

ERWE Immobilien AG

WKN: A1X3WX | ISIN: DE000A1X3WX6 | Bloomberg: ERWE

Financial restructuring necessary

Liabilities side of the balance sheet to be restructured: (Initial assessment) ERWE communicated a number of details on the expected financial restructuring on June 11, 2023. The measures have turned out to be more extensive than we expected. The objective of the package of measures is essentially to continue operating business activities. Further implementation steps of the package of measures are expected in the near future.

Measures at a glance: With regard to debt capital, a deferral of the interest payments due on June 10, 2023 and a conversion of the EUR 40.0m bond, due in December 2023, into equity is proposed (capital increase through contribution in kind of the bond). An additional planned cash capital increase is intended to provide the company with up to EUR 12.0m in fresh funds. Further savings are to be negotiated with existing lenders. Finally, there may also be a sale of portfolio properties or project development properties. We can imagine that ERWE will focus on revitalization projects in the future.

FMR forecasts: According to an initial, rough calculation, we see the volume of the measures now presented at up to EUR 90.0m, excluding loan negotiations and possible property sales. In the context of this initial estimate, we have not yet included this information from the announcement of 11.06.'23 in our financial model. In the case of the planned cash capital increase, it is not yet possible to take this into account due to the fact that detailed information is not yet known.

The price reactions (basis: closing prices on June 12) for the share (-17%) and the bond (-66%) have been very significant. If the package of measures is implemented as planned, the company has a good chance of being able to continue its operating business in the longer term. Due to the risks associated with the implementation of the planned restructuring concept, we do not believe it is currently possible to derive new, meaningful forecasts. We have therefore temporarily suspended our recommendation and the derivation of a new target price for the ERWE share.

FY End: 31.12.; in EURm	CAGR (21-24e)	2019	2020	2021	2022e	2023e	2024e
Gross rental revenue (GRR)	28.7%	3.5	5.6	7.9	10.1	14.3	16.8
EBIT	n.a.	11.5	3.9	-4.8	1.6	7.0	10.3
Net income	n.a.	8.7	0.1	-10.2	-3.9	-0.5	1.4
EPS, EUR	n.a.	0.45	0.01	-0.48	-0.15	0.00	0.08
EPRA NRV per share, EUR	-2.8%	4.29	4.39	3.83	3.42	3.44	3.52
Net Debt	6.9%	64.4	127.6	139.3	150.6	159.8	170.2
EV		129.5	195.5	210.9	185.5	194.7	205.0
EV/GRR		37.4	35.0	26.7	18.4	13.7	12.2
EV/EBIT		11.2	50.0	-43.9	113.1	28.0	19.9
Net Debt/EBITDA		5.6	33.5	-29.0	91.8	23.0	16.5

Source: ERWE, FMR

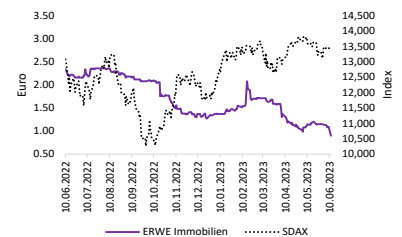
Published: 13.06.2023

Before: --

Target price EUR -- (--)
Share price* EUR 0,90 (- -%)

*last closing price Börse Frankfurt

Change	2022e	2023e	2024e
GRR	0.0	0.0	0.0
EBIT	0.0	0.0	0.0
EPS, EUR	0.00	0.00	0.00



Source: Börse Frankfurt, FMR

Basic share data

Number of shares (millions)	24.56
Free float (in %)	14.5%
Market Cap (in EURm)	22.1
Trading vol. (Ø 30 days)	1,415
High (EUR, 52 weeks)	2.36
Low (EUR, 52 weeks)	0.90

Shareholder structure

RW Property Investment GmbH	20.9%
Stapelfeld Beteiligungs GmbH	25.1%
Elbstein AG	37.3%
ERWE Real Estate	2.2%

