

10 questions
to the
Executive
Board

“WE ARE KEEPING OUR EYES OPEN.”

What developments have we seen and what lies in store? After a three-year period in which investments were put on hold, Deutsche EuroShop has become active again, investing almost €500 million in 2010. In this interview the two members of the Executive Board, Claus-Matthias Böge and Olaf Borkers, give the low-down on subjects including the newly acquired centers, how growth is being financed, the markets and future prospects for the shopping center investor.

Pictures: Thomas Lorenz, Interview: Patrick Kiss

After three rather restrained years, you sought to expand again in 2010. Can you tell us about the acquisitions that you made?

CLAUS-MATTHIAS BÖGE: That's right. At the beginning of 2010 we acquired the A10 Center in Wildau, near Berlin, for a total investment of approximately €265 million. The expected net initial yield was in the region of 6.5%. In the autumn we concluded the contract to purchase the Billstedt-Center in Hamburg, which we incorporated into our portfolio at the start of 2011 with a net initial yield of 6.0% and an investment volume of around €160 million.

OLAF BORKERS: Although the two acquisitions are not directly comparable, in both cases our reliability as a contract partner paid off. Our ability to make decisions and act swiftly certainly proved helpful.

CLAUS-MATTHIAS BÖGE: That's exactly how I see it. Sellers are looking for security that transactions will go through. We can offer them that, as we are able to make offers without the caveat of securing financing. This frequently counts for more than offering the highest price. What's more, in both cases the combination of Deutsche EuroShop as investor and ECE as center manager was regarded as positive by the seller.

How did you finance the acquisitions?

OLAF BORKERS: To refinance the equity portion of the A10 Center investment, we carried out a rights issue with a one-for-six subscription ratio in January 2010. At a subscription price of €19.50 per share, the issue volume came to around €123 million – and the issue was oversubscribed almost five times over.

For the Billstedt-Center we followed exactly the same procedure and also carried out a rights issue, this time with a one-for-eight subscription ratio at a price of €23.00 per share. In this case we were actually oversubscribed more than six times, with overall demand coming to just under €850 million. Roughly €132 million was raised for our Company.

In addition, we took out long-term loans with a total volume of €230 million.

CLAUS-MATTHIAS BÖGE: With both capital increases we were delighted with the considerable willingness shown by our shareholders to subscribe. We regard this as vindication from the capital market of the course we have chosen to take.

We also carried out a non-cash capital increase for the first time. In July we were able to purchase shareholdings in the shopping centers in Wuppertal (City-Arkaden, 25%) and Dresden (Altmarkt-Galerie, 17%) and pay for these with 1,780,000 new shares. At €22.88, the price agreed was slightly above the stock market price at that time.

Taking all three capital increases together, we increased the number of shares by 36.5% last year. This did our share price no harm: in 2010 the return for our shareholders was 28.1%. Our market capitalisation rose by an impressive 67% to around €1.5 billion.

Are you satisfied with the past year?

CLAUS-MATTHIAS BÖGE: Absolutely. We managed to exceed our forecasts once again. A significant part was played here by the A10 Center in particular, which contributed to earnings for the first time. We had budgeted for revenue, that is rental income, of €139-142 million and actually achieved €144.2 million, corresponding to a rise of 13% on 2009. Earnings before interest and taxes (EBIT) of between €118 million and €121 million had been estimated; in the end we managed to increase this figure to €124.0 million – 12% up on the previous year. As for earnings before taxes (EBT) excluding measurement gains/losses, in other words our actual cash operating profit, we had forecast a figure of €58-60 million. The fact that we ultimately achieved an increase of 17% to €63.9 million is extremely satisfying.

With its 2010 results, Deutsche EuroShop was once again able to spring a positive surprise. Are you too conservative in your budgets?

CLAUS-MATTHIAS BÖGE: We are cautious business people. And that applies to our budgeting too. There is no point raising expectations with overly optimistic assumptions that cannot be met if the economic fundamentals deteriorate even slightly, simply so that – possibly in the short term – the public perceive you as particularly successful.

I prefer the budgeting of individual income and expense items to be based on realistic assumptions and the principle of prudence. If I think back over the past few years, any deviations from the planned figures always resulted from the sum of numerous smaller deviations, which, on balance, were positive.

How will Deutsche EuroShop continue to grow?

CLAUS-MATTHIAS BÖGE: In 2010, we went down all three growth routes available to us: acquiring new shopping centers, increasing shareholdings and expanding existing, successful centers. The expansions will be or have already been completed in the current year and will contribute to our further growth. However, we are always keen to stress that for us growth is about quality rather than quantity. It needs to be healthy growth. We are able to act quickly when opportunities present themselves and are keeping our eyes open. There are a few properties on the market, but the gap between what buyers and sellers regard as an acceptable price is still too great.

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OLAF BORKERS: With our cash resources, credit line and 50% long-term financing we could quickly realise shopping center investments with a value of around €300 million.

Has the pressure of competition eased following the financial crisis?

CLAUS-MATTHIAS BÖGE: Unfortunately not. We are still seeing increasing interest in retail properties. For properties with a value up to €150 million there is a relatively large number of potential buyers on the market. For properties larger than this, however, interest is clearly waning for various reasons. There are still a number of open-ended property funds that are actively buying, although it should also be mentioned that other open-ended property funds are selling. Also on the scene now are sovereign wealth funds, which have a great deal of equity to invest. Large life insurance companies and pension funds are looking for investment opportunities too.

How are you responding to online retail as a rival to your shopping centers?

