Corporate Rating
ADLER Real Estate AG
Germany, Real Estate

SCOPE Scope Ratings
www.scoperatings.com

Corporate profile

ADLER Real Estate AG (henceforth ADLER) is a publicly traded real estate company which is focused on developing a real estate portfolio. Its activities centre on the acquisition and management of residential properties throughout Germany. ADLER was formed out of Frankfurter Adlerwerke, a company with a rich history going back to the 19th century.

Rating

Corporate Rating:	BB-
Outlook:	Stable
Instrument Ratings:	
ISIN DE000A1TNEE3:	BB+
ISIN DE000A1R1A42:	BB-
ISIN DE000A11QF02:	BB-
ISIN DE000A1YCMH2:	BB-
ISIN XS1211417362:	BB-
ISIN DE000A161XW6:	BB-
ISIN DE000A161ZA7:	B-
Sector:	Real Estate
Monitoring:	Monitored

Analysts

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Rating rationale

Scope Ratings assigns BB- Corporate Issuer Credit Rating (CICR) to Adler Real Estate AG (ADLER).

The BB- rating for ADLER is driven primarily by an adequate business risk profile, which benefits from the size ADLER has achieved in the fragmented and low-risk German residential real estate industry, and is characterised by a fairly diversified portfolio with regard to geographies and tenants.

Negative rating factors include ADLER's relatively high leverage and low free cash flows, which substantially increase its dependency on external refinancing.

Instrument ratings

ADLER's senior unsecured EUR 10m convertible bond 2013/2017 (ISIN DE000A1TNEE3) is rated BB+ given the recovery expectations which we view as 'excellent' (90-100%), due mainly to the senior ranking character of its debt facility. We have also assigned instrument ratings of BB- to the following debt instruments: EUR 35m bond 2013/2018 (ISIN DE000A1R1A42), EUR 130m bond 2014/2019 (ISIN DE000A11QF02), EUR 11.25m convertible bond 2013/2018 (ISIN DE000A1YCMH2), EUR 350m bond 2015/2020 (ISIN XS1211417362) and EUR 138m convertible bond (ISIN DE000A161XW6) reflecting our recovery expectation which we view as 'above average' (30-50%). The EUR 175m mandatory convertible bond 2015/2018 (ISIN DE000A161ZA7) is rated CCC as recovery expectations are 'very low' (0-10%).

Outlook

The Outlook for ADLER is Stable and reflects Scope's expectation of a gradual reduction in debt as measured by LTV and an improvement in profitability in the medium term.

A negative rating action would be considered if the company's debt protection, as measured by FFO fixed charge, were to decrease below 1.0x (from about 1.2x currently) or if the company's access to external financing weakened. Scope points out that in the short to medium term, uncertainties over ADLER's future policy on mergers and acquisitions could also put downward pressure on the assigned rating.

A positive rating action is tied to a meaningful improvement in the company's financial risk profile, i.e. if FFO fixed charge increases above 1.7x and LTV drops below 60%, both on a continuing basis.

Rating drivers

Positive	Negative
Low industry risk (German residential real estate)	Assets mainly in 'B' and 'C' cities; some capex also required and risk of declining demand
Medium-sized real estate company, enabling successful tapping of capital markets and economies of scale going forward	Dependence on external financing with expected Liquidity below 100% for 2015
Good geographical and tenant diversification	Relatively high leverage with 70% LTV at YE 2015 set to continue
Improving profitability, with EBITDA margin of 42% in 2015	Weak FFO fixed-charge cover of 1.2x expected to remain above 1.0x going forward