Company calendar

Annual report FY 2022 30.06.2023

Analyst

Winfried Becker

Senior Equity Analyst

winfried.becker@fmr-research.de

+49 (0) 69 – 247 42 72 76

Contact

FMR Frankfurt Main Research AG
Hausener Weg 29
60489 Frankfurt am Main
Germany

+49 (0) 69 - 247 42 72 70

www.fmr-research.de

Financial restructuring at a glance

On June 11, 2023, ERWE informed the capital market about the financial restructuring measures resolved by the Board of Management with the approval of the Supervisory Board. The restructuring relates to the equities and liabilities side of the balance sheet and must be seen against the background of the significant rise in interest rates and the associated difficult market situation in the real estate sector. Based on the last published quarterly figures (Q3/2022), the equity ratio was 23.6% and the total of non-current and current financial liabilities was EUR 167.9 million or 68.6% of total assets. Following the successful implementation of all planned measures, ERWE should have regained its ability to act operationally in the longer term.

Debt measures:

- Deferral of interest payment due on June 10 until redemption date: EUR 40.0m x 7.5% coupon equals to EUR 3.0m
- Waiver of related call rights by bondholders
- Conversion of bond into equity (debt-to-equity swap): Bond WKN: A255D0; volume EUR 40.0m, coupon: 7.5%, due on December 10, 2023. The bondholders will receive EUR 6m new shares from a non-cash capital increase. This gives the bondholders the opportunity to participate in future increases in the value of the Company. Bondholders who do not accept the offer will receive a cash settlement

Equity measures:

- Implementation of a simplified capital reduction in accordance with §229 et seq. AktG. In compliance with certain rules, capital reserves and retained earnings must be released in advance. According to §233 AktG. future profit distributions are impaired. The capital stock is reduced from EUR 24,562,922.00 to EUR 1,228,146.00. This avoids a shortfall in the balance sheet. Consolidation of shares at a ratio of 20:1
- A subsequent cash capital increase with subscription rights is then to provide ERWE with new external liquidity of up to EUR 12.0m. The details of this, in particular the issue price, have not yet been determined

According to a first estimate, we expect a restructuring volume of up to EUR 90.0m from all the above measures. In addition, there would be proceeds from the sale of portfolio properties and project development properties as well as savings in connection with other lenders.

Profit & Loss

EURm (IFRS)	2019	2020	2021	2022e	2023e	2024e
Gross rental revenue	3.47	5.59	7.89	10.10	14.25	16.81
Expenses from property lettings	-2.10	-2.96	-3.47	-3.64	-5.27	-5.88
Earnings from property lettings (EPL)	1.37	2.63	4.42	6.46	8.98	10.93
yoy change	18.6%	92.5%	68.0%	46.2%	38.9%	21.7%
Personnel expenses	-1.81	-4.86	-4.32	-4.35	-4.52	-4.83
yoy change	249.5%	168.0%	-11.1%	0.6%	4.0%	6.8%
Result from measurement of investment properties	12.57	6.79	-2.01	2.00	6.00	8.00
yoy change	30.9%	-46.0%	-129.6%	-199.4%	200.0%	33.3%
Result from associates measured at equity	1.64	2.61	-0.02	0.30	0.43	0.50
yoy change		59.1%	-100.7%	-1694.7%	41.1%	18.0%
Other operating expenses	-3.06	-4.51	-4.12	-4.14	-5.56	-6.22
yoy change	62.1%	47.3%	-8.7%	0.6%	34.2%	11.9%
Other operating income	0.84	1.25	1.25	1.36	1.64	1.93
yoy change	-24.6%	48.5%	-0.2%	9.3%	20.2%	18.0%
Earnings before interest and taxes (EBIT)	11.54	3.91	-4.80	1.64	6.96	10.31
yoy change	21.9%	-66.2%	-222.9%	-134.2%	324.3%	48.1%
Financial income	0.01	0.01	0.02	0.01	0.01	0.02
yoy change	-56.0%	18.2%	23.1%	-36.9%	41.1%	18.0%
Financial expenses	-3.33	-6.60	-6.76	-5.76	-7.55	-8.74
yoy change	57.7%	98.3%	2.6%	-14.9%	31.2%	15.7%
Earnings before taxes (EBT)	8.23	-2.68	-11.55	-4.11	-0.58	1.59
yoy change	11.4%	-132.5%	331.6%	-64.4%	-86.0%	-375.7%
Taxes on income	0.48	2.78	1.39	0.21	0.07	-0.19
Tax rate, %	-5.8%	103.8%	12.0%	5.0%	12.0%	12.0%
Net income before minorities	8.71	0.10	-10.16	-3.90	-0.51	1.40
yoy change	77.2%	-98.8%	-10062.7%	-61.6%	-87.0%	-375.7%
Minorities	-0.44	0.15	0.96	0.50	0.50	0.50
yoy change	0.7%	-135.2%	522.7%	-47.9%	0.0%	0.0%
Net income after minorities	8.27	0.26	-9.20	-3.40	-0.01	1.90
yoy change	84.6%	-96.9%	-3694.9%	-63.0%	-99.8%	-25953.9%
Number of shares, units m	16.56	16.56	17.21	22.18	24.56	24.56
Earnings per share, EUR	0.45	0.01	-0.48	-0.15	0.00	0.08

