Research Report (Anno)

Coreo AG

- Highest investment volume in history
- Active investment strategy continues to be pursued

Target price: € 2.15
Rating: BUY

IMPORTANT NOTE:
Please take note of the disclaimer/risk warning, as well as the disclosure of potential conflicts of interest as required by section § 85 WpHG und Art. 20 MAR on page 19

Note on research as a "minor non-monetary benefit" according to the MiFID II regulation: This research meets the requirements for being classified as a "minor non-monetary benefit". For more information, see the disclosure under "I. Research under MiFID II"

Date and time of completion of the study: 27.05.2022 (2:45 pm)
Date and time of the first distribution of the study: 30.05.2022 (09:00 am)
Validity of the price target: until max. 31.12.2022

GBC AG Investment Research

Coreo AG*4,5a,5b,6a,11

Rating: Buy
Target price: EUR 2.15
(previously: EUR 2.60)

Current share price: € 1.04
26.05.22 / XETRA; 5:36 pm
Currency: EUR

Master data:

ISIN: DE000A0B9VV6
WKN: A0B9VV
Ticker symbol: CORE
Number of shares³: 22.55
Market cap³: 23.45
EnterpriseValue³: 67.90
³ in million / in EUR million

Transparency level:
Open Market
Market segment:
Open Market

Accounting:
IFRS

Financial year: 31.12.

Analysts:

Cosmin Filker
filker@gbc-ag.de

Marcel Goldmann
goldmann@gbc-ag.de

* Catalogue of possible conflicts of interest on page

Company profile

Industry: Real estate

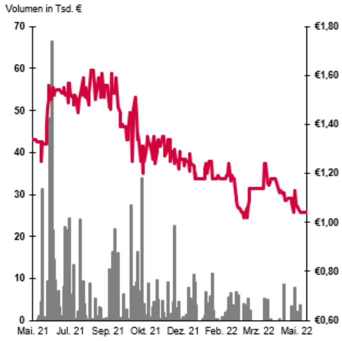
Focus: Commercial and residential real estate

Employees: 11 (31.12.2021)

Foundation: 2003

Head office: Frankfurt am Main

Board of Directors: Dennis Gothan, Michael Tegeder



Coreo AG, based in Frankfurt am Main, is a dynamically growing real estate company focused on German residential properties. Investments are made in properties with significant potential for value appreciation where there is a need for development, preferably in medium-sized centres. The aim is to build up an efficiently managed, high-yield real estate portfolio through the prudent development and sale of non-strategic properties. Coreo AG's strategy is characterised by an expansive and selective approach to its real estate investments. The focus of this concept is on the acquisition and management of commercial and residential properties. Here, preference is given to business locations with high yield levels in Germany, which creates the basis for long-term and stable rental income. In addition, opportunities and chances are used very selectively. In doing so, Coreo AG acquires value-add portfolios/properties in order to significantly and sustainably increase their value in the medium term with an active "manage to core" approach. Non-strategic portfolio components are sold on at a profit.

P&L in EUR million \ FY-end	31.12.2021	31.12.2022e	31.12.2023e	31.12.2024e
Total earnings	16.53	13.03	29.18	29.23
EBITDA	2.87	4.53	13.24	14.25
EBIT	2.84	4.22	12.89	13.90
Net profit for the year	-0.89	0.99	6.76	7.28
Key figures in EUR				
Earnings per share	-0.05	0.04	0.30	0.32
Dividend per share	0.00	0.00	0.00	0.00
Key figures				
EV/total yields	4.11	5.21	2.33	2.32
EV/EBITDA	23.70	14.98	5.13	4.76
EV/EBIT	23.92	16.08	5.27	4.88
KGV	neg.	23.70	3.47	3.22
KBV	0.87			

Financial dates
October 2022: Half-Year Report 2022

**last research from GBC:
Date: Publication / Target price in EUR / Rating
04.10.2021: RS / 2.60 / BUY
19.08.2021: RS / 2.60 / BUY
21.12.2020: RS / 2.35 / BUY
03.11.2020: RS / 2.35 / BUY
** The research studies listed above can be viewed at www.gbc-ag.de or requested from GBC AG, Halderstr. 27, D86150 Augsburg.

Executive Summary

- The past financial year 2021 was marked by the effects of the Corona pandemic on Coreo AG in the form of more difficult access to properties. Nevertheless, the company was able to continue its growth strategy with three acquisitions. Within the framework of two asset deals, two commercial portfolios worth approximately € 12 million were acquired. In addition, the acquisition of a large residential and commercial portfolio, for which the change of use and encumbrance is to take place in the current financial year 2022, was announced. We assume a total purchase price of approximately more than € 50 million, which would make this the largest acquisition in the company's history.

- With the continuation of the growth course and rental increases in the existing portfolio, Coreo AG's rental income increased to € 4.35 million (previous year: € 3.52 million). Within four financial years, Coreo AG has more than doubled its rental income. At the same time, the scheduled sale of properties from the Mannheim portfolio, the NRW portfolio and parts of the Hydra portfolio led to a sharp rise in proceeds from disposals to € 10.32 million (previous year: € 6.09 million). At € 1.37 million (previous year: € 0.49 million), the result from disposals was once again positive. Finally, property management and investments in portfolio properties led to a valuation result of € 1.85 million (previous year: € 0.85 million).

- The significant increase in total revenues to € 16.53 million (previous year: € 10.45 million) is reflected in an increase in EBIT to € 2.84 million (previous year: € -0.69 million). At the level of the after-tax result of € -0.89 million (previous year: € -2.44 million), the break-even point was again missed. On the one hand, financial expenses rose to € 2.97 million (previous year: € 2.32 million) due to the higher utilisation of financial resources; on the other hand, tax expenses increased significantly to € 0.91 million (previous year: tax income of € 0.38 million) increased significantly.

