

Instone Real Estate Group AG

Capital Markets Day 2020

valuehome Initiative

Presenting Team



Kruno Crepulja

CEO



Dr. Foruhar Madjlessi

CFO



Burkhard Sawazki

Head of Business
Development &
Communication



Stefan Dahlmanns

COO North Rhine-
Westfalia

Agenda for today

I. Current trading update

II. valuehome Initiative

- a) Introduction and rationale
- b) The INS solution in detail
- c) Financial implications and outlook

III. Summary and next steps



I. Current trading update

II. valuehome Initiative

- a) Introduction and rationale
- b) The INS solution in detail
- c) Financial implications and outlook

III. Summary and next steps



Q1-2020 Highlights

Q1-2020 revenues and earnings in-line with budget and above previous year's level

Q1- 2020 Results

- ✓ Adjusted revenues: €99.7m (+18.4%)
- ✓ Adjusted gross profit margin: 29.8%
- ✓ Adjusted EBIT: €18.0m (+14.6%)
- ✓ Volume of sales contracts: €69.4m (+10.5%)





FY 2020 a transitional year – Positive outlook for FY-2021 reiterated

Outlook

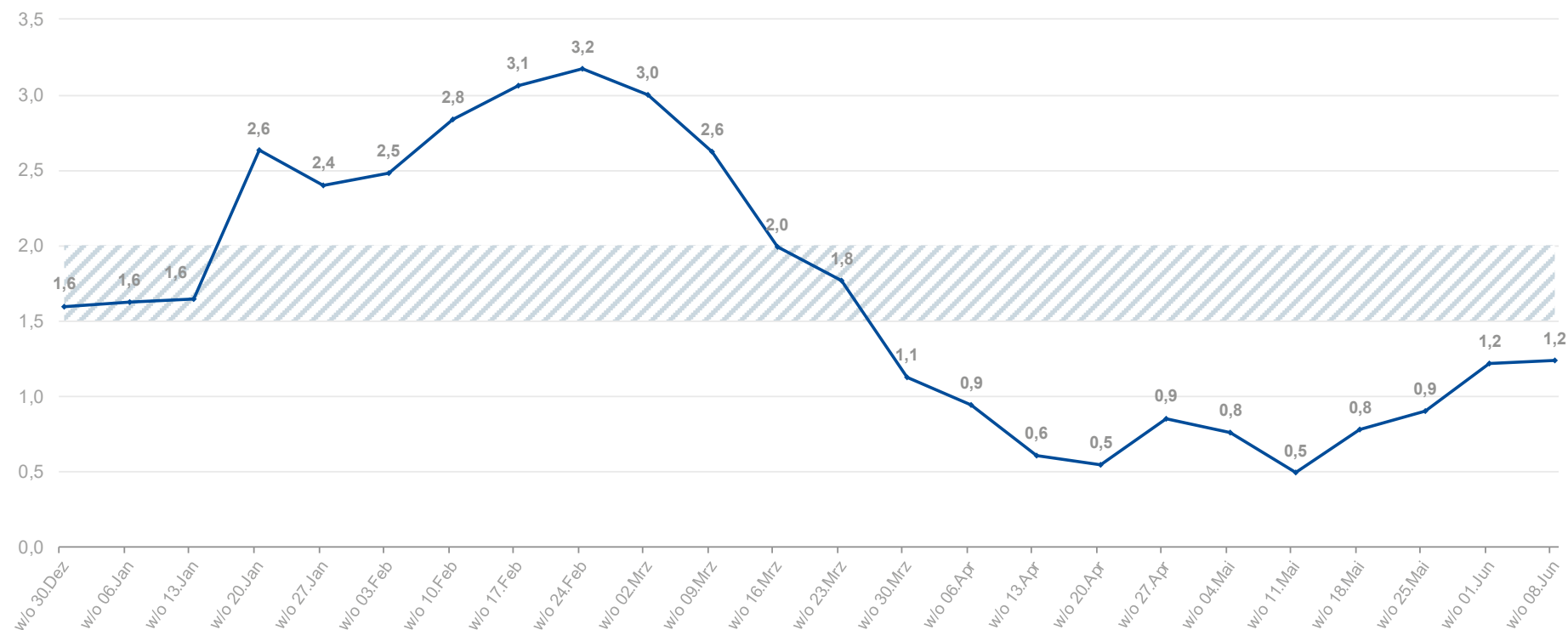
- ✓ 2020: Outlook suspended due to current uncertainty in context of Covid-19 crisis
- ✓ 2021: Sales target of >€900m-€1,000m reiterated
- ✓ 2021: Net profit guidance of at least €90m introduced
- ✓ Target payout-ratio: 30% of net profit

Corona Virus – Operating Update

No impact on construction activities so far

Key topics	Instone position
<div>1</div> <div>Sales</div> 	<ul style="list-style-type: none"> • Institutional: Selected concrete discussions resumed; expect institutional focus on resi to increase • Retail: improving trend for reservation and sales; gradually normalising
<div>2</div> <div>Construction</div> 	<ul style="list-style-type: none"> • Construction activities remain unaffected from COVID-19 Pandemic • Expect decreasing capacity utilisation in construction industry to result in zero or negative CPI with potential benefit for margins of pre-sold INS projects
<div>3</div> <div>Liquidity</div> 	<ul style="list-style-type: none"> • Aggregate March-30th liquidity reserves of €500m provide substantial financial flexibility • Expect to generate substantial positive 2020 cash flow
<div>4</div> <div>Land Acquisition</div> 	<ul style="list-style-type: none"> • INS branches remain in close dialogue with all relevant short and mid-term sellers • Purchase option to acquire c €150m GDV project in Rhein-Main exercised • COVID-19 pandemic may trigger incremental land sales (financially constrained resi developers; economically challenged commercial developments) • Absence in upward pressure for land prices presents a window of opportunity to acquire attractive projects over the next 12 to 15 months

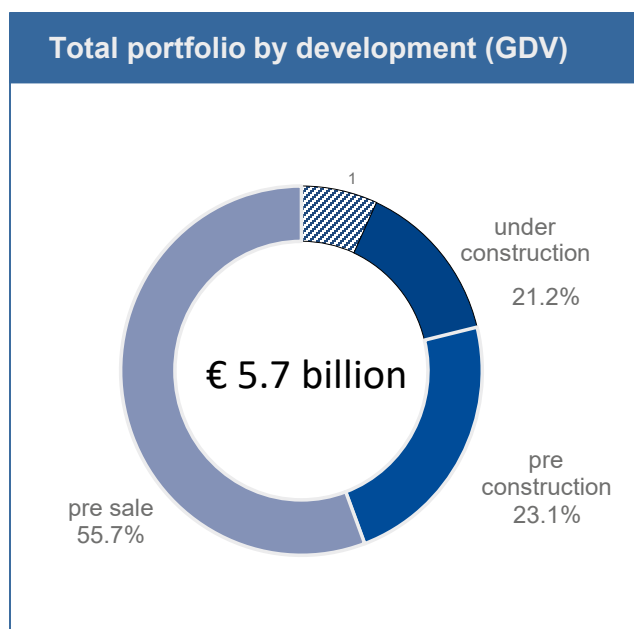
Sales ratio gradually recovering



Sales ratio (in %) = weekly number of units sold ÷ total number of units on offer (four week moving average)

