

Deutsche EuroShop Real Estate Summer 2017

BRNO

DES
Deutsche EuroShop



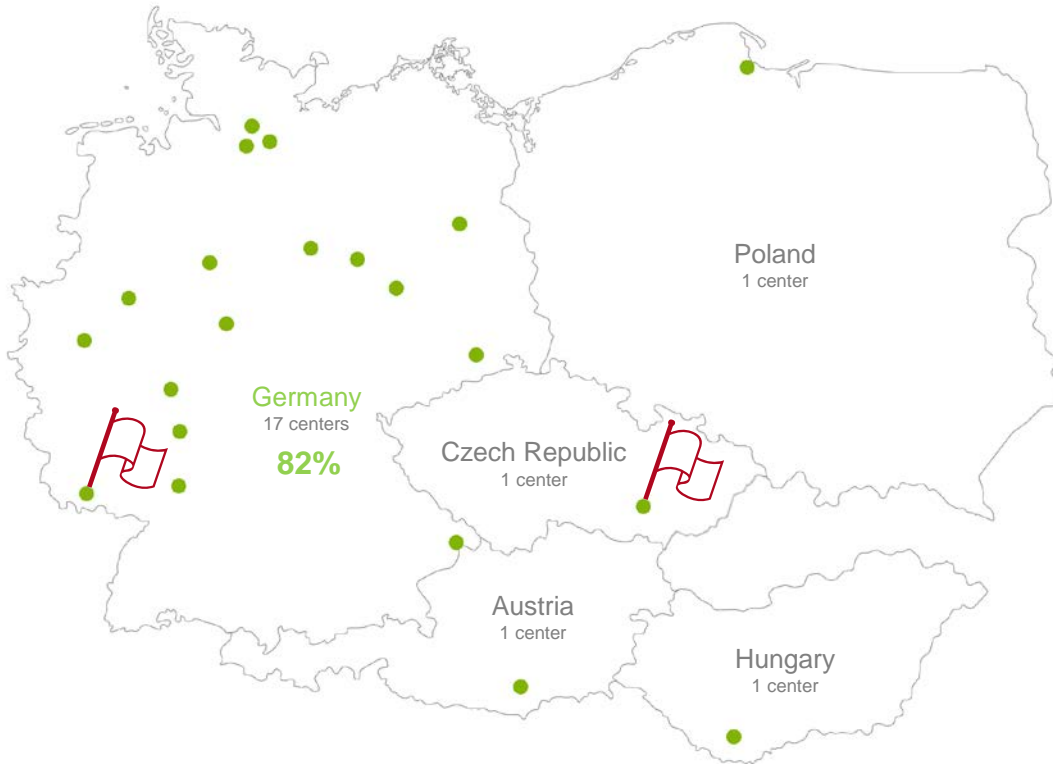
5. SEPTEMBER 2017

AGENDA

- **DES Update**
- **Opportunities and Challenges**
 - Retail Market
 - e-commerce & retail transformation
 - new technologies
 - shopping centers: Germany & EU ` USA
 - Capital Market
 - Investment Market
- **Conclusion**



DES UPDATE: MAP OF THE PORTFOLIO



international: 18%

DES-UPDATE: THE PORTFOLIO IN NUMBERS



21 shopping centers on high street and in established locations – 17 in Germany and one each in Austria, Czech Republic, Hungary and Poland

2016 portfolio valuation: approx. 4.94% net initial yield (after transaction costs)



Professional center management by ECE, the European market leader in this industry

Lettable space¹ Approx. 1,087,000 sqm

Retail shops¹ Approx. 2,700

Market value¹ approx. €5.1 billion (DES-share €4.1 bn.)

Rents per year¹ €297million (DES-share €237 mn.)

Occupancy rate¹ 99%

Avg. GLA per DES-center:
inner city 40,400 sqm
est. locations 99,900 sqm

¹ 100%-view

DES-UPDATE: KEY FIGURES H1 2017

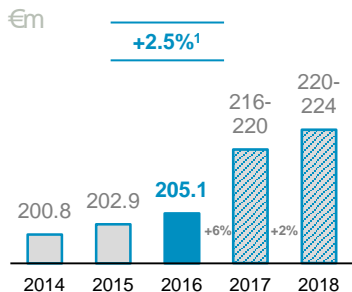
€ million	01.01. – 30.06.2017	01.01. – 30.06.2016	Change
Revenue	105.8	101.8	4%
Net operating income	95.4	91.7	4%
EBIT	92.5	88.8	4%
Net finance costs	-19.5	-23.8	18%
Measurement gains/losses	-2.6	-5.0	91%
EBT	73.0	65.0	12%
Consolidated profit	56.2	48.7	16%
FFO per share (€)	1.25	1.16	8%
EPRA Earnings per share (€, undiluted)	1.20	1.11	8%

€ million	30.06.2017	31.12.2016	Change
Total equity¹	2,383.0	2,240.7	9%
Net Financial liabilities	2,140.6	1,873.8	14%
Total assets	4,604.8	4,114.5	12%
Equity ratio ¹	51.7%	54.5%	
Loan to value ratio	34.5%	34.2%	
Cash and cash equivalents	127.2	64.0	99%

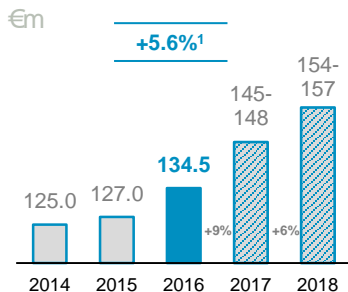
¹ Including the share attributable to equity-accounted joint ventures and associates

DES-UPDATE: FORECAST

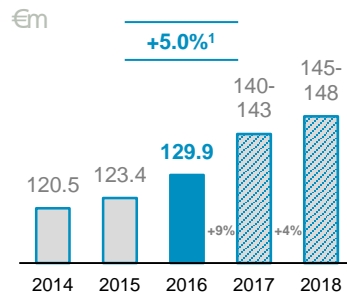
REVENUE



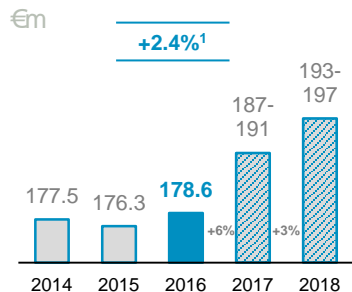
EBT EXCL. VALUATION



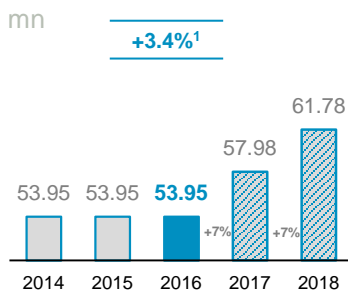
FFO



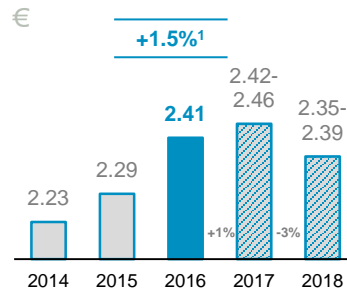
EBIT



NUMBER OF SHARES²



FFO PER SHARE



¹ Compound Annual Growth Rate (CAGR) 2014 - 2018

² weighted, under the assumption that the convertible bond has been fully converted at the end of its term in November 2017

