Diok RealEstate AG

6.0 % Senior note (2018 / 2023)

24 | September | 2018

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Der Spezialist für Finanzaktien

DIOK RealEstate

SRC Research Risk-Return Rating

★★★★☆

- **Rate (in %)** **100%**
  Interest rate p.a. 6,00%

- **Key Data**

Issuer	Diok RealEstate AG
Sector	Real Estate
Company's Headquarter	Cologne, Germany
Value Date	1 October 2018
Stock Exchange	Frankfurt Stock Exchange
Stock Market Segment	Open Market
WKN	A2NBY2
ISIN	DE000A2NBY22
Subscription Period Begin	expected 24.09.2018
Subscription Period End	expected 26.09.2018
Term start	expected 01.10.2018
Term end	expected 30.09.2023
Remaining Term (Years)	5,0
Type of Coupon	Fix-Coupon
Coupon	6,00%
First Coupon	01.10.2019
Interest Payment	Annually
Interest Payment Date	01.10.
Issue Volume	up to Euro 250m
Liquidity (average vol./day)	N/A
Accrued Interest Begin	01.10.2018
Principal Amount / Note	1.000 €
Issue Price	100%
Documentation	Securities Prospectus (German Law)
Rating	No
Rating Agency	N/A
Global Coordinator & Bookrunner	FinTech Group Bank AG (Bank M)
Type of Bond	senior unsecured
Internet	www.diok-realestate.de

- **Financial indicators (Euro '000)**

	2018e	2019e	2020e	2021e
Rental income	2.420	18.956	26.245	28.122
Net operating income (NOI)	**2.216**	**18.751**	**26.153**	**28.057**
Operating profit (EBITDA)	**1.404**	**17.781**	**24.511**	**25.070**
Net revaluation result	15.420	35.441	28.665	19.884
Operating profit (EBIT)	**15.837**	**49.168**	**48.386**	**39.713**
Net financial result	-2.521	-12.874	-14.814	-15.044
Pre-tax profit (EBT)	13.316	36.293	33.572	24.669
Net profit after minorities	**12.450**	**34.157**	**30.584**	**22.167**
FFO I	**-1.117**	**4.907**	**9.697**	**10.026**
Portfolio size	**103.254**	**405.450**	**478.995**	**524.103**
Equity	**31.227**	**59.886**	**101.573**	**124.396**
Interest bearing liabilities	**110.559**	**344.600**	**379.817**	**404.948**
ICR (Interest cover ratio)	**0,56**	**1,38**	**1,65**	**1,67**
DSCR (Debt service coverage ratio)	**0,50**	**1,00**	**1,19**	**1,17**

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High value accretion in German B locations and an attractive risk-return profile – we give 4 of 5 stars

- Diok RealEstate AG plans to issue a senior note (up to Euro 250m, 5 years, coupon 6.00% p.a.) for the acquisition of high yielding properties in promising German secondary office locations.
- Secondary locations offer higher yields and lower volatility compared to prime office locations. The average vacancy in secondary locations is lower than in prime locations. With regards to a lower number of new developments in B locations there is less supply of new space and a lower vacancy risk for the future.
- Diok has a current pipeline of over Euro 650m to buy and has already secured Euro 67m, which will quickly add to the existing Euro 53m investment portfolio with a high 6.6% NOI margin and 5.7 years WALT in good secondary cities of North Rhine Westphalia and Baden Wuerttemberg with top tenants like SAP, Siemens, Nokia, Creditreform, Jobcenter and TÜV.
- The outsourcing of asset, property, facility management and accounting allows Diok to focus on monitoring the market and reducing vacancy to expand the portfolio. With a portfolio size of more than Euro 500m the portfolio is lucrative for a block deal to come in mid-term of the next 3 to 5 years.
- The management has an in-depth industry experience and an excellent network which helps to acquire additional lucrative assets. There is also a prominent history in raising capital by several bond issues from the key management in the past.
- In our P & L assessment we expect Diok to quintuple the portfolio size from Euro 100m in 2018 to approx. Euro 500m until 2020 by raising Euro 150m by the current bond. The ICR ratios of 1.4x in 2019e, over 1.6x from 2020e are very satisfying.
- **The bond allows for a steep and profitable growth. With the good management's track record and the high yielding pipeline in hand, we judge the product to be very attractive for signing. In our initial valuation we give 4 out of 5 stars.**

Characteristics of the Senior note

Issuer	**Diok RealEstate AG**
Type of Bond	**Senior unsecured**
Headquarters	**Cologne, Federal Republic of Germany**
Applicable law	German law
ISIN / WKN	DE000A2NBY22 / WKN A2NBY2
Amortisation	100% of Principal Amount
Early Redemption	after 3 years for 104%, or after 4 years for 102%
Interest rate	6.00% per annum
Currency	Euro
Covenants	Pari Passu Negative Pledge Right of Termination / Events of Default Right of Termination at Change of Control during the complete term Premium increase (2%) if LTV is higher than 75% at redemption Maintenance of NET LTV: NET LTV will not exceed 85% Unencumbered Assets not less than 10% of net debt Interest step-up (0.25%) in case of breach Further interest increase (0.5%) if no rating is granted to the issuer by 30 September 2021
Limitation on distribution of dividends	LTV bigger than 75% -> 0 percent LTV less than or equal 75% and greater than 65% -> 50 percent LTV less than or equal 65% -> 100 percent
Use of Proceeds	a quicker growth of the office portfolio in German B locations payment of ongoing operating costs cheaper refinancing of some existing debt (Euro 11.6m)
Listing	Frankfurt Stock Exchange (Open Market)
Private Placement Period	Public offer from 24.09. until 26.09.2018, 12:00 a.m. CEST, the issuer reserves the right to extend or shorten the offer period for the Private Placement
Global Coordinator and Bookrunner	BankM - Representative Office of FinTech Group Bank AG, Frankfurt
Paying Agent	BankM - Representative Office of FinTech Group Bank AG, Frankfurt
Selling Agents	GFI Securities Limited, London and Jyske Bank A/S. Silkeborg (DK)
Arranger	Swiss Merchant Group AG, Zug (Switzerland)
Listing	2 October 2018

SWOT Analysis

Strengths

- The board members Daniel Grosch and Markus Drews are highly senior, experienced and very well-known in the German real estate sector.
- Diok is a lean managed company with a portfolio of Euro 53m at present, which is and will be further diversified across different industries, tenants and locations throughout Germany. Therefore, their business model provides better protection against macro- and microeconomic risks in that regard.
- With an average WALT of 5.7 years across the entire portfolio of Diok, their tenant base and long-term lease agreements provide them with good long-term visibility with rental income and cash flow from operating activities.
- The outsourcing of asset, facility and property management simplifies the calculation of costs and the improvement of cash flows. This allows the focus on reducing vacancy and monitoring local market dynamics on a constant basis. The partner company for AM, PM, FM has a very long track record and already worked for Mr. Grosch and Mr. Drews at their previous companies Colonia Real Estate and Demire. All processes and interfaces were already set up and Diok was ready for transactions from Day 1. The partner is also involved in the Due Diligence process before buying new properties for the portfolio.
- The tenant's creditworthiness and the quality of the buildings are excellent and represent a cross-section of the German middle class.

Weaknesses

- As the firm started its real estate operations only in spring 2017, Diok does not have a meaningful operating and financial track record yet, which would allow for a higher level of transparency and trust from an investor's view.
- The portfolio is currently spread over 6 locations in 5 cities and only 2 federal states, which leads to increased clump risks.

