

# Deutsche Wohnen AG

- » **Nursing and Assisted Living**  
Segment presentation November 2016

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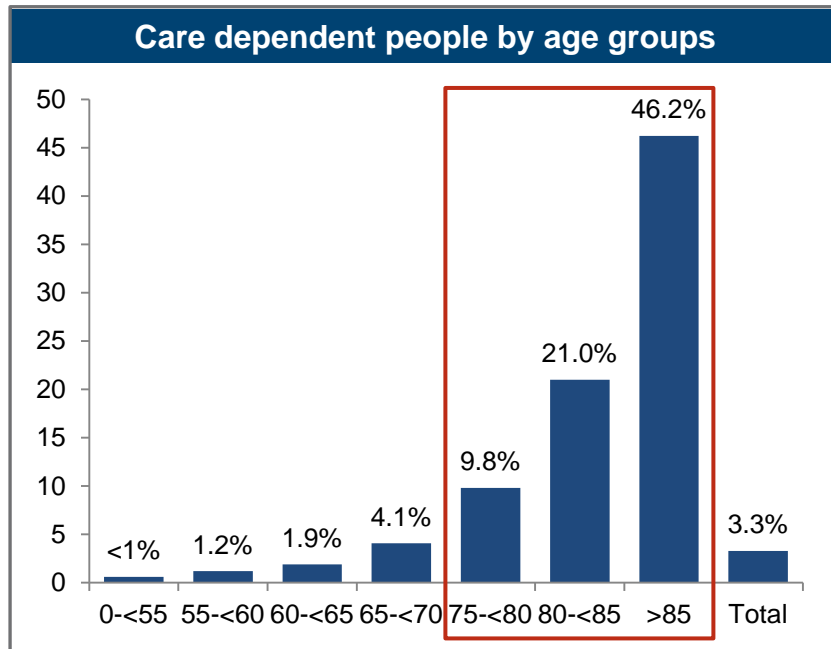
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**Deutsche Wohnen's nursing business**

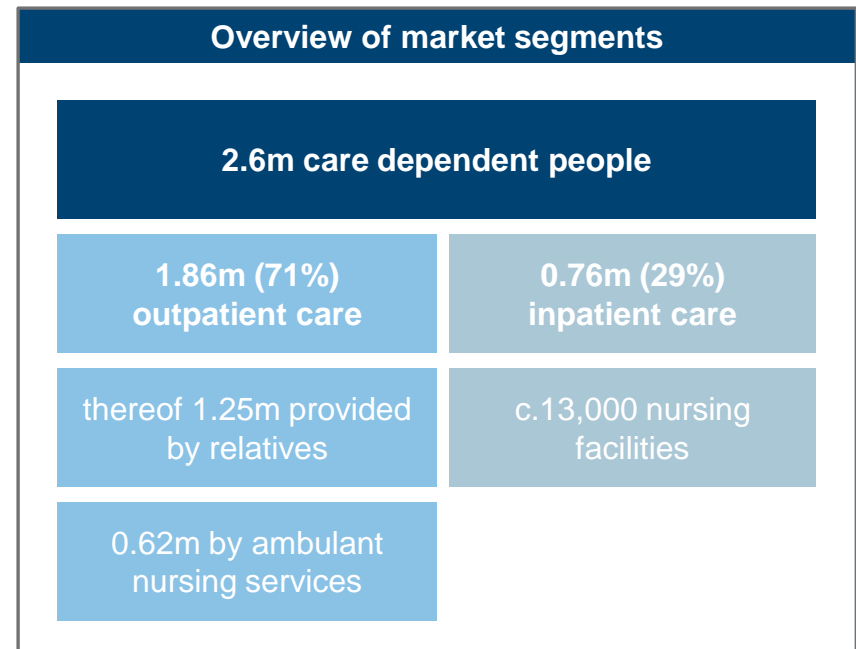
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## » German nursing care market

## » Overview of German nursing market



Source: Federal Statistical Office 2015, BBSR (2015), Georg Consulting (2016)