- According to the company's guidance, an annual net cold rent of € 3.8 million is expected for the current financial year. This is expected to double by a further € 3.8 million in the coming financial year from the addition of the large residential property portfolio alone. In addition, the re-letting of existing properties will further increase the rental income base. The company also plans to continue the previously communicated growth strategy, according to which a total value of the portfolio of € 400 - € 500 million is to be achieved in the coming financial years. Based on the current property volume of more than € 100 million (including large residential property portfolio), we expect total investments of € 80 million for the next three financial years and thus remain significantly below the growth forecast. For the coming financial years, we expect a visible increase in total income from € 13.03 million (2022e) to € 29.19 million (2023e) and to € 29.24 million (2024e). As the high-margin rental income should gain in importance, we expect a disproportionate increase in earnings.

- Within the framework of our DCF valuation model, we have determined a new target price of € 2.15 (previously: € 2.60). Our changed forecasts of the concrete estimation period as well as dilution effects from the recently implemented capital increase have led to this price target reduction. In contrast, the increase in the risk-free interest rate and thus in the WACC had only a slight price target-reducing effect. We continue to assign the BUY rating.

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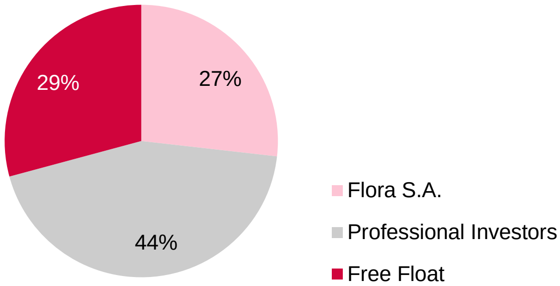
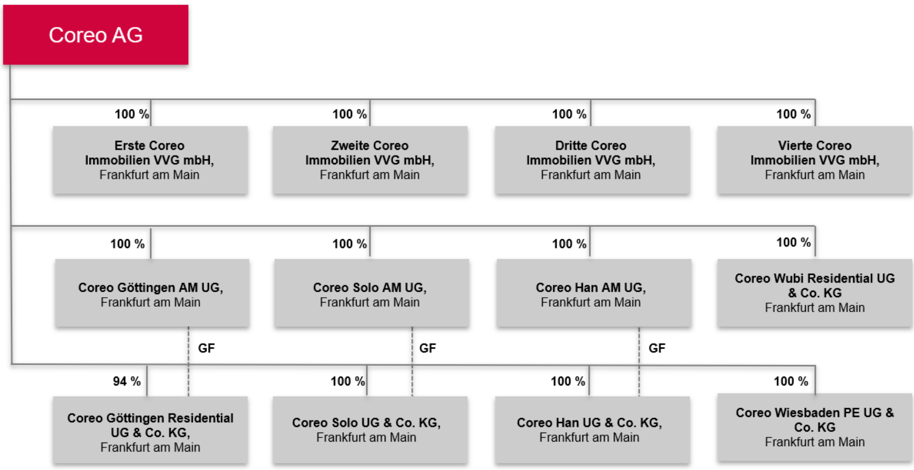
COMPANY

Shareholder structure

Shareholder	
Flora S.A.	26.8%
Professional investors	44.0%
Free Float	29.2%



Scope of consolidation



Sources: Coreo AG; GBC AG

Property highlights 01.01.2021 - 31.12.2021

The past financial year 2021 was characterised by a high level of investment activity at Coreo AG. A total of three acquisitions were reported, including the largest portfolio acquisition in the company's history. Even though the largest investment will only be completed in the current financial year, according to our calculations, an investment volume of around € 60 million was agreed in 2021, which is a new record value.

July 2021
In July 2021, the acquisition of two production sites and the administrative headquarters of a listed German automotive supplier was initially announced. The three in Germany have a total area of around 14,400 sqm and are fully let, mostly on long-term leases. With annual rental income of more than € 0.70 million and a purchase rental yield of approx. 8.0%, which we assume is usual for Coreo, our assumptions suggest that the purchase price was approx. € 8.7 million. According to the company, no investments are necessary in the foreseeable future due to the good condition of the properties.

July 2021
Coreo also published its second portfolio acquisition in mid-July 2021. This involves the acquisition of a portfolio consisting of 1,341 residential and 15 commercial units with a rental area of approximately 73,900 sqm, spread across 10 locations in Berlin, North Rhine-Westphalia, Mecklenburg-Western Pomerania, Saxony-Anhalt and Thuringia. The transaction, which is expected to close in the current 2022 financial year, will take the form of a share deal, with Coreo AG acquiring 89.9% of the shares in the property company. According to Coreo AG, the portfolio is clearly "undermanaged", which means that the current annual net cold rent of € 3.8 million should be able to be stabilised and then

increased comparatively quickly from the management of letting activities on site alone. The occupancy rate at the time of the purchase notification was just 77%. If we assume here the usual Coreo rental yield at the time of purchase, the total portfolio value should be slightly over € 50 million, which would make this the largest portfolio acquisition in the company's history. Part of the purchase price was paid in the form of the 1.45 million shares held in MagForce AG. According to our calculations, this should cover around € 6 million of the purchase price.

September 2021

On 7 September 2021, Coreo AG announced the acquisition of a logistics property in Delmenhorst. On a total rental area of approximately 29,900 sqm, the annual rent, which is distributed among several tenants, currently amounts to around € 0.5 million. In line with the strategy of acquiring properties that still have development potential, this property should also see an increase in rental income. Based on the total lettable space in connection with the current annual rent, a low rent (€ 1.50/sqm according to GBC estimates) is currently calculated, which entails, in our opinion, a significant potential for increase.

