



European Real Estate: Storm is Coming!

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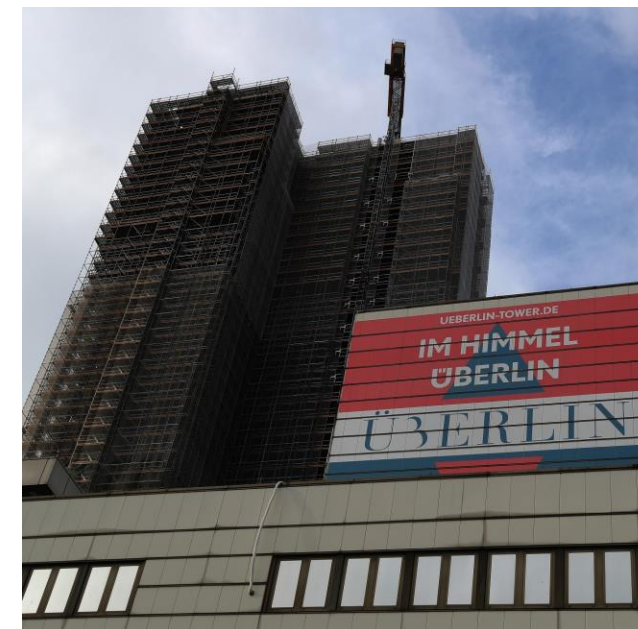


Adler Group

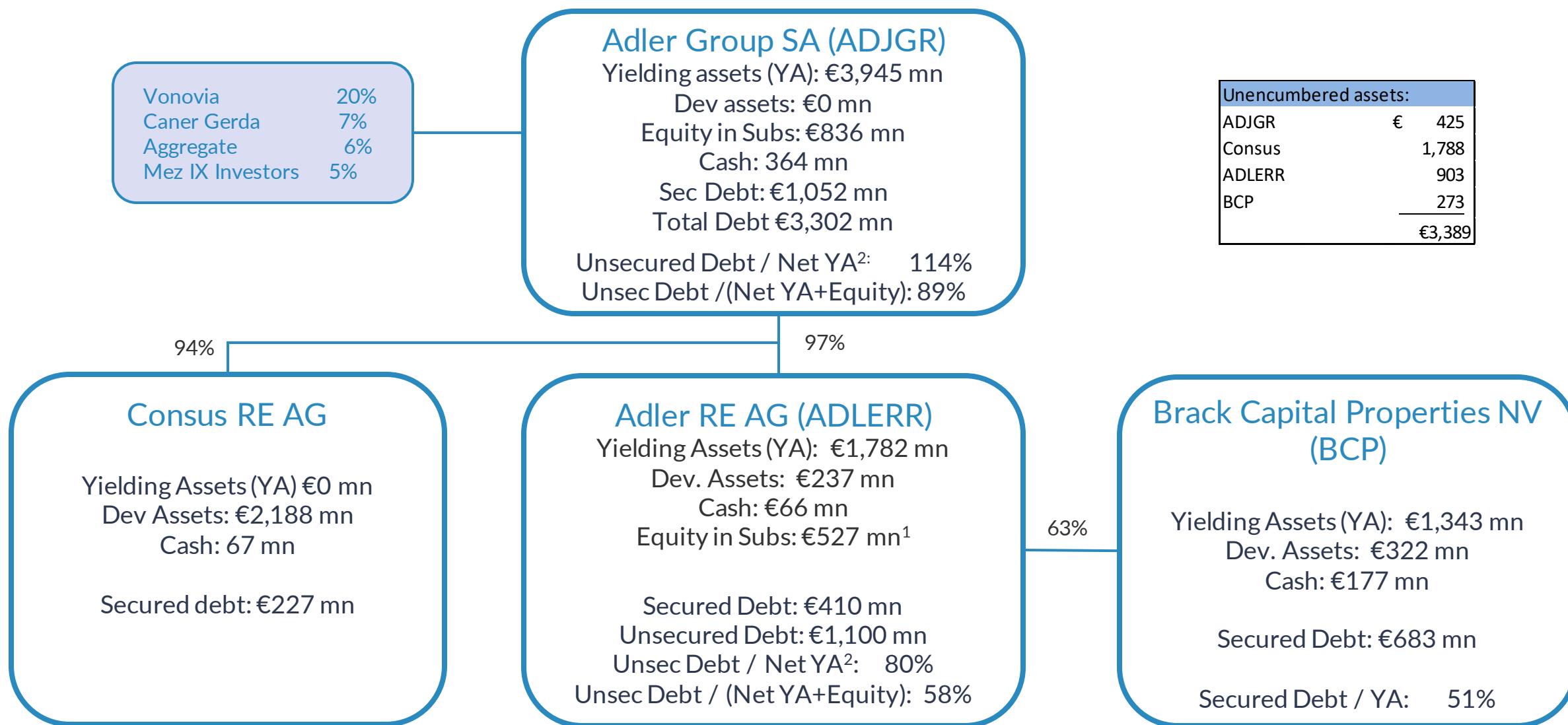
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Adler Group SA (ADJGR) – “As Good As It Gets!”

