Deutsche Wohnen AG

» **Considerations on Vonovia's offer**

22 October 2015

» Vonovia offer totally inadequate on multiple dimensions

1. Offer represents significant discount to stand-alone intrinsic value
2. Synergy assumptions unrealistic and structurally not supportive of value creation for shareholders
3. Acquisition currency exposed to considerable valuation downside and refinancing risks
4. Marginal FFO accretion for Deutsche Wohnen shareholders despite lower value growth profile and inferior capital efficiency of Vonovia

1 Offer represents significant discount to stand-alone intrinsic value

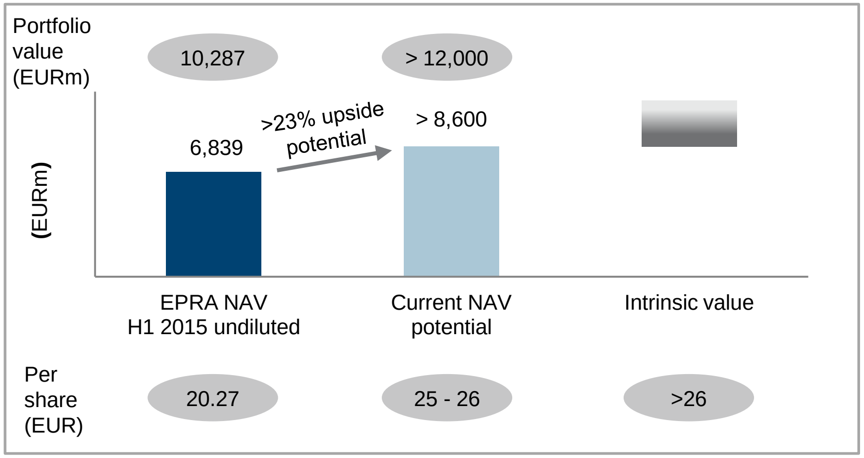
	Assessment	Impact for Deutsche Wohnen shareholders
Premium	▪ Initial offer price of c. EUR 26 per share is wholly inadequate – Significant portfolio value upside – Additional value upside through lfl rental growth – Value accretive transaction pipeline ▪ Discount to average broker price target pre-announcement of c. 0.5%	**Discount to intrinsic value**
Cash component (c. 30%)	▪ Cash component of combined offer taxable based on current regulation ▪ Tax impact wipes out premium to unaffected share price pre-announcement	**Price offered ignores tax issues for shareholders**
Share component (c. 70%)	▪ Significant exposure to Vonovia investment characteristics and risks – Lower growth profile and cash generation – High risk financing structure / high LTV of 58%[(a)] – Different business approach (TGS) – Potential impairment of existing goodwill (c. EUR 2.6bn[(b)])	**Requires a clear risk premium**

Notes: (a) LTV of combined entity and based on Vonovia LTV pro-forma for acquisition of SÜDEWO and rights issue incl. hybrid; (b) Vonovia total goodwill of EUR 2,293m as reported for H1 2015 and additional goodwill SÜDEWO of c. EUR 340m (as per 8 July 2015, incl. deferred taxes of approx. EUR230m) as estimated by Vonovia

1 Substantial value creation potential on a stand-alone basis

Significant value upside based on observed current market yield compression

(H1 2015)	Core+	Core	Non-core	Total
Portfolio appraised value (EURm)	9,291	860	136	**10,287**
Portfolio appraised value (EUR/sqm)	1,216	852	635	**1,160**
In-place rent appraised multiple (x)	17.2x	13.4x	11.9x	**16.7x**
Observed transaction multiples in the market (x)	>20x	14-17x	10-13x	**>19.5x**
Value upside potential (EURm)[(a)]				**>1,750**



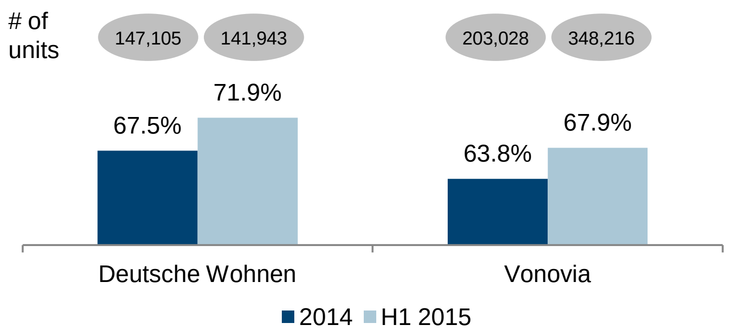
Strong market fundamentals underpinning rental growth and value generation in Core+ / Core markets