Financial overview

	2010	2011	2012	2013	2014	2015	2016F	2017E	2018E
P&L/BALANCE SHEET (EUR m)									
Revenues (reported)	1.3	1.8	5.7	19.8	140.8	384.8	410.7	430.2	375.8
Scope adjusted revenues (excl. service charge)	***1.3***	***1.8***	***5.4***	***13.6***	***114.0***	***302.6***	***324.5***	***341.8***	***286.6***
Revenues growth yoy (%)	*n/a*	*37%*	*199%*	*152%*	*739%*	*165%*	*7%*	*5%*	*-16%*
EBITDA (reported)	-0.8	0.5	1.4	4.8	38.1	118.8	98.8	125.4	126.1
Operating lease payment	0.1	0.1	0.1	0.2	0.5	3.1	3.1	3.1	3.1
Other items	0.0	0.0	0.0	0.0	-24.6	-41.6	0.0	0.0	0.0
Scope adjusted EBITDA	***-0.7***	***0.6***	***1.6***	***5.0***	***14.0***	***80.2***	***101.9***	***128.5***	***129.2***
Cash interest expenses (net)	0.0	0.0	-0.4	-4.8	-35.1	-67.3	-83.0	-81.6	-80.9
Cash tax paid	0.0	0.0	-0.3	0.0	-1.5	-0.1	-0.8	0.2	-0.4
Pension interest	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Depreciation component operating leases	0.0	0.0	0.0	0.1	0.7	2.0	2.0	2.0	2.0
Dividends received from @ equity	0.0	0.0	0.0	0.0	0.0	0.0	7.4	9.0	4.0
Disposal gains fixed assets	---	---	---	---	---	---	---	---	---
Change in provisions	---	-0.4	-1.4	-0.1	3.8	2.2	0.0	0.0	0.0
Scope funds from operations (FFO)	***-0.7***	***0.2***	***-0.5***	***0.1***	***-18.2***	***16.9***	***27.4***	***58.0***	***53.8***
Δ Working capital	0.0	0.0	1.3	-0.3	-0.7	-60.0	48.7	-17.3	-2.4
WC ratio (%)	*0%*	*0%*	*22%*	*-2%*	*0%*	*-16%*	*12%*	*-4%*	*-1%*
Non-operational cash flow	0.0	0.0	0.0	0.0	-19.6	0.0	0.0	0.0	0.0
Cash flow from operations (CFO)	***-0.7***	***0.2***	***0.8***	***-0.3***	***-38.4***	***-43.0***	***76.1***	***40.7***	***51.4***
CAPEX	0.0	0.0	0.0	0.0	-9.7	-15.6	-13.7	-14.0	-14.2
CAPEX/revenues	*-2%*	*0%*	*0%*	*0%*	*0%*	*-4%*	*-3%*	*-3%*	*-4%*
Free cash flow (FCF)	***-0.7***	***0.2***	***0.8***	***-0.3***	***-48.2***	***-58.7***	***62.4***	***26.8***	***37.1***
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Discretionary cash flow	***-0.7***	***0.2***	***0.8***	***-0.3***	***-48.2***	***-58.7***	***62.4***	***26.8***	***37.1***
Total assets	***36.4***	***34.7***	***43.8***	***460.9***	***1,416.5***	***3,076.2***	***3,096.3***	***3,188.5***	***3,271.9***
Gross financial debt	5.7	4.9	14.3	329.2	1,017.6	2,142.1	2,034.7	2,028.4	2,015.4
Cash & marketable securities	-0.5	-4.5	-1.1	-6.9	-33.1	-49.5	-76.3	-73.5	-73.9
Restricted cash	0.0	0.0	0.0	1.2	4.3	8.7	8.7	8.7	8.7
Pension adjustments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating leases	0.2	0.1	0.2	0.7	5.8	16.1	16.1	16.1	16.1
Asset retirement obligations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Scope adjusted debt (SaD)	***5.5***	***0.5***	***13.4***	***324.2***	***994.6***	***2,117.3***	***1,983.2***	***1,980.1***	***1,966.6***
PROFITABILITY AND EARNINGS POWER									
Operating EBITDA margin	-51.0%	35.3%	28.9%	36.6%	12.2%	26.5%	31.4%	37.6%	45.1%
Operating EBITDA margin (letting)	-51.0%	35.3%	-11.9%	37.4%	20.2%	42.2%	48.3%	60.7%	60.9%
Return on assets	-0.8%	2.3%	0.4%	-0.9%	1.4%	3.4%	2.8%	4.2%	4.0%
DEBT PROTECTION MEASURES									
FFO fixed charge cover	-0.1x	1.2x	0.2x	1.0x	0.6x	1.2x	1.3x	1.6x	1.6x
EBITDA interest expense cover	-1.1x	0.9x	2.5x	0.6x	0.3x	1.0x	1.2x	1.6x	1.6x
EBITDA cash interest cover	<0.0x	>10.0x	3.9x	1.0x	0.4x	1.2x	1.2x	1.6x	1.6x
LEVERAGE									
LTV	15.3%	1.7%	31.3%	71.4%	71.9%	70.0%	65.7%	63.6%	61.5%
SaD/EBITDA	-8.2x	0.8x	8.6x	65.2x	71.2x	26.4x	19.5x	15.4x	15.2x
FFO/SaD	-1.3%	185.6%	1.2%	2.7%	2.3%	4.8%	5.6%	7.0%	6.9%
FCF/SaD	-12.9%	43.7%	5.9%	-0.1%	-3.9%	-2.8%	3.1%	1.4%	1.9%
LIQUIDITY									
Liquidity	53.1%	485.3%	16.7%	-545.9%	-27.6%	90.0%	171.9%	89.5%	49.2%
Liquidity (excl. 50% non-recourse)	53.1%	485.3%	33.4%	-788.4%	-51.1%	2,069.5%	299.7%	125.6%	59.2%

