



Research Report (Anno)

Coreo AG



- Acceleration of investment activities
- Largest portfolio in the company's history acquired
- Further investments expected

Target price: € 2.60

Rating: BUY

IMPORTANT NOTE:

Please take note of the disclaimer/risk warning, as well as the disclosure of potential conflicts of interest as required by section § 85 WpHG und Art. 20 MAR on page 19

Note on research as a "minor non-monetary benefit" according to the MiFID II regulation: This research meets the requirements for being classified as a "minor non-monetary benefit". For more information, see the disclosure under "1. Research under MiFID II"

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Coreo AG*4,5a,5b,6a,11

Rating: Buy

Target price: € 2.60
(previously: € 2.35)

Current share price: € 1.57
17.08.21 / XETRA; 5:36 pm
Currency: EUR

Key data:

ISIN: DE000A0B9VV6
WKN: AOB9VV
Ticker symbol: CORE
Number of shares³: 17.54
Market cap³: 27.54
EnterpriseValue³: 61.23
³ in million / in EUR million

Transparency level:
Open Market
Market segment:
Open Market

Accounting:
IFRS

Financial year: 31.12.

Designated Sponsor:
Hauck & Aufhäuser AG

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* Catalogue of possible conflicts of interest on page

Company profile

Industry: Real estate

Focus: Commercial and residential real estate

Employees: 11 (31.12.2020)

Foundation: 2003

Head office: Frankfurt am Main

Board of Directors: Marin N. Marinov



Coreo AG, based in Frankfurt am Main, is a dynamically growing real estate company focused on German commercial and residential properties. Investments are made in properties with significant potential for value appreciation where there is a need for development, preferably in medium-sized centres. The aim is to build up an efficiently managed, high-yield real estate portfolio through the prudent development and sale of non-strategic properties. Coreo AG's strategy is characterised by an expansive and selective approach to its real estate investments. The focus of this concept is on the acquisition and management of commercial and residential properties. Here, preference is given to business locations with high yield levels in Germany, which creates the basis for long-term and stable rental income. In addition, opportunities and chances are used very selectively. In doing so, Coreo AG acquires value-add portfolios/properties in order to significantly and sustainably increase their value in the medium term with an active "manage to core" approach. Non-strategic portfolio components are sold on at a profit.

P&L in EUR million \ FY-end	31.12.2020	31.12.2021e	31.12.2022e	31.12.2023e
Total Sales	4.85	10.93	23.00	26.61
EBITDA	0.01	4.93	13.85	17.19
EBIT	-0.69	4.92	13.83	17.17
Net income	-2.44	1.82	8.28	10.15

Key figures in EUR

Earnings per share	-0.15	0.10	0.47	0.58
Dividend per share	0.00	0.00	0.00	0.00

Key figures

EV/Total Sales	12.62	5.60	2.66	2.30
EV/EBITDA	6803.20	12.41	4.42	3.56
EV/EBIT	neg.	12.45	4.43	3.57
P/E	neg.	15.16	3.33	2.71
P/B	0.94			

Financial calendar

September 2021: Annual General Meeting
October 2021: HY Report 2021
07./08.12.2020: MKK

**last research by GBC:

Date: Publication / Target price in EUR / Rating
21.12.2020: RS / 2.35 / BUY
03.11.2020: RS / 2.35 / BUY
18.09.2020: RS / 2.60 / BUY
20.08.2020: RS / 2.60 / BUY

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EXECUTIVE SUMMARY

- Coreo AG has made extensive new acquisitions in the current financial year 2021. While the past financial year 2020 was still characterised by the pandemic-related restrictions and thus only a low investment volume of € 3.3 million, the property acquisition in the course of the financial year 2021 to date has already amounted to approximately € 59 million according to our estimates. The prerequisite for the significantly increased purchase volume was the corporate financing obtained at the end of 2020. The company received a loan of € 23 million from a well-known investor, which was used to repay the outstanding 10 % option bond with a volume of around € 15 million and to expand the liquidity available for acquisitions.
- The investments are the acquisition of two production sites and the administrative headquarters of a German listed automotive supplier. According to our assumptions, the purchase price is likely to have been around € 8.7 million. In addition, 89.9 % of the GmbH shares in an existing company were acquired in July 2021 by way of a share deal, comprising a total of 1,341 residential and 15 commercial units. This was the largest acquisition in the company's history. Assuming a rental yield that is normal for Coreo, the total portfolio value is likely to be slightly above € 50 million, although the purchase price in the share deal is likely to have been significantly lower. A significant part of the purchase price was paid in the form of the 1.45 million shares in MagForce AG held to date. According to our calculations, this should cover around € 6 million of the purchase price. The closing of this transaction is expected for the coming financial year 2022.
- With the notification of 28 July 2021, the company also announced the change of the major shareholder. The previous major shareholder Apeiron Investment Group Ltd. announced that it had fallen below the 25% threshold and, in parallel, FLORA S.A., which specialises in real estate investments, published that it had exceeded this threshold. This change is to be understood as a further component of the more comprehensive focus on the real estate sector.
- We have used the current property portfolio (including the acquisitions made in the current financial year 2021) as the basis for our forecasts and for our valuation of Coreo AG. In addition, we have assumed further investments. According to long-term investment planning, Coreo AG plans to expand the total residential and commercial property portfolio to € 400 - 500 million in the next four to five years. For our forecasts, we take a more conservative approach and, based on the current property portfolio of over € 100 million, expect new investments totalling € 110 million for the next three financial years.
- For 2021, we expect a slight increase in rental income and, in view of the reletting of properties in the Hydra portfolio and initial successes in asset management following the acquisition of the LEG portfolio, a notable valuation result. From the coming financial year, a strong increase in rental income should be generated with the addition of the already acquired extensive property portfolio and expected new investments. This should increasingly become the most important revenue component from 2023 onwards. Already for 2021, we assume an EBIT of € 4.92 million, which should increase to € 13.83 million (FY 2022e) and € 17.17 million (FY 2023e) in the coming financial years.
- In principle, Coreo AG should benefit from the favourable market conditions after the implementation of the financing measures and the overall improved access to acquisition funds. The increasing size of the property portfolio, which forms the basis for a higher rental volume, should ensure that the already falling financing costs improve

further. With the acquisitions made, the company has taken an important step towards increasing the sales volume and a disproportionate development of earnings.