Source: ERWE, FMR

Balance sheet

EUR m (IFRS)	2019	2020	2021	2022e	2023e	2024e
Assets						
Non-current assets	139.59	204.32	208.39	225.98	235.44	247.97
as % of total sales	85.8%	95.0%	94.7%	97.4%	97.5%	97.7%
Property, plant, equipment/Intangible assets	1.47	1.39	1.43	1.38	1.33	1.35
Investment properties	131.90	192.71	195.49	213.99	223.49	235.99
Investments in associates	6.22	8.83	1.41	1.41	1.41	1.41
Participating interests	0.00	0.00	8.75	8.84	8.84	8.84
Prepayments made for property, plant, equipment/intang. assets	0.00	0.05	0.05	0.05	0.06	0.06
Prepayments made for investment properties	0.00	0.00	1.26	0.31	0.32	0.33
Prepayments made for investments in associates	0.00	1.34	0.00	0.00	0.00	0.00
Current assets	23.04	10.84	11.72	6.10	6.04	5.72
as % of total sales	14.2%	5.0%	5.3%	2.6%	2.5%	2.3%
Inventories	0.00	0.00	0.00	0.00	0.00	0.00
Trade receivables/Other receivables	0.34	0.56	0.61	0.62	0.63	0.64
Receivables from associates	0.62	0.96	0.00	0.00	0.00	0.00
Receivables from comp. Linked by virtue of investment	0.00	0.00	0.88	0.93	0.97	1.02
Other financial assets	1.89	0.00	0.00	0.00	0.00	0.00
Other assets	1.02	1.33	1.61	0.97	1.01	1.05
Income tax receivables	0.10	0.03	0.04	0.04	0.04	0.04
Cash and cash equivalents	19.06	7.96	8.57	3.55	3.39	2.97
Total assets	162.63	215.16	220.10	232.08	241.48	253.69
Shareholders' equity and liabilities						
Equity	58.28	58.39	53.55	59.02	59.01	60.91
as % of total sales	35.8%	27.1%	24.3%	25.4%	24.4%	24.0%
Subscribed capital	16.56	16.56	18.22	24.56	24.56	24.56
Capital reserves	11.02	11.02	14.69	17.22	17.22	17.22
Retained earnings	14.36	14.36	14.36	14.36	14.36	14.36
Accumulated net profit	12.75	13.00	3.80	0.40	0.39	2.29
Other equity items	0.00	0.00	0.00	0.00	0.00	0.00
Equity attributable to shareholders	54.69	54.95	51.07	56.54	56.53	58.43
Minority interests on equity	3.59	3.44	2.48	2.48	2.48	2.48
Non-current liabilities and provisions	87.63	72.59	126.99	132.76	141.41	150.65
as % of total sales	53.9%	33.7%	57.7%	57.2%	58.6%	59.4%
Non-current provisions	0.04	1.45	0.98	0.78	0.80	0.81
Non-current financial liabilities	69.73	56.46	113.08	118.73	127.04	135.93
Non-current leasing liabilities	2.56	2.16	1.80	1.89	1.99	2.09
Non-current Deferred tax liabilities	15.30	12.52	11.13	11.36	11.58	11.81
Other non-current liabilities	0.00	0.00	0.00	0.00	0.00	0.00
Current liabilities and provisions	16.73	84.18	39.56	40.30	41.06	42.13
as % of total sales	10.3%	39.1%	18.0%	17.4%	17.0%	16.6%
Current provisions	0.00	0.00	0.00	0.00	0.00	0.00
Current financial liabilities	13.69	79.07	34.76	35.45	36.16	37.25
Current leasing liabilities	0.39	0.40	0.50	0.51	0.51	0.51
Current Trade account payable	0.95	1.88	0.23	0.25	0.25	0.25
Current deferred tax liabilities	0.00	0.00	0.00	0.00	0.00	0.00
Other current	1.70	2.83	4.07	4.10	4.14	4.12
Total equity and liabilities	162.63	215.16	220.10	232.08	241.48	253.69