Sources: ADLER, Scope estimates

Rating change drivers

Positive	Negative
Increase in FFO fixed charge to above 1.7x on a continuing basis	Reduction of FFO fixed charge to below 1.0x
Reduction of LTV to below 60% on a continuing basis	Further aggressive dynamic growth negatively influencing FCF

Business risk profile

Industry risk

Cyclicality – medium

While the real estate industry is often associated with cyclical features compared to industries with inelastic demand patterns, these vary heavily depending on the individual business model. The residential sector benefits from lower cyclicality because demographic changes occur much more slowly than economic turmoil.

Market entry barriers – high

Scope believes that the real estate industry generally has low barriers to entry. On the one hand, significant investment is needed to buy, maintain or develop properties. Thus, either (i) significant internal resources or (ii) good access to third-party capital is needed. On the other hand, we observe a (i) high level of fragmentation of the real estate industry and (ii) good general access to credit due to collateral-eligible assets. Both are indicators that the barriers to entry are relatively low.

However, given diverse real estate regulations in Europe – especially in the residential sector – knowledge of local taxes and laws is important. Furthermore, technical know-how is essential for almost the whole value chain. This includes the performance of technical due diligence before buying a property or the realisation of refurbishment measures or ongoing maintenance. Thus, property companies need to maintain in-house (or purchase external) know-how in order to remain up-to-date or to enter more markets. As a result, we would assess market entry barriers for residential real estate corporates as high.

Substitution risk – low

Substitution risk is low as the properties – mainly for residential spaces – represent one of the basic human needs.

Figure 1: Industry risk assessment I European residential real estate corporates

Cyclicality \ Barriers to entry	Low	Medium	High
High	CCC/B	B/BB	BB/BBB
Medium	B/BB	BB/BBB	BBB/A
Low	BB/BBB	**BBB/A**	AA/AAA

Source: Scope Ratings

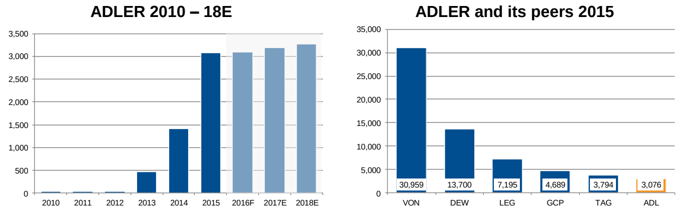
Market positioning

Medium-sized German residential real estate company with low market shares

ADLER is a medium-sized property company in the fragmented German real estate market with a consolidated market value of assets of EUR 3,076m at YE 2015 and funds from operations (FFO) of EUR 17m in 2015. ADLER doubled its total assets in 2015, this being financed foremost by debt, allowing it to reach a size that should further support access to external financing. The company depends on the latter as a consequence of its comparatively weak cash flows, as measured by free cash flows (FCF) that were a negative EUR 59m in 2015.

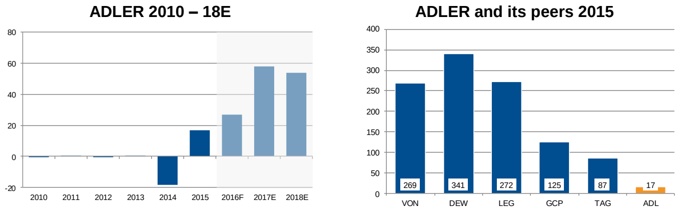
ADLER's market share is negligible for the German market (0.12%). The same applies to the company's core markets (Figure 6) with the exception of Wilhelmshaven (15% market share) and Helmstedt (5%). Due to the continued fragmentation of the German real estate market these small market shares are not considered a negative driver.

Figure 2+3: Total assets ADLER and peers (EUR m)



Sources: ADLER and public information for peers

Figures 4+5: FFO ADLER and peers (EUR m)



Sources: ADLER and public information for peers

Exposed to markets with declining demand/limited scope for rent increases

ADLER is exposed to markets with high price elasticity regarding customers as most of the company's core markets – with the exception of Berlin, Leipzig and Dresden – are expected to suffer from a strong decline in demand in the next 10-15 years (Figure 6). ADLER has stated that its portfolio is tailored towards a target group of (semi) skilled workers with an average gross income of EUR 22-24k p.a. who require two-bedroom (60m²) apartments. Due to low prices, ADLER could offer such apartments for about EUR 4,000 p.a. representing 23% of relevant income per household (housing cost ratio). This is slightly above Germany's housing cost ratio of 20%, thus underpinning the limited capacity for rent increases in these markets. According to ADLER, one third of its tenants rely on governmental subsidies to enable rental payments. Whilst this boosts the stability of rental income, it further limits scope for rent increases.