- Within the framework of our DCF valuation model, we have determined a new target price of € 2.60 (previously: € 2.35). On the one hand, the roll-over effect had the effect of increasing the price target. On the other hand, the significant investments made resulted in a slight reduction of the company-specific beta. We continue to give the rating BUY.

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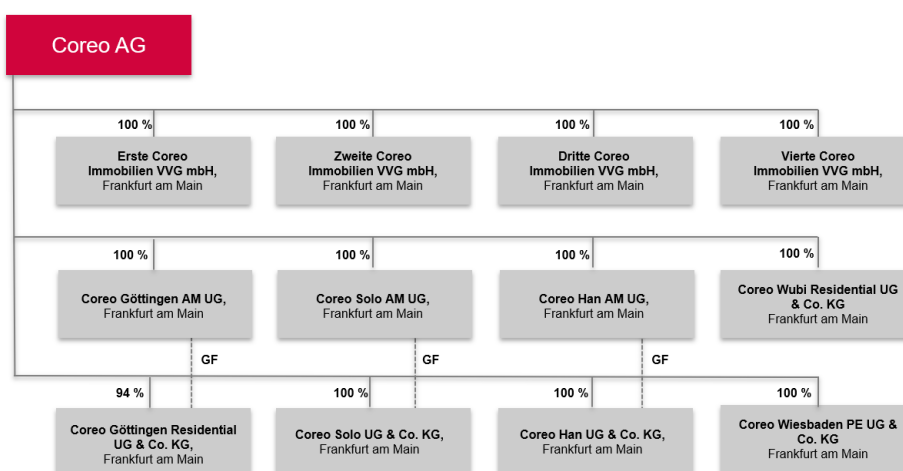
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COMPANY

Shareholder structure

After Coreo AG announced the change of its major shareholder on 28.07.2021, we have no further updated data on the shareholder structure. The company also only has the notifications on exceeding the threshold. According to these notifications, FLORA S.A. has exceeded the threshold of 25% and the previous major shareholder Apeiron Investment Group Ltd. has fallen below this threshold.

Consolidated companies



Sources: Coreo AG; GBC AG

Highlights FY 2020/1st HY 2021

In 2020, the focus was particularly on the implementation of financing measures. At the end of the financial year, Coreo's management succeeded in obtaining a loan of € 23 million from a renowned investor, thus expanding the basis for the planned investment and refinancing measures. The warrant-linked bond with a coupon of 10% was repaid before the end of the financial year. Previously, the Coreo management had decided to cancel the planned placement of a corporate bond, as the placement volume achieved would not have been sufficient to repay the warrant bond.

After Coreo AG had been able to make significant acquisitions in the 2019 financial year, the past 2020 financial year was characterised by significantly lower investment activity. According to the company, the restrictions associated with the pandemic were accompanied by lower access to potential acquisition targets. In addition, there were delays in financing measures due to the turbulence on the capital markets, especially in the wake of the first wave of the pandemic, which also resulted in lower new investments. Accordingly, only development properties in Wiesbaden with a total area of 17,000 sqm were acquired in 2020. Compared to the previous year, the volume of new investments fell to €3.3 million (previous year: €33.7 million).

In addition to the repayment of the warrant bond at the end of 2020, Coreo AG has used the loan funds for a significant increase in investment activity in the current financial year 2021. In mid-July 2021, the acquisition of two production sites and the administrative headquarters of a listed German automotive supplier was announced. Located in Baden-

Württemberg, North Rhine-Westphalia and Thuringia, the properties with a total area of approximately 14,400 sqm are fully let, most of them on long-term leases. With annual rental income of more than € 0.70 million and a purchase rental yield of approx. 8.0 %, which we assume is usual for Coreo, our assumptions suggest that the purchase price was approx. € 8.7 million. According to the company, no investments are necessary in the foreseeable future due to the good condition of the properties.

Also in mid-July 2021, Coreo published the second portfolio acquisition of the current financial year. This involves the acquisition of a portfolio consisting of 1,341 residential and 15 commercial units with a rental area of approximately 73,900 sqm, spread across ten locations in Berlin, North Rhine-Westphalia, Mecklenburg-Western Pomerania, Saxony-Anhalt and Thuringia. The transaction is taking place as a share deal, with Coreo AG acquiring 89.9% of the shares in the property company. According to Coreo AG, the portfolio is clearly "undermanaged", which means that the current annual net cold rent of € 3.8 million should be able to be stabilised and then increased comparatively quickly from the management of letting activities on site alone. The current occupancy rate is just 77 %. If we assume here the usual Coreo rental yield at the time of purchase, the total portfolio value should be slightly over € 50 million, which would make this the largest portfolio acquisition in the company's history. Part of the purchase price was paid in the form of the 1.45 million shares held in MagForce AG. According to our calculations, this should cover around € 6 million of the purchase price. The closing of this transaction is expected for the coming financial year 2022.

According to our estimates, Coreo AG is likely to have acquired properties with a volume of € 59 million in the course of the year so far, which already significantly exceeds the previous year's figure. At the same time, this is an expression of the improved access to new properties as well as the expanded financing options in the course of the bond issue. We see this as confirmation of the management statement that so far the availability of investment funds in particular has been a bottleneck factor. The investments were made immediately after the disbursement of the second tranche of the financing measure agreed at the end of 2020.