Adler Group	<i>Germany / Real Estate</i>
Summary	ADJGR illustrates many of the themes prevalent in today’s distressed market. Its demise is a product of years of easy money (which pushed valuations into the stratosphere) and permissive IG-style docs.
Recommendation	We rate the ADJGR Notes a Buy and the Adler Real Estate (ADLERR) Notes a Sell. Although asset coverage appears superior at ADLERR, we expect prices to converge as value continues to leak and it becomes clear that the ADLERR Notes will lose their structural seniority due to its eventual merger with ADJGR.
Macro Backdrop	The company faces many headwinds including; accusations of theft by a controversial short seller, loss of its auditor, an investigation by the financial regulator, a collapse of valuations and a loss of capital market access.
Liquidity / Refi Risk	The lack of covenants has allowed ADJGR to sell assets of ADLERR to fund maturities and negative FCF, while increasing LTVs. ADJGR continues to operate without an auditor, and we believe it is unlikely to find one in time to prevent a technical default by 30 April 23 when FY22 statements are due. The April maturity of the €500 mn ADLERR Notes is another potential catalyst. The Lock-up Agreement alleviates these two issues, if completed.
Collateral	Two competing bondholder groups have formed representing the ADJGR and ADLERR Notes. A Lock-up Agreement and Consent Solicitation have been launched at ADJGR.



Adler Group – Org Chart



Adler Group – Lock-up / Consent Solicitation

Provides for a manageable runway to July 2025; key features:

- Existing €3.2 bn ADJGR Notes: PIK (with 275 bp uplift) interest to be paid through July 2025
 - €400 mn 2024 Notes maturity extended by one year to July 2025.
 - 3rd lien on “Transaction Collateral;” 2024 Notes, Convertible Notes, Loan Notes and Permitted 2023 Refinancings receive 2nd Lien.
 - New €937.5 mn 12.5% Senior Secured PIK Notes “Stabilization Priority Indebtedness” due 30 June 2025.
 - Secured on a 1st lien on the “Transaction Collateral” and “Priority Collateral,” which are certain assets of ADLERR.
 - CVR for 25% of ADJGR shares at zero strike.
 - Backstopped by 6 funds representing 45% of the ADJGR Notes.
- Amendments to debt incurrence, negative pledge, maintenance covenants through a consent solicitation ending 19 December 2022, require 50% quorum and 75% vote in each series.
- Incurrence test of 60% in the ADJGR Notes converted into a maintenance covenant of 87.5% LTV ratio through December 2025; 85% thereafter.
- ADJGR shall not “squeeze out” the minority shareholders of ADLER RE or delist prior to 1 May 2023.
- FY2022 audited financial statements due 31 December 2023; unaudited due 30 April 2023.