Market and market environment

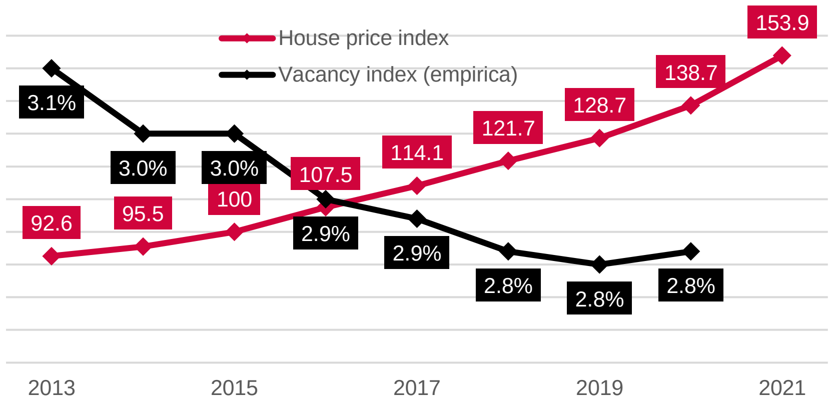
With its focus on commercial and residential properties in German B and C locations, i.e. in regions that have not yet been so strongly affected by the price increases in the A locations, Coreo AG is part of a fundamentally high-growth market environment. Since the company's property portfolio includes both residential and commercial properties, we have divided the following market analysis according to both property types.

Market development residential real estate

During the corona crisis, residential real estate proved to be particularly resilient. In 2021, residential real estate was also perceived as a "safe heaven" by investors. The decisive factors here were the intact potential for value appreciation, the high cash flow stability and also the increasing inflation. The spread between prime yields in the new-build sector and 10-year bonds is currently around 250 basis points and thus residential real estate is perceived as an attractive alternative (source: BNP). In addition, the corona pandemic has led to increased demand for detached houses and spacious flats in the outskirts of larger cities.

However even without the special effects of the past two years, generally positive fundamentals prevail. Obviously, demand continues to be shaped by the existing low interest rate environment. Although there has recently been an increase in interest rates for housing loans, financing conditions remain favourable in a historical comparison. In addition, the inflation rate has also risen sharply, so that in real terms financing interest rates are currently even negative. The resulting high demand is offset by a supply that is still too low, even though construction completions have risen. The long-term excess demand is illustrated by the low active vacancy rate on the one hand and by a visibly upward price trend on the other. According to the empirica vacancy index, the market-active vacancy rate at the end of 2020 was 2.8%, i.e. significantly below the value that stands for a balanced housing market. The fluctuation reserve is seen at 3.0%. In parallel, residential property prices according to the house price index for residential properties have increased significantly by 53.9% between 2015 and 2021 (source: Federal Statistical Office).

House price index (2015=100) and vacancy index



Sources: Federal Statistical Office; empirica; GBC AG

For the A-cities, the problem of high demand pressure is likely to prevail in the future as well, but this will be countered by increased construction costs and largely exhausted rental potential. Secondary locations, which are the investment focus of Coreo AG, are likely to benefit from this in particular. Combined with the still favourable entry levels, Coreo AG's strategy is therefore understandable.

Market development commercial real estate

Before the corona pandemic, the office property submarket was characterised by rising rents and declining vacancies. Even though the pandemic has clearly strengthened the home-office trend, there has been a turnaround in the demand for office properties in the past year. At 3.4 million sqm, take-up in the largest locations was 26.5% (source: BNP) and 23% (source: JLL) higher than in the previous year. Fears that demand for space would decline against the backdrop of strong home office take-up have not materialised. On the contrary, a rising office occupancy rate can be seen again and it is generally assumed that companies will change the distribution of office space while maintaining partial home offices. Consequently, the demand for space is expected to remain stable overall. However, since there is still a shortage of space, rents are expected to remain stable overall according to various market reports. The focus is likely to remain on attractive office space, with a stronger focus on ESG compliance.

Compared to office properties, the retail property submarket was undergoing a structural change before the corona pandemic. This structural change, characterised by a shift in retail sales to the online sector, has intensified further with the measures taken to contain the Corona pandemic. According to data from the trade association, although retail sales increased by 1.8% in 2021, growth was achieved exclusively in online retail. Sales in stationary retail were -0.7% below the previous year. Sectors such as clothing retail still show a sales gap of 30% compared to 2019. However, a slightly more positive development can be seen after the removal of pandemic restrictions. This had led to a revival of the letting volume in 2021, which was 13% (source: JLL) above the previous year's value overall, but still significantly below the values before the start of the corona pandemic.

Since Coreo AG has, in part, long-term rental contracts for commercial properties, the effects should be limited. In addition, Coreo AG's focus on B, C and D cities, which are still underdeveloped from a real estate perspective, should prove to be an advantage. Since these locations have not yet participated in the strong price increases in the A-locations, the risk of price declines should be lower. In this respect, Coreo AG's focus on investing in the commercial and residential property market in German secondary locations is understandable, both from a purchase price perspective and in terms of expected returns.

Corporate development

Key figures at a glance

Income statement (in € million)	FY 2020	FY 2021	FY 2022e	FY 2023e	FY 2024e
Income from rentals	3.52	4.35	5.23	11.71	13.92
Proceeds from the sale of real estate	6.09	10.32	4.80	8.80	6.00
Carrying amount of the properties sold	-5.60	-8.95	-3.36	-6.56	-4.80
Valuation result	0.85	1.86	3.00	8.68	9.31
Other revenues	0.17	0.11	0.05	0.05	0.05
Other operating income	0.06	0.23	0.20	0.20	0.20
Cost of materials	-2.29	-2.47	-2.42	-5.66	-6.11
Gross profit	**2.79**	**5.46**	**7.50**	**17.22**	**18.58**
Personnel expenses	-1.05	-1.04	-1.15	-1.27	-1.39
Depreciation	-0.70	-0.03	-0.31	-0.35	-0.35
Other operating expenses	-1.73	-1.56	-1.82	-2.71	-2.93
EBIT	**-0.69**	**2.84**	**4.22**	**12.89**	**13.90**
Financial income	0.19	0.14	0.00	0.00	0.00
Financial expenses	-2.32	-2.97	-2.90	-3.88	-4.19
EBT	**-2.81**	**0.01**	**1.32**	**9.01**	**9.71**
Taxes	0.38	-0.91	-0.33	-2.25	-2.43
Result for the period	**-2.44**	**-0.89**	**0.99**	**6.76**	**7.28**
EBITDA	0.01	2.87	4.53	13.24	14.25
in % of sales revenue	0.2%	37.8%	46.9%	58.5%	58.3%
EBIT	-0.69	2.84	4.22	12.89	13.90
in % of sales revenue	-14.2%	37.4%	43.7%	57.0%	56.9%
Earnings per share in €	-0.14	-0.05	0.04	0.30	0.32
Number of shares in millions	17.54	17.54	22.55	22.55	22.55