RETAIL MARKET: NUMBERS

- **GDP 2017 (E):**
DE +1.8% / AT: +1.2% / PL: +1.2% / CZ: +1.7% / HU: +1.9%
- **Inflation 2017 (E):**
DE +1.9% / AT: +1.8% / PL: +2.0% / CZ: +2.0% / HU: +2.2%
- **Retail turnover 2017 (E):** DE +2.0%
- **E-commerce turnover 2017 (E):** DE +11.0%
- **Stationary retail turnover 2017 (E):**
DE +1.0% / AT: +1.8% / PL: +5.3% / CZ: +2.8% / HUN: +5.7%
- **Retail turnover DES (H1 2017):**
like-for-like: DE -0.4%, abroad +3.6%, DES overall: +0.4%
total: DE +0.1%, abroad +4.0%, DES overall: +0.8%
- **DES footfall (H1 2017):**
DE -0.6%, abroad +1.6%



Source: Oxford Economics, GfK, HDE

RETAIL MARKET: SENTIMENT

- E-commerce challenge
- (U.S.) department store crisis
- Fear of „dead malls“

BUSINESS
INSIDER

Amazon is killing department stores

FINANCIAL TIMES

Struggling Sears signals decline of US malls

DEADMALLS.COM

AMERICA'S ABANDONED
MALLS ARE PLACES OF
NIGHTMARES
-BEAUTIFUL DECAY

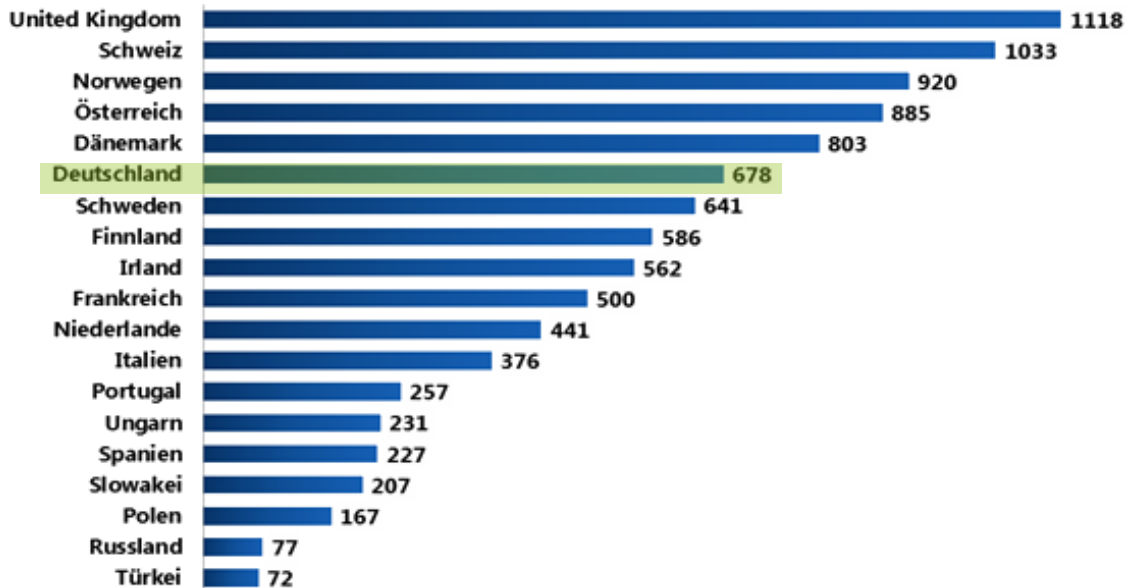
THE
NEW YORKER
ARE MALLS OVER?



Sources: Business Insider, North American Properties, Financial Times, deadmalls.com

ONLINE: RETAIL MARKET TRANSFORMATION

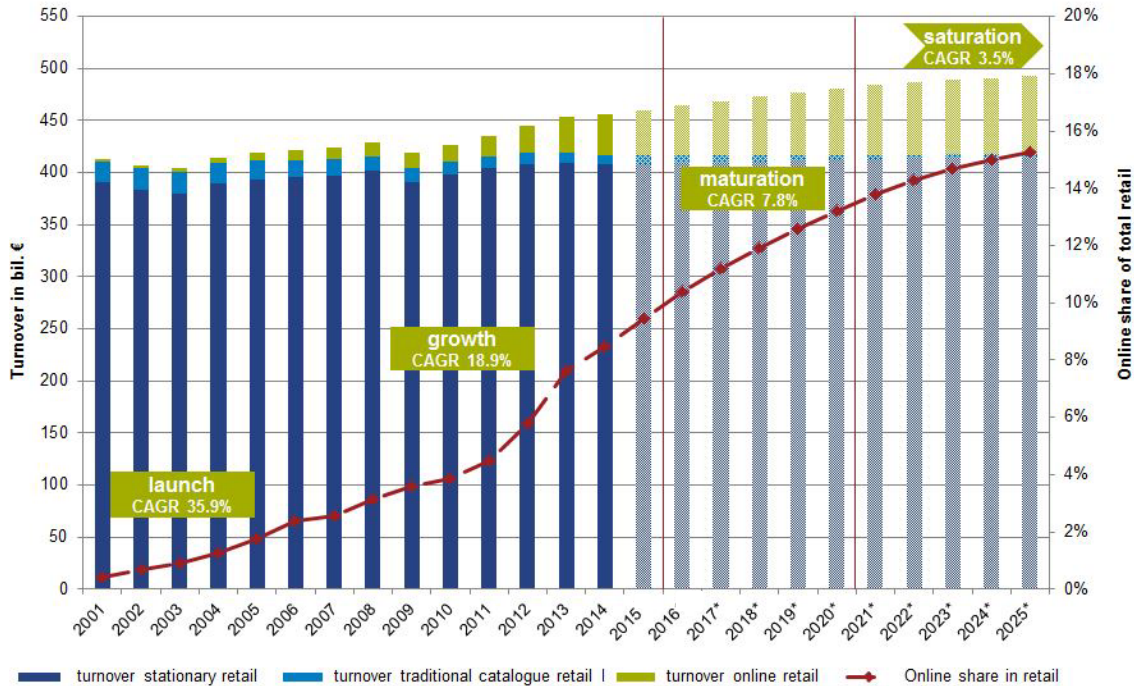
ONLINE SALES PER CAPITA (€/ YEAR)



Source: Regio Data August 2017

ECOMMERCE: GROWTH WITHOUT END?