Source: ERWE, FMR

Cash flow statement

EURm (IFRS)	2019	2020	2021	2022e	2023e	2024e
Net income before minorities	8.71	0.10	-10.16	-3.90	-0.51	1.40
Depreciation/impairments	0.17	0.25	0.35	0.35	0.30	0.28
Measurement result from investment properties	-12.57	-6.79	2.01	-2.00	-6.00	-8.00
Results from associates measured at equity	-1.64	-2.61	0.02	0.00	0.00	0.00
Net balance: Financial income/financial expenses	3.01	6.58	6.75	0.00	0.00	0.00
Other non-cash expenses/income	-3.17	0.00	0.00	0.22	0.52	0.52
Income tax payments	-0.10	-2.81	-1.40	0.22	0.23	0.23
Change in Working Capital	-0.64	2.30	-1.36	0.64	-0.05	-0.11
Cashflow from Operations	-6.23	-2.97	-3.80	-4.47	-5.52	-5.69
Investments in property, plant and equipments	-0.08	-0.22	-0.18	-0.30	-0.25	-0.30
Payment for acquisition of investment properties	-6.06	-32.36	-1.26	-15.00	-3.00	-4.00
Investments in investment properties	-8.68	-21.93	-4.78	-1.50	-0.50	-0.50
Interest received/other financial income	0.00	0.00	0.02	0.00	0.00	0.00
Payments for loans to associates	-0.56	-0.30	0.00	0.00	0.00	0.00
Investments in equity instruments of other companies	0.00	-1.34	0.00	0.00	0.00	0.00
Other changes from investing activities	0.00	0.00	0.00	0.94	-0.01	-0.01
Cashflow from investing activities	-15.37	-56.16	-6.20	-15.86	-3.76	-4.81
Cash changes in financial debt	22.15	54.60	11.51	6.44	9.12	10.08
Changes in shareholders equity	-0.64	0.00	5.32	8.87	0.00	0.00
Dividend payments to shareholders	0.00	0.00	0.00	0.00	0.00	0.00
Cash changes from own shares	0.00	0.00	0.00	0.00	0.00	0.00
Interest paid and ancillary financing costs	0.00	-6.57	-6.23	0.00	0.00	0.00
Other cash changes from financing activities	0.00	0.00	0.00	0.00	0.00	0.00
Cashflow from financing activities	21.51	48.04	10.61	15.32	9.12	10.08
Change in cash and cash equivalents	-0.09	-11.09	0.61	-5.02	-0.16	-0.42
Effect of exchange rate changes on cash	0.00	0.00	0.00	0.00	0.00	0.00
Other changes in cash and cash equivalents	0.00	-0.01	0.00	0.00	0.00	0.00
Cash and cash equivalents: Beginning of period	19.15	19.06	7.96	8.57	3.55	3.39
Cash and cash equivalents: End of period	19.06	7.96	8.57	3.55	3.39	2.97

Source: ERWE, FMR

Declaration of liability (disclaimer) and mandatory details pursuant to Section 85 Securities Trading Act (WpHG), EU Market Abuse Regulation (EU Regulation No. 596/2014), Delegated Regulation 2016/958 and Delegated Regulation 2017/565 including details of possible conflicts of interest (disclosures), the author and the responsible supervisory authority

The following details inform the reader about the legal provisions that are to be observed when compiling financial analyses.