Sources: Coreo AG; GBC AG

Business development 2021

in € m	FY 2018	FY 2019	FY 2020	FY 2021
Rental income	2.16	2.92	3.52	4.35
Proceeds from disposals	6.73	2.98	6.09	10.32
Valuation result	2.64	3.06	0.85	1.86
EBIT	4.89	2.50	-0.69	2.84
After-tax result	1.66	-0.86	-2.44	-0.89

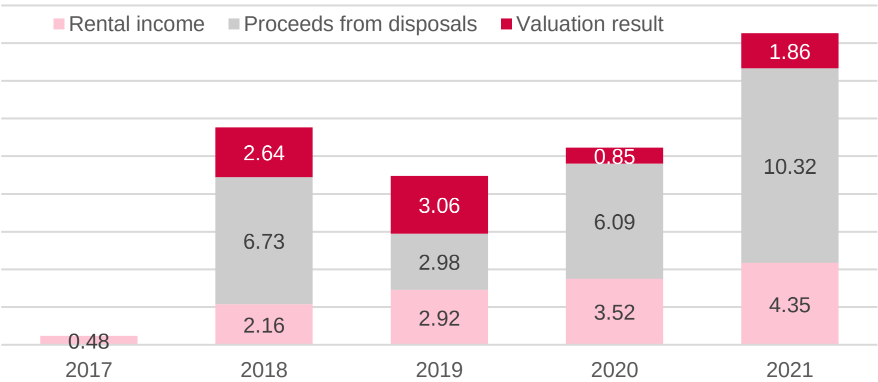
Sources: Coreo AG; GBC AG

Earnings development 2021

According to the company, the past financial year 2021 was also affected by the impact of the corona crisis. Furthermore, access to buildings and properties was only possible to a limited extent and there were also extended project durations. Nevertheless, the measures announced in advance by the Coreo management were largely implemented. Particularly noteworthy here is the significant increase in new investments. After only development properties in Wiesbaden were acquired in the previous year's period, three transactions were announced in 2021. Within the scope of two asset deals, two commercial portfolios worth around € 12 million were acquired in July 2021 and September 2021. In addition, a share deal was agreed in July 2021 for a substantial residential and commercial portfolio valued at just over € 50 million (GBC estimate). The transfer of this largest portfolio in Coreo's history is not expected to take place until the current financial year 2022. In total, the investment sum agreed in the 2021 financial year would be over € 60 million.

The addition of the new commercial properties in 2021, successful leasing of existing properties (Hydra portfolio) and the first full-year contribution to rental income from properties in the NRW portfolio, where the change of use and encumbrance took place during the year, led to a visible increase in rental **income** to € 4.35 million (previous year: € 3.52 million). Within four financial years, Coreo AG has more than doubled the level of rental income.

Breakdown of income components (in € million)



Sources: Coreo AG; GBC AG

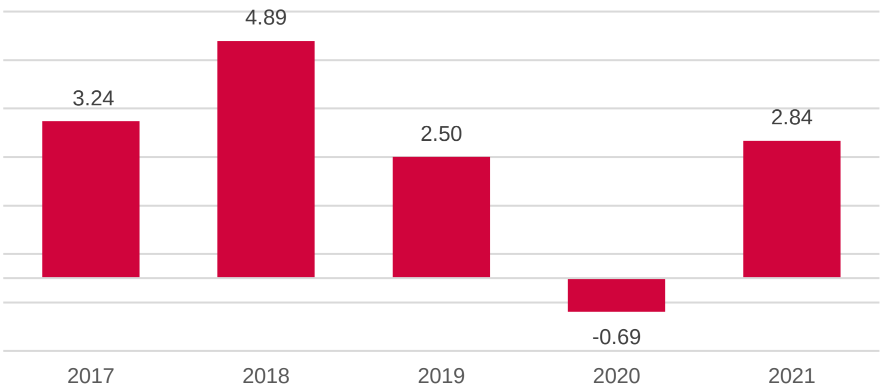
The second important revenue component, **proceeds from disposals,** increased significantly to € 10.32 million (previous year: €6.09 million). This was achieved through the sale of properties from the Mannheim portfolio and the NRW portfolio (flats in Gelsenkirchen and Bielefeld). In addition, the remaining properties of the part of the Hydra portfolio earmarked for sale were sold. Not only were the proceeds from disposals thus significantly expanded, but the result from disposals also increased considerably to € 1.37 million (previous year: € 0.49 million). The once again positive disposal result shows that the sales prices achieved were above the book values of the properties sold.

Within the third revenue component, the **valuation result**, an increase to € 1.86 million (previous year: € 0.85 million) was also achieved, so that the total income of Coreo AG was 58.1% above the previous year's value at a total of € 16.53 million (previous year: € 10.45 million). According to company information, management activities and investments in properties at Bad Köstritz, Göttingen, Wuppertal and Bielefeld locations led to the increase in the valuation result.

Earnings development 2021

The significant increase in revenue achieved in the past 2021 financial year is also reflected in the operating result. Compared to the previous year, the EBIT increased to € 2.84 million (previous year: € -0.69 million), with which Coreo AG succeeded in returning to the profit zone.

