



Research Report (Anno)

Coreo AG



- Higher investment volume expected in 2020
- Significant revenue and earnings growth forecasted

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 17

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”

Coreo AG^{*4,5a,6a,11}

Buy

Target price: 2.60 Euro

current share price: € 1.29
16.06.20 / XETRA; 5:36 pm
Currency: EUR

Key Data:

ISIN: DE000A0B9VV6
WKN: A0B9VV
Ticker symbol: CORE
Number of shares³: 17.54
Marketcap³: 22.63
EnterpriseValue³: 36.49
³ in million / in million EUR
Free float: 29.1 %

Level of transparency:
Open market
Market segment:
open market

Accounting:
IFRS

Financial year: 31.12

Designated Sponsor:
Hauck & Aufhäuser AG

Analysts:

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* Catalogue of possible conflicts of interest on page 18

Company profile

Industry: Real estate

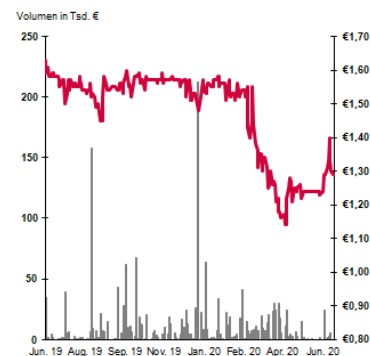
Focus: Commercial and residential real estate

Employees: 10 (31.12.2019)

Foundation: 2003

Head office: Frankfurt am Main

Board of Directors: Marin N. Marinov



Coreo AG, based in Frankfurt am Main, is a dynamic growing real estate company focused on German commercial and residential real estate. The company invests in real estate with significant potential for upside potential through renovation, preferably in the so called B- and C-cities in Germany. The goal 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 real estate. Business locations with high yield levels in Germany are given preference, creating the basis for long-term and stable rental income. Opportunities are also used very selectively. Coreo AG acquires value-added portfolios/properties in order to increase their recoverability significantly and sustainably over the medium term with an active "manage-to-core" approach. Non-strategic portfolio components are sold on at a profit.

P&L in EURm \ FY end	31.12.2019	31.12.2020e	31.12.2021e	31.12.2022e
Sales	7.41	11.16	18.93	25.58
EBITDA	2.52	5.52	10.89	14.99
EBIT	2.50	5.51	10.87	14.97
Net profit for the year	-0.86	2.40	5.91	8.93

Key figures in EUR

Earnings per share	-0.05	0.14	0.34	0.51
Dividend per share	0.00	0.00	0.00	0.00

Key figures

EV/Sales	4.92	3.27	1.93	1.43
EV/EBITDA	14.48	6.61	3.35	2.43
EV/EBIT	14.58	6.62	3.36	2.44
P/E RATIO	neg.	9.42	3.83	2.53
Price/Book	0.80			

Financial calendar

18.06.20: Annual General Meeting
10.09.20: Forum Financial & Real Estate
October 2020: HY Report 2020

**last research by GBC:

Date: Publication / Target price in EUR / Rating

** the research reports can be found on our website www.gbc-ag.de or can be requested at GBC AG, Halderstr. 27, D-86150 Augsburg

EXECUTIVE SUMMARY

- Since Coreo AG began to focus on building up a residential and commercial portfolio, several properties and real estate portfolios have been acquired in recent fiscal years. As of December 31, 2019, the company had on-balance sheet properties in the amount of € 44.38 million (December 31, 18: € 40.02 million), which has been expanded compared to the previous year, in particular due to valuation effects. The goal of doubling the property portfolio through new investments in the 2019 financial year was therefore not achieved. However, Coreo AG acquired 10.1 % of the Frankfurt St Martin Tower property as part of a joint venture and, in November 2019, a portfolio comprising 272 apartments and a commercial unit in North Rhine-Westphalia. However, the transfer of the NRW portfolio did not take place until 2020, which is why this new investment is not yet included in the 2019 figures.
- As a result of the expansion of the portfolio in recent years, rental income improved to € 2.92 million in 2019 (previous year: € 2.16 million). At the same time, sales proceeds of € 2.98 million (previous year: € 6.73 million) were below the previous year's figure, as planned. In 2019, partial sales were made in Mannheim, sales of properties in the Hydra portfolio and the sale of individual properties in Göttingen. The sale of properties in the Goettingen portfolio (€ 5.88 million), among others, was only recognized in revenues and earnings after the balance sheet date. Finally, Coreo AG reports valuation income of € 3.06 million (previous year: € 2.64 million) as the third revenue component.
- As a result of the lower proceeds from disposals and the resulting decline in sales income, as well as increased modernization and conversion work, Coreo AG posted a lower EBIT of € 2.50 million (previous year: € 4.89 million). Although financial expenses decreased, the after-tax result was negative at € -0.86 million (previous year: € 1.66 million).
- The break-even point should be clearly exceeded again in the current and coming financial years. On the one hand, the company should achieve further rent increases on the basis of the current property portfolio. In particular, the letting of existing vacancies in the Hydra portfolio should lead to an increase in rental income. At the same time, the company should record a strong increase in proceeds from the sale of the Göttingen properties alone. The valuation result should be higher than in the previous year due to investments in the existing portfolio, in particular in the Hydra portfolio.
- Another aspect of our forecasts is planned property acquisitions. Although Coreo AG expects to increase its real estate portfolio to over €400 million within 4-5 years, we are taking a more conservative approach to our planning. For the next three financial years, we expect investments of € 40 million each, with a large part of the investments already made in 2020 with the acquisition of the NRW portfolio. Liquid funds of € 5.20 million plus the addition of liquidity from the sale of, among other things, properties in Göttingen (€ 5.88 million) and a recently implemented capital increase (€ 1.91 million) should provide sufficient financial leeway. The portfolio of MagForce shares in the amount of €5.80 million must be added to this figure.
- As part of our DCF valuation model, we have determined a fair value per share of €2.60. Based on the current share price of € 1.29, we thus assign the BUY rating.