MARKET AND MARKET ENVIRONMENT

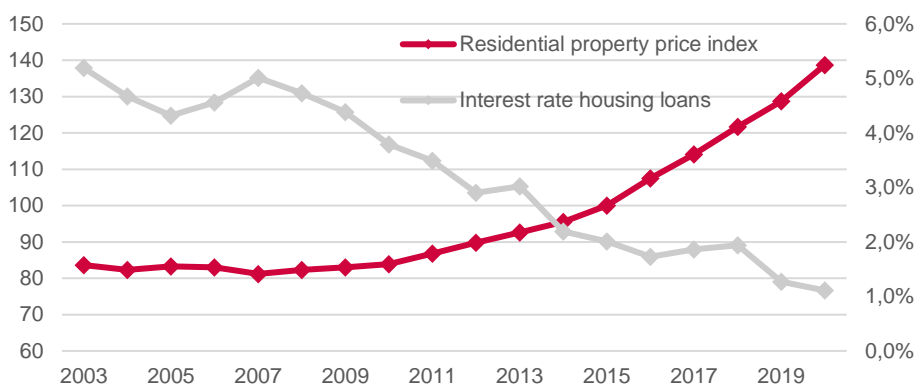
With its focus on commercial and residential properties in German B and C locations, i.e. in regions that have not yet been so badly affected by the price increases of the A locations, Coreo AG is part of a fundamentally high-growth market environment. Although, according to JLL statistics, there was a decline in the total transaction volume by -11.2% to € 81.58bn (previous year: € 91.82m) during the corona pandemic, the fundamental factors of a property market characterised by high growth rates have not changed. The decline in transactions is primarily due to mobility restrictions, which should be of a temporary character.

Market development residential real estate

Separated according to the two asset classes that are decisive for Coreo AG, the special resilience of the residential real estate market becomes apparent. Even though there have been short-term burdens in the course of the COVID-19 pandemic, residential real estate has picked up relatively quickly from its pre-corona development. For investors, the fundamentally high cash flow stability of residential real estate is important, which has also been ensured by government measures during the corona pandemic. In many cases, this asset class has been perceived as a "safe haven", especially against the backdrop of increasing uncertainty.

Additional demand impulses result from the continued historically low interest rate level. For secured, new housing loans with an initial fixed interest rate of ten years, a historically low interest rate of 1.11% was called in December 2020. In early 2020, these loans were priced at 1.35%, illustrating the continuation of low interest rates even during the COVID-19 pandemic. The resulting higher demand meets a supply that remains too low. Although the number of residential buildings approved for construction in 2020 increased by 2.9% to 320,225 (2019: 311,138), based on the calculated demand of more than 340,000 dwellings per year, demand is still not being met. The market environment for residential construction is therefore likely to remain very attractive.

House price index (2015=100) and interest rate for housing loans



Sources: Federal Statistical Office; Deutsche Bundesbank; GBC AG

Against the backdrop of a continuing excess demand, a further increase in price dynamics for flats can be assumed. The price index for residential property calculated by the Federal Statistical Office increased by around 10.0 points in the past calendar year 2020, which is the largest price increase recorded to date.

Market development commercial real estate

Compared to the residential property market, the commercial property asset class suffered significantly more from the effects of the corona pandemic. The decline in transaction volume mentioned at the beginning occurred exclusively in commercial real estate. Depending on the publication, the decline in transaction volume is stated between -12.0% and -20.0%. Within this real estate category, however, there is heterogeneous development.

The office markets, for example, have come through the past 2020 financial year comparatively solidly, despite the home office trend. This is due in particular to the situation before the corona crisis, which was characterised by a lack of available space and, thus, declining vacancies. Consequently, the corona pandemic has found a booming office market characterised by rising rents. While it can be assumed that future demand for space is likely to decline with the increasing use of flexible working models, major distortions are not expected. In a publication, DZ HYP sees above all the lower volume of vacant space as an important stabilising factor. Therefore, no declining office rents are expected.

In contrast, retail properties have been strongly affected by the measures to contain the corona pandemic. In particular, a high proportion of insolvencies and high rent defaults had led to a sharp decline in retail rents. Prime rents fell by 2.1% and take-up by over 25% in 2020. According to JLL, the further lockdowns should continue to weigh on rents, which should fall by a further 4.2% in the first quarter of 2021 alone. Even after the corona pandemic, the structural change initiated in the retail sector should lead to lower demand for retail space. Although DZ HYP does not expect the top locations to become deserted here, a devaluation of locations on the fringes of the prime locations is considered likely.

Since Coreo AG has in part long-term rental contracts for commercial properties, the effects should be limited. In addition, Coreo AG's focus on B, C and D cities, which are still underdeveloped from a real estate perspective, should prove to be an advantage. Since these locations have not yet participated in the strong price increases in the A-locations, the risk of price declines should be lower. In this respect, the focus of Coreo AG with its investment focus on the commercial and residential property market in German secondary locations can be seen as understandable both from the purchase price aspect and from the yield expectations.