1. Declaration of liability

When producing an analysis, we have procured the actual details from the sources available to us that are generally deemed to be reliable. We cannot make any claim regarding the accuracy and completeness of such information. The recommendations and/or prognoses made by us on the basis of these actual details constitute non-binding value judgments made at the time of compilation of the study and represent the opinion of the author. Subsequent changes cannot be taken into account. FMR Frankfurt Main Research AG shall not be liable for damages of any kind in relation to any incomplete or incorrect information and FMR Frankfurt Main Research AG shall not be liable for indirect and/or direct damages and/or consequential damages. In particular, FMR Frankfurt Main Research AG shall not be liable for statements, plans or other details contained in this investment advice in relation to the company being investigated, its affiliated companies, strategies, market and/or competition situation, economic and/or legal framework conditions etc. Although the investment advice was compiled using full diligence, errors or omissions cannot be excluded. FMR Frankfurt Main Research AG, its shareholders and employees shall not be liable for the correctness or completeness of statements, assessments, recommendations or conclusions derived from the information contained in this analysis.

If an investment recommendation is provided in the context of an existing contractual relationship, e.g. financial advice or a similar service, FMR Frankfurt Main Research AG's liability shall be limited to gross negligence and intent. Should key details be omitted, FMR Frankfurt Main Research AG shall be liable for ordinary negligence. The liability of FMR Frankfurt Main Research AG shall be restricted to the amount of typical and foreseeable damages.

The study does not constitute an offer or request to acquire shares. Our information and recommendations in this study do not constitute individual investment advice and may therefore not be suitable, or may only be of limited suitability, for individual investors depending on the specific investment goals, the investment horizon or individual investment situation. With the compilation and distribution of this study we are not engaged in an investment advisor or portfolio management capacity for any persons. This study cannot replace the need for investment advice in any case.

The estimates, particularly prognoses and price expectations, may not be achieved. The work and all parts thereof are protected by copyright. All use outside the scope of copyright law is impermissible and prosecutable. This shall apply in particular to duplications, translations, microfilms, the saving and processing of the entire content or parts of the content on electronic media.

It is possible that shareholders, managers or employees of FMR Frankfurt Main Research AG or its affiliated companies have a position of responsibility in the companies named in the analysis, e.g. as a member of the supervisory board. The opinions contained in this investment advice may be amended without notice. All rights are reserved.

2. Mandatory details

- a) First publication: 13.06.2023
- b) Time conditions of expected updates: quarterly
- c) Supervisory authority: Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht), Marie-Curie-Straße 24-28, 60439 Frankfurt am Main
- d) Previous analyses: No analysis was published in the 12 months before publication of this analysis that contains a recommendation for a specific investment decision which contradicts this analysis.
- e) The analysis was made available to the issuer, to the extent that is legally permissible, before publication and was not amended thereafter.
- f) All prices and price developments listed in the analysis are based on closing prices insofar as no contradictory details were provided about prices and price developments.

3. Disclosures

Neither FMR Frankfurt Main Research AG nor an affiliated company, nor any person who contributed to the compilation

- (i.) has an involvement in the share capital of the issuer of at least 5 per cent;
- (ii.) was involved in the management of a syndicate within the past five months that issued financial instruments of the issuer in the context of a public tender;
- (iii.) managed financial instruments of the issuer on a market by means of concluding purchase or sale agreements:

(iv.) has, within the past twelve months, concluded an agreement regarding services in connection with investment banking business or received a service or performance promise from such agreement, with issuers which either themselves or the financial instruments thereof, are the subject of the financial analysis;

(v.) is in possession of a net sales or purchase position which exceeds the threshold of 0.5% of the total issued share capital of the issuer;

(vi.) has concluded an agreement regarding the preparation of investment recommendations with the issuer.