- Core+ markets experiencing continued supply shortage, increasing new construction cost and additional demand volume due to unprecedented inflow of refugees
- Multiples observed on portfolio transactions significantly exceed the current book values
- Expected rental growth 2015 for the entire portfolio of c. 3.5%[(b)]
- Like-for-like rental growth in Berlin in 2015 expected to be c. 4.0%[(b)] (individual portfolios provide for up to 6% rental growth)
- Additional value creation through acquisition firepower of c. EUR 1bn
- Significant valuation upside driven by current yield compression and like-for-like rental growth momentum
- As a consequence, intrinsic value per share EUR >26

Notes: (a) Portfolio valuation at current transaction multiples in repective markets; (b) Letting portfolio

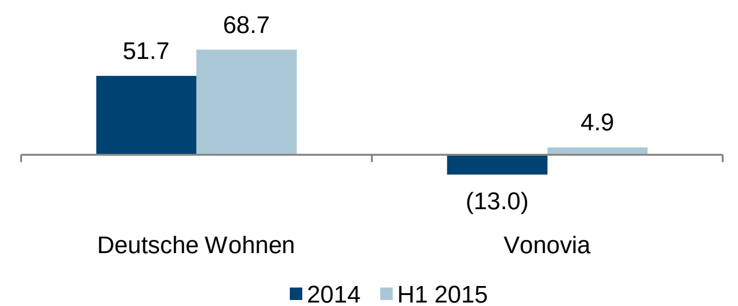
1 Efficiency of business model translates into superior cash flow generation

Higher adjusted EBITDA[(a)] margin shows cost efficiency…



… and translates into superior cash flow generation

Corporate free cash flows (EURm)[(b)]



- Deutsche Wohnen with stronger profitability and higher cash flow generation despite Vonovia's 2.5x larger portfolio
- Alleged benefits of size, industrialisation strategy and nationwide footprint do not translate into superior financial performance
- As a result, synergy framework proposed by Vonovia lacks credibility
- Deutsche Wohnen's sustainability of dividend profile underpinned by cash flow metrics

Notes: (a) As reported, excluding disposals; (b) Corporate free cash flow excl. disposals

2 Synergy assumptions unrealistic and structurally not supportive of value creation for shareholders

		Vonovia estimate[a]	Deutsche Wohnen assessment	
Revenue and cost synergies	Overhead optimisation	EUR 20m	▪ Conservative, if Deutsche Wohnen structure used as benchmark	?
	Portfolio density	EUR 6m	▪ Efficient Deutsche Wohnen platform ▪ Personnel expense savings are only viable part, equivalent to c. 20% of employees of Deutsche Wohnen's operating business	?
	Industrialised modernisation	EUR 33m	▪ Exploited through Deutsche Wohnen JV (without internalisation of risk profile)	?
	Services extension	EUR 25m	▪ Deutsche Wohnen already exploiting economic potential via various JVs ▪ No true synergy – stand-alone case!	?
Dis-synergies	Tax	n/a	▪ Partial fall away of tax loss carried forward ▪ Higher tax rate will burden FFO	✘
	Financing	n/a	▪ Rating downgrade due to lower Vonovia rating expected (S&P) ▪ Structurally disadvantaged financing approach	✘

Notes: (a) Vonovia investor presentation (14 October 2015)

2 Overhead optimisation – projected synergies completely unrealistic under Vonovia's organisational set-up

Deutsche Wohnen	2013[b]	H1 2015
No. of units	150,219	141,943
Corporate expenses (EURm)	(102.2)	(36.8)
Corporate expenses per unit (EUR)	**c. 680**	**c. 502[c]**
Expense ratio in % of gross rental income[a]	**17.3%**	**11.7%**