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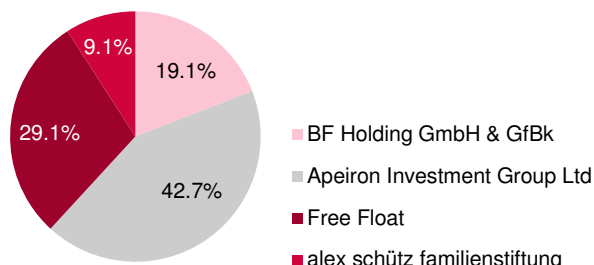
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COMPANY

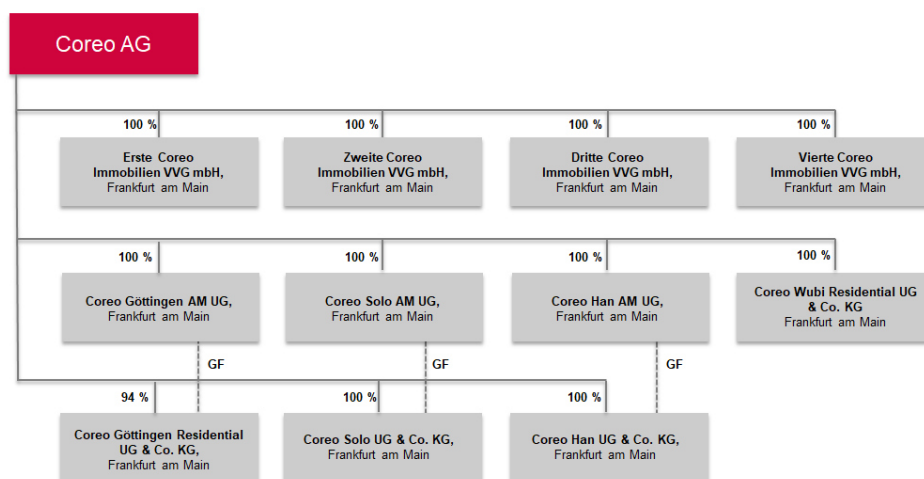
Shareholder structure

Shareholders	in %
BF Holding GmbH	19.1%
Apeiron Investment Group Ltd	42.7%
alex schütz family foundation	9.1%
free float	29.1%

Source: Coreo AG; GBC AG



Consolidated companies



Source: Coreo AG; GBC AG

Highlights in 2019

April 2019: A 20-year lease was concluded with B&B Hotels GmbH for one property in the Hydra portfolio. In January 2019, a lease was already concluded for the commercial space located on the ground floor in Frankfurt. In addition, one property in Werdohl was sold, making it the fourth of six properties up for sale.

July 2019: Sale of part of the Göttingen portfolio to an institutional investor. Around 25% of the portfolio acquired in mid-2018, comprising a total of 430 units, was sold.

October 2019: By way of an off-market share deal, Coreo AG participates in the acquisition of the Frankfurt office property "St Martin Tower" as part of a joint venture with Barings Real Estate. Coreo's interest in the joint venture is 10.1 %.

October 2019: sale of an approx. 10% share of the commercial property acquired in Mannheim in 2017 for a purchase price of € 1.325 million. The transfer took place in 2019 and accordingly had an impact on sales and earnings in the period under report.

November 2019: Acquisition of a portfolio comprising 272 apartments and one commercial unit in Wuppertal, Bielefeld, Gelsenkirchen and Lünen (NRW residential portfolio). According to the company, the larger share of the almost fully-let portfolio should be rented (Wuppertal and Bielefeld) and the smaller share (Gelsenkirchen and Lünen)

should be developed and sold. The transfer took place at the beginning of the current fiscal year 2020.