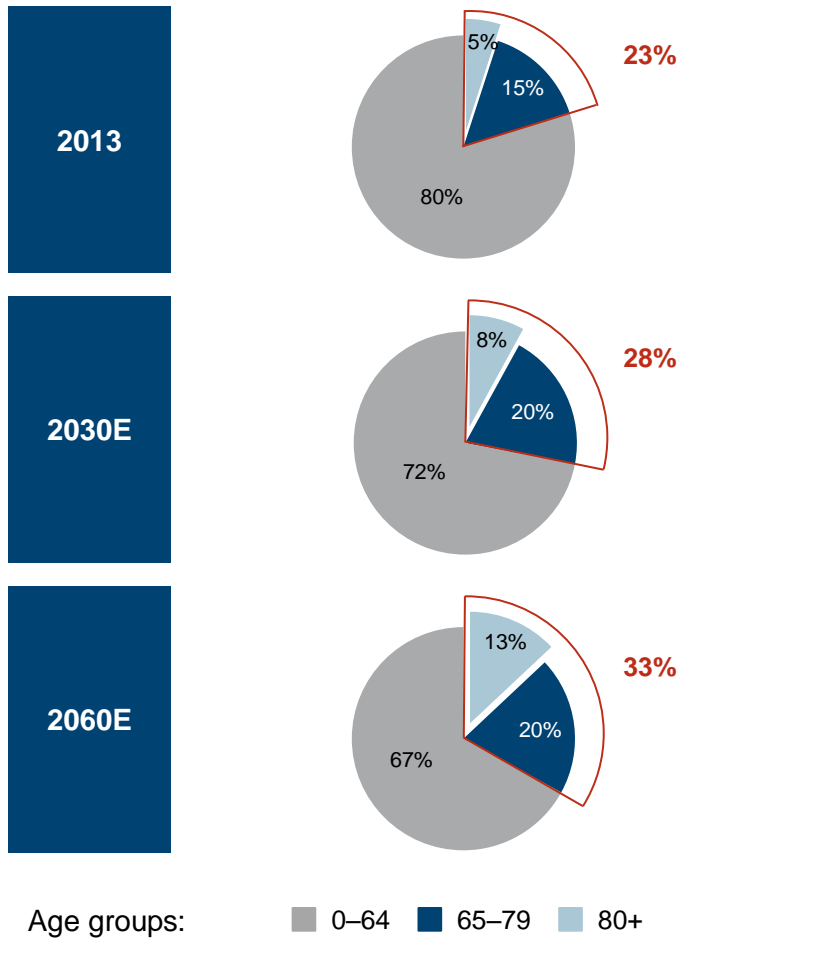


Source: Federal Statistical Office 2013

- **Germany is the biggest nursing market in Europe with c. EUR 40bn annual spend, of which c. EUR 28bn inpatient and EUR 12bn outpatient nursing care**
- **Presently c. 2.6m care dependent people in Germany, of which c. 764,000 or c. 30% permanently live in one of c. 13,000 nursing facilities with nearly 900,000 beds**
- **The likelihood of requiring professional care significantly increases above the age of 75**

## » Key demographic trends in Germany

### Increasing share of age groups 65+ and 80+

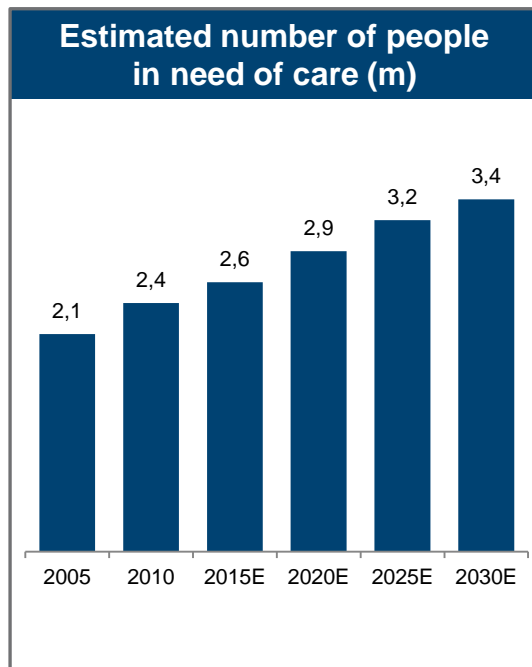


Source: Federal Statistical Office, 2015

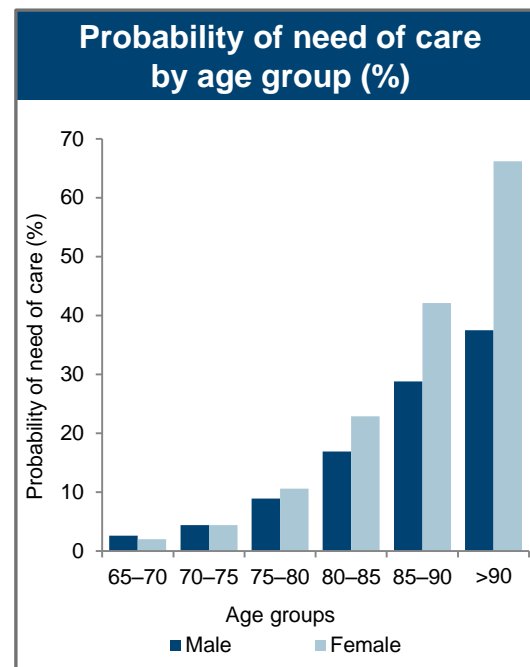
### Ageing population leads to increasing demand for nursing homes

- Nursing care market driven by (irreversible) demographic trends - increasing demand for social, medical and nursing services
- Main reasons for aging German population are:
  - Decreasing birth rates
  - Ageing of former baby boomer generations
  - Increasing life expectancy
- Until 2030 the age group >80 years is expected to increase by more than 60%
  - Approx. 8% of the German population will be >80 years in 2030
  - Increased demand for specialized facilities to serve e.g. Alzheimer's disease / dementia
- The requirement for professional service structures in nursing care are further boosted by ongoing trends:
  - Increasing mobility
  - Bigger distance between family members
  - Higher share of employment of all family members