However, the downside risk for ADLER should be somewhat mitigated by its average rent per square metre which is low compared to market rents in the relevant regions.

Figure 6: ADLER's core markets/market share/development of population and households up to 2025/30

City	No. of apartments (#)	Market size (no. of apartments)	Market share	Population development	Household development
Wilhelmshaven	6,849	45,250	15%	-7.6%	-5.3%
Duisburg	4,163	252,698	1.7%	-4.9%	-6.2%
Helmstedt/Schöningen	2,177	46,790	4.7%	-19.4%	-13.2%
Leipzig/Halle (Saale)/Borna	1,437	463,256	0.3%	-0.7%	-1.3%
Berlin	1,258	1,894,132	0.1%	0.6%	2.6%
Dortmund/Gelsenkirchen	1,117	635,941	0.2%	-0.3%	-4.6%
Dresden/Meißen/Pirna	1,016	418,676	0.2%	9.0%	5.7%

Sources: BBSR, ADLER, Scope Ratings

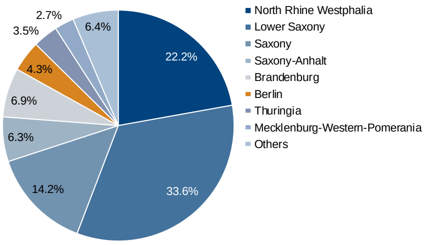
Diversification

Good geographic diversification across Germany

ADLER operates a reasonably diversified portfolio which is well distributed across Germany, with the top five markets representing 85% of its total portfolio. Scope believes that ADLER's diversification regarding both geography and tenants demonstrates its ability to offset cash flow volatility arising from economic cycles, industry dynamics, regulatory changes and a loss of individual tenants.

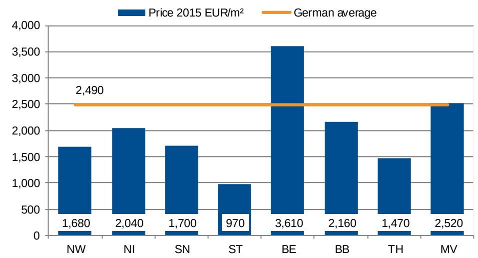
Asset allocation according to asset value, highlighted in Figure 7 below, reflects ADLER's strategy of continuing to invest in comparably low price markets (Figure 8) such as North Rhine-Westphalia – NW (22% of assets), Lower Saxony – NI (34%) and Saxony – SN (14%). With the exception of Lower Saxony, these markets show a below-average rise in prices over the last three years indicating comparably weaker demand.

Figure 7: ADLER geo. distribution of asset values (%)



Sources: ADLER, Scope Ratings

Figure 8: Average price residential space (EUR/m²)



Sources: Immowelt.de, Scope Ratings

Asset quality

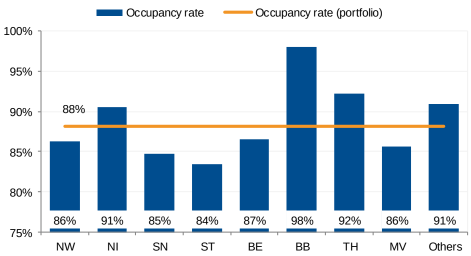
Assets are mainly situated in less liquid 'B' and 'C' locations and display some CAPEX requirements

ADLER's current property portfolio mostly reflects the company's strategy of investing in affordable housing property (see also Market positioning) with potential for value enhancement as well as being predominantly located within high and medium-level centres (Ober- and Mittelzentren) with a strong macroeconomic environment. As a result, ADLER's assets are mainly located in 'B' and 'C' locations, such as Wilhelmshaven and Duisburg

(Figure 6), which tend to be less liquid than properties in ‘A’ locations. This increases the risk of potential price haircuts in a distressed sales scenario. The ‘A’ location portfolio of ADLER’s subsidiary ACCENTRO[1] (7.4% of investment properties) partially mitigates that risk.