PROGRESSION OF ONLINE RETAIL TO MARKET MATURITY (GERMANY)

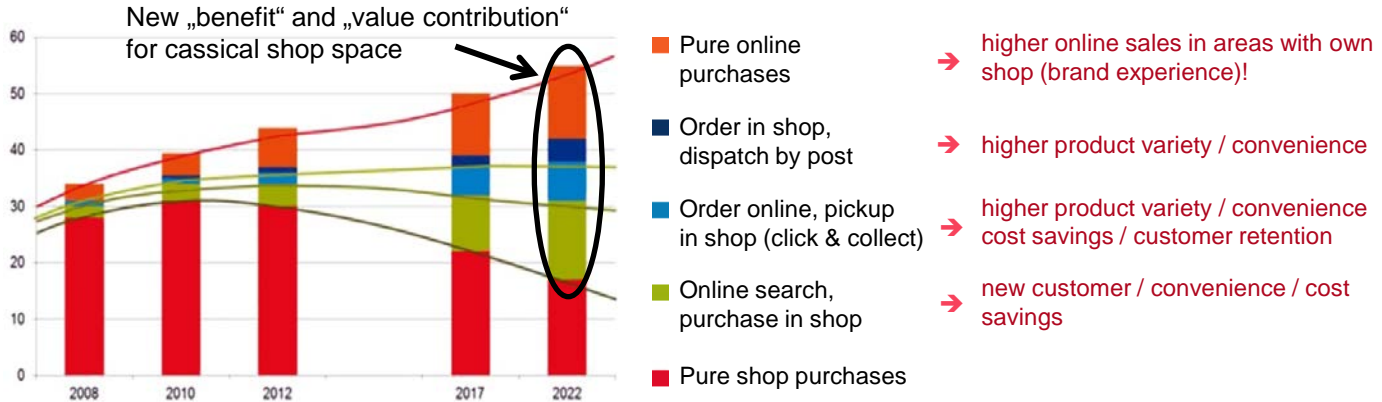


Source: GfK

* prognosis

E-COMMERCE ~~VS.~~ STATIONARY RETAIL ~~!~~

TURNOVER DISTRIBUTION OF A FASHION RETAILER



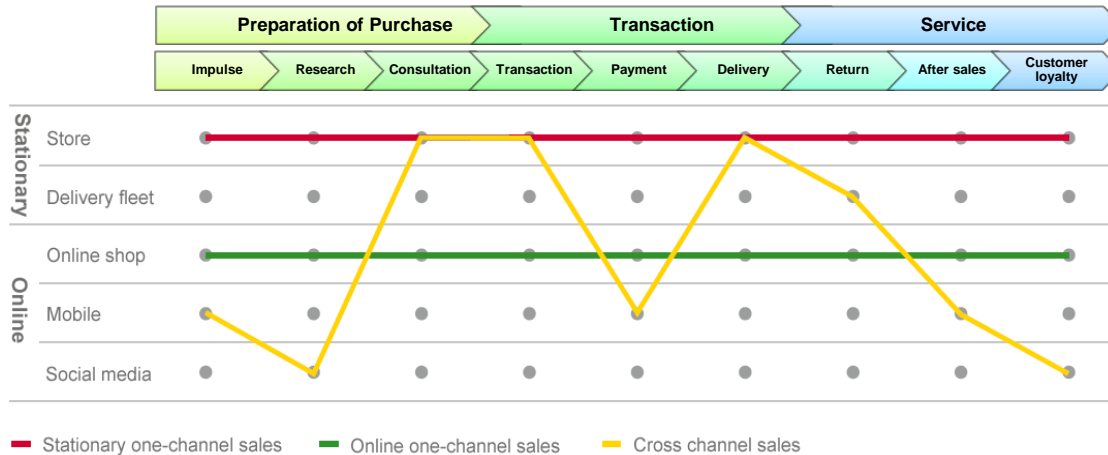
- Stationary retail transforms from “Point of Purchase” to “Touch Point” (product experience)
- New store concepts (flagship store, show room, multi-channel store, pick-up store), click & collect, augmented reality, mobile services
- “Location, location, location” newly interpreted: “Convenience, attractiveness & likeability”

Source: GfK

MULTICHANNEL

AN EXAMPLE FOR A MODERN CUSTOMER JOURNEY

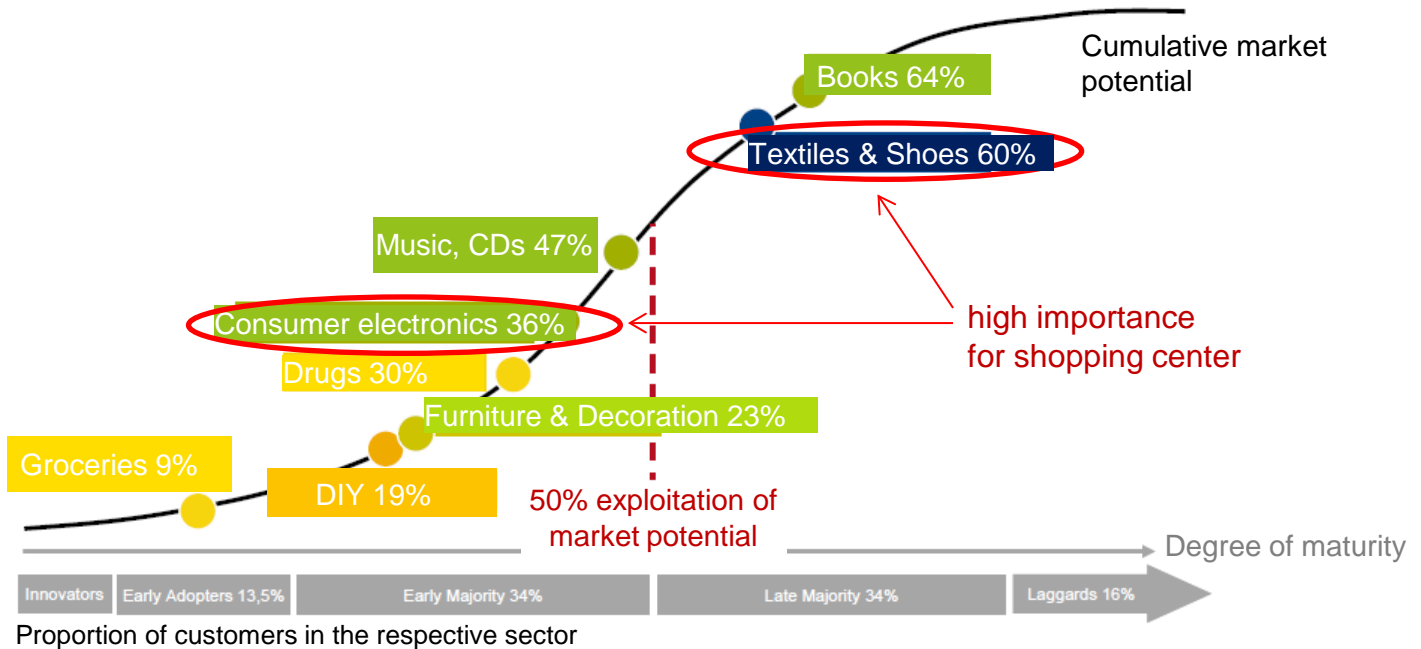
- The cross-channel customer combines stationary and online channels
- The one-channel customer uses only one channel