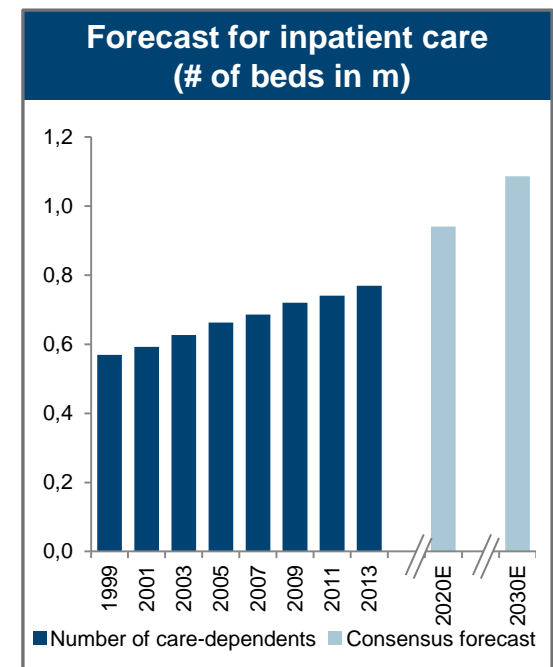
## » Outlook for German nursing market



Source: Destatis and Terranus Research



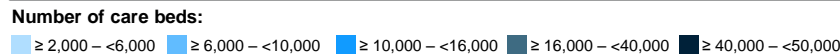
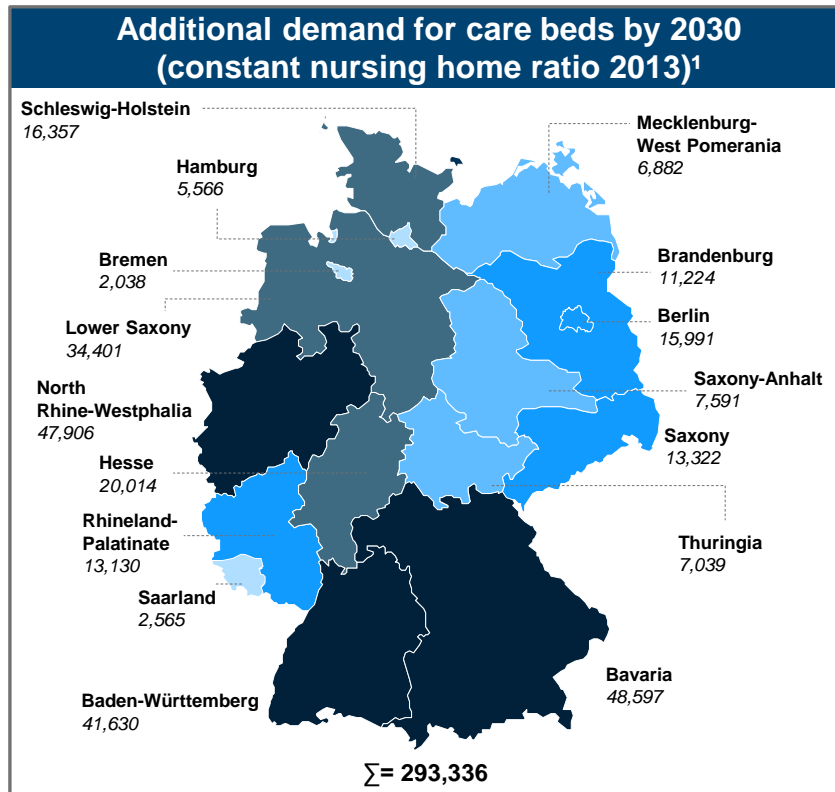
Source: Destatis and Terranus Research



Source: D&S Healthcare

- By 2030, an estimated additional 800,000 people will be in need of care compared to 2015
- The market for nursing homes remains a growth market with estimated 300,000 additional beds required by 2030, which will require significant capital investments in the market

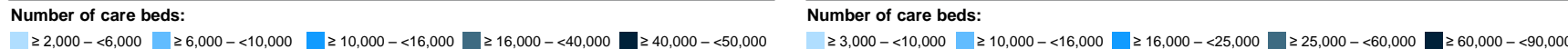
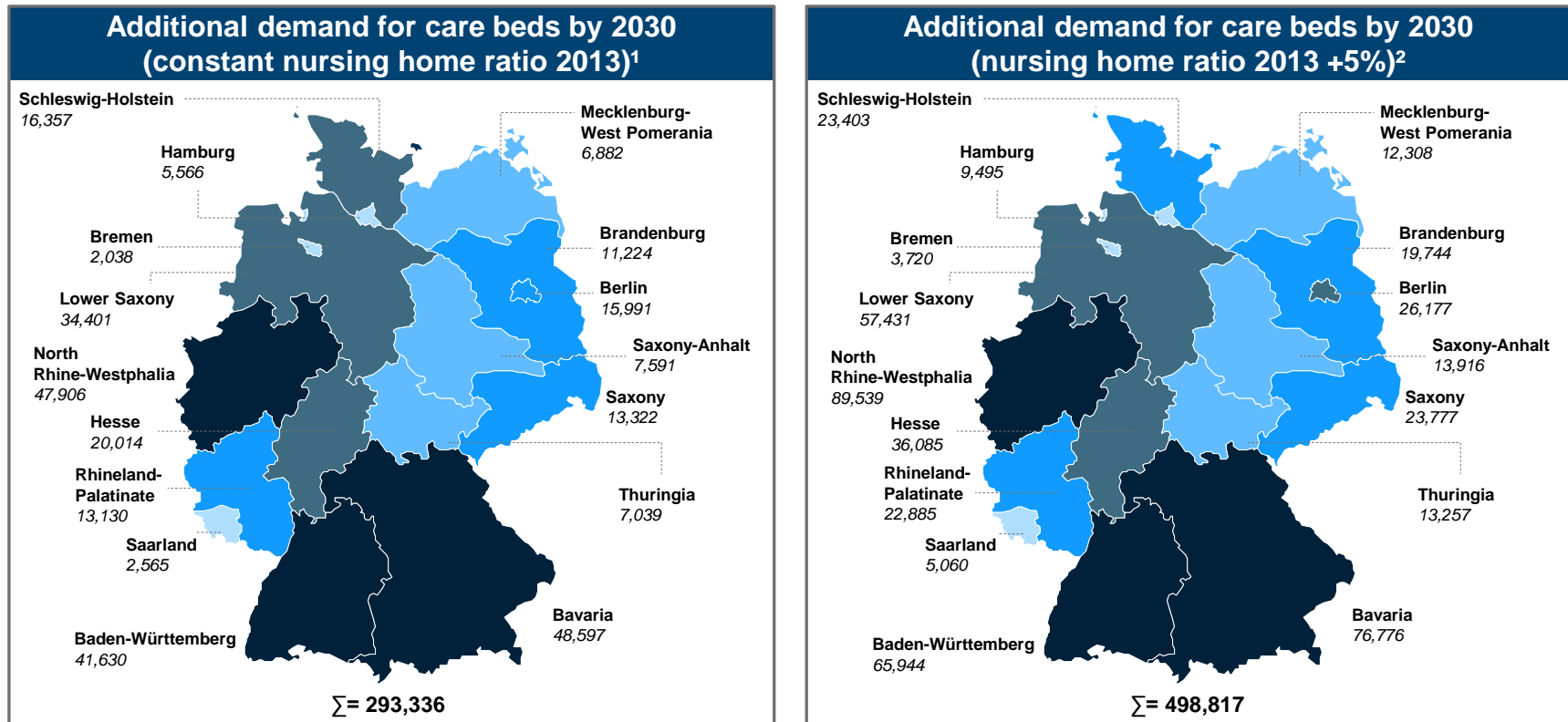
# » Forecast - required additional nursing home beds by federal state



Source: Federal Statistical Office 2015, Georg Consulting (2016)

▪ In all federal states and in almost all urban districts strong demand for additional nursing homes beds