CORPORATE DEVELOPMENT

Key figures at a glance

P&L (in € million)	FY 2019	FY 2020	FY 2021e	FY 2022e	FY 2023e
Income from rentals	2.92	3.52	4.11	8.95	14.66
Proceeds from the sale of real estate	2.98	6.09	3.40	6.80	11.04
Carrying amount of the properties sold	-1.55	-5.60	-1.88	-4.00	-10.40
Valuation result	3.06	0.85	5.30	11.25	11.31
Other revenues	0.00	0.17	0.05	0.05	0.05
Other operating income	0.05	0.06	0.05	0.05	0.05
Cost of materials	-2.59	-2.29	-3.15	-5.75	-5.32
Gross profit	4.87	2.79	7.88	17.35	21.39
Personnel expenses	-0.81	-1.05	-1.15	-1.50	-1.70
Depreciation	-0.02	-0.70	-0.02	-0.02	-0.02
Other operating expenses	-1.55	-1.73	-1.80	-2.00	-2.50
EBIT	2.50	-0.69	4.92	13.83	17.17
Financial income	0.04	0.19	0.00	0.00	0.00
Financial expenses	-2.18	-2.32	-2.50	-2.80	-3.63
EBT	0.36	-2.81	2.42	11.03	13.54
Taxes	-1.22	0.38	-0.61	-2.76	-3.38
EAT	-0.86	-2.44	1.82	8.27	10.15
EBITDA	2.52	0.01	4.93	13.85	17.19
in % of sales revenue	34.0%	0.2%	45.1%	60.2%	64.6%
EBIT	2.50	-0.69	4.92	13.83	17.17
in % of sales revenue	33.8%	-14.2%	45.0%	60.1%	64.5%
Earnings per share in €	-0.05	-0.14	0.10	0.47	0.58

Sources: Coreo AG; GBC AG

Business development 2020

in € m	FY 2018	FY 2019	FY 2020
Rental income	2.16	2.92	3.52
Sales proceeds	6.73	2.98	6.09
Valuation result	2.64	3.06	0.85
EBIT	4.89	2.50	-0.69
After-tax result	1.66	-0.86	-2.44

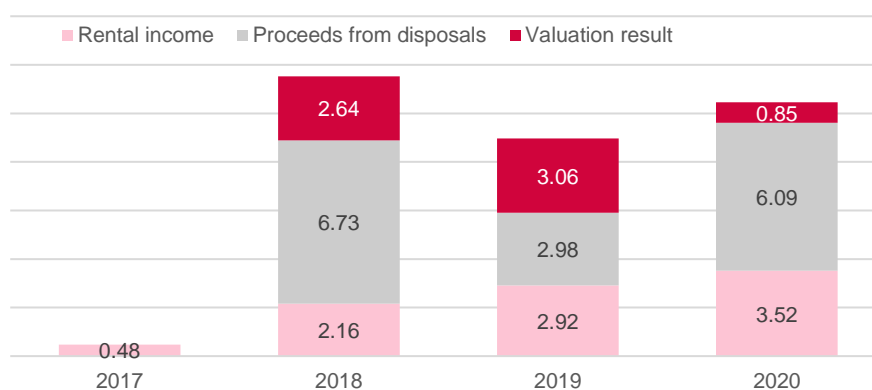
Sources: Coreo AG; GBC AG

Earnings development 2020

At Coreo AG, the past 2020 financial year was also marked by the corona pandemic, which made financing and transaction activities particularly difficult for the company. The postponement of the planned bond issue and the financing solution that was not implemented until the end of the financial year had a particular impact, which meant that investments could only be made to a limited extent. It was not until December 2020 that Coreo AG reached a loan agreement with a well-known investor for a total of € 23 million. Before the end of the financial year, the outstanding option bond with a volume of € 15 million was repaid. Against this background, but also in view of limited access to new properties due to the pandemic, only development properties in Wiesbaden with a total area of 17,000 sqm were acquired in the 2020 financial year. In addition, the NRW portfolio acquired in 2019, with properties in Wuppertal and Bielefeld, changed its use and encumbrance as of 1 May 2020, so that the property base for generating rental income was expanded overall.

In accordance with the corporate strategy, Coreo AG's income is made up of rental income, proceeds from disposals and valuation income. Since Coreo AG's property focus is on portfolio properties with development potential, the company is currently still to be seen as a mixture of project developer and portfolio holder. The development of the portfolio properties is expected to result in write-ups recognised in profit or loss within the framework of annual expert market value appraisals.

Breakdown of income components (in € million)



Sources: Coreo AG; GBC AG

Overall, Coreo AG's total income improved to € 10.45 million (previous year: € 8.96 million). The continuous expansion of the property portfolio in the past financial years led to an increase in **rental income** to € 3.52 million (previous year: € 2.92 million). This increase is largely due to the transfer of benefits and burdens of the NRW portfolio and the resulting rental income in the first half of 2020. Furthermore, an increase in rental income was achieved at the properties in Bad Köstritz, following successful renovation measures. However, this was offset by a decline in rental income from the Göttingen residential property

portfolio, which resulted from a scheduled partial sale and a deliberately induced vacancy in the run-up to modernisation measures.

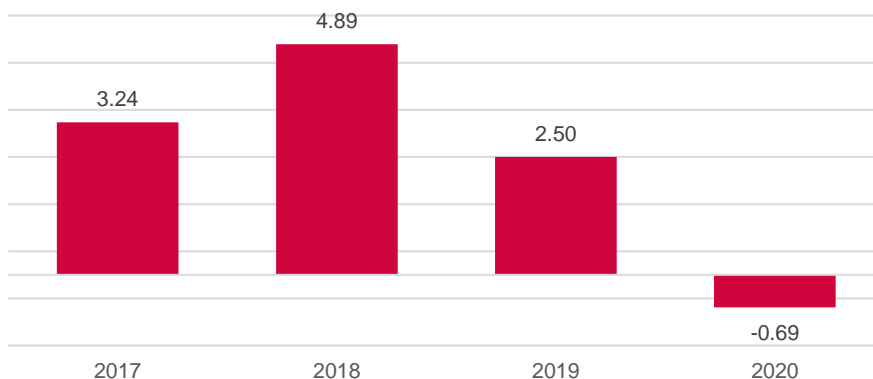
The **sales proceeds**, which are significantly above the previous year's level, are primarily related to the sale of properties in the Göttingen portfolio. The transaction (volume: approx. € 5 million) had already taken place in the 2019 financial year, but it only had an effect on revenue in the current financial year. Consequently, a write-up to the level of the sales price was already made for these properties at the end of 2019, so that no positive contribution to earnings from this transaction was reported in the 2020 financial year.