/// Long-term INS sales ratio
 — Sales ratio

€5.7bn portfolio - €1.3bn prospective NAV



¹thereof 6.8% of delivered volume of the project portfolio

Prospective NAV (€m) as of 31 March	
Expected selling prices of project pipeline (GDV)	5,744
- Payments received	-741
- Expected project costs	-3,197
- Net debt	-501
Net Asset Value	1,304
Number of shares (m)	36.998
Net Asset Value per share	35.24

I. Current trading update

II. valuehome Initiative

- a) Introduction and rationale
- b) The INS solution in detail
- c) Financial implications and outlook

III. Summary and next steps



We strive to become the No.1 German homebuilder with a view to industrialising products and processes



Mid to long-term opportunity: valuehome

Entering the largest and most under-served residential market in Germany: “valuehome”

Instone's approach

Adding a new pillar to the existing Instone platform based on standardisation, digital processes and significant scale potential with game changing implications for production costs and pricing

Elements

- Modular planning: move from prototyping to standardisation
- Reduce complexities throughout the construction process; introduce lean construction management
- Digital platform including digital distribution channel and configurator standardising client optionality
- Focus on essentials: highly efficient floor plans, minimise costly underground construction
- Maintain high architectural standards with modern designs and strong sustainability marks
- Target increasingly attractive locations in B cities and in the commuter belts

Target customer

- Price points targeted to “lower mid markets” - between social housing and Instone's core business
- Focus on institutional investors including municipal housing company's and professional landlords

Key benefits

- Substantially expand Instone's addressable market
- Enter less competitive land market
- Highly scalable, less complex low risk product with significant mid to long-term growth potential
- Improve Instone's economics for existing “social housing” demands and competitive position in the current core business
- Generate strong margins and highly attractive capital return

Addressing the most significant, largely untapped customer group: mid- to lower income households

Instone Core Product: Illustrative economics

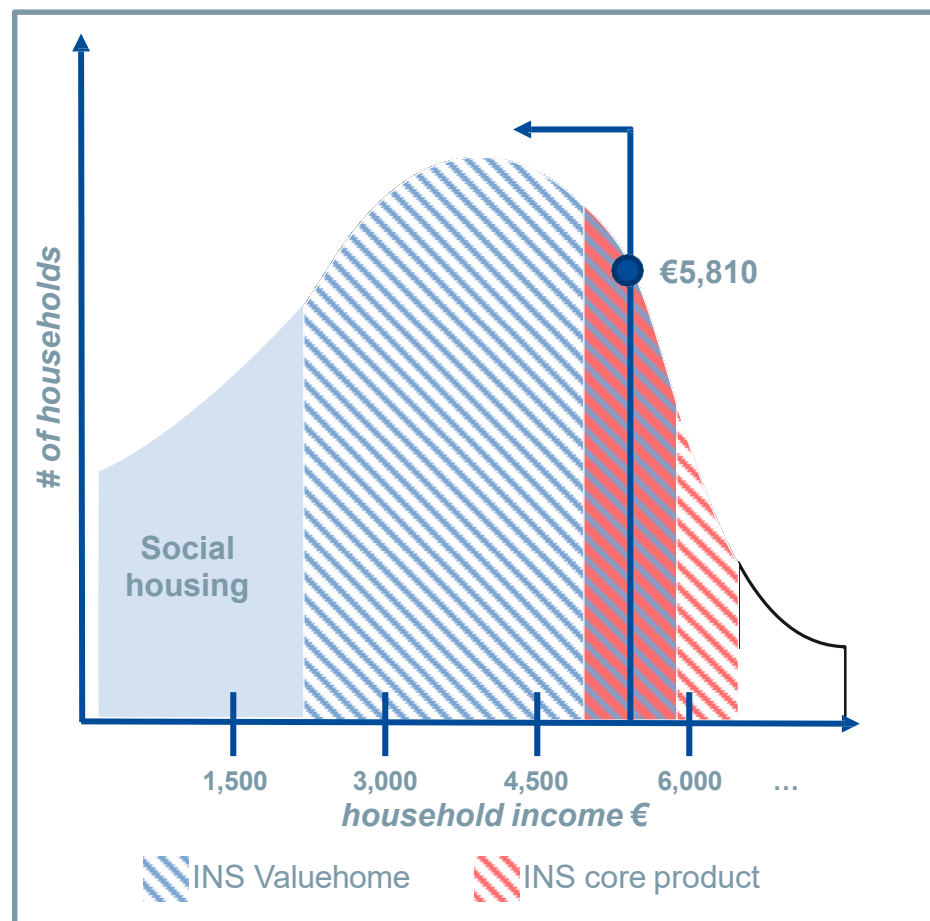
Four-room-flat 110 sqm / 5,500 EUR/sqm
 Purchase price: 665,000 €
 incl. acquisition costs (~10 %); 15% equity
 1.0% interest rate / 2.0% amortisation
 Running operational cost: 3 €/sqm month

1,743 € p.m.