Deutsche Wohnen's expense ratio of <12% is the benchmark in the industry

- Performance driven employment contracts
- Restructured pension system
- No collective bargaining agreements on Deutsche Wohnen platform
- Focused and concentrated portfolio allows for efficiency in corporate expenses
- Proven scalability of platform based on various acquisitions

Notes: (a) Contractual rents without utility charges; (b) 2013 PF including GSW; (c) Annualised on H1 2015 basis

2 Industrialised modernisation – a new name for an established concept

		FFO relevance	Synergy relevance
Ongoing maintenance	▪ Existing JV contract with most attractive terms and conditions ▪ Lowest prices due to concentrated portfolios and competitive tenders despite VAT disadvantage on certain personnel costs ▪ Benefit from purchasing power of JV partner	✓	NO
Re-letting	▪ Focused investments driven by return expectations ▪ Average return on investment ~15% ▪ Ability to manage rental cap (outlook lfl growth Berlin c. 4.0%) ▪ Expenditures partly in FFO and partly capitalised on balance sheet	partially	NO
Modernisation / capex	▪ Investments only in assets with an adequate rent and / or valuation upside potential (bottom-up approach) ▪ Investment program for 17,000 units established in 2014 ▪ Expenditures fully capitalised → no FFO impact	✘	N/A

Investments are done in a very focused way: asset driven not volume driven
→ superior capital effciency

(FY 2014)	Deutsche Wohnen	Vonovia
Gross rental income (EURm)	626.3	789.3
Like-for-like rental growth[(a)]	2.5%	2.5%
Rent increase (EURm)[(b)]	15.7	19.7
Total investments (EURm)[(c)]	152.9	345.5
Return on investment[(d)]	**10.3%**	**5.7%**
Investments in % of gross rental income	**24%**	**44%**

Notes: (a) Deutsche Wohnen letting portfolio; (b) Calculated as like-for-like rental growth multiplied with gross rental income; (c) Maintenance and modernisation investments; (d) Rent increase divided by total investments

2 TGS - Internalisation of risk profile

Vonovia exposed to TGS business risk due to 51% holding in TGS

- Profit sharing with JV partner
- Risk that unions may force Vonovia to implement the "Wohnungswirtschaflichen Tarifvertrag" (collective bargaining agreement for the residential real estate industry), which may lead to:
  - c. 30% higher wages
  - reduced working hours per day
  - increased vacation time allowance

  Increase in number of employees necessary
- Volatile business model due to lack of flexibility (capacity utilisation) in case of:
  - downsizing of capex programme
  - sale of portfolios
  - economic downturn

Built-up of high fixed costs involves future risk for restructuring

TGS working only for Vonovia, therefore no competition on cost structure, innovations and calculations

- Without any competition, are they really "at market"?
- Additional overhead for monitoring TGS

Deutsche Wohnen believes in superior value generation of focused business model

2 Services extension - Deutsche Wohnen has already established its own services value chain

JV with GETEC established in 2013	▪ Heat generation, primary energy, energy procurement ▪ Innovation leadership – energy storage and energy efficiency ▪ Implementation for 30% of portfolio achieved ▪ Savings in operating expenses and profit sharing of 49%
JV with Insurance Broker established in 2014	▪ Optimization of the entire insurance environment through standardisation ▪ Improved market access
JV with Service Provider established in 2015	▪ Joint purchasing platform → participation in margins ▪ Operational risks are outside of Deutsche Wohnen ▪ Price and cost stability for contract period
Multimedia	▪ Only relevant for 20% of the portfolio for next 10 years, as contracts expiring only after 2025 ▪ Establishment of multimedia business intended upon expiry of contracts ▪ No short-term advantage or upsides possible
Metering services	▪ Ancillary costs are passed on to tenants ▪ Only marginal positive effects expected

No real synergies, but stand-alone business opportunities which are already established or being further expanded by Deutsche Wohnen