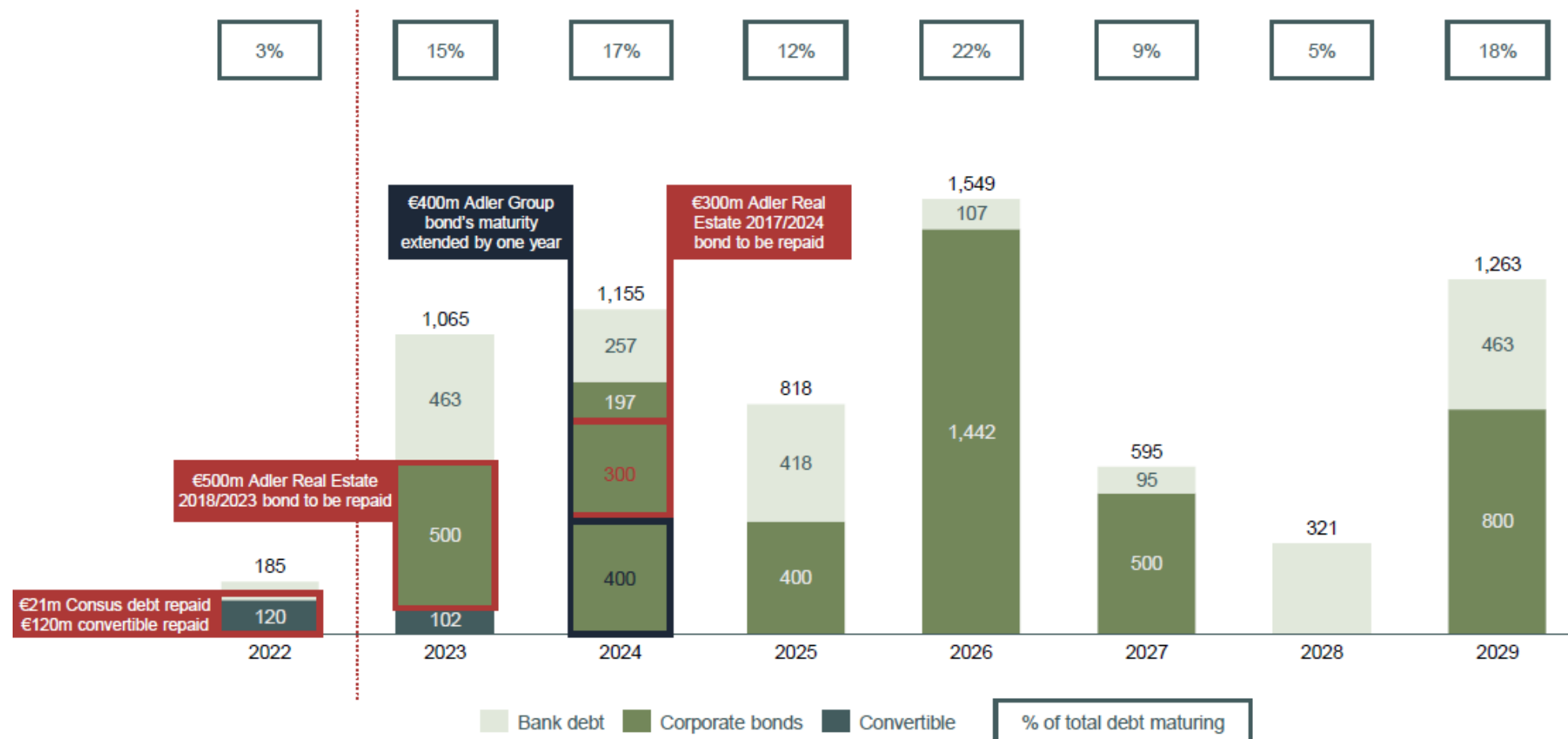
Adler Group – Lock-up / Consent Solicitation

Key features (continued):

- Best endeavours to extend the standstill agreements / waivers for bank debt of €390 mn (LBW) and €100 mn (CMZB) until 30 June 23 or later.
- Subject to an IDW S6 report - What it is and what it isn't?
- Consent solicitation for the ADLERR €300 mn 2024 and €300 mn 2026 Notes.
 - To be run separately within 45 days after end of the ADJGR solicitation.
 - Enable the ADLERR Notes to be secured by ADLERR assets on a 2nd lien basis.
 - Allow PIK interest on €535 mn of ADJGR debt, of which proceeds will pass to ADLERR and be secured by ADLERR assets.
- Alternative Implementation Routes (if consents fail):
 1. The new German StaRUG – Untested.
 2. UK Company Voluntary Arrangement (CVA) – designed for one class, i.e. dealing with leases in retail.
 3. A Restructuring Plan under Part 26A of the Companies Act 2006. Modified in 2020 as the UK Restructuring Plan / “Super Scheme.”
Provides a tried and tested avenue of cramming down dissenters with a wealth of case law; COMI shift required.