financial charge

5,810 € p.m.*

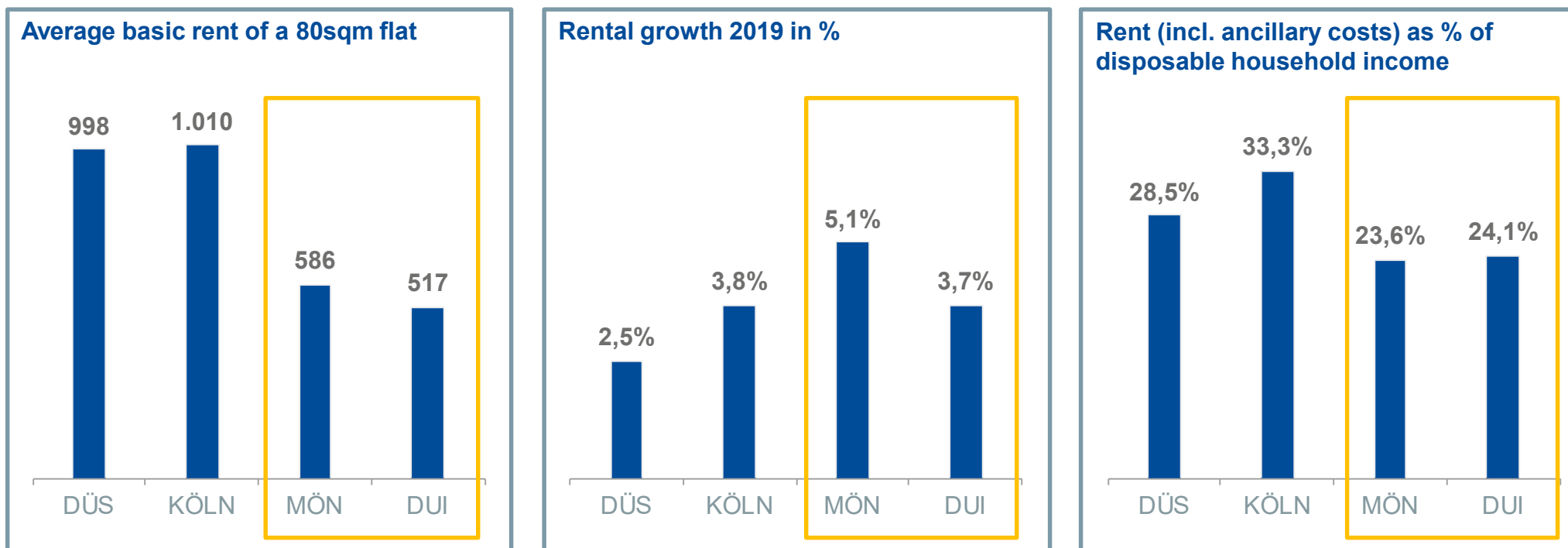
required household income



► Significant customer potential and demand gap for Valuehome product

Notes:
 * 30% of disposable income

Rental markets in B locations benefit from positive spill-over effects



- Rent levels (in euro / as percent of household income) in Düsseldorf and Köln far exceed rents in B locations
- Conversely, rents in more affordable cities i.e. Mönchengladbach, Duisburg show higher growth – reflecting a catch-up in prices resulting from spill-over effects
- INS is well positioned to capitalize on these spill-over effects, leveraging its established acquisition network

Demanding challenges for cost-effective housing solutions

Cost efficiency requirements

Simplification of Product

Standardisation of Planning

“Industrialisation” of Development and Construction

Key challenges

Highly **fragmented** market

General building law and social housing pre-requisites are regulated on **state level**

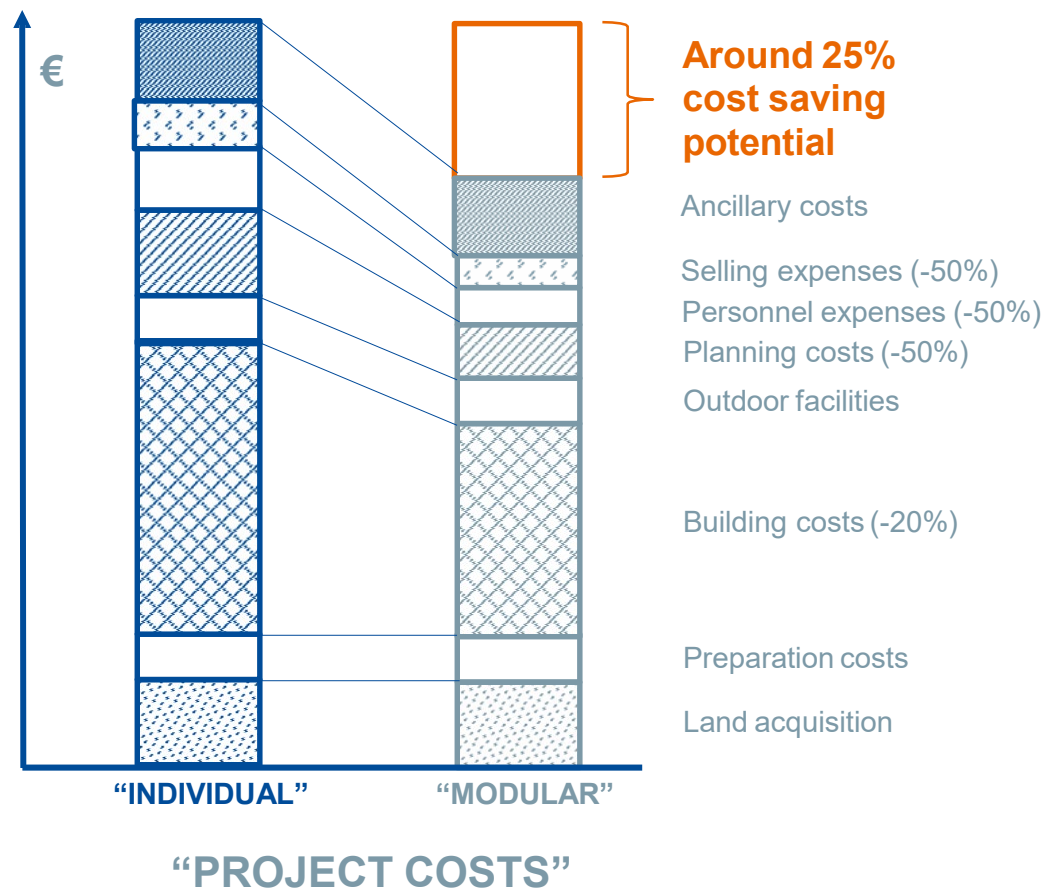
Additional **municipal** statutes exist in each city (e.g. parking spaces)

Highly qualified staff required due to **individual** prototyping, complex construction process and customer individualisation

Low innovation spirit of construction industry

► Instone’s nationwide platform with long-term experience and in-depth development expertise offers opportunity to fill demand gap for valuehome product

Unrivalled 2,000€/m² total production costs achievable



Around 25% cost saving potential

- Reduction of total production cost including planning, marketing, sales etc. from ~ 2,800€/m² to c 2,000€/m² - 2,300€/m²