Opportunities

- Diok follows the strategy to establish an office real estate portfolio in German secondary cities of over Euro 1bn within the next three to five years. The company aims to reduce their financing costs and the vacancy in the existing portfolio (EPRA vacancy rate at present 8.2%). The strategic plan sounds very promising and, if accomplished, will lead to lucrative earnings in the mid-term.
- Diok focuses on well-maintained, suitable office assets in secondary locations, which provide high yields with low cyclicality, at least lower than in the primary locations. Due to the pronounced management knowledge in the regional markets, this should lead Diok to a favourable position in this segment.
- The focus on secondary cities still offers lucrative yields compared to the Top 7 locations, in which is too much demand from institutional side and wealthy family offices. The good buying opportunities and lucrative deals with upside potential are much more often to be found in the much higher yielding B cities.

Threats

- The business strategy is dependent on the amount of proceeds raised in this private offering and investors may be unable to assess their prospects.
- The company follows a "manage-to-core" strategy in their value-add portfolio. Problems regarding the improvements of the objects could lead to higher than expected costs.
- The institutional demand to buy in German B locations is rising as yields became very low in A cities and the offer side shrunk. Thus we expect more competition to follow for good B locations, which is a threat for a quick portfolio expansion.
- In Diok's office property locations their largest tenants represent a significant portion of their gross rental income. The Top 3 stand for 52% of the current rents.

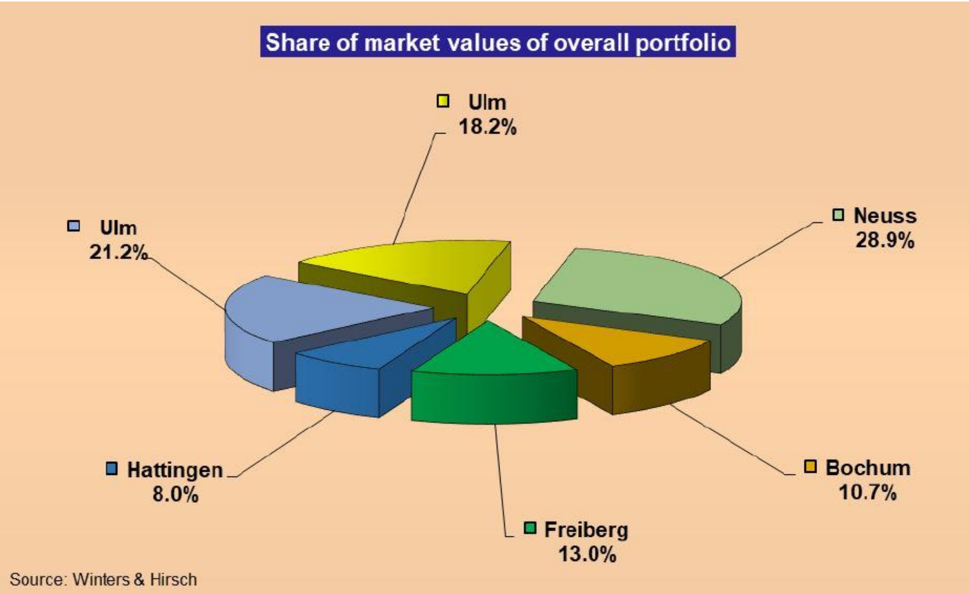
Diok RealEstate AG at a glance

Industry:	Commercial Real Estate	**Management Board of Diok:**
Sub-segment:	Office Properties	Daniel L. Grosch
Region:	Germany	Markus Drews
Headquarters:	Cologne	
Foundation	2013	
Employees:	3	**Supervisory Board of Diok:**
		Florian Funken (Chairman of the Supervisory Board)
IR Contact:		Stefan Lutz (Deputy chairman)
info@diok-realestate.de		Arndt Krienen

Diok RealEstate AG acquires and manages commercial real estate properties in secondary locations across Germany, mainly office. The firm was originally incorporated in 2013 under the name "JobHub AG" as stock corporations and was engaged in human resources consulting. On 23 May 2017, the annual general meeting changed the company's name to "Diok RealEstate AG". At the same time, the annual general meeting passed the transfer of the Company's registered office to Cologne, North Rhine-Westphalia, as well as the amendment of the company's articles of association, including the business purpose, allowing Diok to acquire office real estate with a focus on buying, operating, repositioning and trading office property assets, portfolios or companies.

Diok currently already holds a portfolio with six properties with a total lettable area of 32k sqm and an aggregate portfolio value of Euro 52.8m. The total net rental income amounts Euro 3.2m, giving a net rental yield of 6.59%. The average vacancy rate is 11.53% and the European Public Real Estate Association vacancy rate is even below 10%, at 8.2%. Diok has a strong base of approximately 25 top tier tenants. The tenants include the Dax companies SAP and Siemens, Nokia, Philips, Creditreform, the public Jobcenter, TÜV, the German police etc. The long-term lease agreements allow Diok a high visibility on rental income and cash flow generation. Their goal is to create a diversified portfolio of cash flow producing and high yielding office properties portfolio in Germany with a steady growth of value and income to a gross asset value of more than Euro 1bn with the intention to position the company with this portfolio as an attractive takeover target and to sell a streamlined portfolio as a whole, externally managed and reduced to its assets with a very limited number of employees, in a timeframe of up to three to five years. So Diok is outsourcing the asset, property and facility management, as well as the accounting.

The commercial area in Neuss (North Rhine-Westphalia) is the most important of the company with a net rental income of Euro 982k and a fair market value of Euro 15.3m. In Ulm (Baden-Württemberg) are the two next most important objects. The remaining locations are Bochum (North Rhine-Westphalia), Freiberg (Baden-Württemberg) and Hattingen (North Rhine-Westphalia). Hattingen, with a fair market value of Euro 4.2m and a net rental income of Euro 349k, has the largest net rental yield of 8.86%, despite a 40% vacancy rate.



Source: Company Data, SRC Research

Senior note allows for a steep growth of the office portfolio

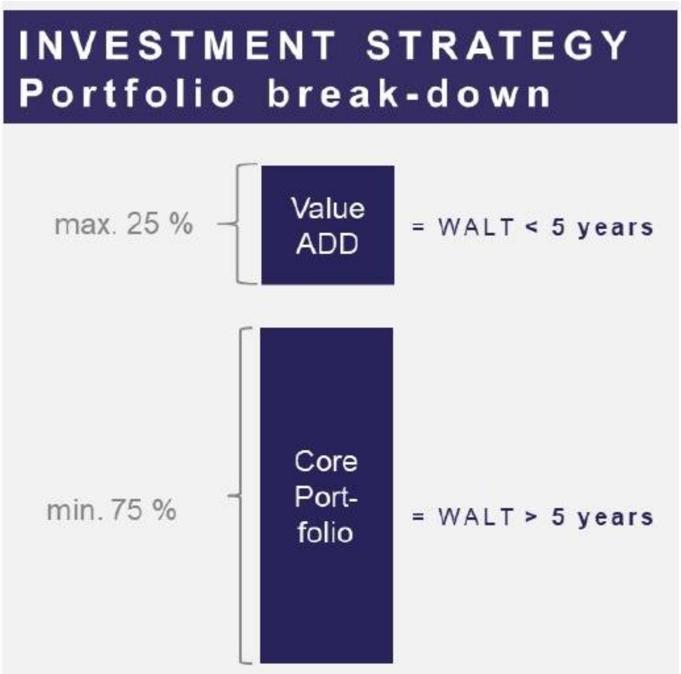
Diok focuses on high yielding office assets in secondary locations with a favorable tenant structure

Diok is a real estate investor with focus on office properties in prosperous mid-sized cities and bordering areas of metropolitan cities in Germany. With that focus on secondary locations, which still provide more lucrative investment opportunities, given proper knowledge of the respective locations, it aims to achieve much higher yields with lower volatility compared to the prime locations. The portfolio is divided into a core plus segment and a value add segment. The investment strategy for the expansion of the portfolio size is to invest at least 75% in the core plus segment and at maximum 25% in the value add segment.