EBIT (in € million)

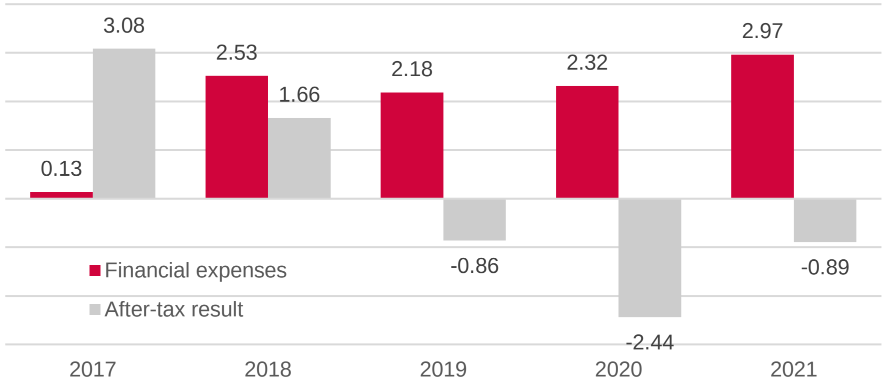


Sources: Coreo AG; GBC AG

As shown, all three revenue components contributed to the increase in earnings. In addition, operating costs actually declined to € 5.09 million (€ 5.76 million). While there was a slight increase in the cost of materials due to turnover, other expenses and depreciation in particular were significantly below the previous year's level. At € 0.70 million, depreciation in the 2020 financial year was characterised by depreciation on real estate inventories. In 2021, there was a normalisation here and thus a decrease in depreciation to € 0.03 million.

The significant increase in EBIT of € 3.53 million also continued in the net income for the year, although the growth dynamic was lower, with an increase of € 1.54 million to € -0.89 million (previous year: € -2.44 million). Naturally, an expansion of the property portfolio, as implemented by Coreo AG in the past financial years, is accompanied by an increase in borrowed capital and thus in financial expenses. In this regard, financial expenses increased to € 2.97 million (previous year: € 2.32 million) in the past financial year 2021. The increase is a consequence of the rise in liabilities to banks to € 42.98 million (31.12.20: € 35.58 million) on the one hand and the increase in other loan liabilities to € 22.68 million (31.12.20: € 16.00 million) on the other. The other loan liabilities are an investor loan with an interest rate of 6.75%. At the beginning of 2021, this was used for the early redemption of a warrant bond (coupon: 10%), which led to an interest saving in the other loan liabilities.

Financial expenses and after-tax result (in € million)



Sources: Coreo AG; GBC AG

Compared to the previous year, Coreo AG also recorded significantly higher tax expenses of € 0.91 million (previous year: tax income of € 0.38 million). This is mainly due to the deferred tax expense of € 0.58 million (previous year: deferred tax income of € 0.79 million) resulting from the property valuation.

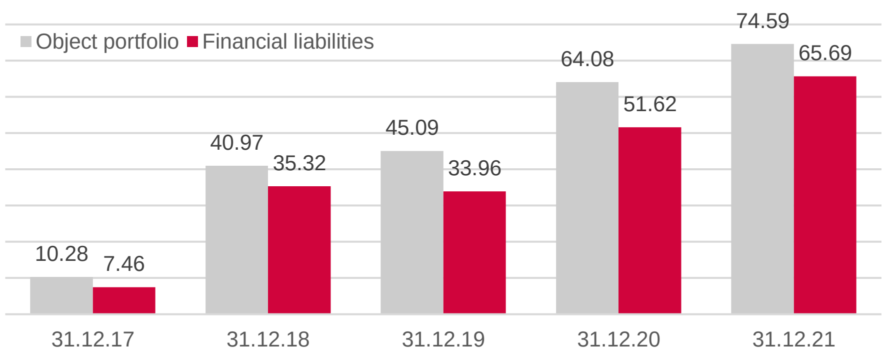
Balance sheet and financial situation

in € m	31.12.18	31.12.19	31.12.20	31.12.21
Equity	30.24	28.32	29.30	27.09
Equity ratio	44.2%	42.6%	34.6%	27.8%
Object portfolio	40.97	45.09	64.08	74.59
interest-bearing debt	35.32	33.96	51.62	65.69
LTV	86.2%	75.3%	80.6%	88.1%
Financial assets (incl. JV for St Martin Tower)	8.12	14.93	14.65	13.58
Cash and cash equivalents	14.03	5.20	3.28	7.67
Net debt	13.17	13.83	33.69	44.45
Cash flow (operating)	-11.30	-5.25	-13.80	-2.84
Cash flow (investment)	-17.00	-2.33	-7.93	-7.11
Cash flow (financing)	37.47	-1.26	19.82	14.33

Sources: Coreo AG; GBC AG

The acceleration of investment activities implemented in the past financial year led to an expansion of the property assets recognised in the balance sheet. In total, the property portfolio climbed to € 74.59 million (31.12.20: € 64.08 million), of which the majority, € 63.52 million (31.12.20: € 54.26 million), is allocated to long-term investment property. Since only € 1.86 million of the increase in property assets can be attributed to a higher valuation, the largest part is attributable to new investments. The transfer of benefits and burdens of the acquisition of the extensive residential and commercial property portfolio announced in July 2021 will only take place in the current financial year and is therefore not yet included in the balance sheet as at 31 December 2021.

Property portfolio and interest-bearing debt (in € million)



Sources: Coreo AG; GBC AG

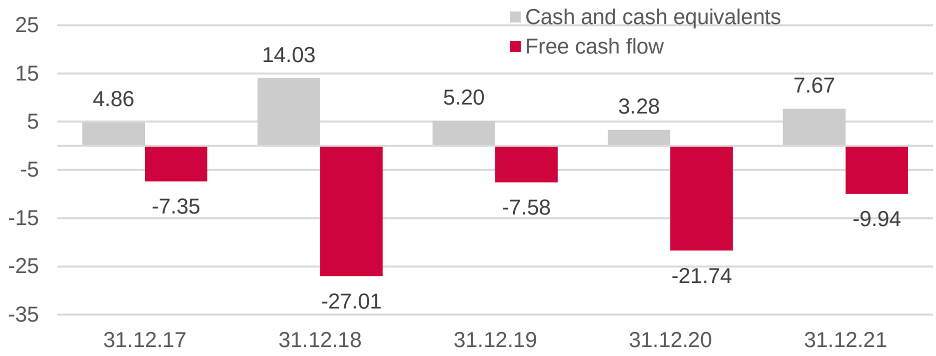
The expansion of the property portfolio was predominantly financed with borrowed capital, which led to a corresponding increase in interest-bearing liabilities to € 65.69 million (31.12.20: € 51.62 million). With a resulting LTV (loan-to-value) of 88.1% (31.12.20: 80.6%), the level of borrowed capital is to be classified as high in comparison to the balance sheet property values. However, this is also due to the fact that part of the investor loan of € 25 million (interest rate: 6.75%) taken out at the end of 2020 has not yet been used for the property acquisition. The first down payment for the acquisition of the extensive residential and commercial portfolio was made in the form of the 1.45 million MagForce shares held to date, which led to an asset swap on the balance sheet.