Cost savings by standardisation

- ~50% of selling expenses
- ~50% of personnel expenses
- ~50% of planning costs

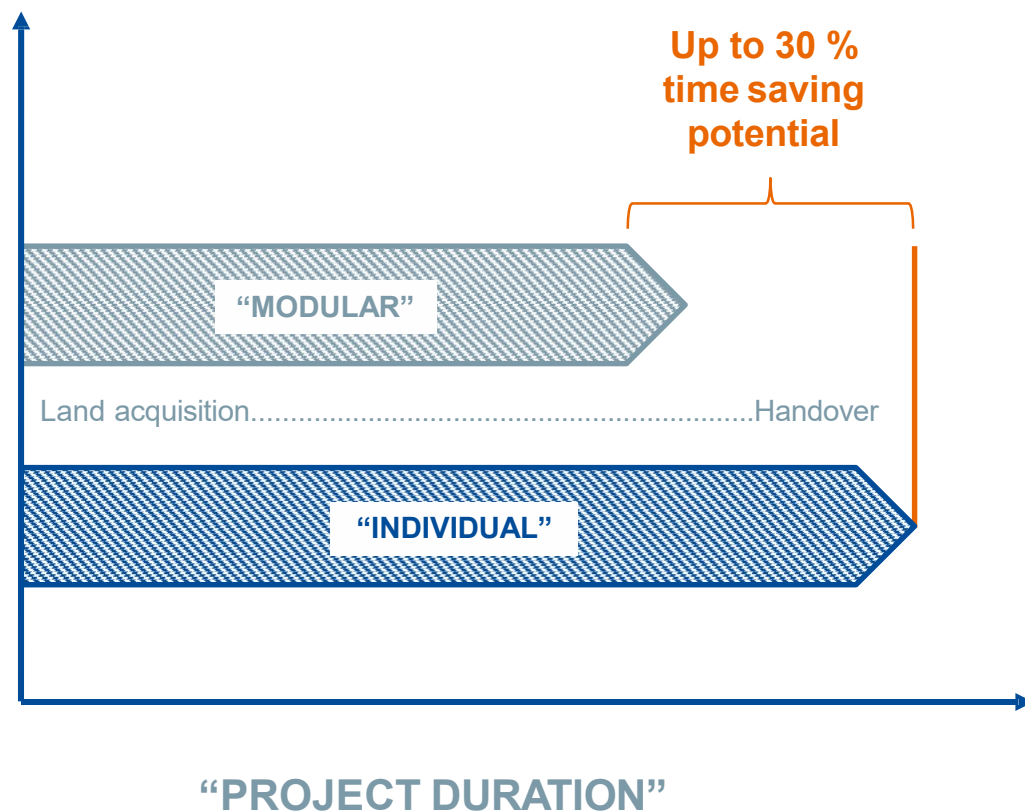
~20% reduction of building costs

- Reducing underground construction
- Optimised floor planning
- Standardisation of materials

Further potential

- Prefabrication
- Scalability potential

Considerable savings in project duration resulting in superior project IRR



Time savings

- ~ 6m of planning and approval process
- Up to 12m of construction process

Additional potential

- Prefabrication / industrialisation reaching critical mass in scale
- Type approval

Highly attractive project economics

Project related economics

Project Size

- €30-50m

- Standardised planning and simplified execution provides for attractive economics in smaller size projects

Target gross margin

- ~20%

- Projects gross margins expected to be lower compared to target margins for INS core product
- Lower margin reflects reduced capital intensity and risk profile of valuehome product

Target EBIT margin

- In line with core product

- EBIT margin in line with core product
- Standardized planning and more efficient / repetitive construction works allow for leaner valuehome platform vs INS core product

Target IRR/ ROCE

- Exceeding core product

- Accelerated planning, reduced complexity, minimized underground construction as well as sales more geared towards institutions results in improved project IRR and superior ROCE

Notes:
* Excluding corporate overhead allocation

Comparison of products

	Traditional Instone Product	Instone Valuehome
Price	<ul style="list-style-type: none"> Mid to high price segment No Luxury Selling price €4,000/sqm – 9,000/sqm 	<ul style="list-style-type: none"> Lower to mid-price segment Positioning between social housing and Instone core product Selling price up €3,000/sqm – 5,000/sqm
Complexity	<ul style="list-style-type: none"> Highly customised Typically includes substantial underground construction (e.g. parking space) Medium to high level of customer optionality 	<ul style="list-style-type: none"> Highly standardised Minimising costly underground construction (e.g. parking space) Low level of customer optionality
Location	<ul style="list-style-type: none"> Focused on largest and fastest growing metropolitan areas (A cities and attractive B cities) Mainly targeting coveted inner-city locations 	<ul style="list-style-type: none"> Focused on B locations in and around metropolitan areas Certain B cities in commuter belts Typically well-connected suburban locations
Project size	<ul style="list-style-type: none"> Project size >€50m Preference for development of entire residential quarters; typically including masterplanning process 	<ul style="list-style-type: none"> Project size >€20m Less complex projects; lower share of masterplanning processes
Target Customer	<ul style="list-style-type: none"> Mid- to high income owner occupiers Affluent buy-to-let investors Institutional investors 	<ul style="list-style-type: none"> Municipal housing companies Institutional investors Professional landlords Affluent buy-to-let investors To a lesser extent owner occupiers

I. Current trading update

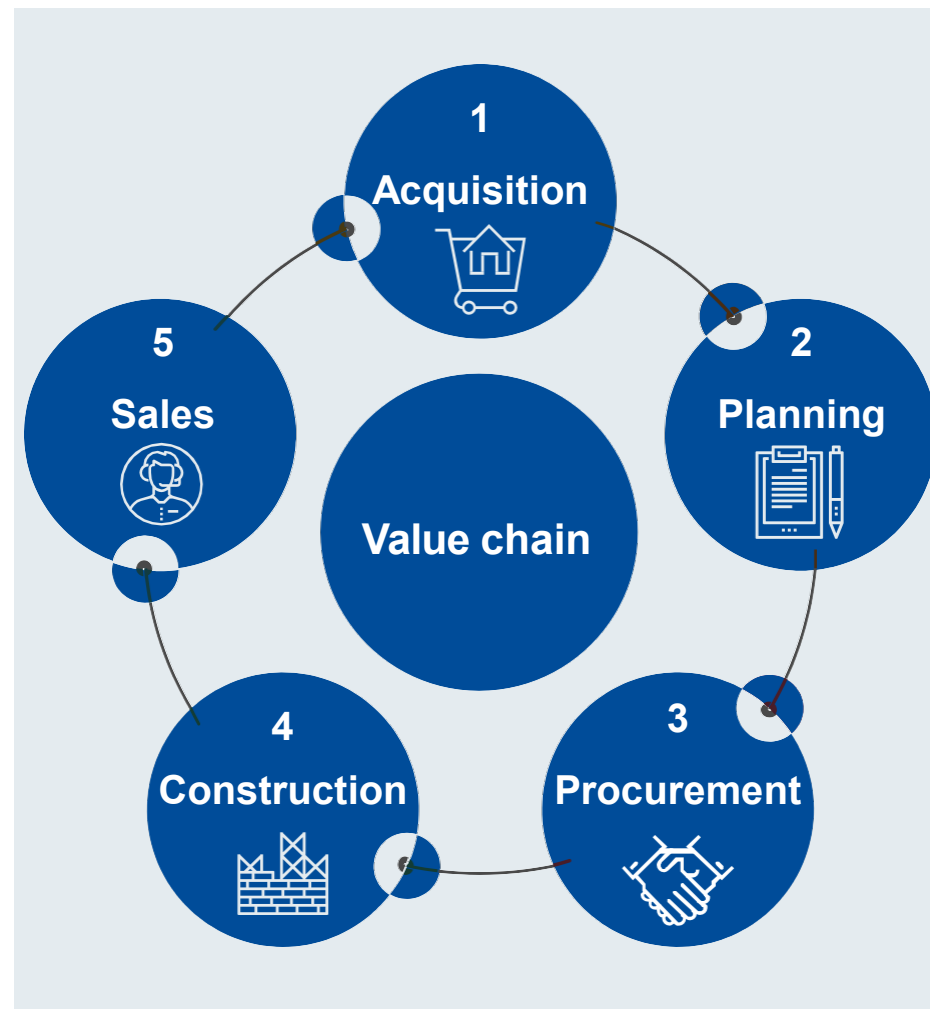
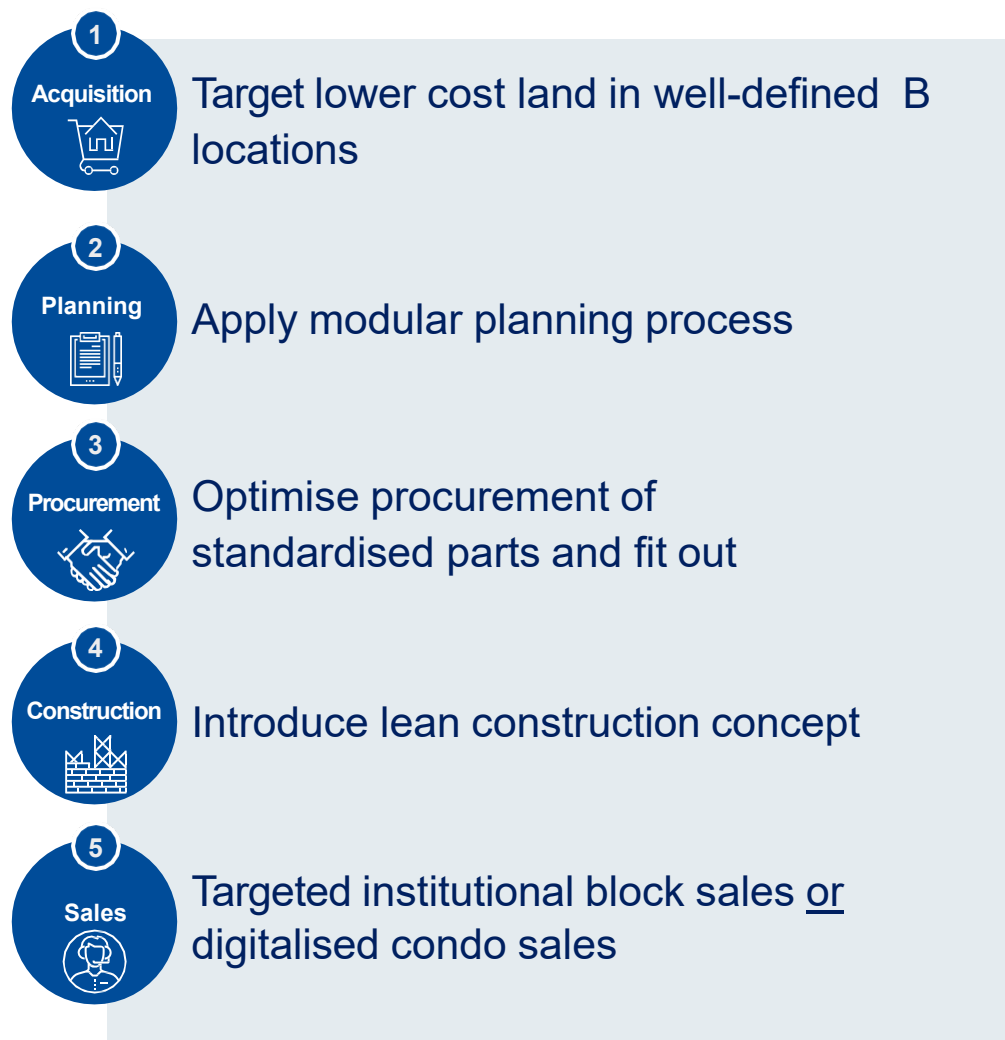
II. valuehome Initiative