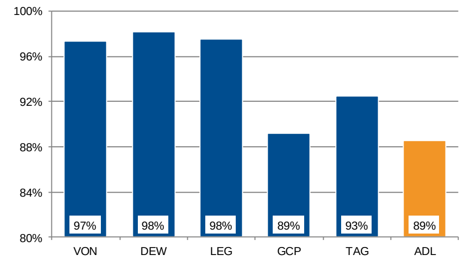
ADLER’s strategy also results in above-average vacancy in the acquired properties as well as some CAPEX requirements as the portfolio’s average age is above 50 years. We therefore judge ADLER’s capital and maintenance expenditure of EUR 14.7 per m² in 2015 to be inadequate as it is comparably low[2]. However, ADLER aims to invest an additional EUR 15m of CAPEX in the next 18 months to improve the lettability of 1,500 apartments.

Figure 9: ADLER occupancy rate across federal states



Sources: ADLER, Scope Ratings

Figure 10: Occupancy rate ADLER and peers – YE 2015



Sources: ADLER and public information for peers

Adequate occupancy rate of 89% expected to improve to more than 90% by YE 2016

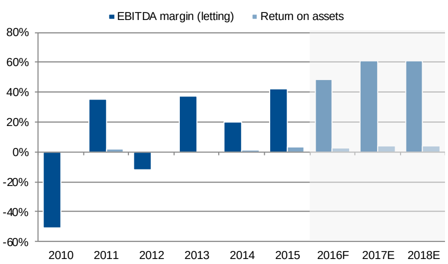
Scope believes this supports the company’s targeted growth as regards occupancy from an adequate 89% at Q2 2016 (YE 2014: 87%) to above 90% by YE 2016. This assumption is further supported by ADLER’s 2016/17 focus on (i) the internalisation of property management and (ii) the disposal of 3,400 non-core units with a low occupancy of 75%. Scope considers occupancy rates of above 90% to be adequate for a business risk profile (BRP) of BBB.

Profitability

Improving profitability with an EBITDA margin of 42% in 2015, still below industry peers however

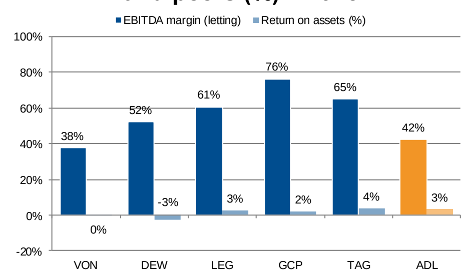
EBITDA margin, excluding sales activity, stood at 42% in 2015, up from 20% in 2014. Though driven by the portfolio’s strong growth during the year, it is still weaker than that of ADLER’s peers, which have margins of more than 50% excluding sales (Figure 12). However, even with reduced portfolio growth rates, the overall trend of increasing profitability should remain stable in the coming years, with adjusted EBITDA margin targets of between 45% and 50% (Figure 11). The increase in profitability should benefit from an expected rise in (i) occupancy and (ii) economies of scale, both reducing operational expenses that cannot be passed on to tenants.

Figure 11: Profitability ADLER – 2010-18E



Sources: ADLER, Scope Ratings

Figure 12: Profitability ADLER and peers (%) – 2015



Sources: ADLER and public information for peers

[1] ACCENTRO is a real estate service provider that specialises in the retailing of large housing portfolios and B2C business.

[2] Vonovia S.E. (VON): EUR 33.0 per m² I Deutsche Wohnen AG (DEW): EUR 20.0 per m² I LEG Immobilien AG (LEG): EUR 16.1 per m² I TAG Immobilien AG (TAG): EUR 15.2 per m² I Grand City Properties S.A. (GCP): EUR 14.1 per m²

Financial risk profile

Debt protection and cash flows

Adequate FFO fixed charge cover of 1.2x expected to remain above 1.0x going forward

ADLER's FFO fixed charge cover in 2015 was weak at 1.2x, but Scope expects this to increase above 1.5x in the next two years (Figure 13), indicating that ADLER can safely meet its fixed charges incl. operating lease payments and interest obligations. The increase in FFO fixed charge cover should, in particular, be driven by an expected (i) further reduction in the weighted average cost of debt, which stood at 3.99% at Q1 2016, down from 4.70% at YE 2014, and (ii) the portfolio optimisation as described in the Asset quality section above.

Positive trend for cash flow generation thanks to growth strategy

The company's cash flow generation in terms of FFO and EBITDA shows a positive trend thanks to the acquisition of 48,000 apartments since 2012. However, as a consequence of recent growth, FCF was negative up to 2015. With the change in the company's focus to organic instead of dynamic growth we only expect portfolio optimisation to occur (+/-2,000 p.a.) in our base case scenario. Thus, free cash flow generation should turn positive in 2016.