A significant decline in the **valuation result** to €0.85 million (previous year: €3.06 million) is a consequence of the lower investment activity and the pandemic-related delay in raising development potential. In addition, there was a write-down of €0.67 million on the parts of the LEG portfolio acquired directly by Coreo AG. In addition, the valuation result was affected by the recognition of the units in Bielefeld and Wuppertal (NRW portfolio), which were only taken over shortly before the end of the year, only in the amount of the net purchase price and thus without taking into account the ancillary acquisition costs, in the amount of € -1.06 million.

Earnings development 2020

Both the lower valuation result and the sales result of €0.49 million (previous year: €1.43 million), which was below the previous year, had reduced EBIT to €-0.69 million (previous year: €2.50 million). As mentioned, the sale of part of the Göttingen portfolio had already made a positive contribution to earnings in 2019 and therefore no longer made an additional contribution to earnings in the past financial year, which had led to the lower sales result.

EBIT (in € million)



Sources: Coreo AG; GBC AG

As expected, financial expenses climbed to €2.32 million (previous year: €2.18 million), in line with the increase in the property portfolio and thus in financial liabilities. It is worth mentioning that the company only repaid the option bond with an outstanding volume of €15 million in December 2020. This warrant bond with a coupon of 10 % was replaced by taking out a 6.75 % loan, which allows interest savings to be realised.

Coreo AG reported an after-tax result of € -2.44 million (previous year: € -0.86 million). However, the write-ups of the investments held, in particular MagForce AG, are recognised below the result for the period. First and foremost, the positive share price development of MagForce AG contributed to other operating income of €1.52 million (previous year: € -1.14 million).

Balance sheet and financial situation

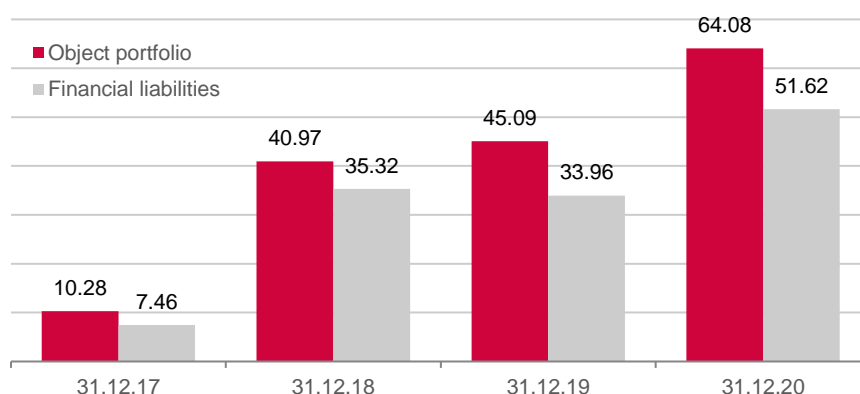
in € m	31.12.2018	31.12.2019	31.12.2020
Equity	30.24	28.32	29.30
Equity ratio	44.2%	42.6%	34.6%
Object portfolio	40.97	45.09	64.08
interest-bearing debt	35.32	33.96	51.62
LTV	86.2%	75.3%	80.6%
Financial assets (incl. JV for St Martin Tower)	8.12	14.93	14.65
Cash and cash equivalents	14.03	5.20	3.28
Net debt	13.17	13.83	33.69
Cash flow (operating)	-11.30	-5.25	-13.80
Cash flow (investment)	-17.00	-2.33	-7.93
Cash flow (financing)	37.47	-1.26	19.82

Sources: Coreo AG; GBC AG

The addition of the properties in the NRW portfolio resulted in an increase in investment property of € 15.16 million to € 54.26 million (31.12.19: € 38.50 million). At the same time, property inventories increased significantly to € 8.92 million (31.12.19: € 0.71 million). In addition to one property in the Hydra portfolio, this includes the units in Lünen and Gelsenkirchen that are intended for sale. Overall, Coreo AG's property portfolio of € 64.08 million (31.12.19: € 45.09 million) is significantly higher than the previous year's value and was mainly responsible for the increase in the balance sheet.

On the liabilities side, this was accompanied by an increase in liabilities. Of the interest-bearing liabilities totalling € 51.62 million (31.12.19: € 33.96 million), bank liabilities make up the largest part at € 35.58 million (31.12.19: € 20.33 million). These are classic secured real estate loans. In addition, in December 2020, the company entered into a loan agreement with an interest rate of 6.75% for a total of € 23 million, of which € 16.0 million had been drawn down as at the balance sheet date. These were used to repay the outstanding 10 % interest-bearing bond with warrants (€ 15.0 million). In relation, there is currently a loan-to-value (LTV) of 80.6 % (31.12.19: 74.3 %), however, the hidden reserves of the inventory properties are not included here.

Property portfolio and financial liabilities (in € million)



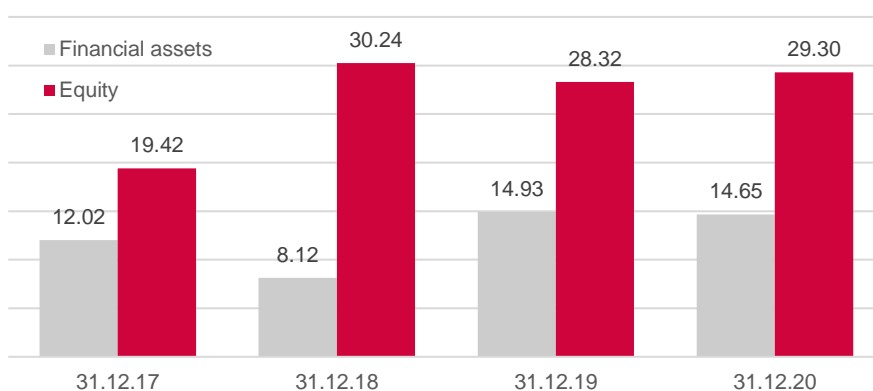
Sources: Coreo AG; GBC AG

The balance sheet extension also explains the decline in the equity ratio to 34.6 % (31.12.19: 42.6 %). In absolute terms, equity increased slightly to € 29.30 million (31.12.19: € 28.32 million), despite the negative after-tax result. In addition to the capital increase of € 1.59 million carried out in June 2020, the change in the value of the MagForce share in particular led to an increase in equity of € 1.50 million. At this point, the planned capital

increase of at least € 5 million announced at the end of 2020 should be mentioned. This had not yet taken place as of the reporting date of 31 December 2020, so that a potential strengthening of the equity capital will still take place here.