- a) Introduction and rationale
- b) The INS solution in detail**
- c) Financial implications and outlook

III. Summary and next steps



Innovating every step of the development value chain





Instone valuehome will focus on well-defined and less competitive projects

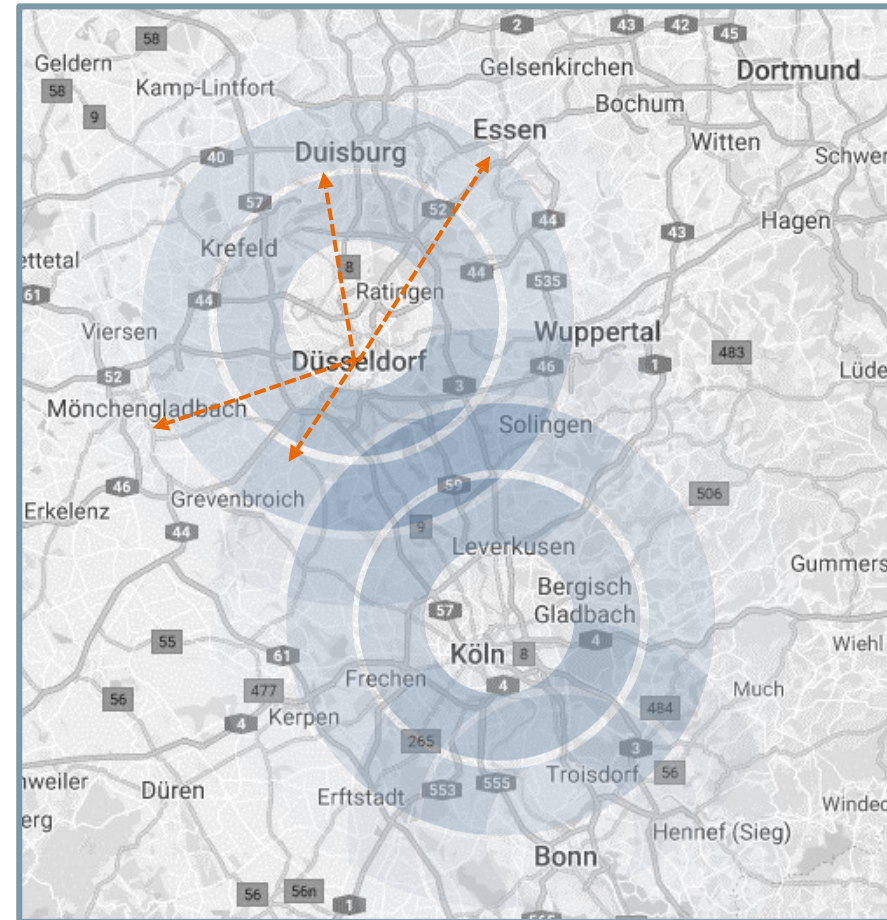
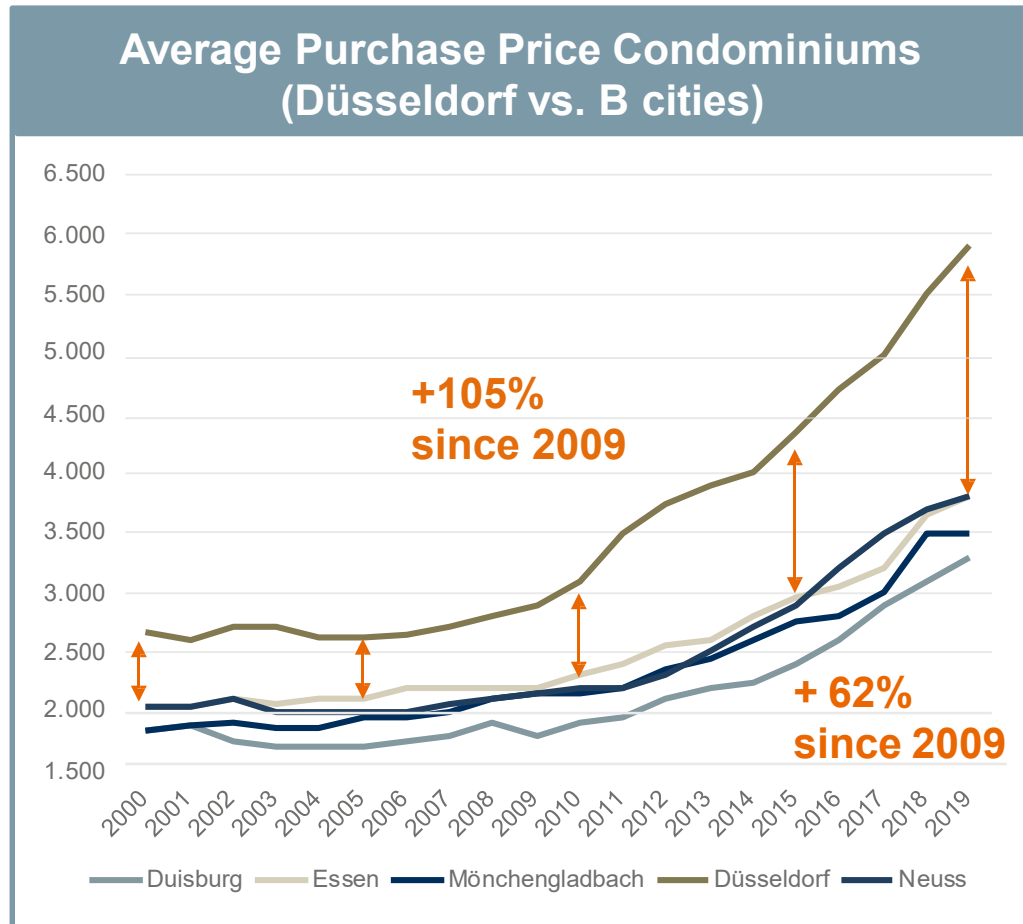
Instone valuehome product will be based on a clearly defined project acquisition profile