Figure 13: Debt protection ADLER 2010 – 18E

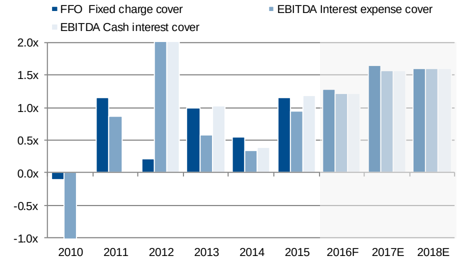
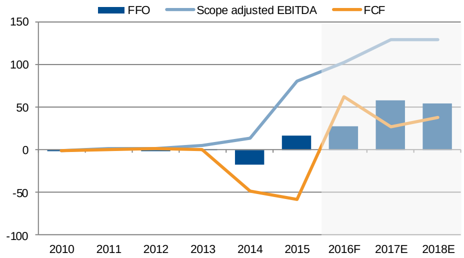


Figure 14: Cash flows ADLER 2010 – 18E (EUR m)



Sources: ADLER, Scope Ratings

Leverage

Comparably high leverage on a continuing basis

ADLER's loan-to-value ratio (LTV) jumped to 72% in 2013 (Figure 15) after it implemented an aggressive growth strategy, financed foremost by debt issuances. However, ADLER can now benefit from the size achieved in terms of market capitalisation and growth strategy, enabling a partial shift towards refinancing with equity instead of capital market debt. As a consequence, LTV sank marginally to 70% in 2015 (2014: 72%). By YE 2017 Scope expects this to fall below 65%, due to additional valuation uplifts as a result of positive German market conditions, a further shift towards refinancing with capital market equity, and the expected streamlining of the portfolio.

Current leverage as measured by Scope adjusted debt (SaD)/EBITDA it is not judged to be a determining factor for the financial risk profile (FRP). This view is based on the fact that the contribution to EBITDA made by debt-financed acquisition is delayed and therefore current SaD/EBITDA figures exaggerate actual leverage. Scope adjusted debt (SaD)/EBITDA stood at a comparably high 26.4x at YE 2015 (2014: 71.2x; 2013: 65.2x). Like-for-Like SaD/EBITDA stood at 18.0x at Q2 2016. With reduced growth rates and a further consolidation of ADLER's residential portfolio, we expect SaD/EBITDA to decrease to a level commensurate with the assigned FRP of B (Figure 18).

Figure 15: LTV (%) ADLER 2010 – 18E

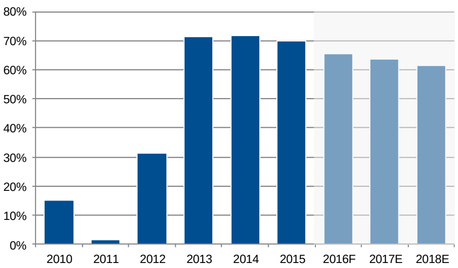
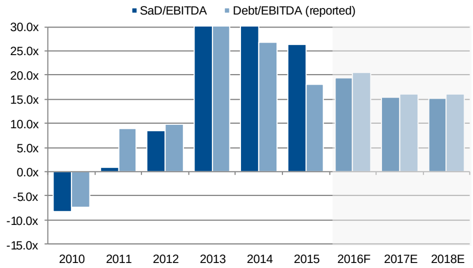


Figure 16: Cash flow leverage ADLER 2010 – 18E



Sources: ADLER, Scope Ratings

Liquidity and debt repayments

Sufficient liquidity. Refinancing dependent on external sources however.

Generally, ADLER is dependent on external financing sources as internal financing capabilities (cash flow from operations + cash) are currently rather limited.

However, ADLER's expected liquidity ratio stood above 100% as debt due in August 2016, obtained by acquiring 22.4% of shares in Conwert Immobilien Invest SE (Conwert) was successfully financed in August 2016. In detail, ADLER has now to extend or repay EUR 48m of debt in the next 12 months, which represents around 2% of its total debt. Repayment should be covered by EUR 40m-50m of expected FCF for the same period and an unrestricted cash position of EUR 57m at Q2 2016. Furthermore, Scope believes this debt can also be refinanced due to the comparatively low LTV of around 60% for (i) the properties (debt of EUR 38m) and (ii) the high likelihood of a conversion of EUR 9.3m of convertibles due 2017 (conversion price of 2.00 EUR/share vs. current 11.00-12.00 EUR/share).

No material refinancing up to 2019

Furthermore, ADLER's debt maturity profile is equally spread across the next 10 years with no material refinancing due before 2019 (Figures 17+18).