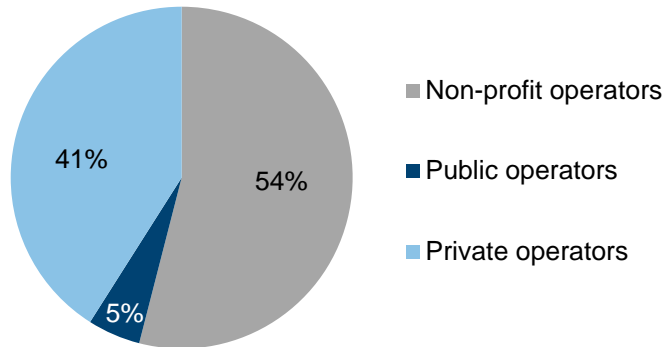
▪ Good location for nursing property ≠ good location for residential property



1) Scenario assumes constant proportion of the number of people in need of care to the number of nursing homes as in 2013 (basic ratio); 2) Scenario assumes 5 percentage-point increase in the number of people in need of care compared to 2013

## » Market structure – nursing home operators

### Nursing home operators split by type (# of beds)



Source: Federal Statistical Office in Germany 2013

### Top private operators (by # of beds)

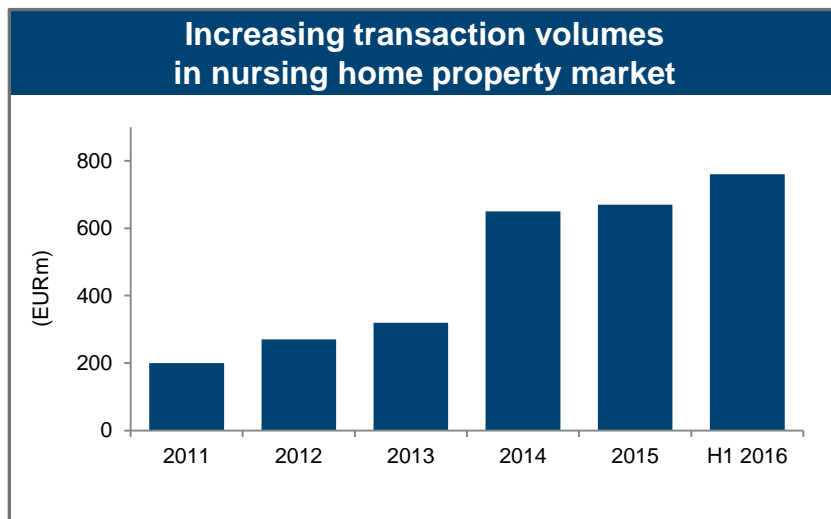
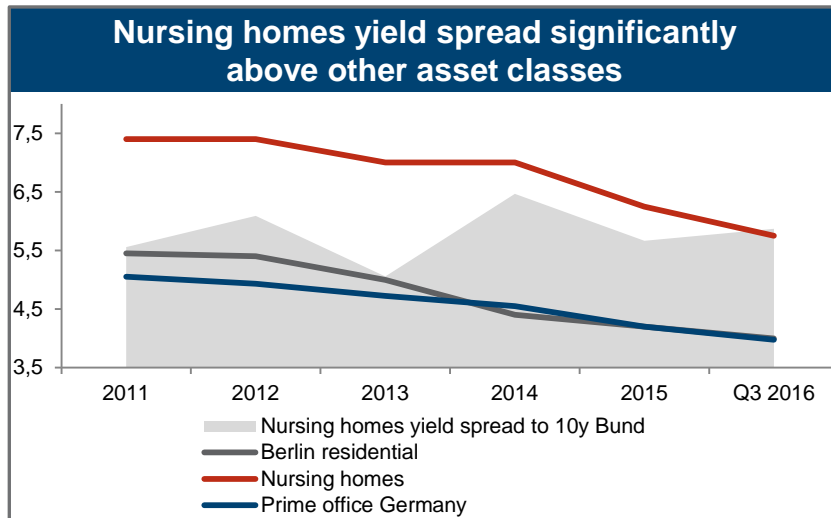
Operator	# of facilities	# of beds	Market share (%)	Occupancy (%)
Korian	228	24,775	3.1%	86.8%
Pro Seniore	97	13,101	1.6%	81.1%
Alloheim	124	12,169	1.5%	88.3%
Orpea / Silver Care	129	10,979	1.4%	91.6%
Kursana	96	9,241	1.2%	91.0%
Vitanas	58	7,582	0.9%	88.8%
Azurit	76	7,031	0.9%	83.7%

Source: Savills: Nursing homes market Germany 2016 (August 2016)

- Nursing home operator market is very fragmented
  - Top ten private operators only account for c. 13% of overall market (measured by number of beds)
  - Non-profit and public operators manage c. 60%
  - Many small (family) operators, often with less than 10 facilities and capex backlog
- Occupancy levels vary widely across operators and regions
  - Average occupancy rate of only c. 85%
  - Free capacity in many instances does not fulfil today's standards for nursing homes (i.e.: free capacity ≠ available capacity)
- Significant consolidation trend among private operators in recent years
  - 3 of the top 5 operators are international companies (France: Korian and Orpea; USA: Alloheim/Carlyle)
  - Consolidation is expected to continue and to accelerate professionalism (and therewith profitability) of overall sector
- Private operators increase their capacity the fastest (by acquisition or greenfield projects); growth of non-profit operators limited by funding constraints



## » Market structure – nursing home properties

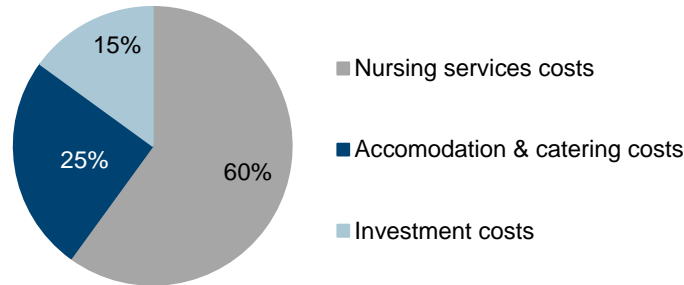


- Nursing home property market accounts for c. 1-3% of overall commercial real estate transaction volume
- Nursing home properties offer attractive yields at low risk:
  - Fundamentals for niche sector remain strong and promising for the long-term
  - Transaction prices are still demonstrating significant yield premiums to comparable asset classes
  - Nursing market offers value catch-up potential from widening of spread vs other asset classes
  - Very limited number of insolvencies in past years underscore low risk profile of sector
- Transaction volumes increased significantly over past years and 2016 pointing towards a record year
- Professional investors represented largest purchaser group over last years
- Key limiting factor of further increased transaction volumes is scarcity of supply despite positive macro outlook