- Focus on attractive B locations in and around Instone's current focus markets
- Selected additional B cities in the commuter belts of economic centres and well connected to relevant city centres, benefitting from spill-over effects
- Seize opportunities for permitted land in substantially less competitive markets
- Target neighbourhoods with average household in the mid income brackets
- Reduce share of projects with complex and time-consuming masterplanning processes

► Instone's existing platform is well positioned to drive the sourcing of relevant projects



Illustrative example – suitable valuehome acquisition opportunities around Düsseldorf, Cologne, Bonn, benefiting from spillover effects

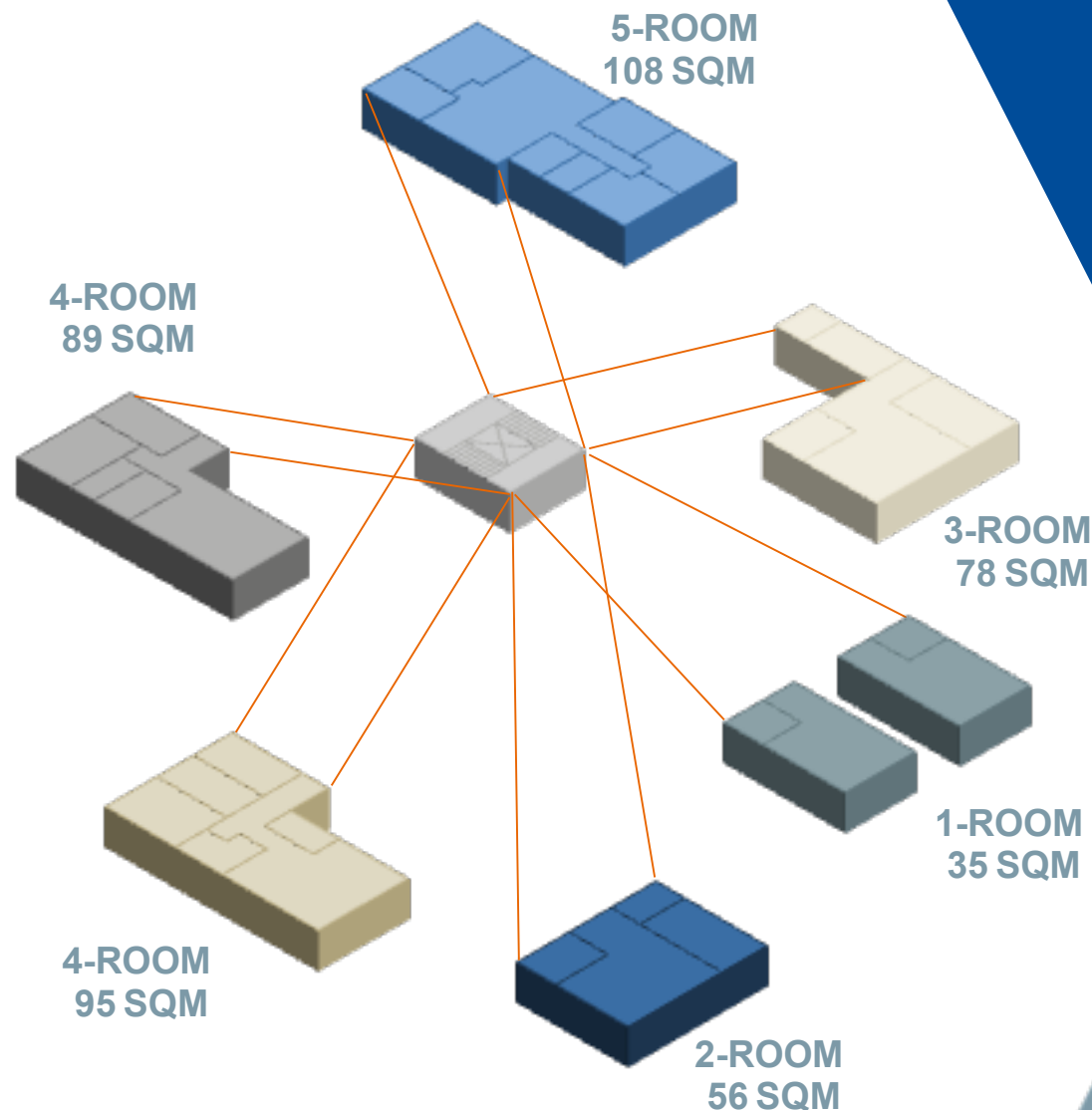


► Substantially expand Instone's total addressable market and acquisition opportunities



Innovative modular and highly standardised planning concept

- Modular housing groundplan kit
 - Gapless BIM-based planning process
 - Fully integrated technical planning
 - Realtime mass and cost calculation
 - Standardised tender documents
 - Digital interface to fit-out configurator
- Exceptionally rapid and highly efficient planning process with consistent quality



