

Eurobank Properties REIC

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The Company

Value Investing Approach

Outlook

Lessons learned

Eurobank Properties REIC is the largest Listed Investment Property Fund in Greece

Company Overview

Assets

The company has assets under management of c. €890m; a €567m high quality property portfolio of 59 assets with c. 410,000 sqm (4,412,000 sq ft) of GLA and a remarkable occupancy rate of 93%, proving the strong operational performance, plus €323m in cash for new investments

Tenant base

The tenant base includes blue chip multinationals and local champions like Eurobank, Bancpost, Praktiker, Procter & Gamble, L'Oreal, H&M, Marks & Spencer, AB Vasilopoulos, Marinopoulos Group

Tax regime

As a REIC, the company enjoys the benefits of a special tax-efficient regime in Greece. REICs are exempt from:

- Capital gains tax
- Transfer tax
- Dividend tax

Legislation

Significantly improved legislation framework regarding the scope of investments and structures (JVs & partnerships) is in place

Shareholders

Strong shareholder base: Fairfax, Eurobank, Fidelity - more than 60% owned by North America value investing institutional investors

2008 was a transformational year for Eurobank Properties

Company History (1/2)

Mar 2000

Eurobank Properties was established by Eurobank, Lamda Development, Deutsche Bank

Sep 2005

Eurobank Properties was transformed into a REIC by spinning out all non investing activities

Apr 2006

IPO, through which €78m for investments were raised, DB partially exited

Dec 2007

Share Capital Increase of €323m for new investments

Feb 2008

Transformation took place:

- Change in management
- In-house vs. outsourced
- Independence established from basic shareholder
- New Strategy established

2013 agreement between largest shareholders makes Eurobank Properties even more competitive

Company History (2/2)

Aug 2012

Lamda sells 15% stake at Fairfax making them 2nd largest shareholder with 19.1% stake

Mar 2013

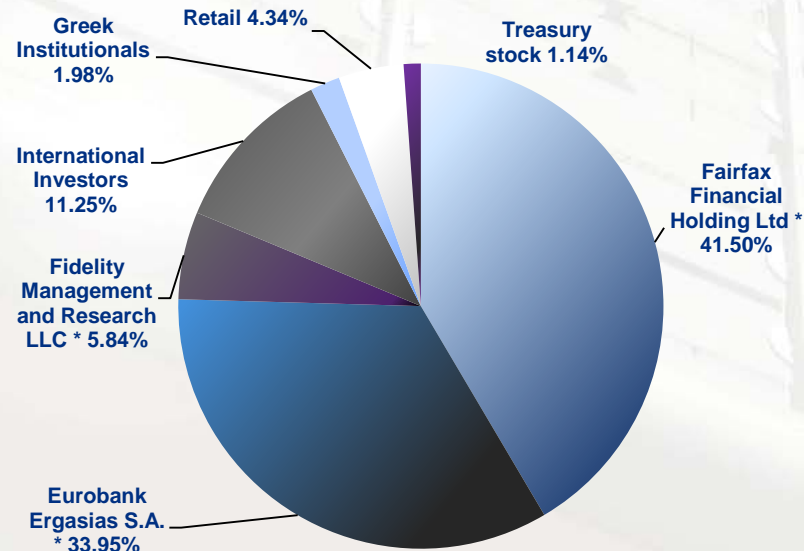
DB sells 5.8% stake at Fidelity making them the 3rd largest shareholder

June 2013

Eurobank & Fairfax agree in a share capital increase of €193m to fuel the growth of the company with Fairfax taking over Eurobank's rights

Jan 2014

Share Capital Increase of €193m for new investments and new shareholders structure



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Early in 2008 we started implementing Ben Graham's approach...

Value Investing Approach

Management

Management team employed directly by the company – strong commitment in value creation for shareholders and transparent operations

In-house Model

All core activities (asset management, investment analyses, deal sourcing, etc.) brought in house to ensure efficiency and eliminate any potential conflicts

Strategy

New Strategy established under the following dimensions:

- ▶ Freeze of all investments and re-valuation based on value analysis
- ▶ Analyze supply/demand equilibrium and try to forecast shocks
- ▶ Examine both qualitative and quantitative features before taking any decision
- ▶ Wait & See approach – patience for the right opportunity
- ▶ Focus on existing portfolio and profitability maximization
- ▶ Cost reduction initiatives

“Patience is the investor's single most powerful ally.”

Benjamin Graham

Several transactions were cancelled or renegotiated saving millions for shareholders and created value by smart exits well above book...

Transactions cancelled

32,000sqm Office building in Sofia, Bulgaria

€93m deal, 7.5% yield, Eurobank local sub as tenant



S&L Of Eurobank portfolio of 11 assets – 7,250sqm

17m deal, 6.7% yield



25,000sqm Mall in secondary location in Athens

€60m deal, 6.5% yield



€100m savings

Transactions renegotiated

24,000sqm Office building with “green” specs in Athens. Works for LEED certification in progress.