## » Regulatory environment

## » Overview of regulatory environment in Germany (1/2)

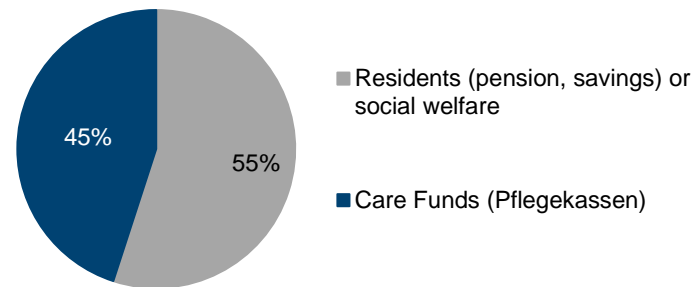
### Standard daily cost breakdown of nursing homes



Source: Knight Frank Research, 2014

### Funding of nursing home costs

#### Average Payment Breakdown



Source: Knight Frank Research, 2014

- Germany is one of few countries which requires all citizens to have either public or private long-term care insurance
  - Care Funds (Pflegekassen) provide a cost cover for care related services to the operator, based on the level of patient care necessary
  - Care Funds supported by mandatory social insurance as provided by care insurance law<sup>1)</sup>
  - Funded at a contribution rate of 2.35% of gross salary increasing by 0.2% as of 2017 (childless employees pay an additional contribution of 0.25%)
  - Until December 2016 there are 3 levels of care; starting from 2017 there will be 5 levels with increased funding of higher dependent people
- In addition to national regulation, there are different regional legislations on fit-out standards, multi-occupancy ratios minimum room measurement and employee skills (not homogeneous)

- **Germany has one of the most stable funding systems for long-term care in Europe with currently c. EUR 7bn funding surplus**

1) Pflegeversicherungsgesetz

## » Overview of regulatory environment in Germany (2/2)

### New homes authorization

- No formal permission (except for building laws) required to set up new nursing homes
- Operators entitled to enter into new supply contract with Care Funds (Pflegekassen) as soon as structural requirements for operating a nursing home are met

### Quality requirements

- Independent operators (MDK<sup>1)</sup>) check process structure and performance quality
- Frequency of quality assurance audits of outpatient and inpatient care has historically increased
- Mandatory publication of MDK quality reports of each nursing home planned through latest regulatory initiatives to increase transparency

### Pricing & financing

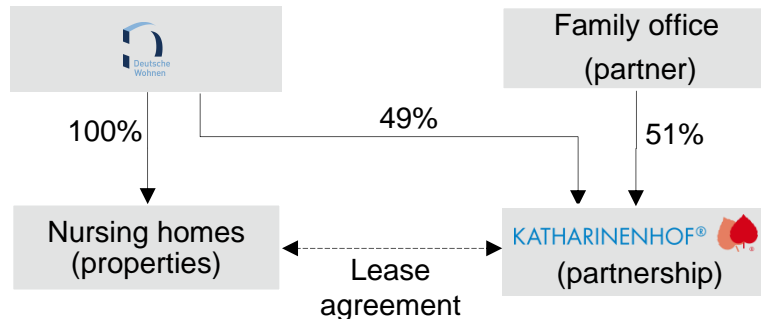
- Prices for nursing care services strictly regulated and negotiated with authorities and revised every 1-2 years, usually above cost inflation
- Total cost for a nursing home place is funded by the respective resident, care fund and, if required, social welfare (depending on residents' income)
  - Vast majority of nursing services costs is financed by care fund; level of reimbursements are defined by laws, depending on level of care required
  - Accommodation & catering as well as investment costs are , in principle, financed by resident (or social welfare system); investment rates are set freely for resident not receiving public aid
  - Operators are free to generate additional revenues from secondary services, financed by respective resident

1) MDK – German Health Insurance Medical Service

## » Deutsche Wohnen's nursing business

## » Deutsche Wohnen nursing business at a glance

### Legal structure of DW nursing business



### Operating management via Katharinenhof brand

- Above industry average quality of services as demonstrated by very good ratings granted by MDK<sup>1)</sup>
- Assisted living facilities offer rental apartments to senior citizens along with an extensive range of services
- Full inpatient nursing care promotes an active lifestyle for patients in exalted quality
- Outpatient care services offer assistance and care for the elderly in their households

- Beginning of 2015, the operational business of Katharinenhof was transferred into a partnership structure
  - Deutsche Wohnen has a 49% stake; fully consolidated
  - 51% partner is a family office
- Currently 20 facilities with more than 2,000 beds are managed by the Katharinenhof partnership
- Deutsche Wohnen 100% owns 19 facilities of the Katharinenhof properties with a fair value of c. EUR 161m
- In August 2016, Deutsche Wohnen acquired 28 facilities with more than 4,100 beds, thus expanding its holdings in this segment significantly
- The acquisition makes Deutsche Wohnen one of the leading providers in Germany of high-quality residential and nursing facilities for elderly people

▪ **Since almost 20 years Deutsche Wohnen plays an active role in the area of nursing and assisted living**

▪ **MDK scores are between 1.0-1.2 corresponding to an overall industry ranking of 3<sup>rd</sup> place**

## » Nursing homes - portfolio overview

### Existing nursing business: Assets and operating business<sup>1)</sup>

Katharinenhof			# of places			Area (sqm)	Occupancy rate	Fair Value (30/06/2016)
	Region	Facilities #	Nursing #	Assisted living #	Total #			
	Greater Berlin	12	1,072	370	1,442	84,250	98.0%	
	Saxony	7	436	39	475	21,836	99.4%	
	Lower Saxony	1	131	-	131	5,427	98.7%	
	<b>Total</b>	<b>20</b>	<b>1,639</b>	<b>409</b>	<b>2,048</b>	<b>111,513</b>	<b>98.4%</b>	<b>161.4m</b>