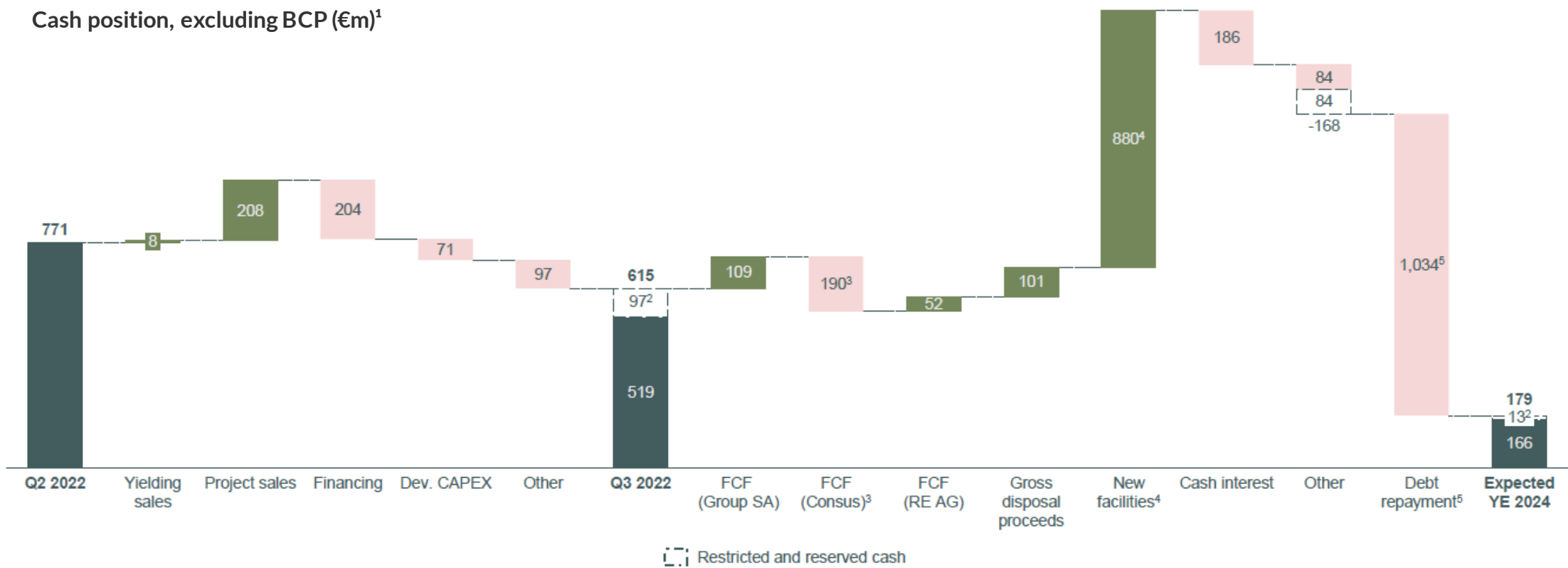
Adler Group – Debt Maturity Schedule

2023 Maturities are “well” covered?.... What about 2024?



Adler Group – Cash Flow Through YE2024 (Consolidated)