„online goes offline“
&
„offline goes online“

Source: EY

E-COMMERCE GROWTH BY SEGMENTS (ILLUSTRATION)



Source: GfK

RETAIL MARKET TRANSFORMATION: OBSERVATIONS I

- currently most affected segments
 - fashion
 - electronics

- innovation is one key driver
 - multichannel (customer convenience, maximization of total retail turnover)
 - new technologies (e.g. logistics: RFID, tracking or payment systems)
 - big data (e.g. customer profiling & retention)



RETAIL MARKET TRANSFORMATION: OBSERVATIONS I

- very different stages of development among retailers of the same segment
 - best performers (turnover growth and shop expansion)
 - underperformers (turnover under pressure and reduction of inefficient shops)

- size & brand
 - importance of branding and customer communities
 - some mid-size (textile) retailers
 - lack sufficient profil and/or
 - timely multichannel strategy
 - „the big get bigger“



RETAIL MARKET TRANSFORMATION: OBSERVATIONS II

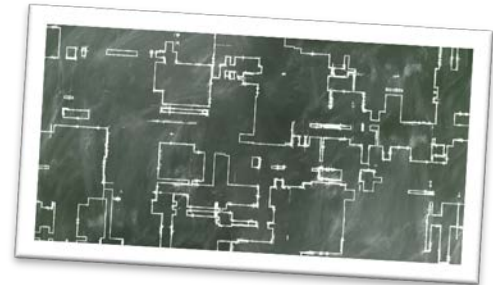
- some retailers are late in the process and/or squeezed in the middle:
 - stationary retail turnovers currently do not grow or even shrink
 - profitability reduction asks for cost savings
 - cost savings on services (e.g. staff) lower sales
 - high investment cost in new shops outfit & innovation



RETAIL MARKET TRANSFORMATION: OBSERVATIONS III

- retailers are reassessing their retail concepts:
 - implementation of multi-channel strategies
 - purpose / function of shop space
 - number of shops / limited expansion
 - shop size / layout
 - rents & added value

- retailers focus on high frequented top locations with local market dominance: **SIZE MATTERS!**



SHOP SPACE: THE EVOLUTION OF ITS FUNCTION

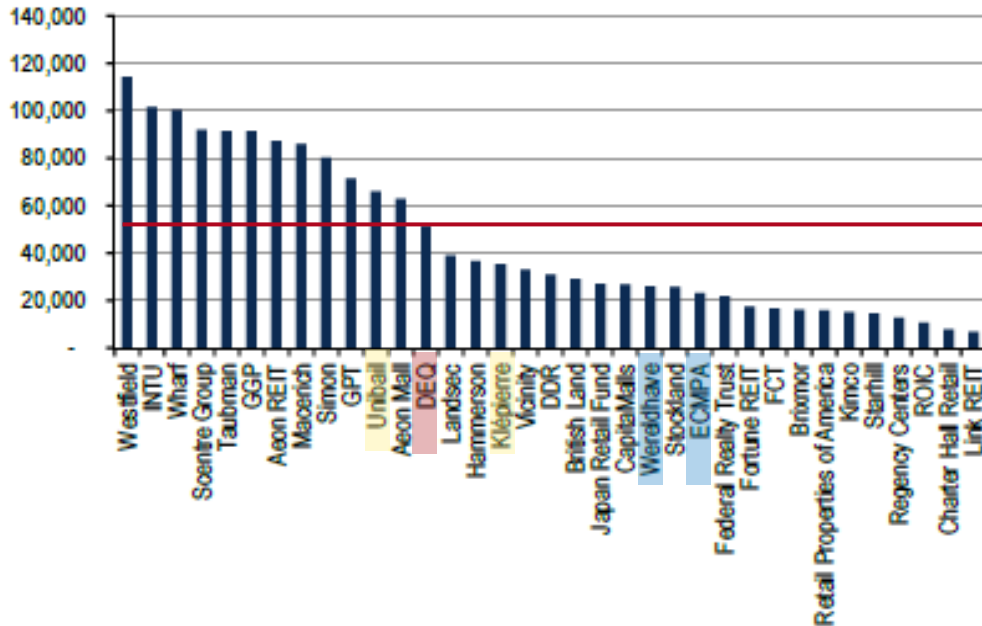


Logistics

- traditionally: only for the shop
- future: support of online sales (incl. for example Digital Mall, etc.)

SHOPPING CENTERS: SIZE MATTERS!

Chart 25: Who has the largest and smallest average malls by GLA?



DES shopping centers are substantial in size and dominant in their respective market...