New investments in detail

Coreo management's original investment plan called for a doubling of the property portfolio to approximately €80 million by the end of 2019, which would have corresponded to a new investment volume of approximately €40 million for the past 2019 fiscal year. Although the new joint venture for the acquisition of the St. Martin Tower in Frankfurt, amounting to around € 15 million (equity share: € 5.81 million), fell well short of the investment volume expected by the company, if the investment in the NRW portfolio at the end of the year had been included, the company would have reported total investments of around € 32 million (own calculations). However, the transfer of the residential portfolio in NRW did not take place until after the balance sheet date of 31.12.2019.

Joint venture to acquire the St Martin Tower property

As a junior partner (10.1 % interest) within the joint venture in the acquisition company of the St Martin Tower property in Frankfurt, Coreo AG has become a shareholder in the largest property in the company's history. This is an office complex of around 26,000 square meters, consisting of two connected building sections (Tower and Wing). The property, which is located in Frankfurt's City West, was probably acquired at approximately the market price, which, according to the previous owner, was most recently around €146 million. Corresponding to the 10% stake, the equity capital contributed to the joint venture by Coreo AG amounted to € 5.81 million.

NRW residential portfolio

In November 2019, Coreo AG acquired a portfolio comprising 272 apartments and one commercial unit at the Wuppertal, Bielefeld, Gelsenkirchen and Lünen locations. According to the company, part of the almost fully leased portfolio will remain in the portfolio (Wuppertal, Bielefeld) and another part will be developed and sold (Gelsenkirchen, Lünen). The transfer only took place in the current fiscal year 2020 and is therefore not yet included in the figures for the past fiscal year.

MARKET AND MARKET ENVIRONMENT

In accordance with its corporate strategy, Coreo AG's focus is on building up a commercial and residential real estate portfolio in Germany, particularly in German business locations that are not yet so strongly affected by the high price increases of A-locations. In these so-called B and C locations, the company's real estate portfolio comprises one property and five existing portfolios. Although Coreo AG opportunistically deviates from its strategic focus in the St Martin Tower joint venture, as demonstrated by its investment in the NRW residential portfolio, the company continues to concentrate on underdeveloped real estate locations in Germany.

The fundamental real estate market environment could be affected by corona-related effects in the short term. The general economic data show a strong decline in economic output with a corresponding decline in the number of employees and a reduction in income. As a rule, this has a negative effect on real estate prices.

According to an empirical study published in April 2020 by the Institute of the German Economy, however, the housing market sector is expected to develop comparatively solidly. The fact that rents, as a decisive factor for the development of housing prices, are stable even in times of crisis can be seen in particular from past economic crises. Since a reduction in rents can have a lasting effect, short-term vacancies are accepted in cases of doubt, which leads to a lower limit on rent levels. Consequently, short-term GDP declines have had no visible effects on rent levels in the past.

The corona pandemic is likely to have a somewhat stronger impact on the commercial real estate sector and on real estate transactions. Although no updated figures are available as yet, office and retail properties have been particularly hardest hit in past crises. Since Coreo AG has long-term leases on some of its commercial properties, the effects should be limited. This also applies against the background that the company does not currently hold any significant hotel or restaurant properties.

In recent years, the transaction volume in Germany has developed dynamically in each case. In 2019, properties worth €91.58 billion changed hands, an increase of 15.9% over the previous year. According to JLL, in the first quarter of 2020, i.e. before the strong corona effects, the increase in transaction volume due to large-volume company takeovers and investments was as high as 82.1% to € 28.00 billion. Numerous processes and transactions had already been initiated in this area, so that no decline was visible in March. However, expectations have now deteriorated significantly. According to a survey by Ernst & Young, a declining investment volume is expected this year. A positive factor for Coreo AG here is the fact that residential and logistics real estate should be the least affected by this.

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 sharp price increases in A-locations, the risk of price declines should be lower. In this respect, Coreo AG's focus on the commercial and residential real estate market in German secondary locations is understandable both from a purchase price perspective and in terms of expected returns.

CORPORATE DEVELOPMENT

Key figures at a glance

P&L (in million €)	FY 2018	FY 2019	GJ 2020e	GJ 2021e	GJ 2022e
Income from letting	2.16	2.92	3.71	7.00	10.24
Sales proceeds	6.73	2.98	7.78	10.30	10.00
Carrying amount of the properties sold	-4.23	-1.55	-5.79	-7.04	-7.40
Evaluation result	2.64	3.06	5.46	8.67	12.74
Other revenues	0.37	0.00	0.05	0.05	0.05
Other operating income	1.43	0.05	0.50	0.90	1.00
Cost of materials	-1.10	-2.59	-3.68	-6.25	-8.44
Gross profit	8.01	4.87	8.02	13.64	18.19
Personnel expenses	-0.75	-0.81	-0.90	-1.00	-1.10
Depreciation	-0.02	-0.02	-0.02	-0.02	-0.02
Other operating expenses	-2.35	-1.55	-1.60	-1.75	-2.10
EBIT	4.89	2.50	5.51	10.87	14.97
Financial income	0.14	0.04	0.50	0.50	0.50
Financial expenses	-2.53	-2.18	-2.81	-3.49	-3.57
EBT	2.50	0.36	3.20	7.88	11.90
Taxes	-0.85	-1.22	-0.80	-1.97	-2.98
EAT	1.66	-0.86	2.40	5.91	8.93
EBITDA	4.91	2.52	5.52	10.89	14.99
in % of sales revenue	67.2%	34.0%	49.5%	57.5%	58.6%
EBIT	4.89	2.50	5.51	10.87	14.97
in % of sales revenue	67.0%	33.8%	49.4%	57.4%	58.5%
Earnings per share in €	0.10	-0.05	0.14	0.34	0.51
Dividend per share in €	0.00	0.00	0.00	0.00	0.00
Number of shares in millions	15.95	15.95	17.54	17.54	17.54

