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BGP - a Deal conwert Must Not Do

August 2015

Framing the BGP Acquisition (1/2)

Governance

- The new Administrative Board has been in place for less than 2 months
- Two of four Administrative Board seats are under legal challenge; none of the Board members is currently registered in the Commercial Register (Firmenbuch)
- Several law suits are under way to challenge the June AGM and the non-compliance with calling an EGM
- Apparently, no formal Administrative Board approval was in place to hire advisers and perform diligence on BGP
  - Phillip Burns called banks before 22 June 2015 and appears to have mandated them
  - This resulted in relationship issues with conwert's lead advisor
- Timing and progress of the transaction point towards exclusivity having been signed in mid July
- conwert currently has no CEO and/or COO and is run by CFO Thomas Doll
  - Wolfgang Beck is starting only on 1 September 2015

Formally and factually, conwert is not in a position to make a transformational acquisition without incurring legal risks

Significant legal question marks arise around the role of Phillip Burns, a simple "member" of the Administrative Board

Framing the BGP Acquisition (2/2)

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Refinancing & Revaluation

- Current LTV is shown by conwert at 52.4%
- Refinancing of conwert apparently well under way including a potential bond to be issued
  - Declared goal is to reduce financing costs by more than 100bps from nearly 4% at the moment
  - Targeted debt level post refinancing is 50%
- Against the market trend (see e.g. recent DW announcement), conwert has still not re-evaluated its properties
  - Substantial risk that GAV is under-valued

A transformational acquisition might derail the current re-financing efforts and will likely materialise before any GAV revaluation

Valuation Context

- Due to a lack of investor trust and weak cash generation / dividend yield, conwert is trading at a discount of 11% to NAV vs. an average premium of 47% for its peers[2]
- This is despite perceived GAV revaluation potential of €250-300 million

Any issuance of new equity to finance the acquisition of BGP will be massively and unnecessarily dilutive to existing shareholders

1) Reported LTV's.

Initial Impressions on BGP (1/2)

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- BGP has a €1,140m portfolio spread throughout Germany
  - With exception of Berlin (41.6% of GAV), Cologne (7.6%), Dusseldorf (2.1%) and Munich (5.8%), the majority of the property assets are located in B and C type cities
  - Density of the portfolio appears quite low (44 cities with less than €5m GAV, i.e. less than c. 50 apartments!)
- The BGP portfolio has a higher value per sqm compared to conwert (€1,000/sqm)
  - Well above that of KWG (€780/sqm) and conwert Germany (€983/sqm)(1)
  - How could conwert buy expensively before it revalues itself properly?
  - How could conwert not prioritize buying out KWG shareholders at below NAV?
- BGP management have publicly stated they are seeking a full price above NAV(2)
  - Chairman Rod McGeoch has publicly stated he seeks more than the NAV of €700m
  - The sale is the result of a highly competitive process with 58 parties involved and a parallel IPO track

1) *For BGP and conwert data is as of Q1 2015, for KWG as of 2014FY.*
2) *BGP's public response to conwert's ad-hoc notice states: „Mr McGeoch emphasised BGP's desire to only sell the portfolio for more than its net asset value of about €700m and 58 trade buyers signed nondisclosure agreements to look at the apartments."*

Initial Impressions on BGP (2/2)

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- BGP has been through a significant portfolio restructuring phase including the sale of operations in other European countries as well as its former industrial and commercial properties
  - BGP has started to focus on improving the current portfolio through efficient asset management but vacancy and rent yields still need significant work
  - Only recently (2014) has BGP started to address capex needs in the core German resi portfolio (maintenance capex of c. €4-6 /sqm in 2012/2013). BGP plans to spend €112m of capex in 2014-2017 (€28m/a) vs. €15m/a in 2012-2013
  - The current capital structure is a combination of CMBS (2/3) and bank loans (1/3) and is expensive (CMBS cost is greater than 4%); we assume the CMBS facility has a CoC clause
- FFO I (€15.8m in 2014 incl. Otto II) and cash generation are consequently very low
  - Yield(1) of just 2.3%, below conwert's 3.3% and KWG's 3.2%
- Synergies appear limited
  - Both companies have property management in-house
  - Assuming 20% of the combined German work-force and furthermore assuming savings of €50k/employee, synergies would be around €5m
  - Even counting lower interest costs from a refinancing of BGP as synergy would not add more than c. €8m(2)

1) FFO I 2014FY / shareholders' equity Q1 2015. For BGP, we used the stated NAV of €700m as equity.
2) BGP shows interst cost savings of €8.3m for 2015/16 assuming a refinancing at an average interest cost of 2.05%, which is probably a lower rate than what would realistically be achievable.

Initial Acquisition Financing Considerations

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- conwert can issue up to 42.7m new shares (50% of shares issued) without an EGM
  - Assuming a capital increase at price of €10.0/share this represents a potential source of funds of c. €427m
  - Underwriting risk of such capital increase is very substantial
- The company also holds approximately 1.6m treasury shares which if sold at the same price (€10.0 per share) would contribute another €16m
- Bridge financing will be required for this acquisition (assuming the CMBS program will have to be refinanced); this comes on top to a bridge into a potential bond for the refinancing of the existing conwert business
- Assuming an acquisition slightly above GAV (€1.15 – 1.2bn)(1) and even before any transaction costs and debt penalties, this implies a need to increase LTV or an EGM to approve a larger capital increase
- Execution risk of such financing will be very high
  - Apart from typical financing issues, our legal advisers believe it is impossible to register a capital increase (due to lack of registered Administrative Board members)
  - Furthermore, the Board members will likely be sued personally for irreparable damage inflicted on the company

Preliminary Conclusions – BGP a Deal conwert Will not Do

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- A transformational acquisition now is contradictory to conwert's declared strategy to focus on its core business and will lead to liability lawsuits
  - As recently as in the August 2015 corporate presentation, significant acquisitions are ruled out(1) mirroring comments by CFO Thomas Doll during the Q1 Earnings Call(2)
  - conwert should focus on achieving and growing NAV
  - KWG minorities and / or convertible bond repurchases represent obvious and less risky paths to create shareholder value in comparison to BGP
  - conwert's ability to pay dividends might be further put in question
- At or even above NAV, BGP would be expensive relative to conwert
  - conwert trading at discount to NAV
  - Revaluation potential at conwert not yet exploited
  - FFO/cash generation of BGP very weak due to restructuring case history
- Risks involved from making an acquisition at this point are enormous
  - No CEO in place at conwert
  - Significant conwert housekeeping (rent, vacancy, revaluation, refinancing, de-listing Eco & KWG, address dilution from convertible bonds) remains
  - Legal situation seems to make lawful transaction close to impossible and imposes significant future uncertainty for the company and its representatives

Wrong timing for large acquisition

At or above GAV, dilution to existing shareholders would be massive

How can Management buy BGP at a premium to NPV instead of purchasing KWG shares at a steep discount to NAV?

1) *See pages 13 and 17 of conwert's corporate presentation.*
2) *Extract from 27 May 15 Earnings Call: "But the -- you have to take into account that all this can be achieved with much less buildings and the -- with the driver of the increase of the FFO is to use this proceeds from the disposals to get a better financial structure, and to pay back debt, and this is also the reason that we achieve after then a lower LTV because we -- in the plan there is -- there are no significant CapEx acquisitions plan, there is -- the plan is that we use the disposals for paying back this swap contracts and to pay back the secured debts."*