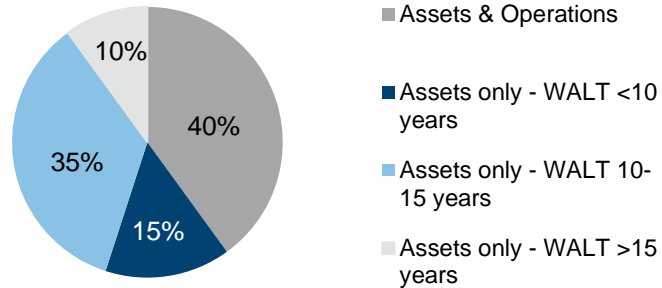
### Recent Pegasus acquisition: Assets only<sup>2)</sup>

Other operators			# of places			Area (sqm)	WALT	Purchase price
	Region	Facilities #	Nursing #	Assisted living #	Total #			
	Bavaria	7	999	-	999	41,193	12.3	
	North-Rhine Westphalia	5	721	187	908	46,117	13.9	
	Lower Saxony	4	661	-	661	24,460	11.2	
	Rhineland Palatinate	4	409	208	617	29,276	14.0	
	Baden Württemberg	5	557	16	573	24,216	13.9	
	Other	3	374	-	374	14,324	9.0	
	<b>Total</b>	<b>28</b>	<b>3,721</b>	<b>411</b>	<b>4,132</b>	<b>179,586</b>	<b>12.6</b>	<b>420.5m</b>

1) Katharinenhof manages 20 facilities, thereof Deutsche Wohnen 100% owns 19 facilities; 2) Relates to recently acquired assets (Pegasus portfolio)

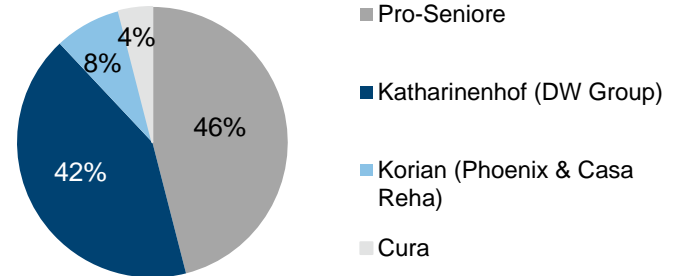
## » Portfolio details pro forma recent acquisition

### Assets & Operations versus Assets only



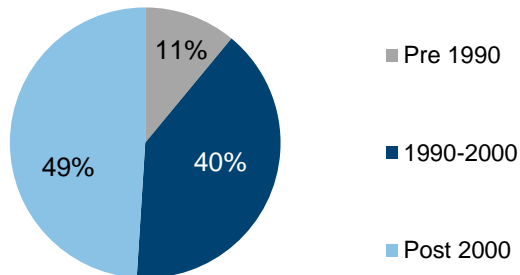
=> Large share of facilities owned and operated

### Distribution by operators



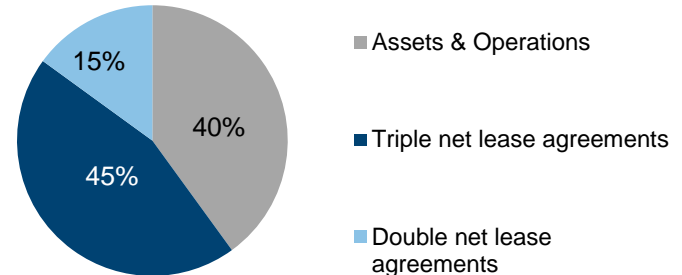
=> Largest private operators serve as lead covenants