The modular planning process is the foundation of our new product

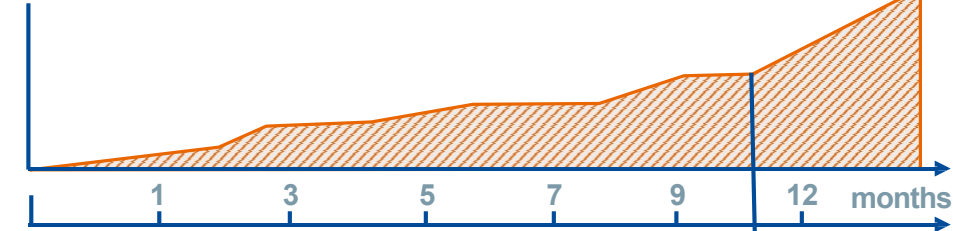
Illustrative simulation of modular planning approach applied to Project Rottenburg



PLANNING PHASES



LEVEL OF DETAIL



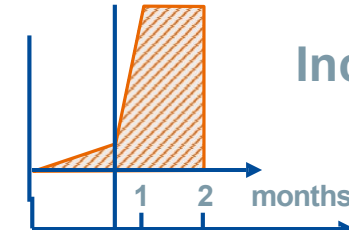
6m Building permit



PLANNING PHASES



LEVEL OF DETAIL



Incl.

mass calculation
cost calculation
tender documents

6m Building permit

► INS Modular product uses BIM based standardized planning to reduce time and costs

Intelligent and strictly optimised apartment layouts

- Space efficient and compact groundplans
 - Small ratio of unused movement areas
 - Optimised static structure
 - Low technical installation effort
 - Consistently simple but solid configuration
 - Eliminated unnecessary building parts
- High-quality living and all required functions on less square meter



“TAILOR-MADE”



4-ROOM / 115 SQM

VS.

“OPTIMISED”



4-ROOM / 89 SQM

Modern, liveable and demand-driven housing product

- Contemporary architectural design
- 100% eligibility as social housing
- High energy standard (opt. state grant)
- Attractive outdoor facilities
- Sustainable mobility concepts
- Preference for eco-friendly materials
- Barrier-free access





Simplifying and standardizing elements will allow for more competitive procurement of materials and parts

- Scale effects (higher purchasing power for larger volumes of commoditised products)
- Many identical and prefabricated parts (industrialisation)
- Framework agreements
- Accurate costing: service specifications and tender documents generated by BIM-software

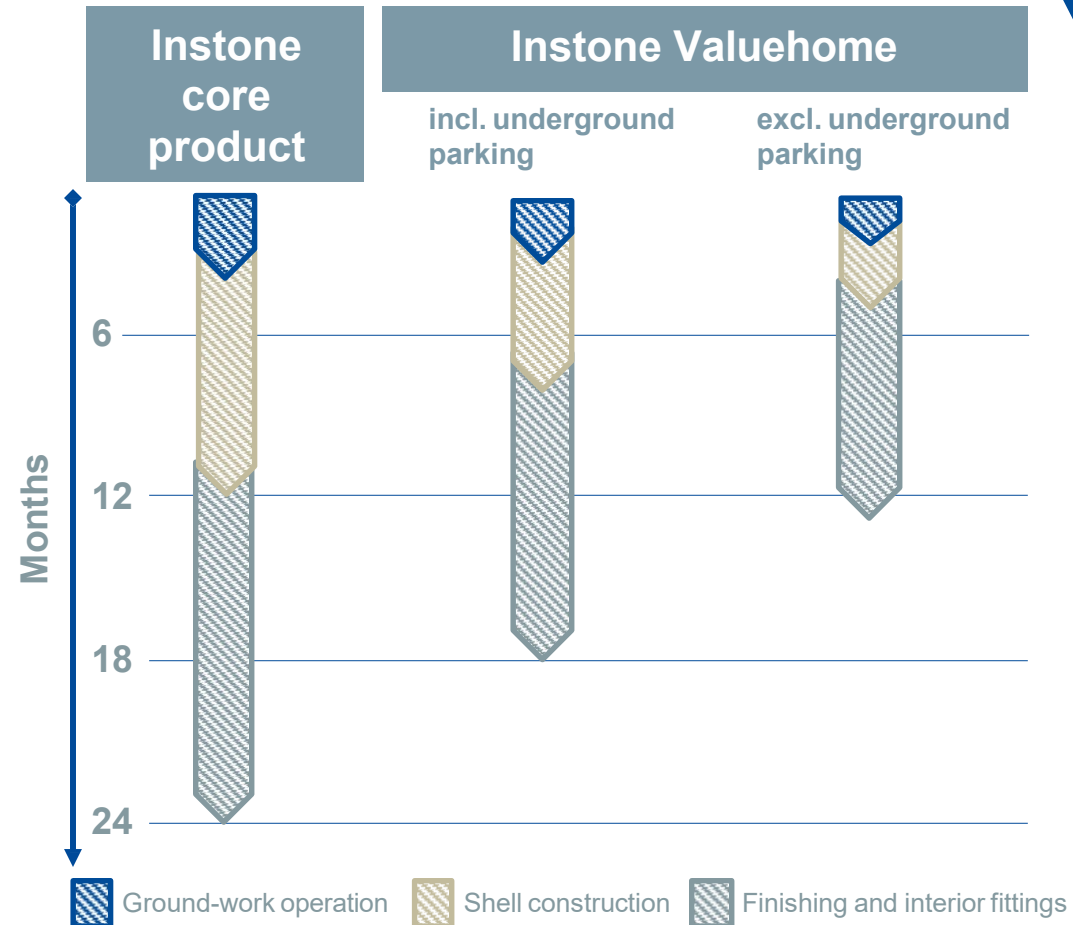


► Procurement benefits will further increase as valuehome business is scaled up



More easily scalable construction and potential for industrialized production processes

- Lean construction process
→ increase of efficiency
- Lower cost risks due to standardisation
- Standardised product leads to continuous improvement process
- Reduction of complexity leads to lower personnel expenses (also after-sale)





Adding new sustainable distribution channels to core business

Private customers (condos)

Institutional investors looking for rental flats in low to mid-market-segment

Municipal housing companies searching for social housing

Professional landlords looking for densification of housing stock and “organic” growth options

Larger corporates looking for company housing

Turnkey developments (B2B / B2C)

Potential for strategic partnerships

Near term implementation of two valuehome projects

DUSSELDORF Gerresheimer Landstraße



DUISBURG Dusseldorfer Landstraße



Plot Size:

5,369 sqm

5,463 sqm

Living Space:

5,024 sqm

6,582 sqm

Units:

66 + 28 parking spaces

81 + 70 parking spaces

Type of Usage:

social housing

freehold / rental flats

GDV:

€ 18.2 m

€ 26.5 m

Realization:

2021 / 2022

2021 / 2022

► 2 additional value home projects have recently been acquired by INS

I. Current trading update

II. **valuehome Initiative**

- a) Introduction and rationale
- b) The INS solution in detail
- c) **Financial implications and outlook**