The portfolio shall be split into a 75% core plus and a max. 25% value add segment.

Within the core plus segment, assets have stable long-term visibility, with some potential for capital recycling by selling off some assets. The acquisition criteria for that segment are a vacancy rate below 10% with a WALT of more than 5 years. The value add segment includes assets with secure income that still show upside potential by e.g. reducing the vacancy rates. Therefore, Diok looks to acquire assets with a gross initial yield of more than 6.5%, a vacancy rate of 10% - 40% and a WALT of at least 2 years.

The gross initial yield of the total portfolio is targeted to be at least at 6.5%. The sqm purchase price is in a range of only about 50% of the new construction value, at present the firm buys below Euro 1,300 per sqm. In Diok's business plan Euro the company calculates with more conservative assumptions of Euro 1,700 per sqm purchase price. A lower purchase price than originally planned leads to a higher value accretion and of course also helps for lower LTV ratios.



Source: Company Data

With a manage-to-core strategy and outsourced asset, property and facility management, Diok creates a value accretion throughout the next 3 to 5 years.

The manage-to-core strategy is to be efficient by outsourcing the Asset, Property and Facility Management, as well as the accounting. In terms of locations, the company looks to acquire existing properties in secondary cities exclusively in Germany with strong micro location demand and fundamentals, as well as metropolitan areas or commuter belts such as the Ruhr area or near Stuttgart. The company is looking for asset deals and share deals as well as portfolio transactions with a minimum volume of Euro 5m. The company is looking for asset deals and share deals as well as portfolio transactions. The sweet spot of a single transaction will be in a range of Euro 5m to 25m, where the company has not much competition as the volume is too small for most of the other institutional investors, but too high for private investors. With a rising portfolio size Diok will unlock significant economies of scale and have a higher level of diversification.

With regards to new acquisitions, Diok strives for 65% senior debt from bank loans and the remaining 35% coming from the current bond issue.

Diok plans to finance the portfolio acquisitions with a leverage of 65% senior secured debt from local as well as huge commercial banks and expects a range between 1.8 and 3.0% of interest per annum for the senior debt with a regular redemption between 2% and 3% p.a. leading to a fast deleveraging.

The adjusted LTV with regards to the lucrative purchase prices is only at a 50% level.

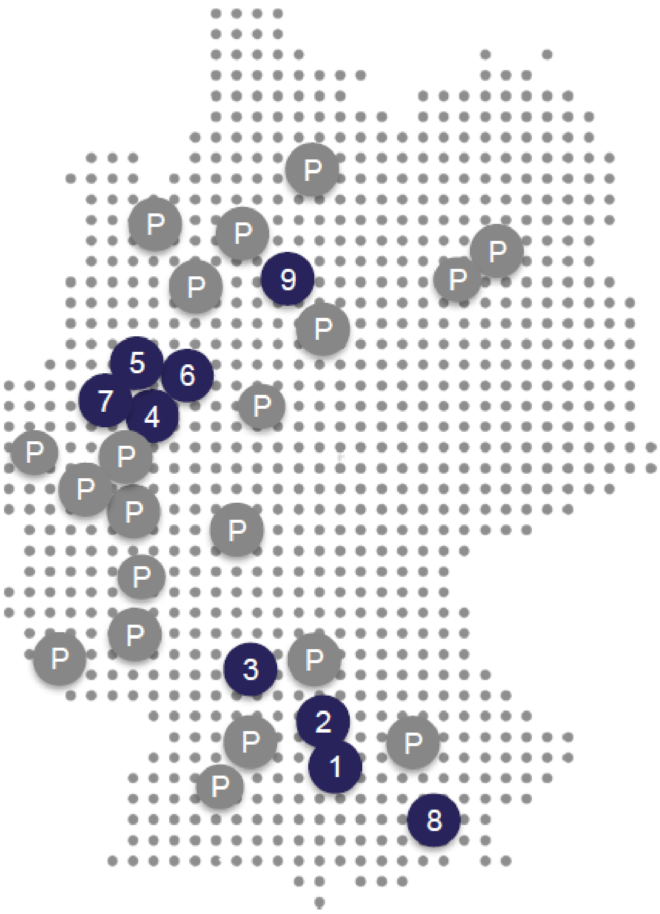
In most of the cases the "real" LTV of the purchased properties might be much lower as 65%, as Diok will buy below the fair market value in a range of c. 15% to 20% as the firm has already proven some very good deals with the seed portfolio. That leads to an adjusted LTV of only about 50% or even slightly below. Together with current purchase prices of only Euro 1,300 per sqm instead of Business Plan's Euro 1,700 per sqm this leads to a probably higher value accretion for the total company and also a higher equity position. In our view, the equity ratio of the company should increase from about approx. 22% at year-end 2018 to more than 30% at year-end 2023.

The value accretion over the next years is quite high, and we expect the equity ratio to climb from 22% to over 30% in the next 5 years.

The fixed redemption leads to a permanent reduction of the company's indebtedness. Given the interest rate of 6% regarding the issue of the Senior Note, we expect an overall average cost of debt between 3% and 4%. Diok will use the proceeds to quickly complete upcoming purchases with the full amount in a first step from the fresh Senior note capital inflow, and then install the senior debt tranche in a second step.

Promising pipeline of over Euro 500m allows to quickly grow the portfolio after the bond issue