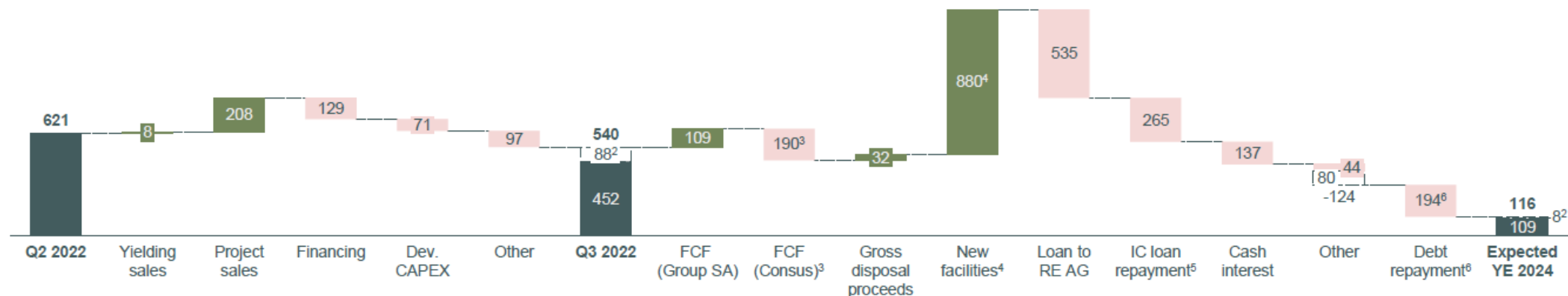
Cash flow projections are ambitious



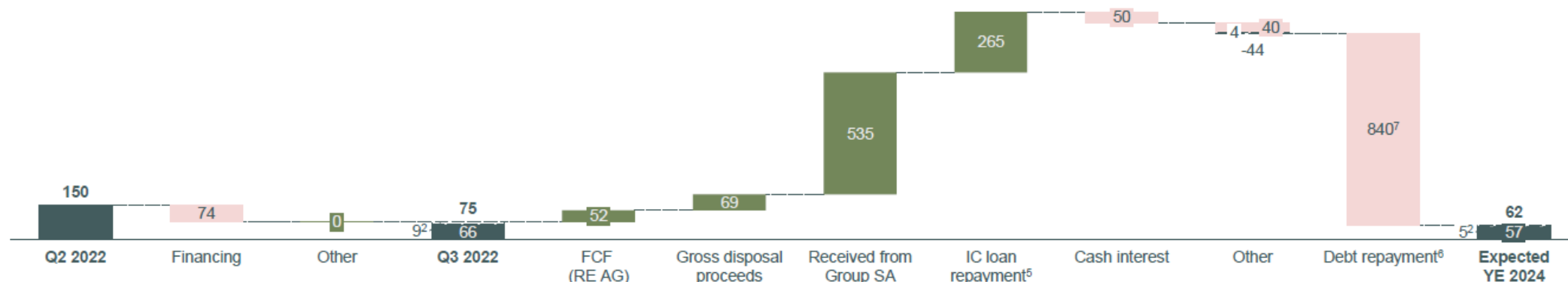
Notes: 1. Pro forma gross cash position development based on anticipated transactions, expected CAPEX and repayment of bond maturities; 2. Restricted and reserved cash for completed sales, CAPEX, prepayments and collateral; 3. Includes €290m of CAPEX, of which c. 55% relates to Forward Sales / Condominium projects, c. 15% to Build-to-Hold and c. 30% to Upfront Sales, and €207m of revenue, of which c. 95% relates to Forward Sales / Condominium projects, and c. 5% relates to Upfront Sales; 4. Net of fees; 5. The projections assume refinancing of c. €564m of secured debt and c. €190m of unsecured debt.

Adler Group – Cash Flow Through YE2024 (By Group)

Cash position Adler Group & Consus (€m)¹



Cash position Adler Real Estate, excluding BCP (€m)¹



Restricted and reserved cash

Notes: 1. Pro forma gross cash position development based on anticipated transactions, expected CAPEX and repayment of bond maturities; 2. Restricted and reserved cash for completed sales, CAPEX, prepayments and collateral; 3. Includes €290 mn of CAPEX, of which c. 55% relates to Forward Sales / Condominium projects, c. 15% to Build-to-Hold and c. 30% to Upfront Sales, and €207 mn of revenue, of which c. 95% relates to Forward Sales / Condominium projects, and c. 5% relates to Upfront Sales; 4. Net of fees; 5. Intercompany loan between Adler Group SA and Adler RE AG; 6. The projections assume refinancing of c. €564 mn of secured debt and c. €190 mn of unsecured debt.

Adler Group – Risks Remain

Just Kicking the Can?

- The Lock-up Agreement is an insufficient attempt to restructure a company. There is no serious attempt to cut the debt stack and “participating” bondholders only receive 25% of the equity below a severely impaired debt stack.
- €880 mn net proceeds of the new financing are insufficient to cover €1.1 bn of maturities in 2023, let alone the €1.2 bn in 2024. Adler must rely on a material improvement in valuations to sell assets and/or refinance debt maturities.
- Cash flow projections are “ambitious” with positive FCF from Adler Group; cash balances of €180 mn also appear insufficient to run the business given historical balances.
- BaFin still circling – their most recent finding questions whether management knowingly mis-sold unconsolidated assets as consolidated in order to manipulate the reporting of LTV ratios to pass the incurrence test. Further findings could enable BaFin to enforce administrative fines or even file criminal complaints.
- An IDW S6 does not result in an audited financial statement; ADJGR has requested a court appointed auditor but the risk of not finding one remains.