### Distribution by year of construction



=> Relatively new facilities with little to no capex backlog

### Distribution by type of lease agreement



=> Secured cash flows with limited investment needs for outsourced operations



## » Portfolio images (1/2)



Uferpalais



Uferpalais



Im Schlossgarten



Wolkenstein

## » Portfolio images (2/2)



Heinrich-Lassen



Am Lunapark

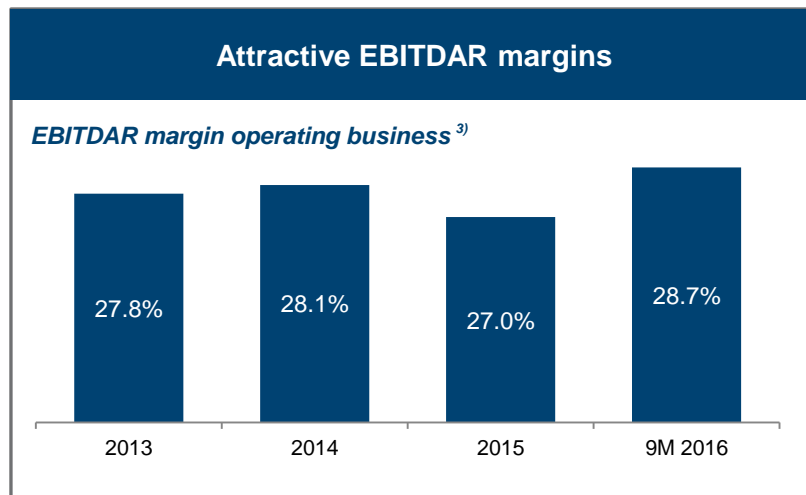
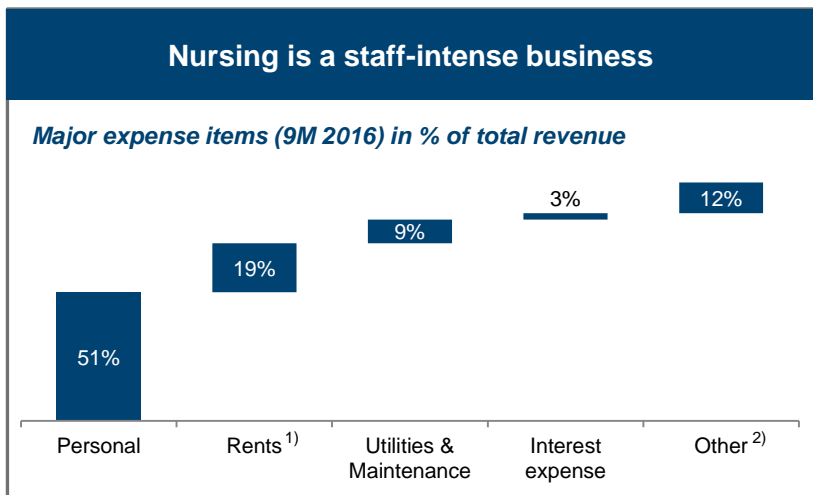
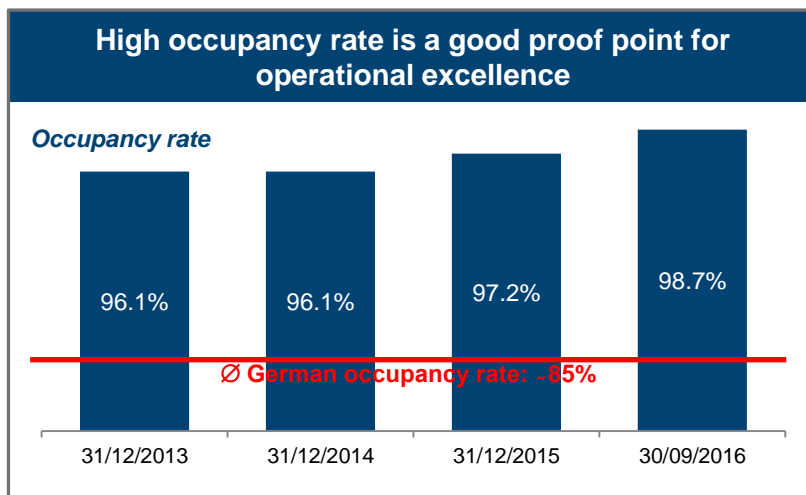
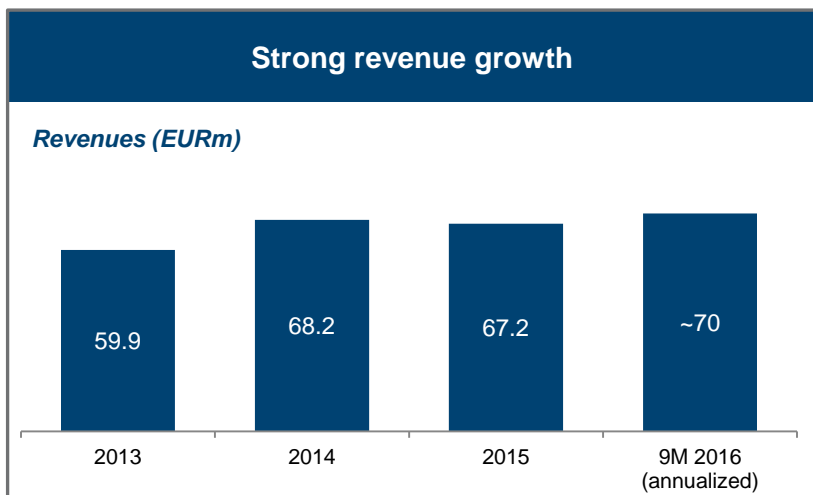


Wilsdruff



Wilsdruff

# » Development of KPI's of the operating nursing business



1) Rents for internally operated facilities are consolidated on group accounting level; 2) Incl. housekeeping supplies, laundry, catering, other

3) EBITDAR = EBITDA before rents;

## » Condensed P&L for operations and assets

Operations (in EUR m)	9M 2016	9M 2015
Total income	52.4	49.9
Total expenses	(47.1)	(45.9)
<b>EBITDA operations</b>	<b>5.3</b>	<b>4.0</b>
EBITDA margin	10.1%	8.0%
Lease expenses <sup>1)</sup>	9.7	9.6
<b>EBITDAR</b>	<b>15.0</b>	<b>13.6</b>
<b>EBITDAR margin</b>	<b>28.6%</b>	<b>27.3%</b>

Assets (in EUR m)	9M 2016	9M 2015
Lease income <sup>1)</sup>	8.9	8.3
Total expenses	(0.5)	(0.3)
<b>EBITDA assets</b>	<b>8.4</b>	<b>8.0</b>

Operations & Assets (in EUR m)	9M 2016	9M 2015
<b>Total EBITDA</b>	<b>13.7</b>	<b>12.0</b>
Interest expenses <sup>2)</sup>	(3.3)	(2.8)
<b>FFO I contribution</b>	<b>10.4</b>	<b>9.2</b>

in EUR m	9M 2016	9M 2015
Nursing	41.5	39.7
Living	4.9	4.6
Other	6.0	5.6

in EUR m	9M 2016	9M 2015
Staff	(26.7)	(25.2)
Rent / lease	(9.7)	(9.6)
Other	(10.7)	(11.1)