...but the world is more complex than just „A & B“

SHOPPING CENTERS: COURSE OF ACTION

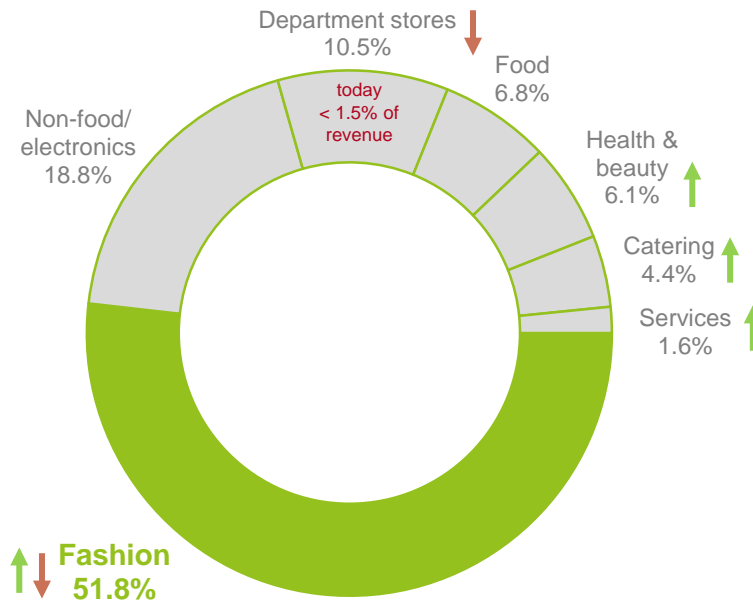
- evolution of the **sector mix**

- focus on shopping center **convenience**:
 - „At your service“
 - mall beautification

- **E-commerce**
 - Digital Mall
 - „Love to Shop“ app

SHOPPING CENTER: SECTOR MIX¹

Balanced sector diversification today (potential trends in demand for space)



Catering:

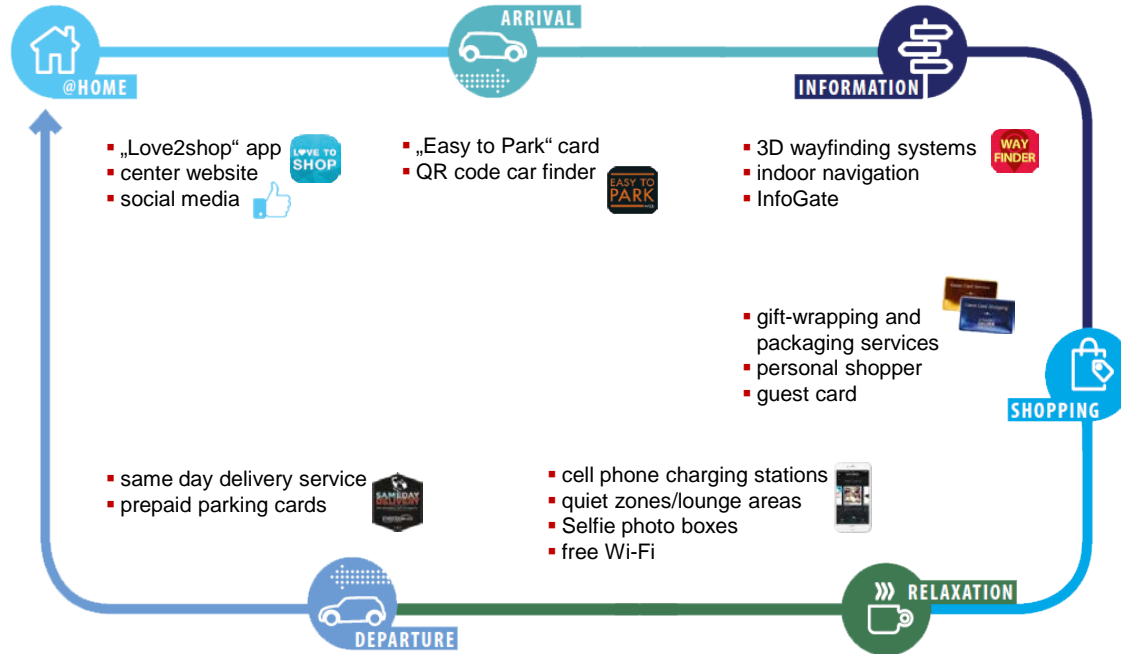
DES shopping centers are to a large extent in top inner city locations that are surrounded by a substantial gastronomy supply

depending on fashion sub-sector / business models

¹ as % of rental space as at 31 Dec. 2016

SHOPPING CENTERS CONVENIENCE: AT-YOUR SERVICE

FOCUS ON CUSTOMER JOURNEY



Source: ECE

SHOPPING CENTERS: MALL BEAUTIFICATION

Examples from the basket of potential improvements

- mall design (colours, interior design and more)
- atmosphere (light concepts)
- more and modern mall furniture
- modern common seating areas for gastronomy areas
- improvement of service areas & restrooms
- improvement of parking lots (visibility)
- modern and easy signage
- kids playgrounds & selfie boxes (entertainment)



SHOPPING CENTERS: MALL BEAUTIFICATION

DESIGN STUDY ALLEE CENTER MAGDEBURG I



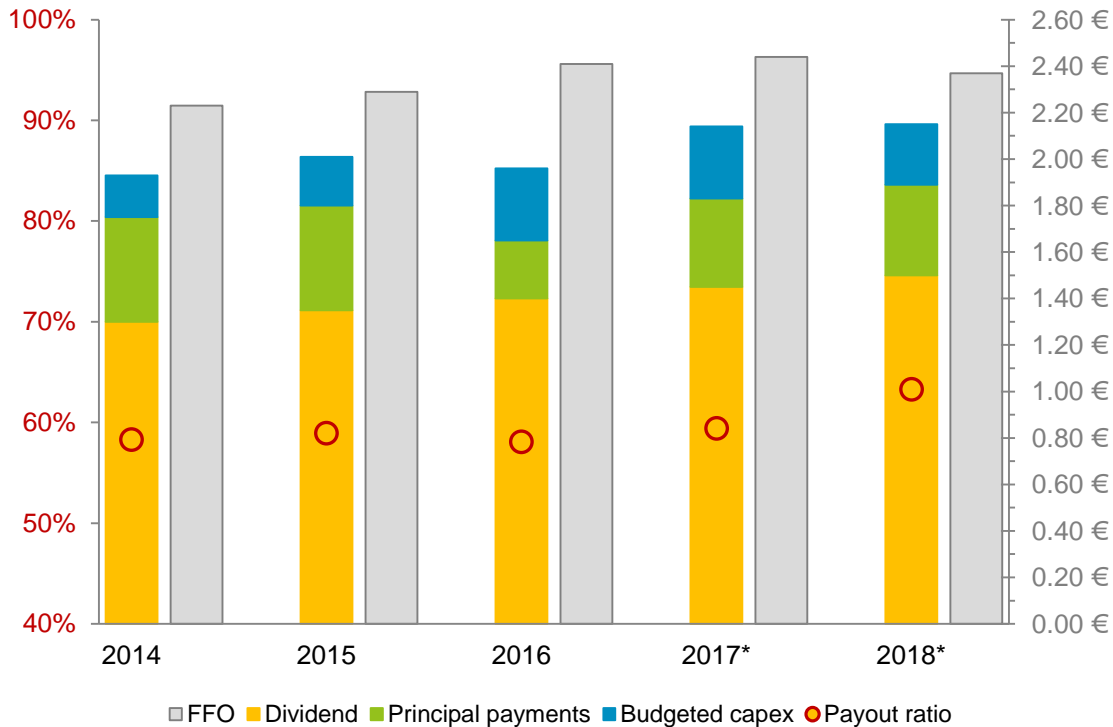
SHOPPING CENTERS: MALL BEAUTIFICATION

DESIGN STUDY ALLEE CENTER MAGDEBURG I



SHOPPING CENTER: CAPEX CAPACITY

FFO PAYOUT RATIO & DESIGNATED USE



DES has a capex capacity of approx. €25-30 million per year, while still deleveraging another €20-25 million yearly