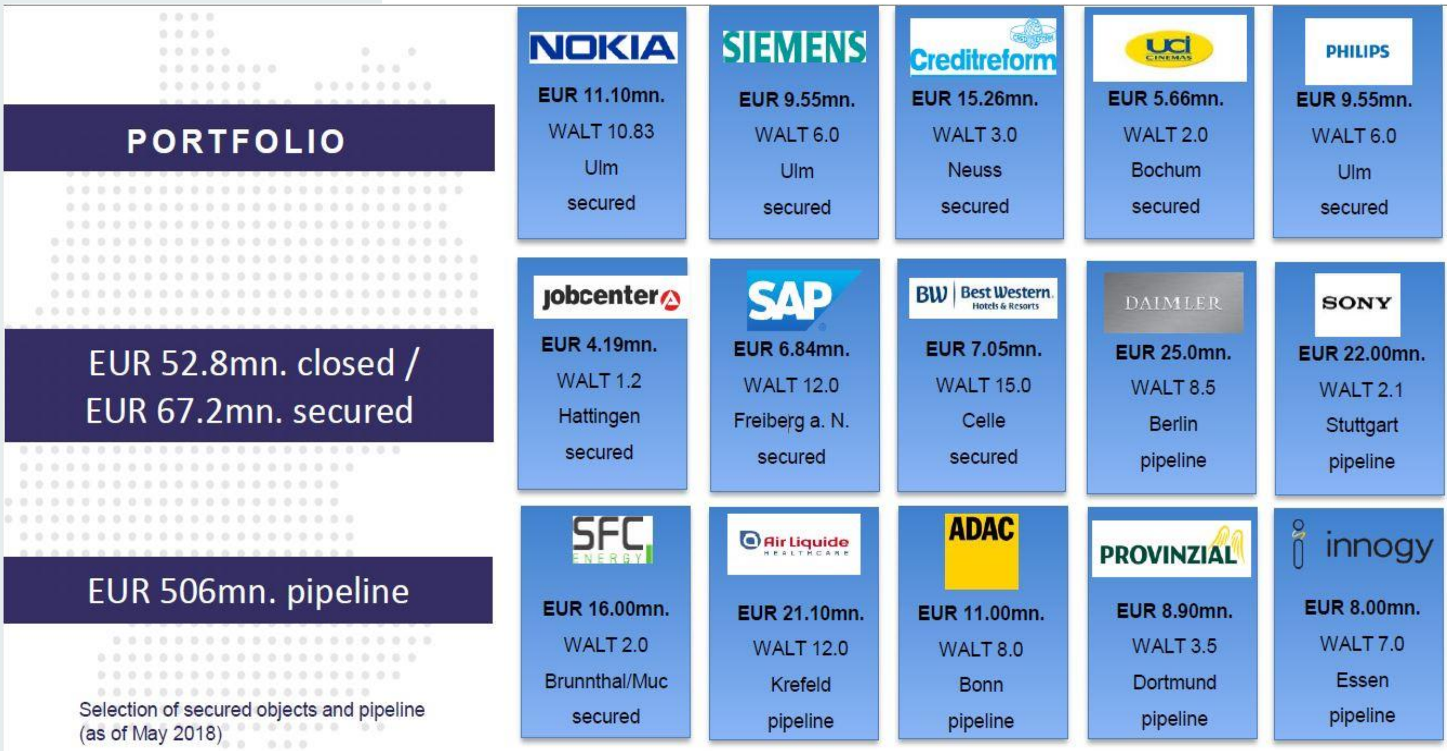
Regarding the objects in the value add segment the company follows a manage-to-core strategy. Thereby, the company tries to benefit from its lucrative acquisitions by extending the respective WALTs, a reduction of vacancy rates and the controlling via OPEX and CAPEX on an asset by asset basis. This will lead to increased rental income, lifted property valuations and a maximization of the firm's Funds from Operations. This strategy is to be accomplished by an outsourced Asset, Property and Facility Management. With this lean management approach, the company will have a positive cash-flow contribution from the objects from the first day on. In terms of locations the company looks to acquire existing properties in secondary German cities, in excellent and good micro location. The depiction below shows the preferred regions of the company. The numbered locations show objects currently in the portfolio as well as objects on which the company has already finished its due diligence process and has exclusivity on. The places marked with a "P" show further objects in the pipeline. Other than the banana shaped target region, acquisitions in the Leipzig or Dresden region for example are also an option.



Source: Company Data

The company's current portfolio has a volume of about Euro 53m, spread across six locations in five cities. At this size, the portfolio is naturally not yet well diversified. Therefore, the top three tenants namely Nokia, Siemens/Phillips, and SAP make up for 52% of rental income. With the planned acquisitions, however, the portfolio will be much more diversified in terms of locations and tenants.

Next to the almost Euro 53m of objects in the current portfolio, the company has about Euro 67m of new objects already secured. Furthermore, as of May, the pipeline was at more than Euro 500m of off market transactions, where Diok had exclusivity and was in the process of due diligence. The tenant base in these objects includes many renowned German and international organizations with a strong creditworthiness and long track record, such as DAX companies Siemens and SAP, Sony and Air Liquide. The objects show a good occupancy profile and a long WALT and are attractively priced so that Diok can benefit from the low multiples. We expect that the pipeline has further increased by now as new objects have added to the pipeline since May.



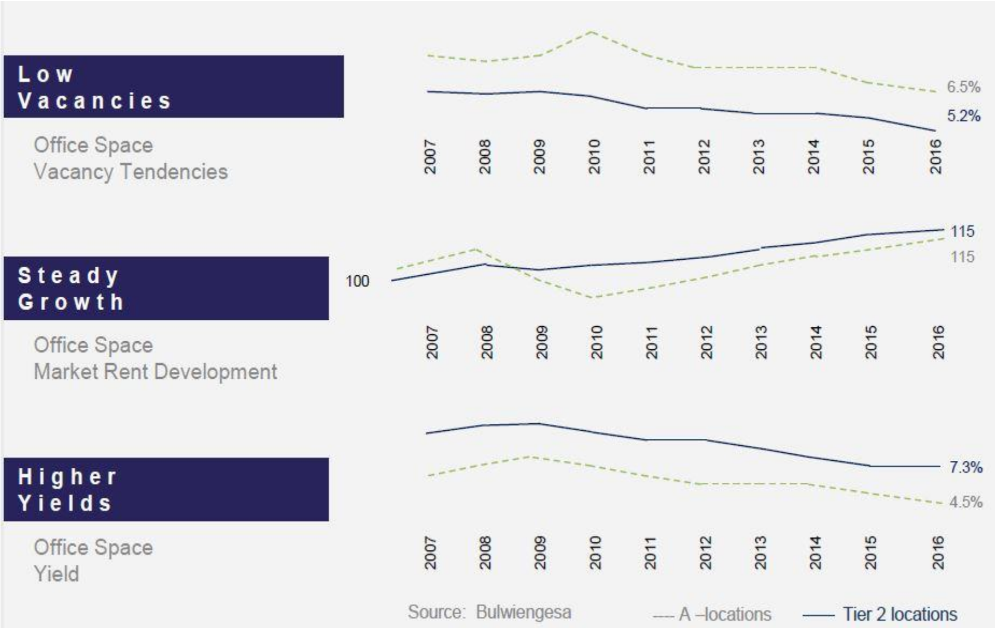
Source: Company Data

We expect the first acquisitions to come already within the next weeks. We believe that as soon as the proceeds from the bonds are on the company's books, the acquisitions will follow in a timely manner. That is supported by the fact that the management has a high expertise regarding the acquisition of commercial properties as they have acquired more than Euro 1.2bn within the last 4 years.

The B locations offer higher yields with lower risks compared to the Top 7 cities in Germany

Investment focus on lucrative German secondary locations

While investors had focused on real estates in the Top 7 cities in Germany in the first years after the financial crisis, since 2012 the trend has been to invest in secondary locations. An investment in these locations offers, compared to the Top 7 cities, lower vacancy risks and higher yields.



In 2017 almost half of the money invested in German Real Estate was invested outside the Top 7 cities. We expect this trend to continue or even accelerate.

With regards to vacancy numbers, the average vacancy is lower in secondary locations than in the primary locations. As there is less speculative construction work in B locations, there is also less supply of new space. In 2017, almost half of the capital invested in real estate is attributable to markets outside the Top 7, namely Euro 27bn of Euro 57.2bn. We expect this positive trend to continue, especially in terms of investment in office assets, as there is a scarce supply for good products in the A metropolitan hubs.

As office space in the Top 7 cities in Germany is subject to a big shortage, office space at locations outside the Top 7, regardless of the lower rental price, is becoming increasingly interesting also for companies as potential tenants and of course also for real estate investors. Diok's challenge will be to make good acquisitions in a more sought-after market, but with the existing pipeline and with management's track record and very wide industry network we strongly believe them to handle with that.