Due to the negative overall result of the past financial year 2021, equity declined to € 27.09 million (31.12.20: € 29.30 million). In conjunction with the significant acquisition-related balance sheet extension, this also led to a decline in the equity ratio to 27.8% (31.12.20:

34.6%). The capital increase of € 5.51 million gross, which was successfully carried out after the balance sheet date, should have significantly improved the equity ratio.

At the same time, the basis for future corporate growth should have been further improved. In any case, Coreo AG had an extensive stock of liquid funds amounting to € 7.67 million (31.12.20: € 3.28 million) on the balance sheet date 31.12.2021. Based on a free cash flow of € -9.94 million (previous year: € 21.74 million) in which cash inflows from property sales of € 9.46 million were offset by property investments of € -16.35 million, the increase in liquid funds is primarily due to the taking out of the investor loan.

Free cash flow and cash and cash equivalents (in € million)



Source: Coreo AG; GBC AG

FORECAST AND EVALUATION

in € m	FY 2021	FY 2022e	FY 2023e	FY 2024e
Rental income	4.35	5.23	11.71	13.92
Proceeds from disposals	10.32	4.80	8.80	6.00
Valuation result	1.86	3.00	8.68	9.31
EBIT	2.84	4.22	12.89	13.90
After-tax result	-0.89	0.99	6.76	7.28

Source: GBC AG

Turnover forecasts 2022 - 2024

As usual, we use the current property portfolio and the acquisitions that have already been determined as the basis for our sales and earnings forecasts. In addition, we have taken into account further property acquisitions in connection with the company's communicated growth strategy.

The current property portfolio includes properties in Bad Köstritz, Mannheim, Bruchsal, the Göttingen portfolio, the Hydra portfolio, the NRW portfolio, three production sites of an automotive supplier and a logistics property in Delmenhorst. In total, the company's properties are located in 18 locations, with a total lettable area of 69,690 sqm, of which 36,215 sqm are residential properties and 33,475 sqm are commercial space. This does not yet include the pending addition of the property portfolio acquired in July 2021 in 2022. With the addition of this largest corporate acquisition, the total property portfolio will more than double by 1,341 residential and 15 commercial units with a total lettable area of around 73,900 sqm. Including these properties, the annual net rent would increase significantly by around € 3.8 million.

However, even without the effects of the addition of the new portfolio, the company should report an increase in rental income in the current financial year. On the one hand, the first full-year inclusion of the production sites of the German automotive supplier should lead to an increase in rental income to over € 0.70 million, after rents of only around € 0.30 million were received proportionately in the past financial year 2021. The same effect results from the first full-year inclusion of the logistics property in Delmenhorst acquired in September 2021. Here, rental income is expected to increase from € 0.13 million (2021) to around € 0.50 million. Organic growth should be achieved in parallel through rental increases in the residential portfolios in Bad Köstritz, Wuppertal and Bielefeld, as well as through the re-letting of vacant space in Wetzlar. The Hydra portfolio is also expected to reach full occupancy. On this basis, depending on the timing of the addition of the new residential portfolio, the Management Board anticipates an increase in the annual net cold rent to € 3.8 million for the current financial year 2022. We assume that in this guidance an addition of the large residential portfolio was only assumed at the end of the 2022 financial year.

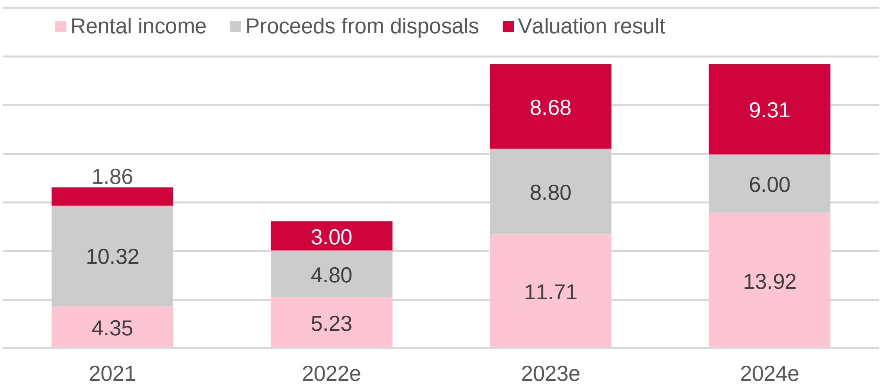
Furthermore, a declining development of sales revenues is to be expected. After the past financial year 2021 was characterised by extensive sales of properties from the Mannheim portfolio and the NRW portfolio, residential sales in Gelsenkirchen, Lünen (NRW portfolio) and the portfolio in Mannheim are expected to take place in the current financial year 2022. As a result, we initially expect a decline in sales revenues, which should only increase again in the coming financial years due to investments to be made.

The valuation result, as the third revenue component, reflects the investments made in the existing portfolio and the asset management performance. These have the effect of increasing rental income and thus the fair market value of the property. A significant component of the valuation income is likely to be the large residential portfolio. According to company information, approximately € 4 million is to be invested in modernisation or conversion over the next three to five years. In addition, the upcoming re-letting of empty spaces and rent increases should ensure an increase in valuation income.