In total, the shares and securities held by Coreo AG amounted to € 13.64 million (31.12.19: € 11.95 million) as at 31.12.2020. This also includes the 10.1% stake in Publiity St. Martin Tower GmbH with a balance sheet valuation of € 5.73 million. The 1.45 million MagForce shares held were used as part of the purchase price for the acquisition of the largest portfolio in the company's history, which will lead to a significant reduction in financial assets in the current financial year. In addition to this, the company had cash and cash equivalents of €3.28 million as at 31.12.2020 (31.12.19: €5.20 million), as well as outstanding loans of €7.0 million that have not yet been drawn down.

Equity and financial assets (in € million)



Sources: Coreo AG; GBC AG

A look at the cashflow development shows that the company is currently in a growth phase. While investments in inventory properties are included in the operating cashflow, payments for existing properties are recorded in the investment cashflow. For the past financial year, Coreo reported a free cashflow of € -21.74 million (previous year: € -7.58 million). This primarily includes the purchase prices of €9.20 million paid for the acquisitions in Gelsenkirchen, Lünen and Wiesbaden, which meant that the operating cashflow of €-13.80 million (€-5.25 million) was below the level of the previous year. In the investment cashflow, the inflows from the sales of the Göttingen properties are offset in particular by outflows for the NRW portfolio. The overall outflow of funds was financed primarily through borrowings and the capital increase of € 1.9 million carried out in June 2020. As a result, the financing cashflow increased to €19.82 million (previous year: €-1.26 million).

FORECAST AND EVALUATION

in € m	FY 2020	FY 2021e	FY 2022e	FY 2023e
Rental income	3.52	4.11	8.95	14.66
Proceeds from disposals	6.09	3.40	6.80	11.04
Valuation result	0.85	5.30	11.25	11.31
EBIT	-0.69	4.92	13.83	17.17
After-tax result	-2.44	1.82	8.27	10.15

Source: GBC AG

Sales forecasts 2021 - 2023

The following turnover and earnings forecasts are based on Coreo's current property portfolio and the acquisitions already secured. In addition, we have taken into account possible further investments that should be made in the coming financial years in the course of the value-creating growth strategy named by the company itself.

With the current property portfolio, which consists of the properties in Bad Köstritz, Mannheim, Bruchsal, the residential portfolios in Göttingen and North Rhine-Westphalia as well as the commercial properties of the Hydra portfolio, the annual achievable rental income amounts to a total of € 3.21 million. In the coming financial year, an increase in rental income should be realised, particularly against the background of revenue increases within the Hydra portfolio. For example, the Kiel property was handed over to a hotel operator on a long-term basis in the current financial year. In addition, it is planned to hand over the property areas in Wetzlar and Frankfurt that have not yet been let to a long-term tenant.

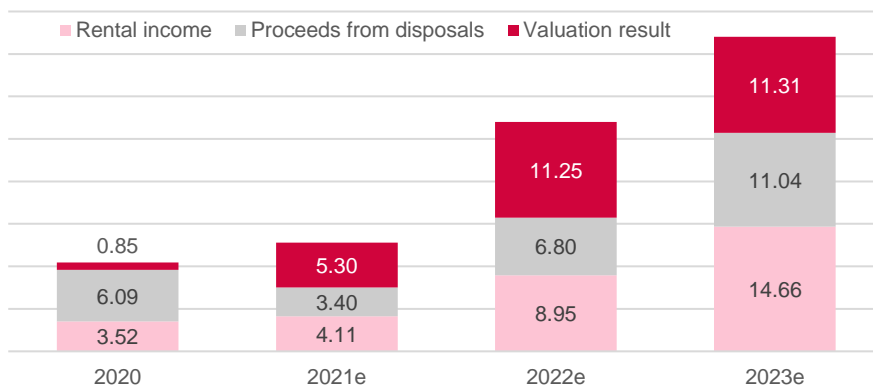
In addition, the rental income for the current financial year 2021 should reflect the addition of the production sites acquired from a German automotive supplier and the administrative headquarters from August onwards. With annual rental income of more than € 0.70 million, the proportional rental income in 2021 thus amounts to around € 0.3 million. Since the rental income will be received for the entire year in the coming financial year 2022, there will then be a corresponding positive base effect. The second portfolio acquisition reported in this financial year - the largest in the company's history - will only contribute to Group revenue from the coming financial year 2022 onwards when the transaction is expected to be completed (transfer of benefits and burdens). We expect the portfolio to be acquired from mid-2022 onwards, which means that annual rental income of initially around € 3.8 million will be added from this point onwards. A gradual increase should be achieved as early as 2023 with the active letting of the vacant spaces (vacancy rate: approx. 77 %).

As a further aspect of earnings development, we have taken into account the possible proceeds from disposals. After proceeds from disposals were generated primarily from the sale of properties in the Göttingen portfolio in the past financial year 2020, sales are likely to be made in the coming financial years, particularly in the NRW portfolio, in addition to expected smaller partial sales of the Göttingen portfolio. Around 25% of the total portfolio (properties in Lünen and Gelsenkirchen) is earmarked for sale. Significant sales proceeds should be generated here, particularly in the 2022 and 2023 financial years.