Portfolio Key Data

Location	Net Rental Income (in Euro thousand)	Lettable Area (in thousand m²)	Vacancy Rate (in %)	Fair Market Value (in Euro million)	Net Rental Yield (in %)
Ulm (Baden-Wuerttemberg) 1	659	5.4	0	11.2	6.3
Ulm (Baden-Wuerttemberg) 2	495	4.5	9.1	9.7	5.5
Neuss (North Rhine-Westphalia) 3	982	7.6	0.0	15.3	6.9
Bochum (North Rhine-Westphalia) 4	392	3.8	13.8	5.6	7.4
Freiberg (Baden-Wuerttemberg) 5	384	4.0	0.0	6.8	6.0
Hattingen* (North Rhine-Westphalia) 6	349	7.0	40.0	4.2	8.9
Total	**3,261**	**32.3**	**11.5**	**52.8**	**6.6**

* Negotiations with existing tenants to expand their rental space are in an advanced stage.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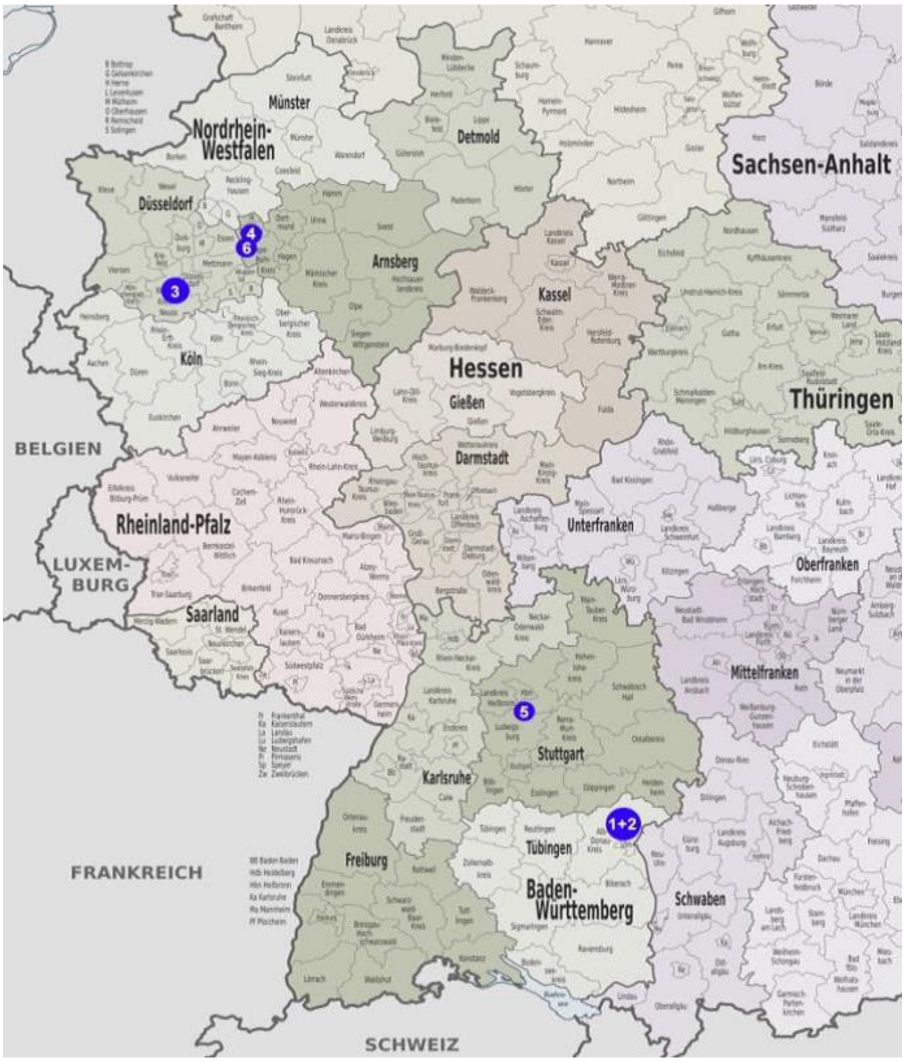
Cities where the seed portfolio is located



Source: Company Data

The biggest portion of the existing portfolio is located in southern Germany, in the state of Baden Wuerttemberg in Ulm, with almost 40% share of the market value

Diok currently holds a portfolio of 6 office assets in the cities of Ulm, Neuss, Bochum, Freiberg and Hattingen. In terms of net rental income, the biggest portion of the portfolio is currently located in Southern Germany in Ulm, on the way between Stuttgart and Munich, with 35%, followed by Neuss with 30% and Bochum, Freiberg and Hattingen with each around 11% (all North Rhine Westphalia, except for Freiberg, which is also in Baden Wurttemberg like Ulm). The general prime rent in office space in Ulm is the highest of the five cities and amounted in 2017 to Euro 15.00 per sqm. The prime yield of all office properties in Ulm was in 2017 at 6%. The average vacancy rate here was 5%. Further examples are Neuss with a prime rent of Euro 10.50 per sqm and a prime yield of 6.6% and Bochum with a prime rent of Euro 12.00 per sqm and a prime yield of 6%. The average prime rent of office retails in B locations in 2017 was at Euro 14.00 to 15.00 per sqm lower than in A locations at Euro 28.00 to 29.00 per sqm, but the average prime yield in B locations is with 5% to 6% much higher, about +50%, than in A locations with 3% to 4%.

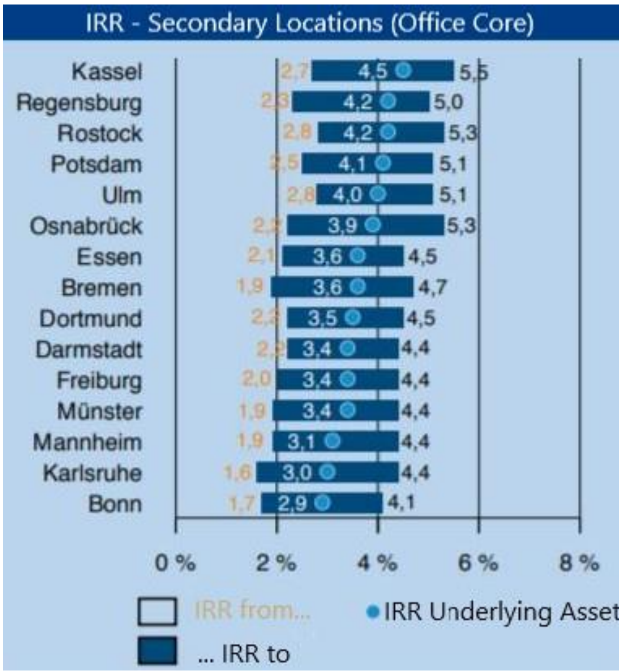
German A cities only offer very low IRRs of 1.6% to 3.7%, secondaries are much higher at 5.7% to 6.6%, even more with an active asset management

Much higher yield potential at B cities

On the basis of the current "5 % study" by Bulwiengesa, it can be determined, that the high return pressure in recent years has led to a significant decline of the IRR (Internal Rate of Return). Thus, despite positive rental prospects for core real estate in the German A cities, only IRR values of 1.6% to 3.7% are reached. Secondary locations, however, can achieve much higher potential, namely interest rates of 5.7% to 6.6%. According to Bulwiengesa, the yield potential of B locations could be far exceeded by an active real estate management. Vacancy reduction and / or rent increases would increase the value of the real estate and thus the investment success sustainably. The strategy just described corresponds exactly to that of Diok. For this strategy, Bulwiengesa considers both a high level of market knowledge, as guaranteed by the Board of Directors and the Diok team, and the corresponding purchase volume. This should now be achieved through this bond.