III. Summary and next steps



Financial targets and outlook

Project related economics

Average project size

- 30-50m

Target gross margin

- ~20%

Target EBIT margin

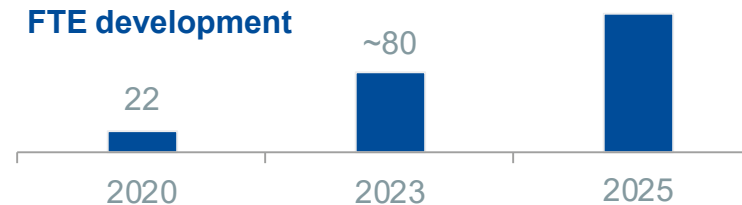
- In line with core product

Target IRR

- Exceeding core product

Illustrative ramp-up plan

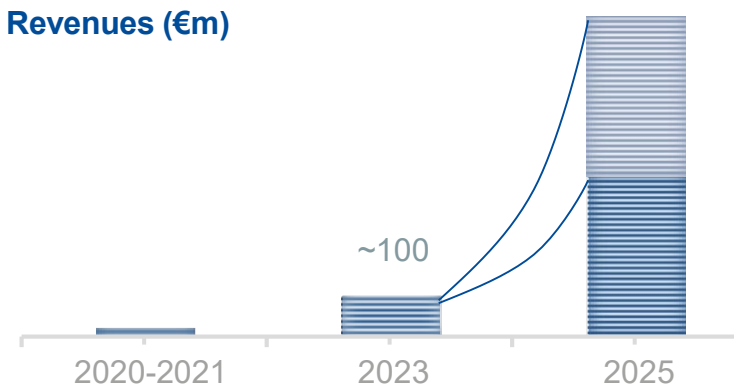
FTE development



Land investment (€m)



Revenues (€m)



- Gradual built up of FTEs
- EBT break-even* from FY2021

- Initial investment and ramp-up of land investment is key driver for revenue profile

- Gradual increase of revenues from 2020-2023
- >100% Revenue CAGR for 2023-2025

Notes:
* Excluding corporate overhead allocation

I. Current trading update

II. valuehome Initiative

- a) Introduction and rationale
- b) The INS solution in detail
- c) Financial implications and outlook

III. Summary and next steps



Instone has a clearly defined path to rolling out the valuehome product

INS valuehome is a highly scalable new product based on proprietary modular planning technology

- first step towards industrialising the entire development value chain
- address the largest end customer segment by income and substantially increase INS's addressable market as well as long term revenue potential

Expect to create a clear competitive advantage for INS

- INS valuehome production costs are unrivalled in the market at €2,000 – 2,300/sqm
- management believes valuehome product development is c 2-3 years ahead of competition

The new product is highly synergistic to the established nationwide INS platform

- sourcing or attractive projects in and around our current focus markets
- improve economics of social housing sections in our existing projects

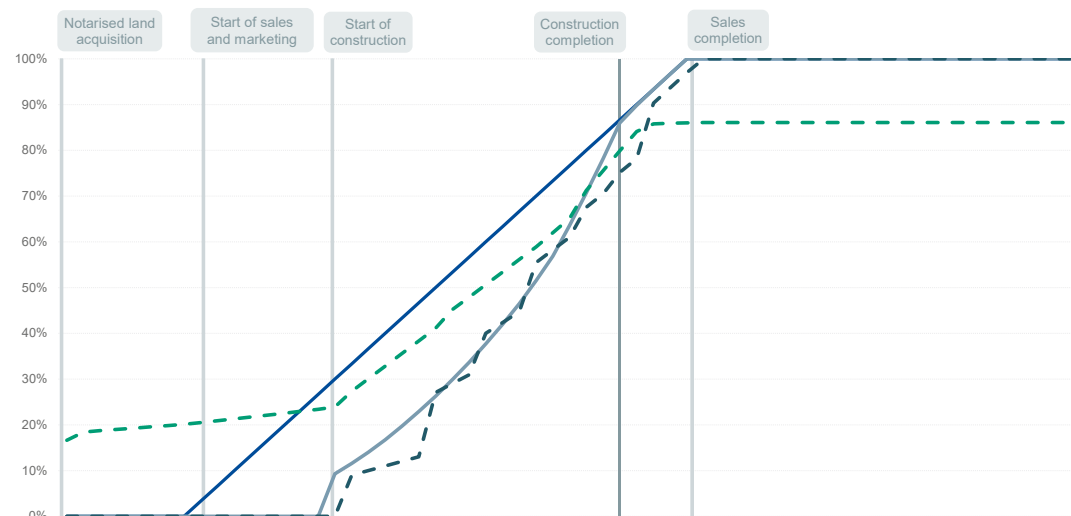
Roll out has started – more acquisitions to follow

- INS project pipeline already includes 4 valuehome projects
- acquisition teams have identified > €500m GDV of suitable valuehome projects

Appendix

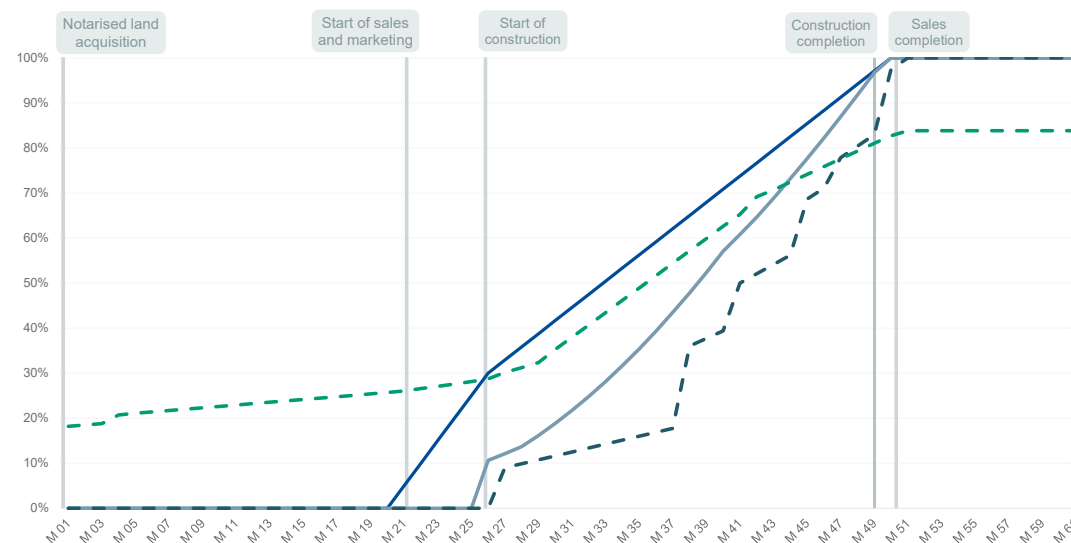


Illustrative valuehome cash flow profile vs INS core product



1) „valuehome“

pre sale phase	8 month
sales phase	30 month
construction phase	18 month
project duration	36 month



2) „Instone core product“

pre sale phase	20 month
sales phase	30 month
construction phase	24 month
project duration	50 month

— Sales development
 — Revenue development
 - - - Cash inflows
 - - - Cash outflows