* Forecast
Dividend per share: proposal

SHOPPING CENTERS: E-COMMERCE

Digital Mall:

- online product search on the center website
- major step towards a seamless omni-channel experience
- customers can check from home or their smartphone whether a desired product from a specific brand is available in the center in the preferred color and correct size and in which shop it can be found
- they get information on what is on offer, may reserve the items and subsequently buy the items in-store still having the possibility of getting a competent product advice
- this is made possible by a connection between the center's website and participating retailers' stocks
- the Digital Mall is currently tested in the Alstertal-Einkaufszentrum in Hamburg, one of ECE's Future Labs.



SHOPPING CENTERS: E-COMMERCE

Love to Shop app:

- „Love to Shop“ app for iOS and Android offers real benefits to both customers and individual stores and already is available for numerous DES centers
- customers can personalize the app by adding information such as age, gender and categories of interest
- the user receives only offers which are really from interest
- geofencing technology: The customer receives information on offers from a center when he is in within close proximity to the respective center - and when he is possibly in the mood to go shopping
- many sharing options: When a customer likes a particular offer, he can share it with friends within seconds
- further possibility to collect playfull points end exchange it for attractive prizes
- for the stores this is a perfect tool to be able to target the customers



SHOPPING CENTER: GERMANY & EU ` U.S

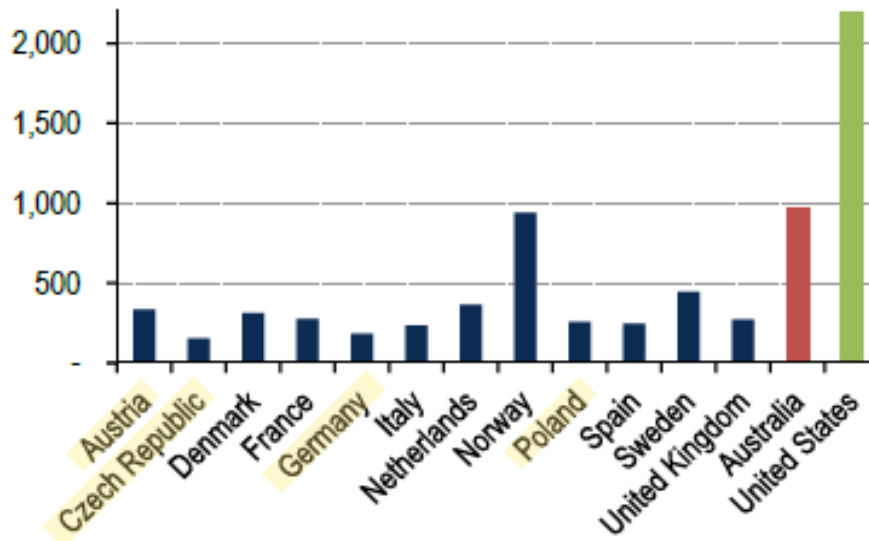
- shopping center supply
- difference in market structure
 - department stores
 - co-tenancy rights
- DES portfolio
 - department store exposure
 - tenant structure



SHOPPING CENTER: GERMANY & EU \ U.S

SHOPPING CENTER SUPPLY

Mall space per 1,000 capita (traditional shopping centres)



Germany:

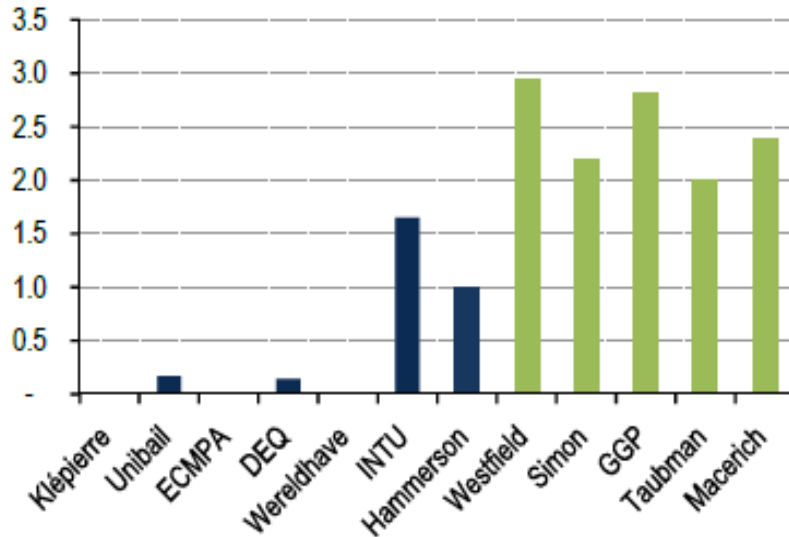
Higher proportion of city centers (high street, pedestrian zones, gastronomy, entertainment)

Source: ICSC; Cushman and Wakefield

BBoA, Real View 709, June 2017

SHOPPING CENTER: GERMANY & EU \ U.S DEPARTMENT STORE DEPENDENCIES

Average number of department stores per mall (EU vs US)



DES portfolio:

- only 4 department stores
- DES ownership: 3

Source: Euromonitor; BofA Merrill Lynch Global Research

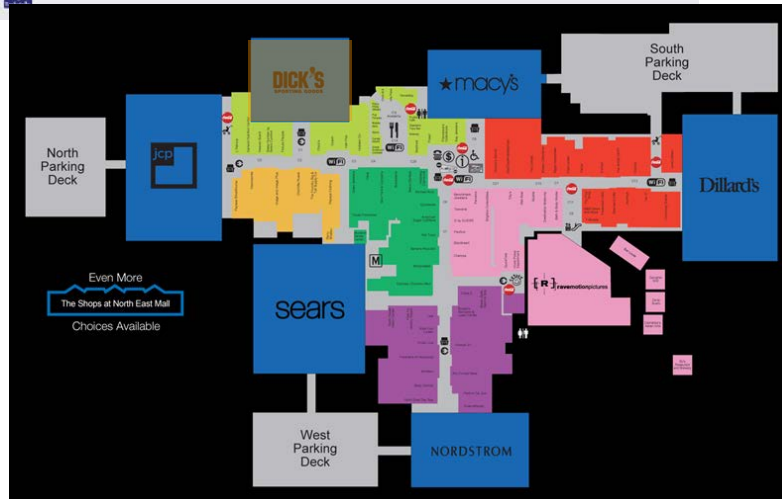
BBoA, Real View 709, June 2017

SHOPPING CENTER: GERMANY & EU U.S

DEPARTMENT STORE DEPENDENCIES



Main-Taunus-Zentrum (Germany),
120,000 sqm GLA



department stores
marked in blue

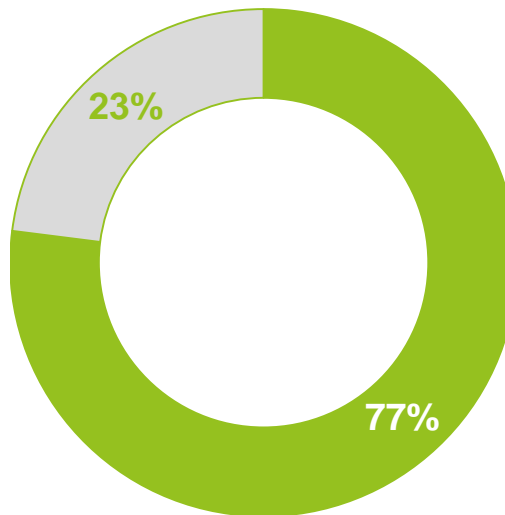
Frisco, Texas (U.S.A)
150,000 sqm GLA

SHOPPING CENTER: GERMANY & EU \ U.S

TENANTS STRUCTURE / DEPARTMENT STORE DEPENDENCIES

TOP 10 Tenants ¹	2016	2015
Metro Group ²	4.7%	4.5%
H&M	3.6%	3.4%
New Yorker	2.4%	2.3%
Peek & Cloppenburg	2.2%	2.1%
Deichmann	2.0%	1.8%
Douglas ³	2.0%	2.1%
C&A	1.9%	1.5%
REWE	1.7%	1.6%
dm-drogerie markt	1.4%	1.2%
Thalia	1.3%	1.0%
Total	23.2%	21.5%

Department Stores < 1.5%



Other tenants

Low dependency on top 10 tenants & departments stores

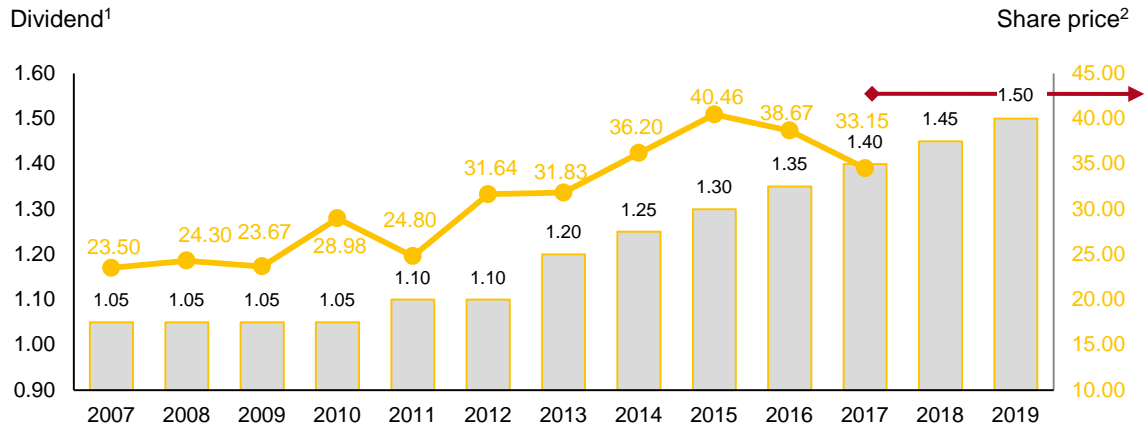
¹ in % of total rents as at 31 Dec. 2016

² excluding Kaufhof

³ perfumeries only

CAPITAL MARKET: EQUITY

TREND OF SHARE



EPRA NAV 42.53 €/share⁹

discount: ~ 22%

implicit NIY: ~ 5.70%
(at current share price level)

PERFORMANCE³

		DES	DAX	EPRA ⁴	REX ⁵	OEF ⁶
1 year	(2016)	-1.2%	+6.9%	-5.0%	+2.3%	+2.8%
3 years	+34.1% =	+10.3% p.a.	+6.3% p.a.	+13.0% p.a.	+3.3% p.a.	+2.9% p.a.
5 years	+86.0% =	+13.2% p.a.	+14.2% p.a.	+15.3% p.a.	+2.8% p.a.	+2.3% p.a.
Since IPO (2001)	+280.9% =	+8.7% p.a.	+3.7% p.a.	+7.9% p.a.	+4.6% p.a.	+3.3% p.a.