Figure 17: Debt maturity profile (EUR m) as of YE 2015

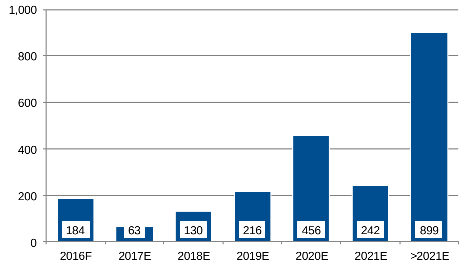
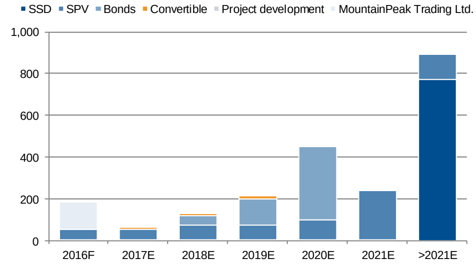


Figure 18: Debt maturity profile (EUR m) as of YE 2015 / breakdown



Sources: ADLER, Scope Ratings

Supplementary rating drivers

Financial policy

Diversified sources of financing + commitment to reduce leverage to below 65% by YE 2017

ADLER's dependence on external financing is partially mitigated by its solid access to banks and capital markets. As of now, ADLER benefits from diversified financing sources with different reputable lenders (Figure 19).

Scope believes the management's target of reducing LTV to below 65% by YE 2017 should be attainable. This view is based on the company's successful shift in financing from capital market debt to equity (50/50 for 2015) as well as its focus on organic instead of dynamic growth for 2016. The latter should be beneficial to the company's free cash flow generation and positively impact the fair values of its investment properties. Management aims to handle further growth in an LTV neutral way also make for a confident outlook.

Figure 19: Lender universe (EUR)

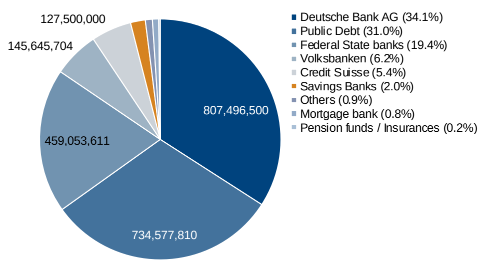
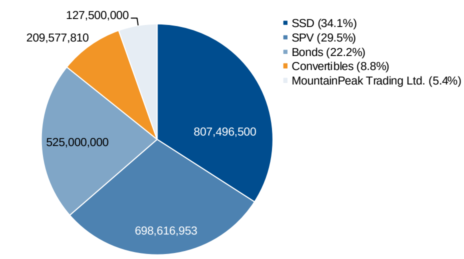


Figure 20: Type of debt (EUR)



Sources: ADLER, Scope Ratings

Outlook

Outlook: Stable

The Outlook for ADLER is Stable and reflects Scope's expectation of a gradual reduction in debt as measured by LTV as well as an improvement in profitability in the medium term.

A negative rating action would be considered if the company's debt protection, as measured by FFO fixed charge, were to decrease below 1.0x from about 1.2x currently. Scope emphasises that in the short to medium term, uncertainties over ADLER's future policy on mergers and acquisitions could also put downward pressure on the assigned rating.

A positive rating action is tied to a meaningful improvement in the company's financial risk profile, i.e. if FFO fixed charge increases above 1.7x and LTV drops below 60%, both on a continuing basis.

APPENDIX

EBITDA	
Cash flow measure	EBITDA is a financial measurement of the operating cash flow from operations that is widely used when assessing the performance of companies. It enables a comparison of profitability between different companies by eliminating the effects of financing (by ignoring interest and long-term operating rent payments) and political jurisdictions (by ignoring tax). EBITDA also excludes the noncash items depreciation and amortisation of assets. Scope will only exclude operating rent payments from the measure if not material. EBITDA also includes sustainable core income from investments and associates.
Revenue - Operating expenditures + Depreciation and amortisation + Expenses for long-term operating lease financing + Sustainable associates/investment income = EBITDA	

Scope adjusted funds from operations (FFO)	
Cash flow measure	Scope adjusted funds from operations (FFO) represent operating cash flows before changes in working capital and after dividends received, interest paid and long-term operating lease charges and other non-recurring income or expenses.
EBITDA - Net interest paid - Tax paid + Associate dividends received ± Other non-operating charges before FFO = Scope adjusted funds from operations (FFO)	