Diok has the needed market knowledge and the financial scope after the senior note issue. Ulm is a good example for a very successful story with Nokia as main tenant.

According to Bulwiengesa, the IRR in Ulm is between 2.8% and 5.1% with an underlying average asset of 4%. In the case of Diok, Ulm even has a net rental yield of 6.3% in the first property and 5.5% in the second. The main tenant there is Nokia.



A survey of c. 1,400 upcoming participants of the Real Estate Fair Expo Real in Munich in October 2018 has also revealed that strong price increases in the B cities are to be expected for the coming years. Also CBRE assumes that Germany remains one of the most attractive and stable office real estate markets for domestic as well as international investors. Although the high price level and the continuing product shortage are inhibiting, the momentum would nevertheless continue.

Very experienced management

The two Diok Board Members are Daniel Grosch and Markus Drews.

Daniel Grosch is a real estate economist, who has been a member of the executive board of the Company as of 7 July 2017. Additionally, he was a co-founder and from 2003 to 2008 a member of the executive board of Colonia Real Estate AG and also co-founder and from 2014 to 2016 member of the executive board (CEO) of Aves One AG. Currently he is also a member of the supervisory board of DOMUS Immobilien AG.

Markus Drews is a business administration graduate and real estate M&A advisor, who has been a member of the executive board of the Company as of 17 May 2018. Additionally, he was a co-founder and member of the executive board of Colonia Real Estate. He furthermore was a member of the executive board (CEO) of DEMIRE Deutsche Mittelstand Real Estate AG. Currently, he is also a member of the supervisory board of BF Direkt AG.

In our opinion, Daniel Grosch and Markus Drews will be able to lead the company successfully over the next years, helping it to expand the portfolio to more than Euro 1bn. With their experience and network in the industry they should be able to find lucrative deals for the company at the right time and price.

Arndt Krienen, member of the supervisory board of Diok, and Markus Drews are furthermore well experienced in terms of bonds. Under their regime, Adler, Accentro and Demire placed about some Euro 2.4bn in bonds and managed to redeem part of the debentures including a premium.

Track record of Diok's management and supervisory board regarding bonds

Adler Bonds	Accentro Bonds	Demire Bonds
2013/2018 **Euro 35,000,000 - 8.75%**	2018/2021 **Euro 100,000,000 - 3.75%**	2014/2019 **Euro 100,000,000 - 7.5%**
2017/2021 **Euro 500,000,000 - 1.5%**		2017/2022 **Euro 400,000,000 - 2.875%**
2017/2024 **Euro 300,000,000 - 2.125%**		
2018/2023 **Euro 500,000,000 - 2.3%**		
2018/2026 **Euro 300,000,000 - 2.3%**		

Financing structure is about to change after the placement

The current financing structure of Diok looks as follows:

Secured/Unsecured	Valuta (in €)	Maturity	Interest	Interest p.a. (in €)
Mortgage sen	34,500,000	30.05.2023	3.20%	1,104,000
Mortgage jun	7,100,000	30.05.2023	8.20%	582,200
Vendor Loan	4,500,000	31.12.2018	7.00%	315,000

Source: Company Data

With the proceeds of the bond the company wants to refinance the more expensive junior mortgage and the vendor loan for a total of Euro 11.6m. The remainder of the proceeds is supposed to be used to finance the initial portfolio expansion, which is to partially be refinanced in the next steps. The general plan is to finance new acquisitions with 65% LTC senior secured debt from local and interregional banks at an interest range between 1.8% and 3% and use the bond quasi as junior. The senior secured debt is to be regularly redeemed at an amortization rate of 2% to 3%, leading to a constant deleveraging effect. Overall we estimate the cost of debt to be somewhere between 3% and 4%.

We believe that it is feasible and realistic for the company to refinance the bond before the final redemption date. The management has the following options of early redemption in the third and fourth year.

- Until 30 September 2020 no redemption possible
- From 1 October 2020 to 30 September 2021 at **104%**
- From 1 October 2021 to 30 September 2022 at **102%**
- From 1 October 2022 to 30 September 2023 at **100%**

With an increased portfolio size and increased cash flow we believe that Diok could realistically refinance the 2018/2023 Bond in two or three years with a cheaper issue in a range of around 3%, bringing down the overall cost of debt to below 3%. This would significantly reduce the firm's financing cost and could at the same time bring additional capital for further growth.

The covenants of the bond are:

1. **Non Call 2 years**, call premium y1-y3 104%, y4 102%, y5 100%
2. **Additional 2% Premium** if LTV is higher then 75% at redemption
3. **Change of Control** (> 50% Shares or > 50% Assets) for both parties at any time
4. **No Dividend Payment** until 75% Net LTV, 50% Dividend Basket 75% - 65% Net LTV, 100% Dividend Basket Net LTV < 65%
5. **Use of Proceeds** for Aquisitions / Business Developement / General Purposes
6. Max. 85% Net LTV
7. **Interest Increase** 0.5% if no Rating within 3 Years from S&P, Moody´s or FITCH is disclosed. (No rating target)
8. Semi-Annual **Reporting**
9. 10% Unencumbered Assets

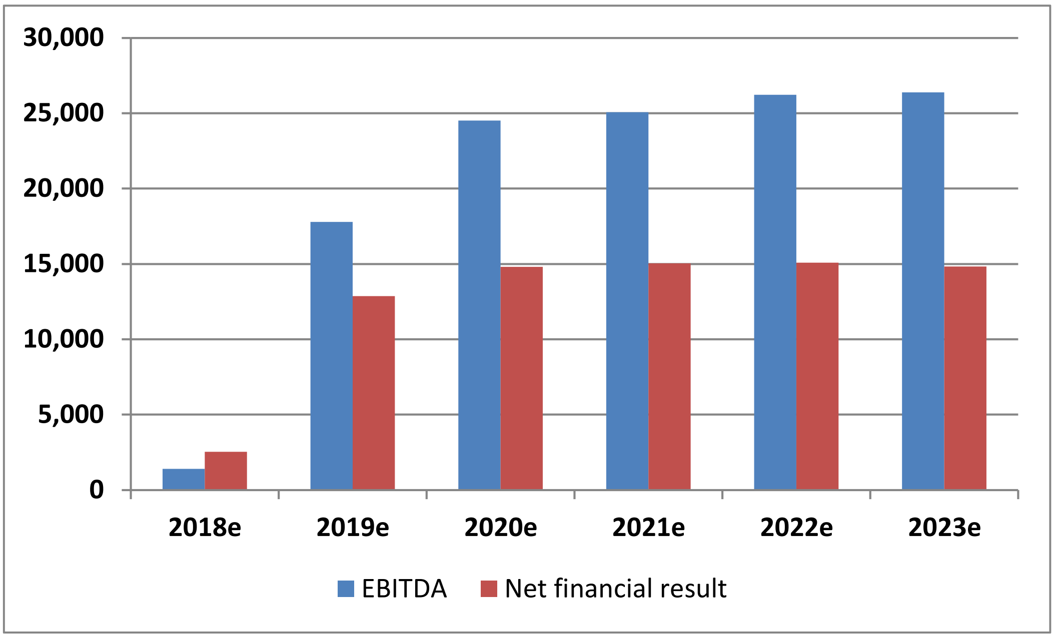
Source: Company Data

We do not expect any covenant breaches.