(vii.) has other significant interests with regard to the company being analysed, for example clients with the company being analysed.

Company	Disclosure(s)
---------	---------------

ERWE Immobilien AG	vi
--------------------	----

Recommendation history over last 12 months:

Date	Recommendation	Share price at publication date (EUR)	Price target (EUR)
10.09.2021	BUY	3.36	4.00
17.03.2022	BUY	2.12	3.20
19.04.2022	BUY	1.99	3.20
01.06.2022	BUY	2.14	2.80
08.07.2022	BUY	2.34	2.80
01.09.2022	BUY	2.22	2.70
24.11.2022	BUY	1.38	2.40
13.06.2023	suspended	suspended	suspended

4. Creation and distribution

a) Responsibility for creation and distribution

FMR Frankfurt Main Research AG

Registered office: Frankfurt am Main; Commercial Register No. HRB 113537, Frankfurt am Main district court; Chairman: Marcus Silbe

b) Issuers

Winfried Becker, Senior Equity Analyst

c) This study may only be used for the internal purposes of the addressee within the EEA or Switzerland.

5. Investment recommendation details

Investment recommendation details - stocks:

BUY: In our opinion, the stock will demonstrate an absolute price gain of at least 10 % in a 12-month period.

HOLD: In our opinion, the stock will not exceed or fall below an absolute price gain or loss of 10% in a 12-month period.

Sell: In our opinion, the stock will demonstrate an absolute price loss of at least 10 % in a 12-month period.

6. Sensitivity of the evaluation parameters

The figures from profit and loss calculations, cash flow statements and balance sheets which form the basis of the company evaluation are date-related estimates and therefore subject to risks. These may change at any time without prior notice. Regardless of the evaluation methods used, there are significant risks that the price goal/trend will not be achieved within the expected time frame. The risks include unforeseeable changes with regard to competition pressure, demand for the products of an issuer and the offer situation with respect to materials required for production as well as non-occurrence of the assumed development. Such deviations may be the result of changes relating to technology and changes relating to the economy, legal situation and exchange rates. No claim is made that this statement of evaluation methods and risk factors is complete.

7. Key sources of information

We have acquired the information upon which this document is based from sources that we consider in principle to be reliable. However, we have not verified all this information. Therefore, we cannot guarantee or ensure the accuracy, completeness or correctness of the information or opinions contained in this document. National and international media and information services (e.g. Factset, Bloomberg etc.), the financial press (e.g. BörsenZeitung, FAZ, Handelsblatt, Wallstreet Journal, etc.), specialist press, published statistics, the internet, as well as publications, details and information of the issuer that is the subject of the analysis.

8. Summary of the basis for evaluation

Individual issuers: Current and recognised evaluation methods (e.g. DCF method and Peer Group Analysis) are used for company analysis purposes. The DCF method calculates the value of the issuer based on the sum of the discounted cash flows, i.e. the cash value of the future cash flows of the issuer. The value is therefore determined on the basis of expected future cash flows and the applied discount rate. In Peer Group Analysis, issuers listed on the stock exchange are evaluated by comparing ratios (e.g. price/profit ratio, Enterprise Value/turnover, Enterprise Value/EBITDA, Enterprise Value/EBIT). The comparability of the ratios is primarily determined with reference to the business activity and economic prospects.

9. Internal organizational and regulatory measures for the prevention or management of conflicts of interest

Employees of FMR Frankfurt Main Research AG who are involved with the compilation and/or presentation of financial analyses are subject to the internal compliance regulations. The internal compliance regulations correspond to the provisions of the directive for the substantiation of the organizational obligations of investment service companies pursuant to Section 80 Securities Trading Act and EU/ESMA legislation on the basis of the Market Abuse Regulation.

The analysts of FMR Frankfurt Main Research AG do not receive any direct or indirect remuneration from the investment banking business of FMR Frankfurt Main Research AG.

On acceptance of the financial analysis, the recipient accepts that the above restrictions are binding.