In addition, Coreo should make significant new investments in the coming financial years in line with its communicated value-creating growth strategy, which we have also included in our forecasts. According to long-term investment planning, we believe that the total residential and commercial property portfolio should be expanded to € 400 to € 500 million in the next four to five years. The current property assets plus the planned acquisition of the large residential property portfolio should already amount to more than € 100 million. This is in line with the company's guidance, according to which the portfolio volume should grow to well over € 100 million by the end of the financial year 2022. On this basis, the company would have to report annual new investments and write-ups of slightly more than € 70 million (€ 400 million in four years) in the coming financial years.

In our forecasts, we take a more conservative approach and anticipate a total new investment volume of € 80 million for the period 2022 to 2024, above the current property portfolio plus acquisitions already made. For the possible property acquisitions, whose additions we have distributed over the current and the next two financial years, we are orienting ourselves with regard to property size, multiples, etc. to the investments made by Coreo to date. We continue to assume that the new investments will enable both a significant increase in rental income and the realisation of hidden reserves. At the same time, we believe that this should also lead to regular partial sales of non-strategic portfolio components.

Turnover forecasts (in € million)

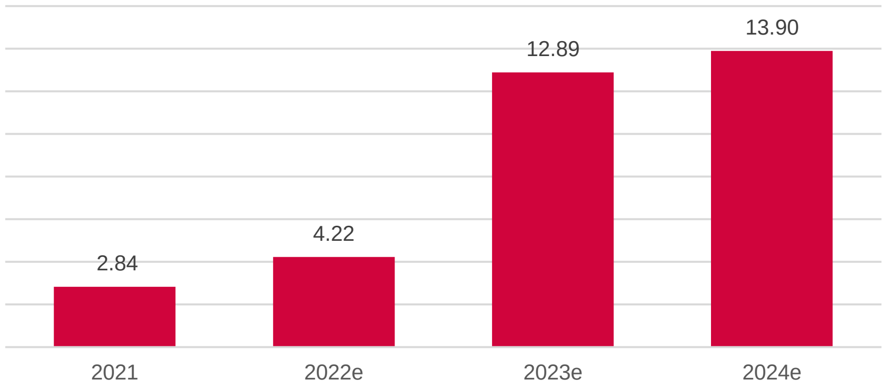


Sources: Coreo AG; GBC AG

What becomes clear in our forecasts is the increasing importance of rental income, which we expect to rise successively as the property portfolio grows. According to our forecasts, rental income will already be responsible for the largest share of total income in the current financial year 2022 at € 5.23 million. The expected strong increase in rental income in 2023 reflects the expected addition of the large residential property portfolio at the end of the 2022 financial year, which should raise the rental level by around € 3.8 million. Overall, we expect total revenues to decline to € 13.03 million (2021: € 16.53 million) due to the decrease in disposal proceeds. In the coming financial years, however, these should reach a significantly higher level of € 29.19 million (2023e) and € 29.24 million (2024e).

However, since the high-margin rental income should tend to gain in importance and the equally high-margin valuation income should also increase in volume, we expect the profitability level to rise. Accordingly, we expect a disproportionate increase in EBIT and an EBIT margin that should rise above 40% from the coming financial year:

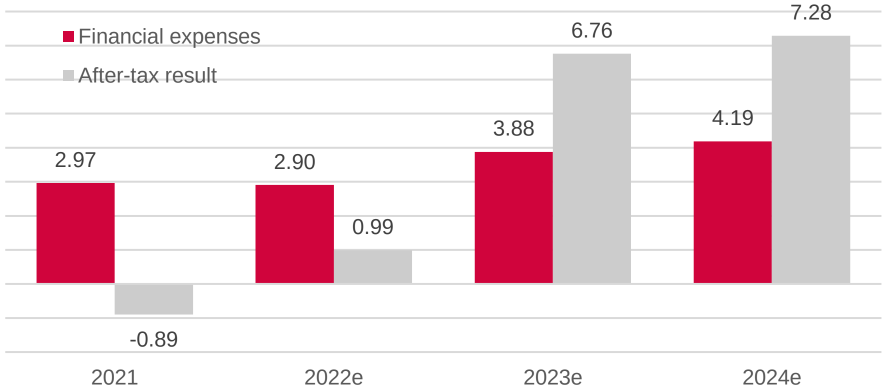
EBIT forecast (in € million)



Source: GBC AG

From the current financial year onwards, we assume that the break-even threshold will be sustainably exceeded at the level of the after-tax result. In our expectations, we have taken into account an investment-related increase in financial expenses. We have also included a small increase in interest on loans.

After-tax result and financial expenses (in € million)



Source: GBC AG

Evaluation

Model assumptions

Coreo AG was valued by us using a three-stage DCF model. Starting with the concrete estimates for the years 2022 to 2024 in phase 1, the forecast is made from 2025 to 2029 in the second phase by applying value drivers. We expect increases in turnover of 3.5%. The target EBITDA margin we assumed is 62.0% (previously: 64.2%). We have taken the tax rate into account at 25.0% in phase 2. In the third phase, a residual value is also determined after the end of the forecast horizon using the perpetuity. In the terminal value we assume a growth rate of 2.0%.

Determination of the cost of capital

The weighted average cost of capital (WACC) of Coreo AG is calculated from the cost of equity and the cost of debt. To determine the cost of equity, the fair market premium, the company-specific beta and the risk-free interest rate must be determined.

The risk-free interest rate is derived from current yield curves for risk-free bonds in accordance with the recommendations of the Fachausschuss für Unternehmensbewertungen und Betriebswirtschaft (FAUB) of the IDW. The basis for this is the zero bond interest rates published by the Deutsche Bundesbank according to the Svensson method. To smooth short-term market fluctuations, the average yields of the previous three months are used and the result rounded to 0.25 basis points. The currently used value of the risk-free interest rate is 0.40% (previously: 0.25%).

As a reasonable expectation of a market premium, we set the historical market premium of 5.50%. This is supported by historical analyses of stock market returns. The market premium reflects the percentage by which the stock market is expected to yield better than low-risk government bonds.