OLAF BORKERS: The retail trade is changing all the time. We see new trends come and go on a regular basis. The internet is no longer a new trend. As a landlord our options with regard to a shopping center property are limited, but our tenants can vary their retail concepts. We therefore need to give them the freedom that allows them to respond to trends and set new ones. Over the last few years we have identified a trend towards larger shop areas, for example. However, some initial tenants are now testing smaller concepts again. What all these trends have in common, though, is a greater emphasis on the concept of lifestyle, on shopping as an experience. But trends can change quickly at any time. As a landlord you need to be able to respond with flexible floor plans. With our shopping centers we are able to do this. ▶





Last year Deutsche EuroShop celebrated its tenth anniversary. When you look back over this period, what has changed and what would you possibly do differently today?

CLAUS-MATTHIAS BÖGE: I was lucky enough to be there right from the start of Deutsche EuroShop's journey. I was appointed to the Supervisory Board at the end of 2000, shortly before the Company's flotation, and took up my current role on the Executive Board one year later. At that time we did not have our own office or any employees. One of my first tasks was to change that.

The first two years were extremely heavy going, as nobody on the capital market seemed to be interested in us. This had a great deal to do with the tough economic environment: the internet bubble had burst, the stock markets were plummeting and German banks had made some poor calls in the area of property financing, particularly in what was formerly East Germany, and were stuck with

loan commitments that they had no hope of recovering. Then we came along and tried to convince investors that Deutsche EuroShop was a good investment. In addition, Deutsche Bank still had a stake of around 45% in the Company, which was not in the plan at the time of flotation.

Only after the German stock market had reached its lowest point in March 2003 and investors began to seek out dividends was Deutsche Bank able to fully divest itself of its investment. After this, we had such a large free float that the first analysts and institutional investors started to take notice of us and we were immediately included in the SDAX. One year later we were promoted to the MDAX.

The experience from this rather gloomy period has, however, resulted in us being cautious in our actions to this day, perhaps even too cautious on some occasions. From 2003 to 2005 in particular it was possible to acquire good properties with reasonable returns. Today we are still a long way away

from conditions in these "good" times. However, I sometimes wish that we had another chance at that era, as we are now in a very different position and – as was the case last year – are daring to undertake larger investments.

What can we expect from 2011?

OLAF BORKERS: We are anticipating revenue of between €184 million and €188 million for financial year 2011. The revenue contribution of the Billstedt-Center and the full consolidation of the Phoenix-Center and Main-Taunus-Zentrum will have a positive impact here. In addition, the three expansion and modernisation projects at the A10 Center, the Altmarkt-Galerie Dresden and the Main-Taunus-Zentrum will contribute to the significant revenue growth.

We are forecasting earnings before interest and taxes (EBIT) of between €157 million and €161 million in the current year, which corresponds to a rise of 28%. Earnings before taxes (EBT) excluding measurement gains/losses are expected to rise by 20% to €75-78 million. Lastly, we anticipate that funds from operations, or FFO for short, will be between €1.48 and €1.52 in 2011.

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CLAUS-MATTHIAS BÖGE: And let's not forget our dividend. For 2010 we are distributing €1.10 per share to our shareholders in June. In absolute terms, the sum distributed is rising by around 23%, from €46.3 million to €56.8 million. And our dividend policy, which is geared towards the long term and continuity, means that it should not get any smaller in the years to come.

The number "10" features prominently in this annual report. Are you bold enough to look ahead and say what Deutsche EuroShop will be like in ten years' time?

CLAUS-MATTHIAS BÖGE: I don't really like making forecasts for such long periods. However, provided that the property and capital markets

do not go haywire, our shareholders continue to support us, the partnership with ECE continues to work well over the long term and we have the necessary good fortune, we could have 30 shopping centers in our portfolio by 2020.

Thank you for talking to us. ■

CLAUS-MATTHIAS BÖGE
CEO

CLAUS-MATTHIAS BÖGE After successfully qualifying as a bank clerk and completing a business administration degree, Mr. Böge began his professional career in 1987 at the Düsseldorf-based Privatbankhaus Trinkaus & Burkhardt in Mergers & Acquisitions. His work, for which he was made a Prokurist (authorised signatory) in 1989, focused on advising small and medium-sized companies on buying and selling companies and equity interests. In 1990, Mr. Böge was appointed to the management of KST Stahltechnik GmbH, a subsidiary of the Austrian industrial plant construction group VA Technologie AG, where he was responsible for the financial control, personnel, legal, tax and administration departments. In autumn 1993, Mr. Böge moved to ECE Projektmanagement G.m.b.H. & Co. KG in Hamburg, the European market leader for the development, realisation, leasing and long-term management of shopping centers. It was here that he first became fascinated with the world of shopping centers. In addition to a series of management positions at subsidiaries in the ECE group, his work focused on concept planning, financing and ongoing profitability optimisation of property investments. Mr. Böge joined the Executive Board of Deutsche EuroShop AG in October 2001. He is married and has two children.



OLAF G. BORKERS
CFO

OLAF G. BORKERS After serving as a ships officer with the German Federal Navy, Mr. Borkers qualified as a bank clerk with Deutsche Bank AG in 1990. He then studied business administration in Frankfurt/Main. From 1995, Mr. Borkers worked as a credit analyst for Deutsche Bank AG in Frankfurt and Hamburg. In 1998, he joined RSE Grundbesitz und Beteiligungs-AG, Hamburg, as assistant to the Executive Board. In 1999, Mr. Borkers was appointed to the Executive Board of TAG Tegernsee Immobilien und Beteiligungs-AG, Tegernsee and Hamburg, where he was responsible for finances and investor relations until September 2005. In addition, Mr. Borkers held various Supervisory Board and management positions within the TAG Group. Olaf G. Borkers joined the Executive Board of Deutsche EuroShop AG in October 2005. He is married and has two children.