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Special Situations Aroundtown

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Aroundtown (ARNDTN)

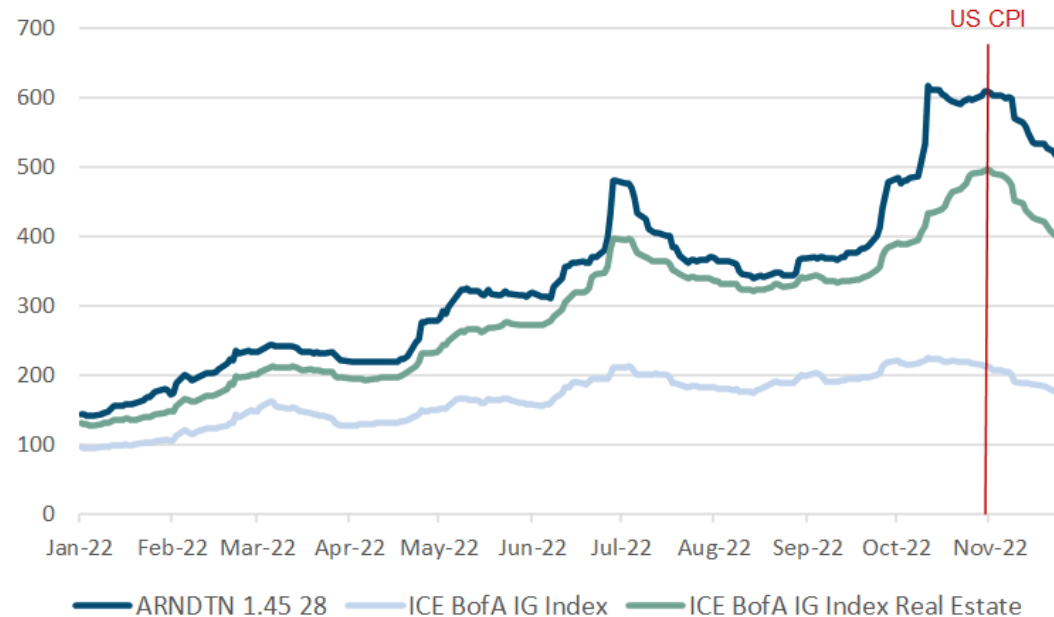
Aroundtown	<i>Germany / Real Estate</i>
Summary	Aroundtown has pursued a debt fuelled roll up acquisition strategy acquiring highly cyclical commercial and residential property assets. The portfolio is characterized by high vacancy rates, non-prime locations culminating in a high LTV ratio (54.3% as of 2Q22).
Recommendation	We placed an Underperform recommendation on Aroundtown seniors and Sell recommendation on the hybrid bonds (specifically the 3.75% Perp) on 17 November 2022. After Aroundtown announced it would not be calling its 3.75% Perp during their 3Q22 earnings, we reiterated our Sell recommendation on hybrids and Underperform on Aroundtown seniors – now believing the company will suspend coupon payments if it continues to not call hybrids in 2023.
Macro Backdrop	Negative headwinds in European real estate have yet to play out – we see material re-pricing, rising LTV ratios and depressed property values for several years. Elevated rates, tighter liquidity and increased asset sales will contribute to a meaningful downturn in the European real estate market, with valuations already peaking in 1H22.
Liquidity / Refi Risk	Aroundtown announced it had cash and equivalents of €2.0 bn combined with an undrawn €1.0 bn RCF (2.5yr maturity). However, it has a \$641 mn 5.25% Perp due in July-23 and €100 mn Senior bond due in August-23. If rates remain elevated and the macro backdrop deteriorates, we believe not only with the 5.25% not be called but also an increases risk coupons will be deferred.
Collateral	Aroundtown has secured financing which sits ahead of senior bond holders. These are not just secured by pledges of property assets but also rental proceeds.



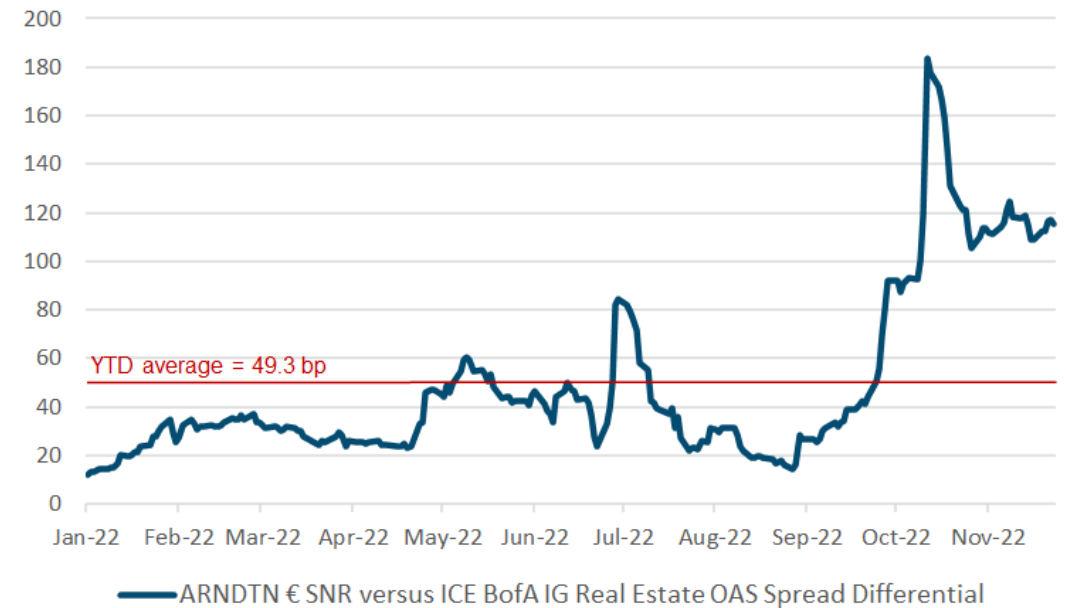
Aroundtown (ARNDTN)