3 Acquisition currency exposed to considerable refinancing risks

Comparison of key financing parameters

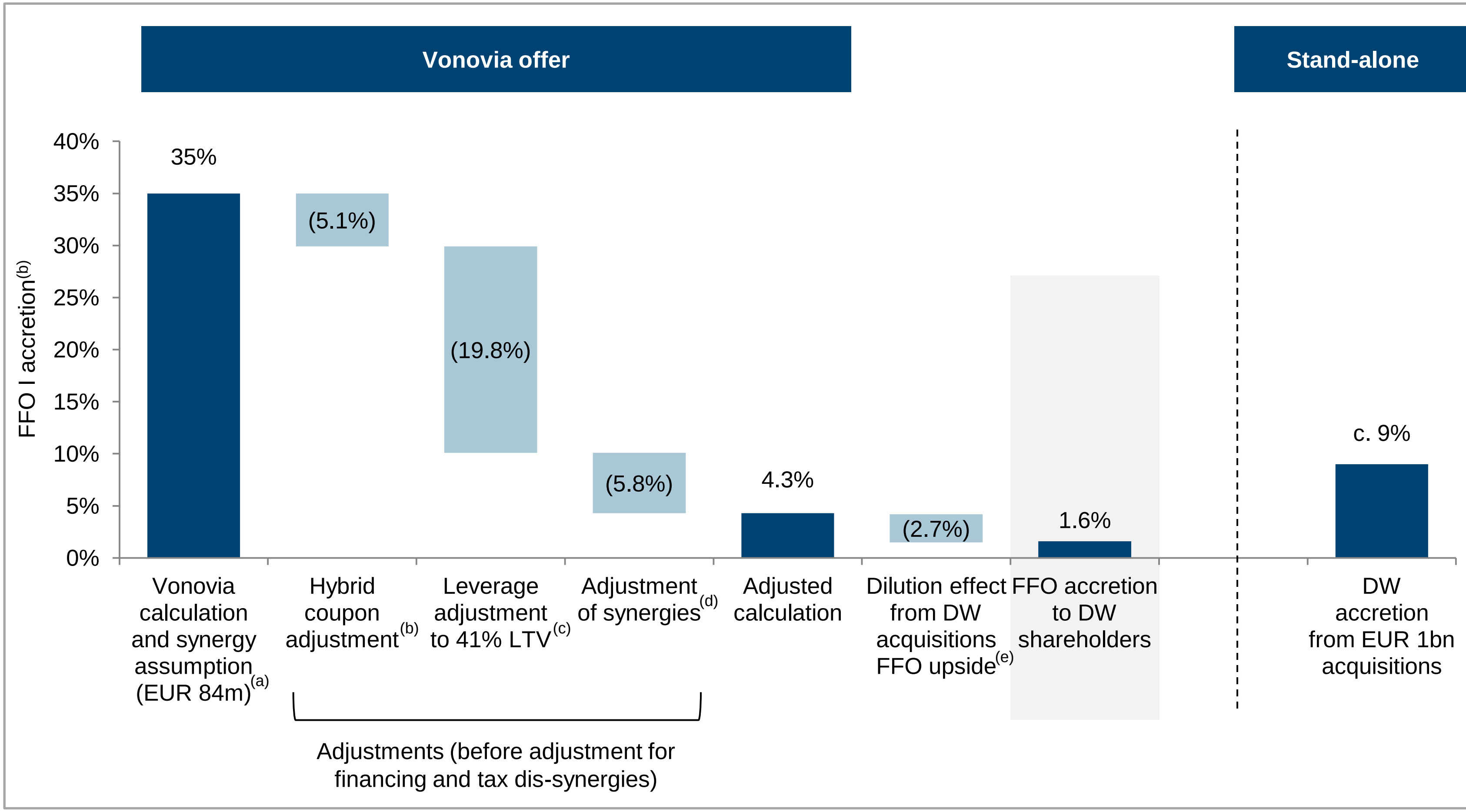
(H1 2015)	Deutsche Wohnen	Vonovia
Rating	A- / A3	BBB+ / -
LTV[(b)]	41%	54%
Ø Maturity	10 yrs	7 yrs

(H1 2015)	Deutsche Wohnen		Vonovia[(d)]	
	Share[(a)]	Per instrument cost[(a)]	Share[(b)]	Per instrument cost
Bank debt	77%	2.1%	33%	c. 3.0%[(c)]
CMBS	0%	-	26%	2.9%
Bonds	10%	1.4%	29%	2.5%
Hybrid bonds	0%	-	12%	4.3%
Convertible bonds	13%	0.7%	0%	-
Ø Interest rate		1.85%		2.9%[(b)]

