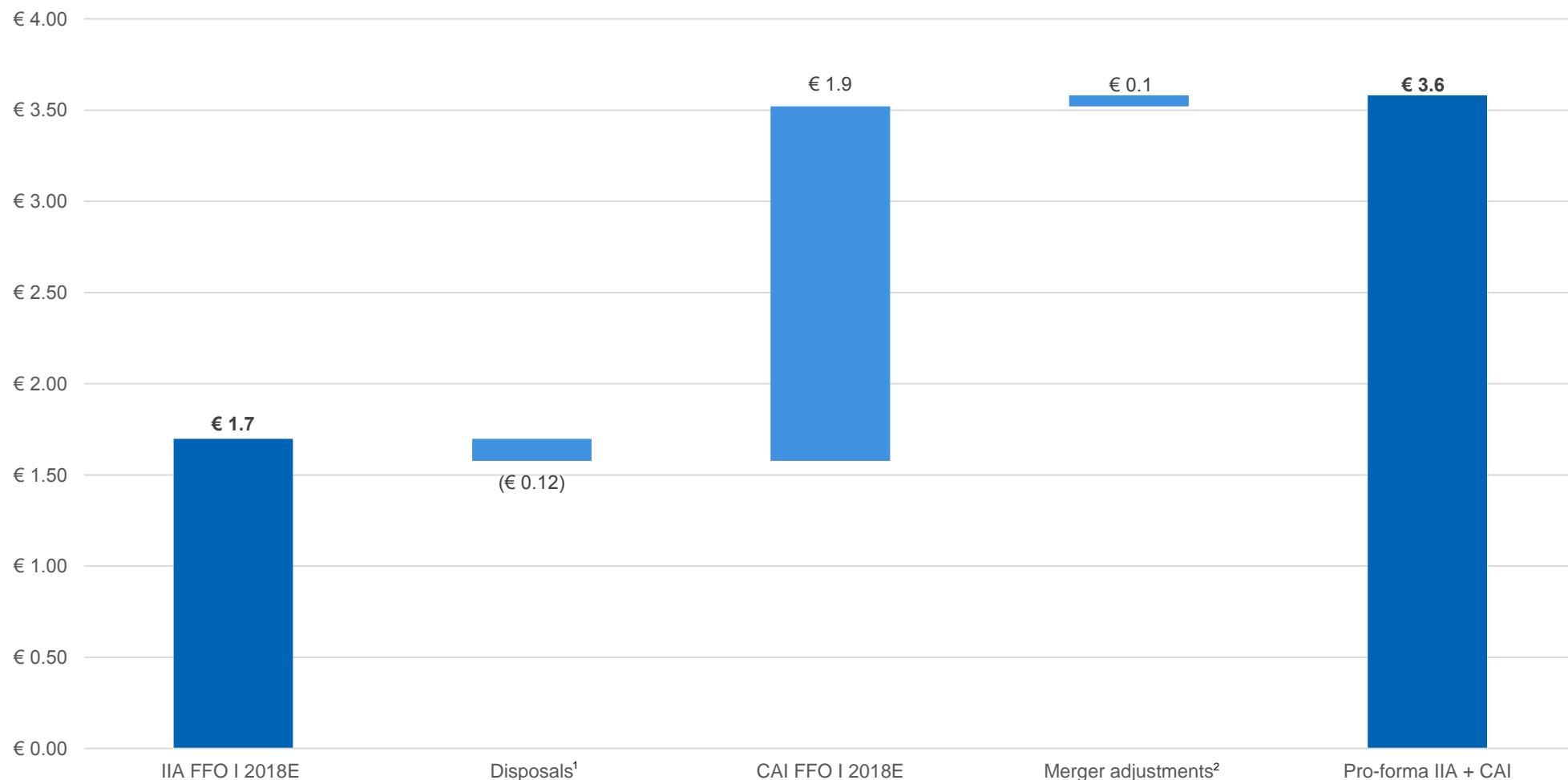
1) Petrus estimate for 2020 based on current development pipeline for IIA and CAI.

2) Estimated FFO I for 2019 of €107m.

Valuation Bridge

Assuming a 19x FFO I multiple and our estimates for 2018 FFO I we derive a share price potential for IIA of €3.6

Assuming a 20x FFO I multiple yields a price of €3.8 / share



1) Disposal of Russia, Gerling, and non-core

2) Includes synergies, adjustment for cross dividends, and added interest to finance part of the CAI acquisition

Valuation sensitivity table

FFO I multiple (2018)	Market Cap (€m)	Implied share price (€)
17.0x	2,919	3.20
18.0x	3,091	3.39
19.0x	3,263	3.58
20.0x	3,434	3.77
21.0x	3,606	3.96

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