Source: Coreo AG; GBC AG

Business development 2019

in million €	FY 2017	FY 2018	FY 2019
Rental income	0.48	2.16	2.92
Sales proceeds	0.00	6.73	2.98
Evaluation result	0.00	2.64	3.06
EBIT	3.24	4.89	2.50
After-tax result	3.08	1.66	-0.86

Source: Coreo AG; GBC AG

Development of earnings 2019

In fiscal year 2016, Coreo AG's corporate focus, which until then had been on investments in the nanotechnology sector, was changed on building up a commercial and residential real estate portfolio. After the first real estate investment was made in fiscal year 2017 with the acquisition of four residential blocks in Bad Köstritz, Coreo AG has acquired a further five properties or real estate portfolios in recent reporting periods. The total purchase price amounts to €45.24 million, not including the residential real estate portfolio in North Rhine-Westphalia acquired at the end of 2019 due to the transfer of benefits and burdens in 2020:

Date	Object	Purchase price
May 2017	Bad Köstritz	2.8 million
June 2017	Mannheim	3.05 million
August 2017	Bruchsal	3.68 million
April 2018	Göttingen	9.3 million
May 2018	Hydra portfolio	20.6 million
October 2019	St Martin Tower (10,1 % stake within a JV)	approx. 15 million

Source: Coreo AG; GBC AG

The company has thus successively laid the foundation for the expansion of total earnings. In line with its corporate strategy, which covers both portfolio management and opportunistic "value-creating" property sales, Coreo AG generates both rental income and sales proceeds. In addition, impairment gains can be recognized in income as part of an annual revaluation of the market value.

As a result of the continued expansion of the portfolio and the subsequent letting of vacant space, **rental income** improved to € 2.92 million (previous year: € 2.16 million). The main drivers were the first full-year inclusion of rental income from the Göttingen portfolio and the successful letting of properties in the Hydra portfolio. Coreo AG was also able to achieve slight rent increases for the properties in Bad Köstritz and Bruchsal.

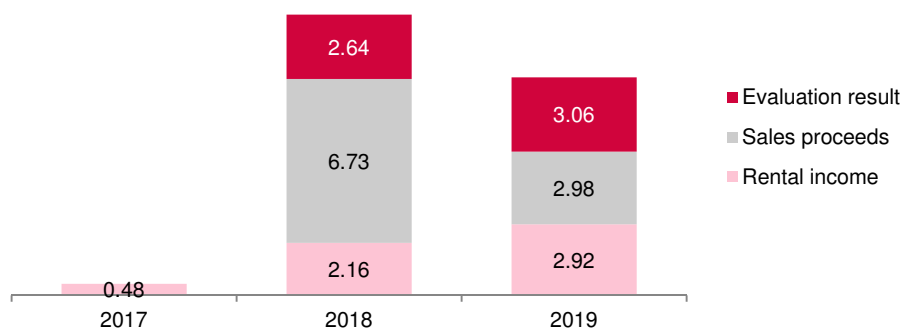
Sales proceeds, which in the previous year still included the scheduled sale of properties in the Hydra portfolio, amounted to € 2.98 million (previous year: € 6.73 million) and were thus still significantly lower than in the previous year. Partial sales in Mannheim, sales of properties in the Hydra portfolio and the sale of individual properties in Göttingen were carried out in 2019. Although a large number of properties in Göttingen, among others, were sold to institutional investors in 2019, the transactions with a volume of € 5.88 million did not affect sales until after the balance sheet date and should therefore lead to an increase in the sales proceeds of the current fiscal year.

The **valuation** of the property had resulted in an appreciation in value of € 3.06 million (previous year: € 2.64 million) which was recognised in the income statement. All proper-

ty portfolios show increases in value, whereby the Bruchsal property in particular benefited from a lease extension with METRO Cash & Carry (METRO GASTRO).