According to the GBC estimation method, a beta of 1.36 is currently determined.

Using the assumptions made, we calculate a cost of equity of 7.86% (previously: 7.71%) (beta multiplied by risk premium plus risk-free interest rate). Since we assume a sustainable weighting of the cost of equity of 60%, the weighted average cost of capital (WACC) is 6.43% (previously 6.34%).

Valuation result

Within the framework of our DCF valuation model, we have determined a new target price of € 2.15 (previously: € 2.60). Our changed forecasts of the concrete estimation period as well as dilution effects from the recently implemented capital increase have led to this price target reduction. In contrast, the increase in the risk-free interest rate and thus the WACC had only a slight effect in reducing the target price.

DCF model

Coreo AG - Discounted Cashflow (DCF) model

Value driver used in the DCF-model´s estimate phase:

consistency - phase	
Revenue growth	3.5%
EBITDA-margin	62.0%
Depreciation on fixed assets	0.2%
Working capital to sales	28.0%

final - phase	
Perpetual growth rate	2.0%
Perpetual EBITA margin	65.0%
Effective tax rate in terminal value	25.0%

Three-phase DCF - model:

Phase	**estimate**			**consistency**					**final**
in mEUR	FY 22e	FY 23e	FY 24e	FY 25e	FY 26e	FY 27e	FY 28e	FY 29e	TV
Revenue (RE)	9.67	22.62	24.43	25.29	26.18	27.09	28.04	29.02	
Revenue change	27.5%	133.9%	8.0%	3.5%	3.5%	3.5%	3.5%	3.5%	2.0%
Revenue to fixed assets	0.07	0.14	0.13	0.13	0.13	0.14	0.14	0.15	
EBITDA	4.53	13.24	14.25	15.68	16.23	16.80	17.38	17.99	
EBITDA-margin	46.9%	58.5%	58.3%	62.0%	62.0%	62.0%	62.0%	62.0%	
EBITA	4.22	12.89	13.90	15.33	15.88	16.45	17.03	17.64	
EBITA-margin	43.7%	57.0%	56.9%	60.6%	60.7%	60.7%	60.7%	60.8%	65.0%
Taxes on EBITA	-1.06	-3.22	-3.48	-3.83	-3.97	-4.11	-4.26	-4.41	
Tax rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
EBI (NOPLAT)	3.17	9.67	10.43	11.50	11.91	12.33	12.77	13.23	
Return on Capital	4.3%	7.0%	6.2%	5.7%	5.9%	6.1%	6.3%	6.4%	6.9%
Working Capital (WC)	7.00	7.50	8.00	7.08	7.33	7.59	7.85	8.13	
WC to sales	72.4%	33.2%	32.7%	28.0%	28.0%	28.0%	28.0%	28.0%	
Investment in WC	3.41	-0.50	-0.50	0.92	-0.25	-0.26	-0.27	-0.27	
Operating fixed assets (OFA)	130.92	161.20	192.11	193.61	195.11	196.61	198.11	199.61	
Depreciation on OFA	-0.31	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.36	
Depreciation to OFA	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	
CAPEX	-67.64	-30.63	-31.26	-1.85	-1.85	-1.85	-1.85	-1.86	
Capital Employed	137.92	168.70	200.11	200.69	202.44	204.20	205.96	207.74	
EBITDA	4.53	13.24	14.25	15.68	16.23	16.80	17.38	17.99	
Taxes on EBITA	-1.06	-3.22	-3.48	-3.83	-3.97	-4.11	-4.26	-4.41	
Total Investment	-64.22	-31.13	-31.76	-0.93	-2.10	-2.11	-2.12	-2.13	
Investment in OFA	-67.64	-30.63	-31.26	-1.85	-1.85	-1.85	-1.85	-1.86	
Investment in WC	3.41	-0.50	-0.50	0.92	-0.25	-0.26	-0.27	-0.27	
Investment in Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free Cashflows	-60.74	-21.11	-20.98	10.92	10.16	10.58	11.01	11.45	231.91

Value operating business (due date)	151.25	182.09
Net present value explicit free Cashflows	1.34	22.53
Net present value of terminal value	149.91	159.55
Net debt	102.58	127.57
Value of equity	48.67	54.52
Minority interests	-0.10	-0.11
Value of share capital	48.57	54.41
Outstanding shares in m	22.55	22.55
Fair value per share in €	**2.15**	2.41

Cost of Capital:

Risk free rate	0.4%
Market risk premium	5.5%
Beta	1.36
Cost of equity	7.9%
Target weight	60.0%
Cost of debt	5.2%
Target weight	40.0%
Taxshield	17.7%
WACC	**6.4%**

Return on Capital	**WACC**				
	6.2%	**6.3%**	**6.4%**	**6.5%**	**6.6%**
6.7%	2.27	2.08	1.88	1.70	1.53
6.8%	2.42	2.21	2.02	1.83	1.66
6.9%	2.56	2.35	**2.15**	1.96	1.78
7.0%	2.70	2.49	2.29	2.09	1.91
7.1%	2.85	2.63	2.42	2.23	2.04

APPENDIX

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The analysts responsible for this analysis are:
Cosmin Filker, Dipl. Betriebswirt (FH), Vice Head of Research
Marcel Goldmann, M.Sc., Financial Analyst

Other person involved:
Manuel Hölzle, Dipl. Kaufmann, Head of Research

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GBC AG
Halderstraße 27
D 86150 Augsburg
Tel,: 0821/24 11 33-0
Fax,: 0821/24 11 33-30
Internet: http://www,gbc-ag,de

E-Mail: compliance@gbc-ag.de

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- R E S E A R C H & I N V E S T M E N T A N A L Y S E N -

GBC AG
Halderstrasse 27
86150 Augsburg
Internet: http://www.gbc-ag.de
Fax: ++49 (0)821/241133-30
Tel.: ++49 (0)821/241133-0
Email: office@gbc-ag.de