Scope adjusted debt (SaD)	
Debt measure	Scope adjusted debt (SaD) is a key determinant for many credit metrics. Based on the disclosure given in a company's annual report (reported financial debt), which typically consists of bank loans, financial leases and capital markets debt such as bonds, Scope applies certain adjustments. The main adjustment items relate to off-balance sheet items such as a company's unfunded pension obligations, operating lease obligations and guarantees given. The measure deducts equity credit resulting from hybrid debt securities that are qualified as equity-like. Long-term operating lease charges are capitalised as a multiple of the rents. This multiple is typically 'eight' but may vary depending on the specific industry the entity operates in and the location of the leased assets. For specific industries such as utilities provisions are included, if material, for example for decommissioning of power plants.
Reported financial debt + Off-balance sheet debt, such as operating leases, unfunded pensions, guarantees, provisions, if applicable - unrestricted cash and equivalents = Scope adjusted debt (SaD)	

EBITDA margin letting (%)	
Operating profitability measure	The EBITDA margin letting illustrates an issuer's profitability, setting aside the group's financing structure, tax situation and operational results from the disposal of properties. It is typically applied to commercial real estate corporates with a focus on letting. It is equal to earnings before interest, tax, depreciation, amortisation and rent charges (EBITDA), divided by total revenue.
EBITDA + expenses related to sale of properties + revenues from service charge ——— Total revenue - revenues from service charge- revenues from sale of properties	

FFO fixed-charge (x)	
Debt protection measure	This ratio indicates an issuer's ability to pay its fixed financing expenses. This compares the operational cash generating ability of an issuer with its debt service obligations. The ratio is influenced by the relative levels of interest rates in different jurisdictions and the funding mix, including the use of zero-coupon debt.
FFO + interest paid + preferred dividends + annual pension payments ——— Interest paid + preferred dividends + operating rent charge + annual pension payments	

FFO/SaD (%)

Debt protection measure

$$\frac{\text{FFO + interest paid + preferred dividends}}{\text{SaD}}$$

This ratio is a measure of an entity's cash flow generation compared with its debt burden.

SaD/EBITDA (x)

Debt protection measure

$$\frac{\text{SaD}}{\text{EBITDA}}$$

This ratio compares an issuer's debt payment obligations with its ordinary, unleveraged, untaxed cash flow generation before operating rent payments (EBITDA).

Liquidity (%)

Liquidity measure

$$\frac{\text{Operating cash flow}_{t+1} + \text{unrestricted cash and marketable securities}_{t} + \text{unused committed bank facilities}_{t} + \text{committed unused factoring lines}_{t1} + \text{committed proceeds from asset sales}_{t+1}}{\text{Short-term debt}_{t}}$$

This ratio indicates the company's ability to pay its short-term debt from its operating cash flow, unrestricted cash and marketable security position, unused committed bank facilities, unused committed factoring lines, and proceeds from committed asset sale.

IMPORTANT INFORMATION

Information pursuant to Regulation (EC) No 1060/2009 on credit rating agencies, as amended by Regulations (EU) No. 513/2011 and (EU) No. 462/2013

Responsibility

The party responsible for the dissemination of the financial analysis is Scope Ratings AG, Berlin, District Court for Berlin (Charlottenburg) HRB 161306 B, Executive Board: Torsten Hinrichs (CEO), Dr. Stefan Bund, Dr. Sven Janssen.

The rating analysis has been prepared by Philipp Wass, Lead Analyst
Responsible for approving the rating: Olaf Tölke, Committee Chair

Rating History - ADLER Real Estate AG (Date | Rating action | Rating)

25 July 2016 I Initial Rating I BB- I Stable

The rating outlook indicates the most likely direction of the rating if the rating were to change within the next 12 to 18 months. A rating change is, however, not automatically ensured.

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Key sources of Information for the rating

- Prospectus
- Website of the rated entity
- Valuation reports
- Annual financial statements
- Annual reports/semi-annual reports of the rated entity
- Information provided on request
- Data provided by external data providers
- External market reports
- Press reports / other public information
- Interview with the rated entity

Scope Ratings considers the quality of the available information on the evaluated company to be satisfactory. Scope ensured as far as possible that the sources are reliable before drawing upon them, but did not verify each item of information specified in the sources independently.

Examination of the rating by the rated entity prior to publication

Prior to publication, the rated entity was given the opportunity to examine the rating and the rating drivers, including the principal grounds on which the credit rating or rating outlook is based. The rated entity was subsequently provided with at least one full working day, to point out any factual errors, or to appeal the rating decision and deliver additional material information. Following this examination, the rating was not modified.

Methodology

The methodologies applicable for this rating (Corporate Rating Methodology, Rating Methodology - European Real Estate Corporates) are available on www.scoperatings.com. The historical default rates of Scope Ratings can be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. A comprehensive clarification of Scope's default rating, definitions of rating notations and further information on the analysis components of a rating can be found in the documents on methodologies on the rating agency's website.

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