¹ respectively paid for the previous FY

² 2017: as of 30 June 2017

³ as of 31 Dec. 2016

⁴ EPRA/NAREIT Europe

⁵ German government bonds index

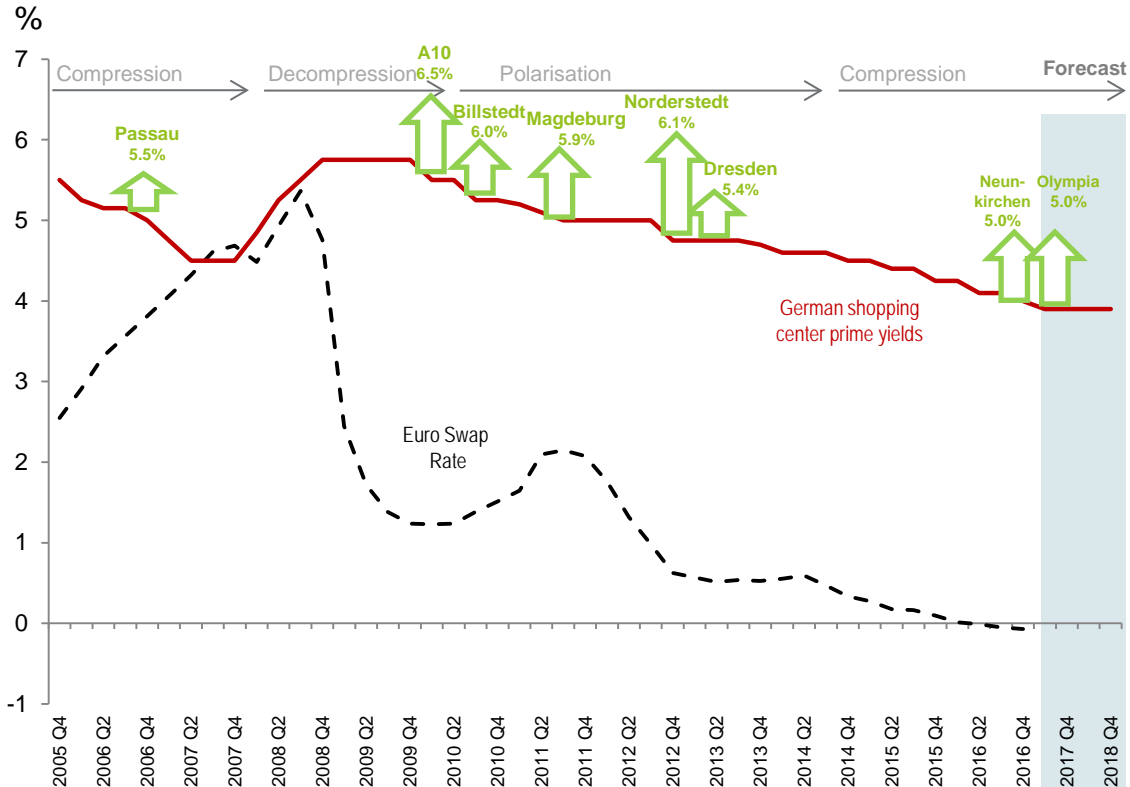
⁶ Open ended real estate funds

⁷ paid on 3 July 2017

⁸ proposal

⁹ diluted

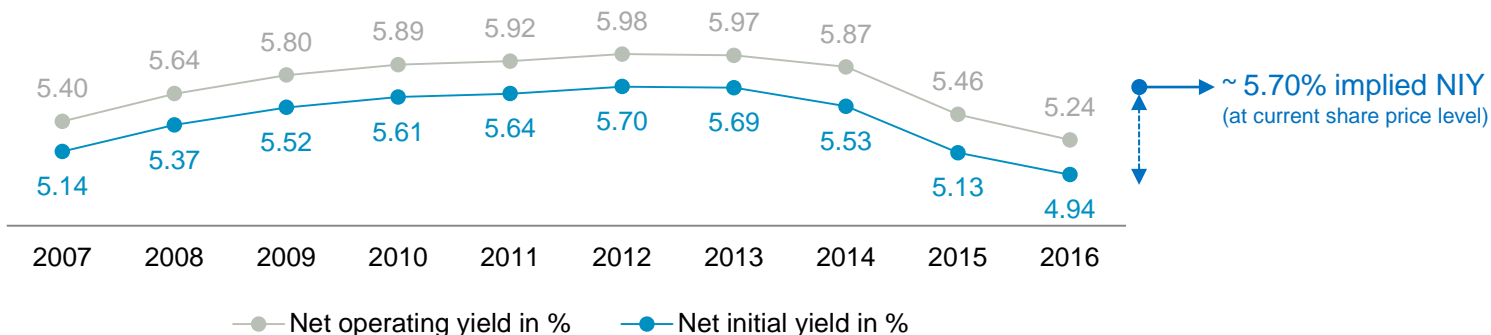
INVESTMENT MARKET: GERMAN PRIME SHOPPING CENTER YIELDS 2005-2020E



Source: JLL

INVESTMENT MARKET

VALUATION¹ – INVESTMENT PROPERTIES 2016



SENSITIVITY ANALYSIS

in € thousand	Basis	change of -25bps	change of +25bps
Rent increase rates	1.39%	-101,100	+148,000
Discount rate	5.97%	+69,000	-69,200
Capitalization rate	5.21%	+114,200	-106,600
Cost ratio	10.17%	+10,400	-9,000

¹ External appraisers:
since 2015: JLL

INVESTMENT MARKET

- demand still exceeds supply
- yield compression seems to slow down
- no discount for the current sentiment in retail segment
- deals seem to take longer



Olympia

View of DES:

- acquisitions can still be FFO accretive:
 - focus on quality
 - focus on employment of debt (using low LTV level)



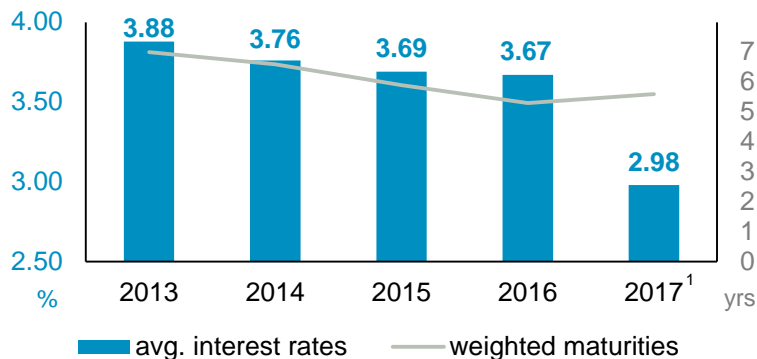
Saarpark-Center

CAPITAL MARKET: DEBT

LOAN STRUCTURE INCL. CONVERTIBLE BONDS^{1,2}

Interest lockin	Duration	Principle amounts (€ million)	Share of total loan	avg. interest rate
Up to 1 year		171.0	10.0%	1.61%
1 to 5 years	3.7	600.0	35.1%	4.04%
5 to 10 years	7.1	689.4	40.4%	2.78%
Over 10 years	10.8	247.7	14.5%	2.59%
Total¹	5.6	1,707.8	100%	2.98%

- 21 German and 4 foreign bank partners
- weighted maturity of fixed interest periods 5.6 years¹



¹ as of 31 March 2017
² excl. non-consolidated loans

CONCLUSION

- EU ` U.S. shopping centers
- brick & mortar and online-retail will inevitably converge: multichannel is on its way
- E-commerce will – for some time – grow ahead of stationary retail
- transformation process impacts retailers and shopping centers
- size and location of shopping centers matter



CONCLUSION

- overall attractiveness of centers is increasingly important, DES has substantial capex capacity and will act where needed
- Germany: one of the toughest leasing markets at the moment in Europe
- turnover and rents are intensive negotiation points in the retail transformation phase
- finance cost will further decrease and will contribute positively to the FFO
- DES business model is solid and stable in a competitive market place



THANK YOU!



Important Notice: Forward-Looking Statements

Statements in this presentation relating to future status or circumstances, including statements regarding management's plans and objectives for future operations, sales and earnings figures, are forward-looking statements of goals and expectations based on estimates, assumptions and the anticipated effects of future events on current and developing circumstances and do not necessarily predict future results.

Many factors could cause the actual results to be materially different from those that may be expressed or implied by such statements. Deutsche EuroShop does not intend to update these forward-looking statements and does not assume any obligation to do so.