In the case of a breach of covenants #6 and #9 the company would be increased by a margin of 0.25%. As the company's ratios look solid over the coming years, we do not see any reason to believe that the company is in risk of breaching any of the above listed covenants.

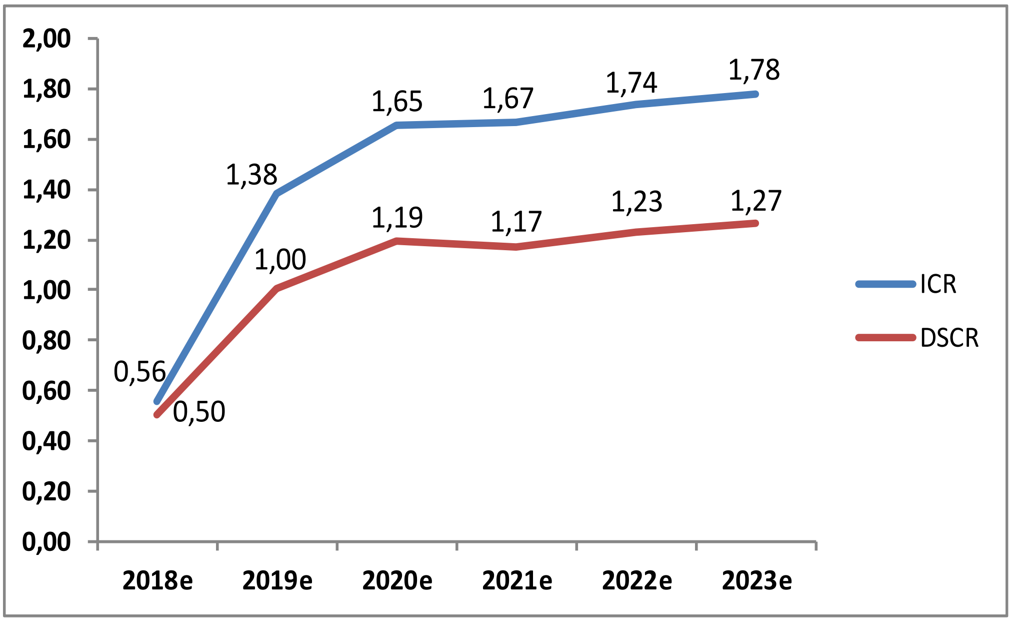
Our P&L forecasts results in an increasing interest coverage ratio and debt service coverage ratio

For our P&L and ratio estimate, with overall very conservative assumptions, we expect that the company will initially raise Euro 100m of capital with this senior note issue in 2018 and place another Euro 50m in the following year 2019. This allows the company to acquire about Euro 420m to Euro 480m of new objects assuming a 65% LTV on their senior loans asset financing. Hence we estimate that the company can grow the portfolio, including revaluation gains, from currently Euro 53m to Euro 524m at the end of 2021. After that we assume no further growth as the Euro 150m capital from the bond is fully used. Regarding the senior loans for the asset financing we assume a slightly conservative interest rate of about 3%. With these estimates our EBITDA and net financial result estimates look as follows:

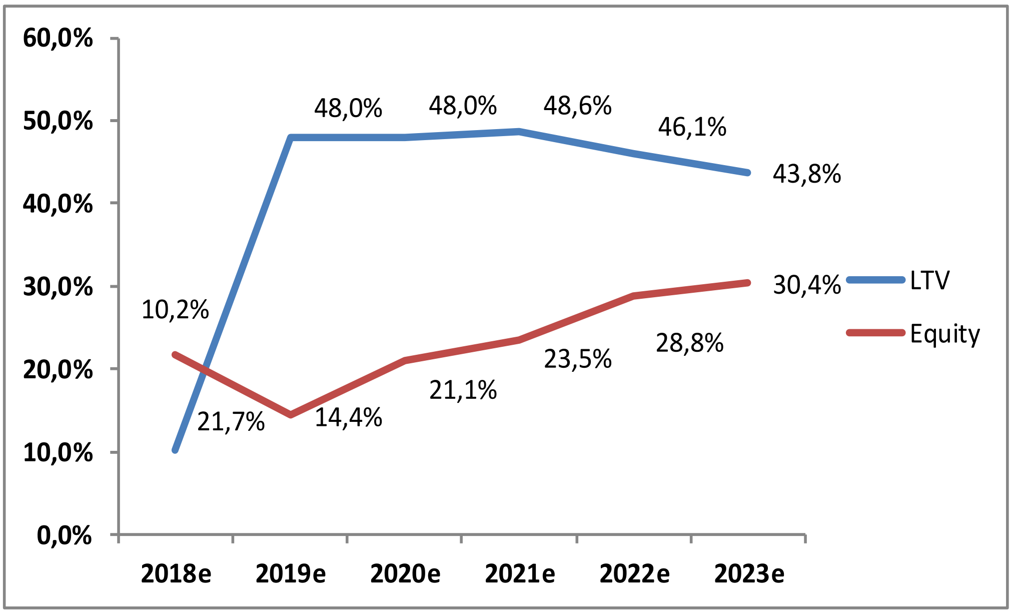


As can be seen, in the current fiscal year 2018 the generated EBITDA does not fully cover the firm's financial costs as the acquisitions from the raised capital will only contribute for a short time period in the remaining year. From 2019 on, the financial result is covered by the firm's cash driven EBITDA result. This can further be seen in the following ratios:

The interest coverage ratio (ICR) and the debt service coverage ratio (DSCR) are clearly increasing over the coming years as the portfolio of the company becomes larger and the respective cash flow becomes much higher.



We further estimate the firm's equity ratio to improve from about 22% in 2018 to slightly above 30% in 2023, driven by the firm's profits. The LTV ratio at the asset level is in a range of 47% to 49%, but will decline to below 44% in 2023, according to our forecast.



The most realistic scenario is that the firm will refinance the note earlier after 2 or 3 years and / or expands the portfolio size with a second bond with a lower coupon.

As described earlier, we see it as realistic that the company will refinance the note in 2 to 3 years at a lower rate and at the same time raise additional capital. This would, of course, push the numbers from that time on and lead to a further increase in portfolio size and the ratios.

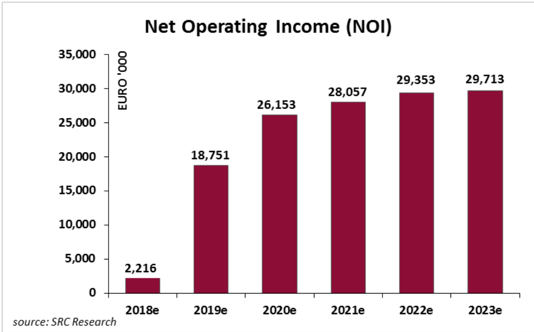
From this point of view, our P & L assessment for the coming years 2018e to 2023e is quite conservative and very careful as we do not take a cheaper refinancing or portfolio expansion into our consideration.