The fact that the total income of € 8.96 million (previous year: € 11.53 million) was below the previous year's figure is thus exclusively a consequence of the lower proceeds from the sale:

Breakdown of income components (in € million)



Source: Coreo AG; GBC AG

Development of earnings 2019

The decline in EBIT to € 2.50 million (previous year: € 4.89 million) can be explained by lower total income and lower disposal result on the one hand, but on the other hand the company had reported higher expenses for maintenance and for the modernisation and renovation of the properties. Particularly extensive modernization and renovation work was carried out on the Hydra portfolio and on the residential properties in the Göttingen portfolio. As a result, the cost of materials increased noticeably to € 2.59 million (previous year: € 1.10 million), which, with only minor changes in the other cost items, led to the EBIT decline described above.

The declining EBIT development was accompanied by slightly lower financial expenses, which at € -2.14 million (previous year: € -2.39 million) were slightly below the previous year's figure. The figure for the same period of 2018 was still burdened by a higher outstanding volume of the Coreo Warranty Bond with an interest rate of 10 %. A partial repayment of € 5.0 million was made in December 2018, which had a correspondingly positive effect on the financial result for the 2019 financial year. The new joint venture for the acquisition of St Martin, which was entered into in 2019, was largely financed by the proceeds from the sale of properties, and the transfer of benefits and encumbrances for the newly acquired NRW portfolio took place after the balance sheet date, with the result that Coreo AG did not report any significant increase in liabilities to banks.

The fact that Coreo AG posted a negative after-tax result of € -0.86 million (previous year: € 1.66 million) is also due to tax expenses of € 1.22 million (previous year: € 0.85 million), which exceeded the pre-tax result.

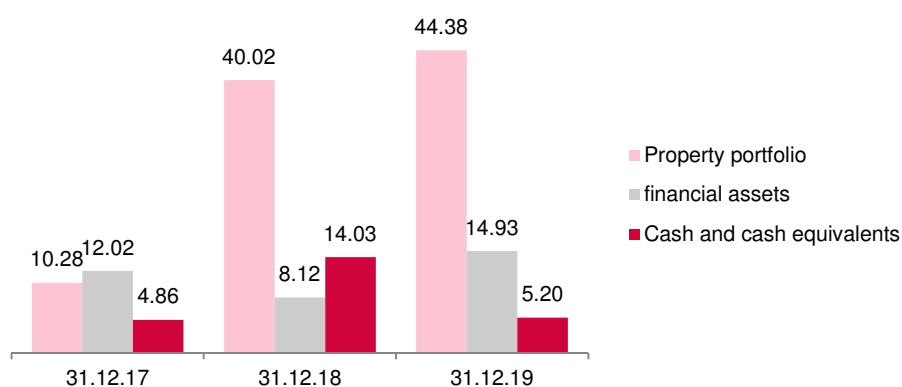
Balance sheet and financial situation

in million €	31.12.2017	31.12.2018	31.12.2019
Equity	19.42	30.24	28.32
Equity Ratio	71.0%	44.2%	42.6%
Property portfolio	10.28	40.02	44.38
Interest-bearing debt	7.46	35.32	33.96
LTV	72.6%	88.3%	76.5%
Financial assets (including JV for St Martin Tower)	12.02	8.12	14.93
Cash and cash equivalents	4.86	14.03	5.20
Net debt	-9.42	13.17	13.83
Cash flow (operating)	-0.80	-11.30	-5.25
Cash flow (investment)	-6.57	-17.00	-2.33
Cash flow (financing)	7.44	37.47	-1.26

Source: Coreo AG; GBC AG

Following strong portfolio expansion in the 2018 financial year, only the new joint venture to acquire the St Martin Tower office tower in Frankfurt was entered into in 2019. The transfer of benefits and obligations in the acquired NRW residential portfolio did not take place until after the balance sheet date, so that the property portfolio in the amount of € 44.38 million (31.12.18: € 40.02 million) has not yet shown the planned growth. Of this amount, € 5.88 million were earmarked for short-term sale as of 31 December 2019, which are related to sales of the Göttingen portfolio, among other things, and had already been sold at the time of this study publication. Since no new investments were made in the property portfolio (St Martin Tower - joint venture is included in financial assets), the increase in the balance sheet is exclusively attributable to valuation income. This includes both lease extensions at attractive conditions and increases in value as a result of renovation and maintenance measures.

Development of key asset items (in € million)