- Structural advantage of secured bank financing
  - Significantly lower interest cost
  - Spread/margin for 10 year bank debt c. 65-80 bps for Deutsche Wohnen
  - By comparison: 10-year Vonovia bond currently trades at c. 150 bps spread
- Combined company exposed to significant refinancing risk
  - c. EUR 8bn refinancing need including transaction debt
  - Required to increase unencumbered asset ratio to maintain Vonovia rating
  - Recently announced Vonovia hedging strategy only addresses EUR 2.7bn interest risk
- Pro-forma for the transaction: LTV incl. hybrid of c. 58%
- Investing into a lower credit
- Deutsche Wohnen with sustainable financing structure (e.g. no hybrids)

Notes: (a) Pro forma for Deutsche Wohnen bond placement; (b) as per 1 August 2015; (c) Estimate based on bank debt as per H1 2015 and average interest cost of financial debt as per 1 August 2015 (H1 2015 analyst presentation) and assuming total average interest rate as reported by Vonovia excludes EUR 1bn perpetual hybrid bond; (d) Based on Vonovia H1 2015 financial report, H1 2015 analyst presentation, Factset

4 Marginal FFO accretion for Deutsche Wohnen shareholders despite lower value growth profile and inferior capital efficiency of Vonovia



Marginal FFO accretion no compensation for Vonovia's business profile

Notes: (a) Before taxes; (b) EUR 40m coupon payment from hybrid; (c) Assuming a capital increase to reduce LTV to 41% (10% discount assumed for capital increase); (d) Indicative assumed synergy level of c. EUR 20m (e) EBITDA contribution of c. EUR 40m from potential EUR 1bn acquisitions and FFO per share adjusted to maintain LTV at 41%;

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» Appendix

» Deutsche Wohnen – a compelling stand-alone business case

1	Focused quality portfolio in dynamic growth regions in Germany	90% of total portfolio value in Core+
2	Strongest like-for-like rental growth and tangible NAV upside potential	c. 3.5%[(a)] rental growth expected in 2015
3	Efficiency leadership with lowest expense ratio within industry	< 12% expense ratio
4	Accretive add-on to business model through privatisations	40% gross margin on EUR 163m disposal volume in H1 2015
5	High capital discipline	Continuous improvement of NAV / FFO per share
6	Lowest cost of debt among peer group with sustainable financing structure	A-/A3 credit rating with below 41% LTV and 1.85% average cost of debt

Unique business model that has constantly delivered superior shareholder returns and consistently delivered on promises

Notes: (a) Letting portfolio

» Cash flow comparison

Deutsche Wohnen		
(EURm)	**2014**	**H1 2015**
FFO I after minorities as reported	217.6	142.7
- Mandatory amortisation	(81.0)	(29.3)
- Capitalized investments	(64.1)	(33.4)
Corp. Free Cash Flow (CFCF) excl. disposals	**72.5**	**80.0**
- FFO adjustments (EBITDA) as reported[a]	(20.8)	(11.3)
Adjusted CFCF excl. disposals	**51.7**	**68.7**

Vonovia		
(EURm)	**2014**	**H1 2015**
FFO I as reported (before minorities) and after hybrid[b]	286.6	251.5
- Mandatory amortisation[c]	(45.9)	(28.9)
- Capitalized investments[d]	(200.0)	(157.7)
Corp. Free Cash Flow (CFCF) excl. disposals	**40.7**	**64.9**
- FFO adjustments (EBITDA) as reported[e]	(53.7)	(60.0)
Adjusted CFCF excl. disposals	**(13.0)**	**4.9**

Notes: (a) One-off costs for transactions and restructuring & re-organization expenses in FY 2014; mainly redundancy payments and restructuring measures in H1 2015; (b) FFO minority interest not reported by Vonovia; FFO in H1 2015 attributable to equity holders; (c) Assumed mandatory amortisation of 1.5% p.a. on bank debt incl. term loans, portfolio loans, mortgages and credit lines; (d) Capitalized maintenance and modernisation; (e) Non-recurring items and period adjustments

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