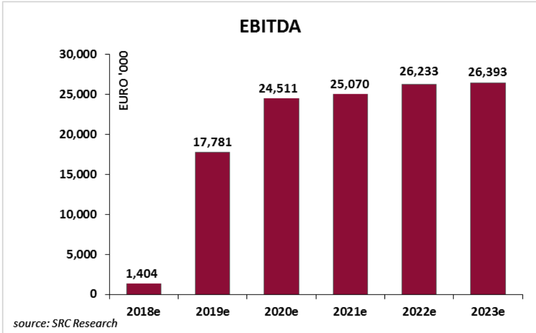
Profit & Loss Account

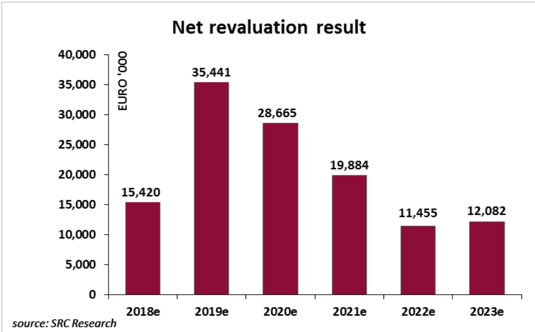
Diok RealEstate AG IFRS 31/12 (Euro '000)	2018e	2019e	2020e	2021e	2022e	2023e	CAGR '18e - '23e
Rental income	2,420	18,956	26,245	28,122	29,410	29,788	130.9%
revenues from service charges	152	305	510	613	741	814	
expenses directly attributable to properties	-356	-510	-602	-678	-798	-889	
Net operating income (NOI)	2,216	18,751	26,153	28,057	29,353	29,713	137.6%
NOI margin	6.1%	7.4%	5.9%	5.6%	5.5%	5.5%	
Revenue from the sale of real estate companies or assets	0	0	0	0	0	0	
Net asssets from real estate companies sold	0	0	0	0	0	0	
Profit/loss from the sale of real estate companies	0	0	0	0	0	0	
Management expenses	-812	-970	-1,642	-2,987	-3,120	-3,320	
└ thereof personnel expenses	-510	-655	-988	-1,125	-1,189	-1,235	
EBITDA (cash driven operating profit)	1,404	17,781	24,511	25,070	26,233	26,393	165.9%
Depreciation	-987	-4,055	-4,790	-5,241	-5,390	-5,512	
Net revaluation result	15,420	35,441	28,665	19,884	11,455	12,082	
Operating profit (EBIT)	15,837	49,168	48,386	39,713	32,298	32,963	
Net financial result	-2,521	-12,874	-14,814	-15,044	-15,075	-14,826	
└ thereof coupon payment for the 2018 - 2023 senior note*	-1,500	-7,500	-9,000	-9,000	-9,000	-6,750	
Pre-tax profit (EBT)	13,316	36,293	33,572	24,669	17,224	18,137	10.8%
Taxation	-187	-285	-1,276	-1,244	-1,500	-1,574	
Minorities	-679	-1,851	-1,712	-1,258	-878	-925	
Net profit after minorities	12,450	34,157	30,584	22,167	14,845	15,637	7.9%
FFO I before taxes	-1,117	4,907	9,697	10,026	11,158	11,567	
Portfolio size	103,254	405,450	478,995	524,103	538,957	551,208	
Balance Sheet Sum	144,042	415,181	481,390	529,344	559,437	562,232	57.4%
Equity	31,227	59,886	101,573	124,396	161,118	170,919	
Equity ratio	21.7%	14.4%	21.1%	23.5%	28.8%	30.4%	
Interest bearing liabilities	110,559	344,600	379,817	404,948	398,319	391,314	52.4%
Interest bearing liabilities without senior note	10,559	194,600	229,817	254,948	248,319	241,314	183.8%
LTV (without senior note)	10.2%	48.0%	48.0%	48.6%	46.1%	43.8%	
LTV (including senior note)	107.1%	85.0%	79.3%	77.3%	73.9%	71.0%	
Gearing (Debt-to-Equity-Ratio)	361.3%	593.3%	373.9%	325.5%	247.2%	228.9%	
Interest cover ratio (EBITDA / net financial expenses)	0.56	1.38	1.65	1.67	1.74	1.78	
Debt service coverage ratio	0.50	1.00	1.19	1.17	1.23	1.27	

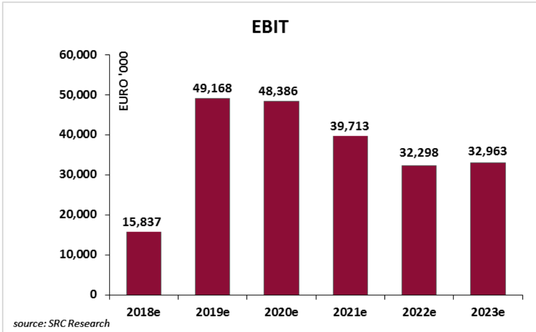
* with a Euro 100m placement volume in 2018 and another Euro 50m after placement in 2019, and a regular 5 years term until 1 October 2023

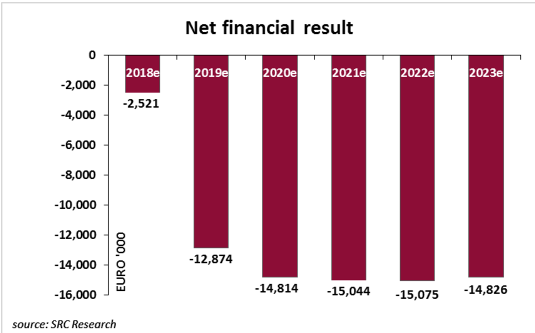
Overview of the firm's KPIs

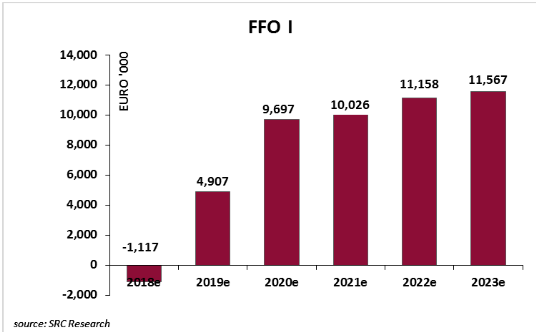


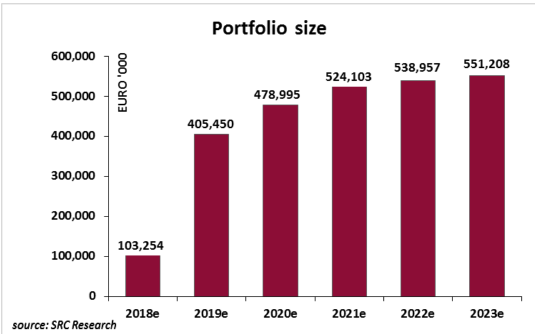


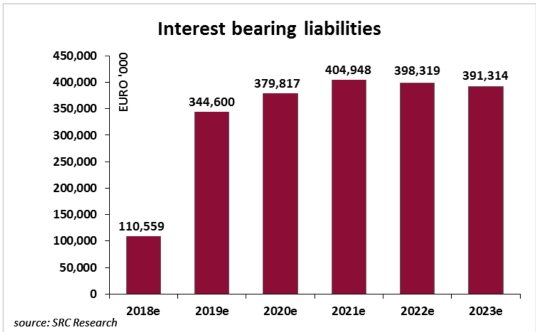












Conclusion: We give a 4 of 5 stars SRC Research rating for the Diok senior note (2018 – 2023)

The Senior note of Diok RealEstate AG offers an attractive risk-return profile and therefore receives a SRC Research risk-return rating of 4 out of 5 stars.

With the proceeds of the bond the company will manage a steep and profitable growth within the next years and build up a lucrative portfolio for a trade sale.

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Rating Chronical:

As this is an initial research report, no rating history is available.

Please note:

- Diok RealEstate AG mandated SRC Research for covering the issue of the Senior note.
- The price mentioned in this report is based on the nominal value of 100%.