The valuation result reflects the investments made in the existing portfolio and the asset management performance as the third revenue component. These have the effect of increasing rental income and thus the fair property market value. A significant component of the valuation income is likely to be the most recently acquired portfolio. According to the company, approximately € 4 million will be invested in modernisation and conversion over the next three to five years.

In addition, Coreo should make significant new investments in the coming financial years in line with its communicated value-creating growth strategy, which we have also included in our forecasts. According to long-term investment planning, we believe it should be possible to expand the total residential and commercial property portfolio to € 400 - 500 million in the next four to five years. The current property assets plus the acquisitions already made amount to more than € 100 million. On this basis, the company would have to report annual new investments and write-ups of approximately € 60 million (€ 400 million in five years) in the coming financial years. In our forecasts, we take a more conservative approach and anticipate a total new investment volume of € 110 million for the period 2021 to 2023 that exceeds the current property portfolio plus acquisitions already made. For the possible property acquisitions, whose additions we have distributed over the current and the next two financial years, we are orienting ourselves with regard to property size, multiples, etc. to the investments made by Coreo to date. We continue to assume that the new investments will enable both a significant increase in rental income and the realisation of hidden reserves. At the same time, we believe that this should also lead to regular partial sales of non-strategic portfolio components.

Sales forecasts (in € million)

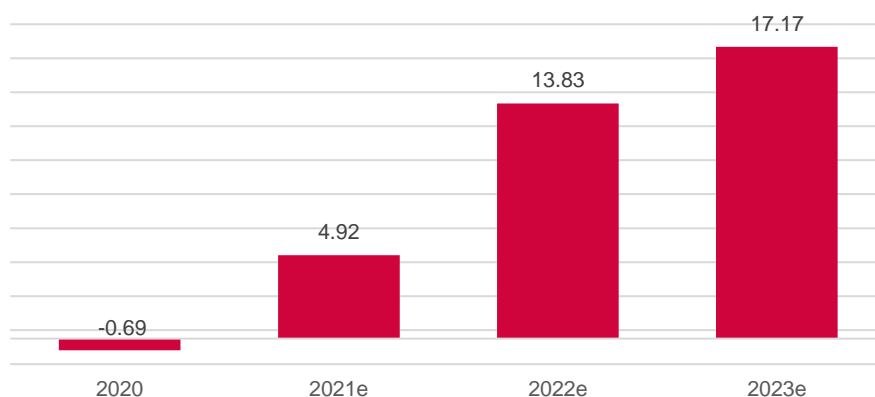


Source: GBC AG

Altogether, total income is expected to increase to €12.81 million in 2021 (2020: €10.45 million). We assume that the re-letting of the properties in the Hydra portfolio will lead to an increase in valuation income, which should offset the lower proceeds from disposals. From the coming 2022 financial year, the new acquisitions already made and the further investments we are assuming should lead to a jump in rental income. According to our estimates, rental income will become the most important revenue component from 2023 onwards.

The cost of materials, as the largest cost item, primarily contains the non-apportionable ancillary costs and should thus behave linearly to the turnover, assuming the same ratio between residential and commercial properties. In addition, the company should benefit from a declining trend in the cost ratio in the overhead area. We forecast an EBIT margin that stabilises above 50 %:

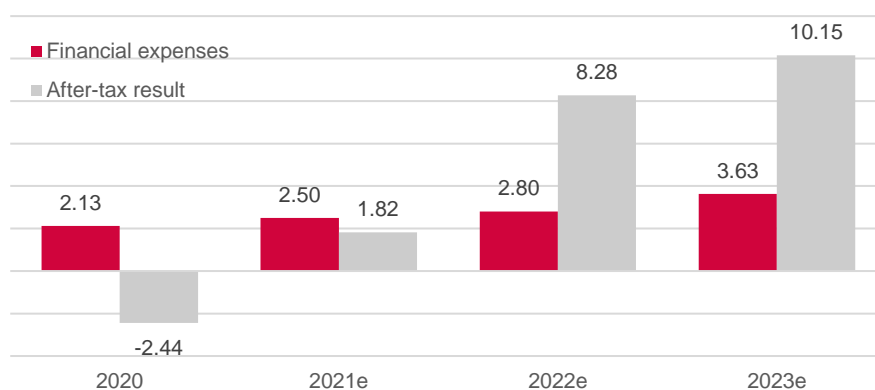
EBIT (in € million)



Source: GBC AG

Based on our EBIT forecast, the after-tax result should reach a clearly positive level in the coming financial years. This also includes the investment-related increase in financial expenses, for which we assume a liability ratio of 75 %. Overall, however, the company should benefit from a gradual improvement in financial conditions. This is evidenced, for example, by the repayment of the warrant bond, which was refinanced by the corporate bond issued in December. This replaced a coupon of 10.0 % with a coupon of 6.75 %.

After-tax result and financial expenses (in € million)



Source: GBC AG

Evaluation

Model assumptions

Coreo AG was valued by us using a three-stage DCF model. Starting with the concrete estimates for the years 2021 to 2023 in phase 1, the forecast is made from 2024 to 2028 in the second phase by applying value drivers. We expect increases in turnover of 3.5 %. We have assumed a target EBITDA margin of 64.2%. We have taken the tax rate into account at 25.0% in phase 2. In the third phase, a residual value is also determined after the end of the forecast horizon using the perpetual annuity. In the terminal value we assume a growth rate of 2.0%.

Determination of the cost of capital

The weighted average cost of capital (WACC) of Coreo AG is calculated from the cost of equity and the cost of debt. To determine the cost of equity, the fair market premium, the company-specific beta and the risk-free interest rate must be determined.