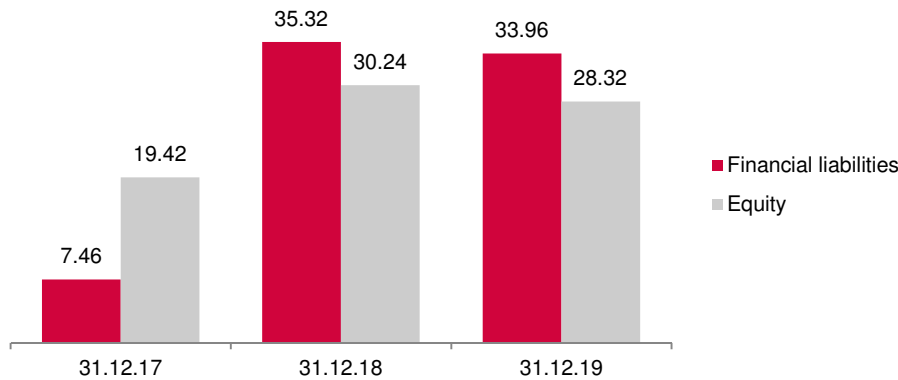
Source: Coreo AG; GBC AG

Coreo AG has financial assets to a relevant extent with € 14.93 million (December 31, 18: € 8.12 million). On the one hand, these are investments, such as the St Martin Tower joint venture in the amount of € 5.81 million. On the other hand, Coreo AG holds securities in listed companies from the old business before the start of real estate activities. Of particular importance here is the investment in MagForce AG amounting to € 5.80 million (December 31, 18: € 7.71 million), which is to be reduced in the short to medium term. The company should generate a considerable inflow of liquidity from this, which will be used for the planned expansion of the property.

As of 31.12.19, the company had liquid funds of € 5.20 million (31.12.18: € 14.03 million), which may, however, have changed considerably in the meantime due to the sale of the properties in Göttingen and the acquisition of the NRW portfolio.

In the case of property financing, an LTV (loan-to-value) of 76.5 % (88.3 %) was available as at 31 December 2019, which represents a significant improvement on the previous year. Since the new investment in the St Martin Tower joint venture was made without borrowing and bank loans were also repaid to a small extent, the loan portfolio decreased to € 33.96 million (31.12.18: € 35.32 million). Taking into account the increased property values, the total LTV decrease is the result.

Equity and interest-bearing financial liabilities (in € million)



Source: Coreo AG; GBC AG

FORECAST AND EVALUATION

in million €	FY 2019	GJ 2020e	GJ 2021e	GJ 2022e
Rental income	2.92	3.71	7.00	10.24
Sales proceeds	2.98	7.78	10.30	10.00
Evaluation result	3.06	5.46	8.67	12.74
EBIT	2.50	5.51	10.87	14.97
After-tax result	-0.86	2.40	5.91	8.93

Source: GBC AG

With its focus on residential and commercial real estate with a regional orientation towards business locations with high yield levels, Coreo AG has a comparatively solid business model. This applies in particular to the rental business, which, according to the Board of Management, was not adversely affected by the current corona crisis. Examples of this are the properties in Bad Köstritz, Bruchsal and Göttingen, which are largely let. On the one hand, there are long-term rental agreements with commercial tenants (Metro in Bruchsal). On the other hand, there have not yet been any corona-related defaults in the residential properties, which are located at a low price level anyway. Only the real estate transactions, i.e. the planned sale of existing properties or planned new investments could be affected by the corona pandemic. Here too, the Coreo Board of Management does not see any burdens at present, especially as the signs of recovery are becoming increasingly clear.

We have taken the existing real estate portfolio as the basis for our revenue and earnings forecasts, plus the NRW portfolio acquired in 2019 and transferred to 2020. In addition, Coreo AG should, in accordance with its communicated value-creating growth strategy, make significant new investments in the coming fiscal years, which also form the basis of our estimates. The ambitious long-term investment plan, according to which the real estate portfolio is to be expanded to over € 400 million in the next 4 - 5 years, remains valid. However, the original target of doubling the property portfolio in the 2019 financial year had proved to be too optimistic. Only the St Martin Tower joint venture was entered into in 2019.

For the current financial year, we consider an investment volume of around € 40 million to be a realistic assumption. Especially against the background that a large part of the planned investments has already been made with the acquisition of the NRW portfolio (purchase price according to company information in the low double-digit million range). We also assume new investments of € 40 million each for the coming fiscal years.

We calculate a loan-to-value of 75% for the financing of property purchases. At the end of the 2019 financial year, Coreo AG has cash and cash equivalents of € 5.20 million. In addition, the portfolio of MagForce shares amounts to €5.80 million, which would further increase cash and cash equivalents in the event of the planned sale. The company recorded a further increase in liquidity in the context of a capital increase of €1.91 million (1.59 million new shares at €1.20) carried out on June 3, 2020. If the addition of the € 5.9 million in liquidity from the sale of properties in Goettingen and elsewhere in 2020 is taken into account, Coreo AG should currently have a substantial cash position. In our opinion, the financing of the investment volume assumed by us (including the NRW portfolio) should therefore well be possible.

With regard to potential property acquisitions, the addition of which we have spread over the next three financial years, we are basing our decisions on the size of the properties, multiples, etc., on the investments made by Coreo AG to date.