Aroundtown senior bonds have failed to materially rally despite the broader rally in Euro IG spreads

Aroundtown OAS spread versus ICE BofA IG Index and Real Estate Segment YTD (bp)



Aroundtown € senior bond differential versus ICE BofA IG Real Estate YTD (bp)



The surge of optimism is misplaced as property valuations are set to decline in FY23 whilst the sector will have to contend with high LTV ratios and high vacancy rates.

Aroundtown (ARNDTN)

Operationally – management painted a bleak picture, rental demand destruction is imminent.

Aroundtown - Group Performance										
(EUR mn)	FY19	FY20	FY21	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22
Rental Income (minus operating costs and excl. Anxillar)	766	1,003	1,086	233	225	315	313	309	304	304
% YoY	21.0%	31.0%	8.2%	-1.0%	-15.7%	22.9%	27.8%	32.4%	35.3%	-3.6%
Recurr. Rental Income	756	953	1,063	226	216	313	308	305	297	301
% YoY	4.2%	0.2%	0.3%	0.1%	-1.5%	3.2%	-0.6%	0.9%	3.7%	-4.0%
Adj. EBITDA	641	777	871	190	179	256	247	247	240	232
Adj. EBITDA margin %	83.7%	77.5%	80.2%	81.3%	79.8%	81.1%	78.8%	79.8%	79.0%	76.3%
Vacancy Rate	7.7%	8.9%	7.7%	8.9%	8.9%	8.9%	7.7%	7.7%	7.9%	8.1%
FFO I	446	478	478	125	123	120	111	119	111	104
% YoY	23.9%	7.2%	0.1%	-1.6%	-13.6%	16.3%	4.6%	-4.3%	-9.2%	-13.2%
FFO I (after COVID)	446	358	353	87	85	95	86	89	96	89
% YoY	23.9%	-19.7%	-1.3%	-31.6%	-20.1%	39.8%	53.0%	3.1%	12.8%	-6.3%
FFO II (inc. asset sales)	757	933	969	233	315	335	85	143	217	204
% of FFO II from asset sales	41.1%	61.6%	63.5%	62.9%	72.9%	45.8%	100.4%	37.5%	55.6%	30.3%