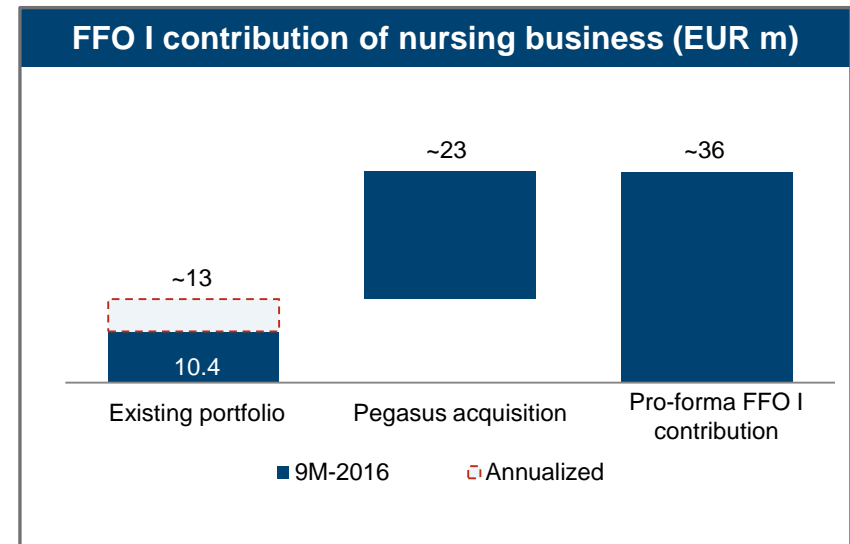
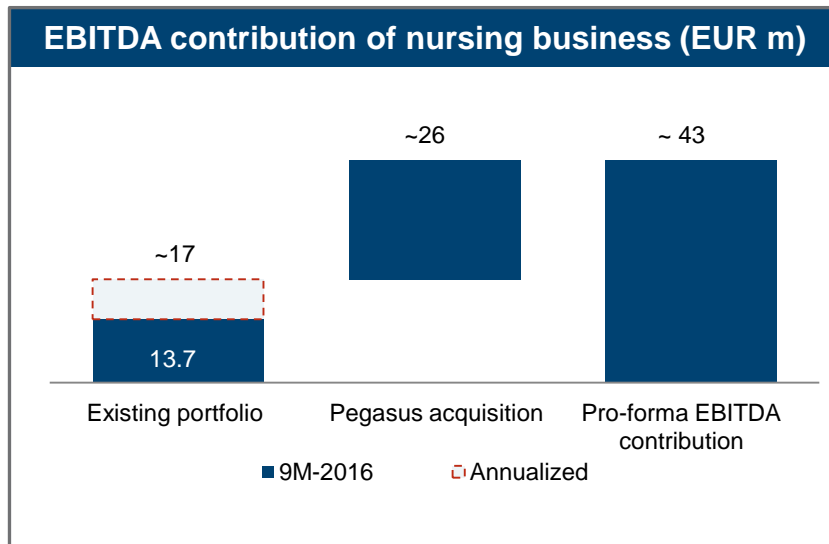
Set out in the consolidated group financial statements as "Earnings from nursing and assisted living"

Includes fee payable to operational partner of EUR 1.5m for 9M 2015 and EUR 2m for 9M 2016

- EBITDAR margin of 28.6% or 1.5x lease revenues proof points for operational excellence

1) The delta between lease expenses (operations) and lease income assets derives from one nursing facility which is only operated but not owned by Deutsche Wohnen group  
 2) Including proportional interest cost due to minority stake in operations;

## » Successful Pegasus acquisition will drive earnings growth further



- Expected EBITDA contribution including acquired nursing portfolio of EUR ~43m (annual run rate), translating into of RoCE of c. 7%
- FFO I contribution of EUR ~36m (annual run rate) expected, translating into an FFO I yield of c. 10% based on Deutsche Wohnen's capital structure with c. 40% LTV
- Overall contribution of nursing business not to exceed c. 15% of group EBITDA in the medium term (based on expected pipeline for coming years)

## » Competitive strength and strategy

### Significant internal growth potential

- Accelerate internal growth by further specialization of facilities on dependency needs (e.g. dementia)
- Enhancement of product offering (combination of outpatient care and day-care with existing nursing facilities)
- Active management of care levels to enhance profitability mix

### Further expansion via M&A and/or greenfield projects

- Fragmented market with promising fundamental outlook offers room for consolidation
- Attractive yield spread compared to comparable asset classes
- Focus on acquisition of real estate properties, preferably in combination with operational management to enhance yields
- Adherence to strict acquisition criteria focussing on quality, market positioning and expected value upside

### Significant contribution to profitability

- Overall contribution of nursing business not to exceed c. 15% of group EBITDA in the medium term

### Key competitive advantages

- Long-lasting expertise on both, the asset as well as operational side as demonstrated by best in class occupancy ratios for self managed facilities
- Proven track record for successful integration of acquired business (e.g. Lebenwerk 2012 and Uferpalais 2013)
- Low cost of funding

## » Appendix

## » Overview of “Pegasus” acquisition (1/2)

<b>Object of purchase</b>	<ul style="list-style-type: none"> <li>▪ 28 nursing (c. 3,700 places) and assisted living facilities (c. 400 places) with 180k sqm</li> <li>▪ Only assets acquired, not the operating business</li> </ul>
<b>Pricing &amp; deal structure</b>	<ul style="list-style-type: none"> <li>▪ Purchase price: EUR 420m</li> <li>▪ 6.5% gross yield</li> <li>▪ Asset deal</li> </ul>
<b>Lease revenues</b>	<ul style="list-style-type: none"> <li>▪ EUR 27.3m p.a.</li> </ul>
<b>Margins (run rate)</b>	<ul style="list-style-type: none"> <li>▪ Expected EBITDA margin of c. 95%</li> </ul>
<b>WALT</b>	<ul style="list-style-type: none"> <li>▪ Weighted average lease term of c. 13 years (c. 24 years including extension option)</li> </ul>
<b>Expected closing</b>	<ul style="list-style-type: none"> <li>▪ Q4 2016 – Q1 2017</li> </ul>

- Facilities of high quality in good locations predominantly in West Germany
  - Good market positioning from a price/ performance perspective
  - More than 75% of buildings constructed after 2000
- Well-known operators with proven track record and high credit-worthiness as lead covenant
  - Mature operations with avg. occupancy of 87%, in line with German average
  - Among top 10 operators in Germany
- Approx. 80% of lease agreements structured as triple net contracts incl. indexation
  - Contracts provide for defined investments to be undertaken by lessee to maintain quality of assets during lease term
  - No material capex backlog
  - All but one lease contracts linked to German CPI

- Executed on communicated strategy to grow nursing and assisted living business – attractive add-on business with high earnings contribution at low risk profile



## » Overview of “Pegasus” acquisition (2/2)



Pro Seniore Residenz (Oberau, Bavaria)



Pro Seniore Residenz (Kempten, Bavaria)



Pro Seniore Residenz (Radolfzell, Baden-Württemberg)



Sozialkonzept Cäcilienhof (Garbsen, Lower Saxony)

## » Disclaimer

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