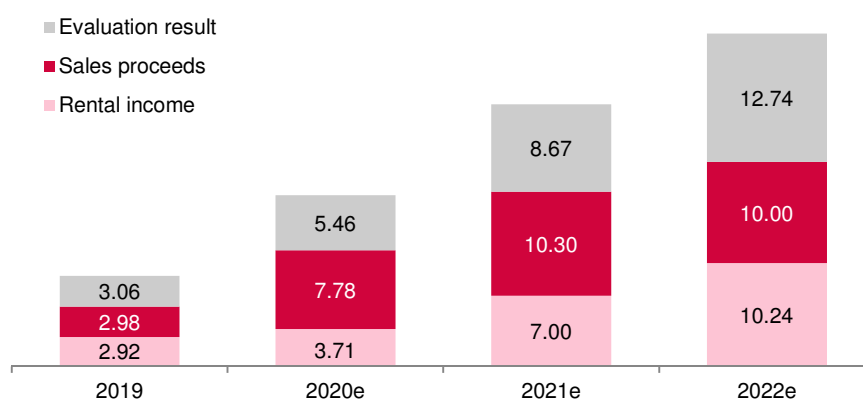
We assume that the new investments will enable both a significant increase in rental income and the realisation of hidden reserves. At the same time, we believe that they will also enable partial sales.

Sales forecasts 2020 - 2022

On the basis of the consolidated presentation, under which the property companies are fully reflected in the consolidated financial statements, Coreo AG will in future show rental income and proceeds from sales. In addition, we include in our forecasts income from write-ups to the property portfolio. In addition to new investments, the current property portfolio already acquired will be the main driver of the current 2020 financial year development.

We are assuming an increase in rental income both through a gradual reduction in vacancies in existing properties and new rental income in connection with the planned new investments. In the case of the existing properties, the letting of vacant space in the Hydra portfolio in particular should lead to an increase in revenue. At the same time, the company should also see a sharp increase in proceeds from the sale of the Goettingen properties alone. The valuation result, as the third revenue component, should be higher than in the previous year due to the investments in the existing portfolio, in particular in the Hydra portfolio. In the coming fiscal years, the maintenance and renovation measures in Göttingen should lead to corresponding increases in value.

Sales forecasts (in million €)

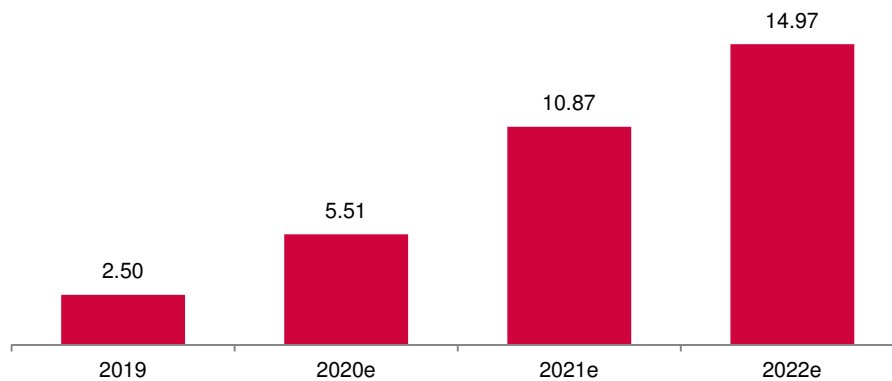


Source: GBC AG

Earnings forecasts 2020 - 2022

In principle, Coreo AG is likely to present a typical earnings picture for portfolio managers, which will probably continue to be characterized by high profitability levels. The cost of materials, the largest cost item, primarily includes non-apportionable incidental costs and is therefore variable in relation to revenue. In addition, the company should benefit from a declining cost ratio in the overhead area. Accordingly, the EBIT margin should stabilize above 50 %:

EBIT (in million €)



Source: GBC AG

Based on our EBIT forecast, earnings after taxes should reach a clearly positive level in the coming fiscal years. This figure also includes the investment-related increase in financial expenses, for which we assume a ratio of 75%. Overall, however, the company should benefit from a gradual improvement in financial conditions. We assume that the bond with warrants expiring on 31.01.2022 and bearing a coupon of 10% will be re-financed at a more favourable interest rate. However, we are not aware of any concrete plans for this. At the same time, Coreo's management has improved the conditions of existing loans in the past reporting periods.

Evaluation

Model assumptions

Coreo AG was valued by us using a three-stage DCF model. Starting with the concrete estimates for the years 2020 to 2022 in phase 1, the second phase covers the period from 2023 to 2027 and includes a forecast of the value drivers. We expect revenue growth of 2.5 %. We have assumed an EBITDA margin target of 58.6%. We have taken the tax rate into account at 25.0% in phase 2. In the third phase, a residual value will also be determined by means of the perpetual annuity after the end of the forecast horizon. We assume a growth rate of 2.0% in the terminal value.

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 IDW's Fachausschuss für Unternehmensbewertungen und Betriebswirtschaft (FAUB) (Technical Committee for Company Valuations and Business Administration). It is based on the zero bond interest rates published by the Deutsche Bundesbank using 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 1.00 %, which is the minimum value we currently use for our model.**

As a reasonable expectation of a market premium, we apply the historical market premium of 5.50 %. This is supported by historical analyses of stock market returns. The market premium reflects by what percentage the equity market is expected to outperform low-risk government bonds.