Aroundtown (ARNDTN) – Rental Demand Waning

Rental demand only needs to decline by -3% for FFO I to turn negative

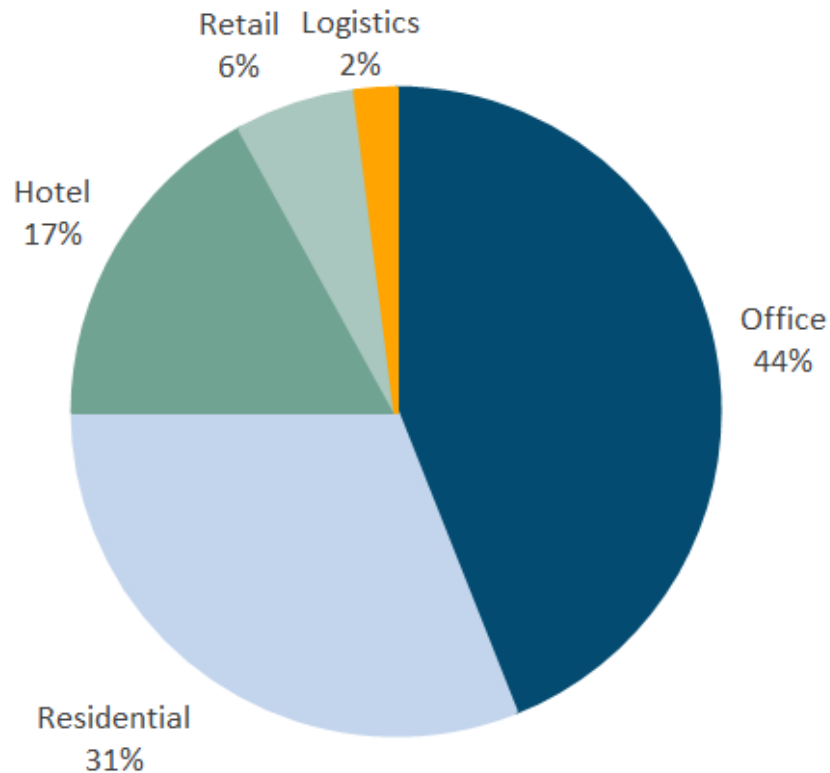
Aroundtown Segment Rental Income Analysis																		
Monthly Rent x 12 (annualised) not incl. Operating expenses						Actual (quarterly)						Estimates						
Annualised net rent (EUR mn)	FY17	FY18	FY19	FY20	FY21	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	Bear Change		Base Change		Bull Change		
Office	300	359	389	467	480	468	467	492	480	479	484	387	-20%	436	-10%	484	0%	
Residential (GCP)					347			342	347	349	361	325	-10%	343	-5%	361	0%	
Hotel	87	201	311	295	242	294	291	247	242	239	239	191	-20%	215	-10%	227	-5%	
Retail	66	56	50	86	84	79	78	90	84	74	75	60	-20%	68	-10%	71	-5%	
Logistics/Whoelsale/Other	61	71	73	35	24	25	25	23	24	23	23	20	-15%	21	-10%	23	-2%	
Total	514	687	823	883	1,177	866	861	1,194	1,177	1,164	1,182	983	-17%	1,082	-8%	1,166	-1%	

FFO Analysis	
In € mn	Base
Rental Revenue	995
Rental Decline assumption	-8%
Property operating expenses	-408
Administrative and others expenses	-141
Operating Profit	447
Total Depreciation and amortisation	15.9
EBITDA	462.4
Contribution from assets held for sale	-11.6
add back extraordinary expenses for uncollected rate	125.0
Adj EBITDA	575.8
Finance Expenses	-180.4
Current tax expenses	-78.0
Contribution to minorities	-82.3
Other adjustments	6.8
Accrued perpetual notes* (now including no 2023 calls)	-186.3
FFO I	55.6
Extraordinary general rental provisions related to deferred rents	-120.0
FFO I (adjusted)	-64.4

Aroundtown (ARNDTN) – Portfolio Write-Down Inevitable

Highly cyclical Portfolio – characterized by high vacancy rates and low growth

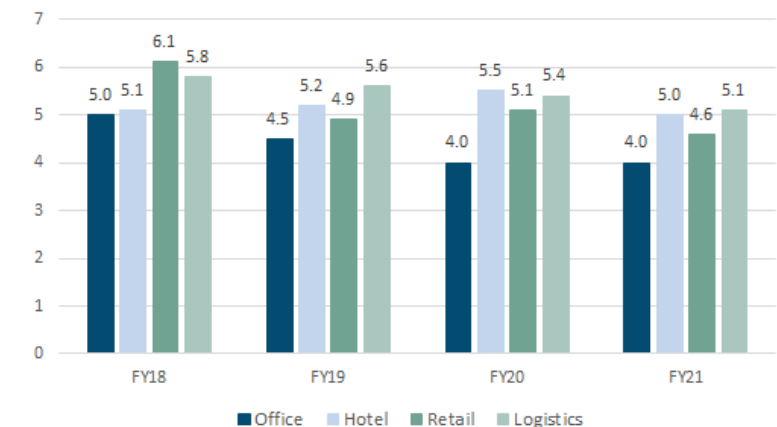
Aroundtown assets by market value - segment split (%)



Vacancy Rate

Aroundtown	2Q22	3Q22	Peer %
Office	10.7%	10.9%	6.9%
Hotel	4.1%	4.1%	1.0%
Retail	11.6%	11.6%	4.4%
Logistics	8.2%	8.6%	0.7%
Residential	4.8%	4.4%	1.9%

Aroundtown Rental Yield per sector (%)



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