The risk-free interest rate is derived from current yield curves for risk-free bonds in accordance with the recommendations of the Fachausschuss für Unternehmensbewertungen und Betriebswirtschaft (FAUB) of the IDW. The basis for this is the zero bond interest rates published by the Deutsche Bundesbank according to the Svensson method. To smooth short-term market fluctuations, the average yields of the previous three months are used and the result rounded to 0.25 basis points. **The currently used value of the risk-free interest rate is 0.25%, which is the minimum value we currently set for our model.**

We set the historical market premium of 5.50% as a reasonable expectation of a market premium. This is supported by historical analyses of stock market returns. The market premium reflects the percentage by which the equity market is expected to yield better than low-risk government bonds.

According to the GBC estimation method, a beta of 1.36 is currently determined.

Using the assumptions made, we calculate a cost of equity of 7.71% (beta multiplied by risk premium plus risk-free interest rate). Since we assume a sustainable weighting of the cost of equity of 60%, the weighted average cost of capital (WACC) is 6.44%.

Valuation result

The discounting of future cash flows is based on the entity approach. The **resulting fair value per share at the end of the 2022 financial year corresponds to a target price of € 2.60.**

DCF model

Coreo AG - Discounted Cashflow (DCF) model

Value driver used in the DCF-model's estimate phase:

consistency - phase		final - phase	
Revenue growth	3.5%	Perpetual growth rate	2.0%
EBITDA-margin	64.6%	Perpetual EBITA margin	64.2%
Depreciation on fixed assets	0.0%	Effective tax rate in terminal value	25.0%
Working capital to sales	28.0%		

Three-phase DCF - model:

Phase in mEUR	estimate			consistency					final TV
	FY 21e	FY 22e	FY 23e	FY 24e	FY 25e	FY 26e	FY 27e	FY 28e	
Revenue (RE)	10.93	23.00	26.61	27.54	28.51	29.50	30.54	31.61	
Revenue change	125.4%	110.4%	15.7%	3.5%	3.5%	3.5%	3.5%	3.5%	2.0%
Revenue to fixed assets	0.09	0.14	0.12	0.13	0.13	0.13	0.14	0.14	
EBITDA	4.93	13.85	17.19	17.79	18.41	19.06	19.72	20.41	
EBITDA-margin	45.1%	60.2%	64.6%	64.6%	64.6%	64.6%	64.6%	64.6%	
EBITA	4.92	13.83	17.17	17.77	18.39	19.04	19.70	20.39	
EBITA-margin	45.0%	60.1%	64.5%	64.5%	64.5%	64.5%	64.5%	64.5%	64.2%
Taxes on EBITA	-1.23	-3.46	-4.29	-4.44	-4.60	-4.76	-4.93	-5.10	
Tax rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
EBI (NOPLAT)	3.69	10.37	12.88	13.33	13.79	14.28	14.78	15.29	
Return on Capital	5.8%	7.9%	7.3%	5.9%	6.1%	6.3%	6.4%	6.6%	6.6%
Working Capital (WC)	7.00	7.50	8.00	7.71	7.98	8.26	8.55	8.85	
WC to sales	64.0%	32.6%	30.1%	28.0%	28.0%	28.0%	28.0%	28.0%	
Investment in WC	2.70	-0.50	-0.50	0.29	-0.27	-0.28	-0.29	-0.30	
Operating fixed assets (OFA)	124.01	170.06	217.37	218.87	220.37	221.87	223.37	224.87	
Depreciation on OFA	-0.02	-0.02	-0.02	-0.02	-0.02	-0.02	-0.02	-0.02	
Depreciation to OFA	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
CAPEX	-69.72	-46.07	-47.33	-1.52	-1.52	-1.52	-1.52	-1.52	
Capital Employed	131.01	177.56	225.37	226.58	228.35	230.13	231.92	233.72	
EBITDA	4.93	13.85	17.19	17.79	18.41	19.06	19.72	20.41	
Taxes on EBITA	-1.23	-3.46	-4.29	-4.44	-4.60	-4.76	-4.93	-5.10	
Total Investment	-67.01	-46.57	-47.83	-1.23	-1.79	-1.80	-1.81	-1.82	
Investment in OFA	-69.72	-46.07	-47.33	-1.52	-1.52	-1.52	-1.52	-1.52	
Investment in WC	2.70	-0.50	-0.50	0.29	-0.27	-0.28	-0.29	-0.30	
Investment in Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free Cashflows	-63.31	-36.17	-34.93	12.11	12.02	12.50	12.99	13.50	244.18

Value operating business (due date)	139.14	184.27
Net present value explicit free Cashflows	-18.61	16.37
Net present value of terminal value	157.75	167.91
Net debt	99.49	138.47
Value of equity	39.64	45.81
Minority interests	-0.14	-0.17
Value of share capital	39.50	45.64
Outstanding shares in m	17.54	17.54
Fair value per share in €	2.25	2.60

Cost of Capital:

Risk free rate	0.3%
Market risk premium	5.5%
Beta	1.36
Cost of equity	7.7%
Target weight	60.0%
Cost of debt	5.2%
Target weight	40.0%
Taxshield	12.9%
WACC	6.4%

Return on Capital	WACC				
	5.8%	6.1%	6.4%	6.7%	7.0%
6.1%	3.25	2.35	1.57	0.90	0.30
6.4%	3.86	2.91	2.09	1.37	0.74
6.6%	4.48	3.47	2.60	1.85	1.18
6.9%	5.10	4.03	3.12	2.32	1.62
7.1%	5.71	4.60	3.63	2.80	2.06

APPENDIX

I.

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2. The research report is simultaneously made available to all interested investment services companies.

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HOLD	The expected return, based on the derived target price, incl. dividend payments within the relevant time horizon is $> - 10\%$ and $< + 10\%$.
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