According to the GBC estimation method, a beta of 1.49 is currently determined.

Using the assumptions made, the cost of equity is calculated at 9,21 % (beta multiplied by risk premium plus risk-free interest rate). Since we assume a sustained weighting of 55% for the cost of equity, the weighted average cost of capital (WACC) is 6.97%.

Evaluation result

Future cash flows are discounted on the basis of the entity approach. **The resulting fair value per share at the end of fiscal 2021 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	2.5%	Perpetual growth rate	2.0%
EBITDA-margin	58.6%	Perpetual EBITA margin	58.7%
Depreciation on fixed assets	0.0%	Effective tax rate in terminal value	25.0%
Working capital to sales	31.3%		

Three-phase DCF - model:

Phase in mEUR	estimate			consistency					final TV
	FY 20e	FY 22e	FY 23e	FY 24e	FY 25e	FY 26e	FY 27e	FY 28e	
Revenue (RE)	11.16	18.93	25.58	26.22	26.88	27.55	28.24	28.94	
Revenue change	50.5%	69.7%	35.1%	2.5%	2.5%	2.5%	2.5%	2.5%	2.0%
Revenue to fixed assets	0.13	0.15	0.15	0.16	0.16	0.16	0.17	0.17	
EBITDA	5.52	10.89	14.99	15.37	15.75	16.14	16.55	16.96	
EBITDA-margin	49.5%	57.5%	58.6%	58.6%	58.6%	58.6%	58.6%	58.6%	
EBITA	5.51	10.87	14.97	15.32	15.70	16.09	16.50	16.91	
EBITA-margin	49.4%	57.4%	58.5%	58.4%	58.4%	58.4%	58.4%	58.4%	58.7%
Taxes on EBITA	-1.38	-2.72	-3.74	-3.83	-3.92	-4.02	-4.12	-4.23	
Tax rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
EBI (NOPLAT)	4.13	8.15	11.23	11.49	11.77	12.07	12.37	12.68	
Return on Capital	9.4%	9.1%	8.5%	6.6%	6.7%	6.8%	7.0%	7.1%	7.2%
Working Capital (WC)	5.50	7.00	8.00	8.20	8.40	8.61	8.83	9.05	
WC to sales	49.3%	37.0%	31.3%	31.3%	31.3%	31.3%	31.3%	31.3%	
Investment in WC	-0.16	-1.50	-1.00	-0.20	-0.20	-0.21	-0.22	-0.22	
Operating fixed assets (OFA)	84.47	124.94	166.48	167.31	168.14	168.99	169.83	170.68	
Depreciation on OFA	-0.02	-0.02	-0.02	-0.05	-0.05	-0.05	-0.05	-0.05	
Depreciation to OFA	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
CAPEX	-45.93	-40.49	-41.56	-0.88	-0.89	-0.89	-0.90	-0.90	
Capital Employed	89.97	131.94	174.48	175.51	176.55	177.60	178.66	179.73	
EBITDA	5.52	10.89	14.99	15.37	15.75	16.14	16.55	16.96	
Taxes on EBITA	-1.38	-2.72	-3.74	-3.83	-3.92	-4.02	-4.12	-4.23	
Total Investment	-46.09	-41.99	-42.56	-1.08	-1.09	-1.10	-1.11	-1.12	
Investment in OFA	-45.93	-40.49	-41.56	-0.88	-0.89	-0.89	-0.90	-0.90	
Investment in WC	-0.16	-1.50	-1.00	-0.20	-0.20	-0.21	-0.22	-0.22	
Investment in Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free Cashflows	-41.94	-33.82	-31.31	10.45	10.73	11.02	11.31	11.61	188.81

Value operating business (due date)	98.19	138.86
Net present value explicit free Cashflows	-19.59	12.87
Net present value of terminal value	117.78	125.99
Net debt	56.21	93.02
Value of equity	41.98	45.84
Minority interests	-0.16	-0.18
Value of share capital	41.82	45.67
Outstanding shares in m	17.54	17.54
Fair value per share in €	2.38	2.60

Cost of Capital:

Risk free rate	1.0%
Market risk premium	5.5%
Beta	1.49
Cost of equity	9.2%
Target weight	55.0%
Cost of debt	5.2%
Target weight	45.0%
Taxshield	18.4%
WACC	7.0%

Return on Capital	WACC				
	6.4%	6.7%	7.0%	7.3%	7.6%
6.7%	3.06	2.45	1.92	1.44	1.03
7.0%	3.46	2.82	2.26	1.76	1.32
7.2%	3.87	3.19	2.60	2.08	1.62
7.5%	4.27	3.57	2.95	2.40	1.92
7.7%	4.68	3.94	3.29	2.72	2.21

ANNEX

I.

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

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