€38m instead of €47m

Asset disposals

5 Branches around Greece
1 office building



34.8% Realized IRR
6%-6.2% exit yields

Portfolio management & cost reduction initiatives

- ▶ Lease renegotiation in 3 waves during the crisis:
 - Indexation Freeze
 - Rent Free Periods
 - Rent Reductions
- ▶ Prolongation of leases and upside terms:
 - Average duration increased
 - Turnover clauses in retail tenants
- ▶ Renegotiation with all suppliers and service providers in our assets
- ▶ Reduction in services fee from 8% on rents to 2%
- ▶ Reduction in insurance, legal, marketing, printing costs
- ▶ Re-design of processes let to higher productivity



- ✓ **Occupancy Rate at 93%**
- ✓ **OPEX reduction by 50%**
- ✓ **Stable profitability despite rent reductions**

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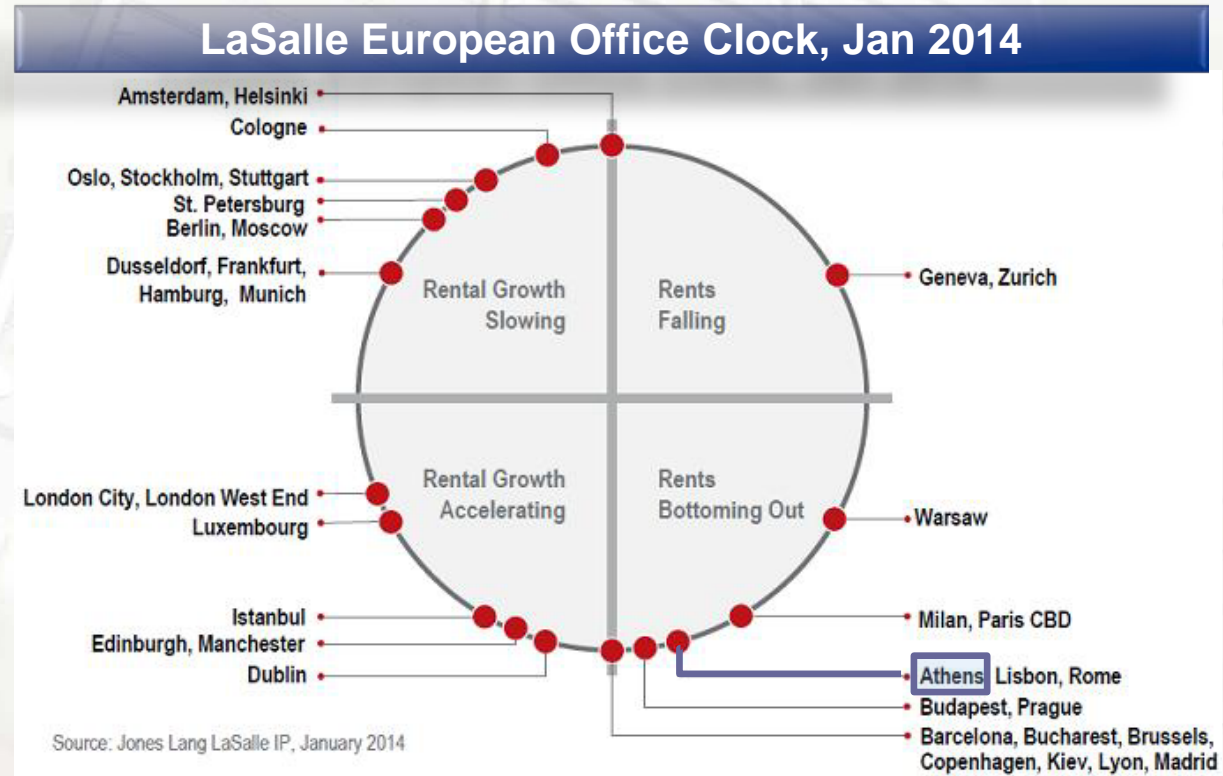
Opportunity to act fast and benefit from market recovery

- ▶ Signals that business cycle will enter expansion phase
 - Country risk to be moderated
 - Rents to bottom out in the short-term
- ▶ Investing activity is starting to pickup
 - Yield compression to drive values higher than recent historical low's



Opportunity to gain from

- ***investing in a period of historically high yields and low values***
- ***growth driven by economic recovery***



Investment focus

Distressed situations

Distressed sellers rather assets; investors that entered at market peak using high leverage, owning performing assets

Privatization projects

Interesting assets that enter the market for first time

Bank deleverage

Banks are mandated to gradually clear off their balance sheets from NPLs and repossessed assets; opportunities are expected to arise

Corporate S&L

High cost of debt is leading corporations to alternative sources for funding their operations and growth projects; Sale & leaseback of core premises is one of them

*“Major emphasis on avoidance of loss.” **

Energy efficiency

Transforming the company’s portfolio through acquisitions and existing assets’ upgrading in the single “green” and sustainable portfolio in the region

*“An investment operation is one which, upon thorough analysis, promises safety of principal and a satisfactory return. Operations not meeting these requirements are speculative.” **



Portfolio of four retail boxes in Athens and Thessaloniki

- Total GLA of c. 65,100 sqm with Praktiker Hellas as anchor
- 100% occupancy rate, annual rental income of €5.5m
- Transaction cost: €50m
- Implied price per sqm: €770, i.e. 35% below replacement cost + cost of land
- Transaction concluded in 2013Q4



Hellenic Republic, Sale & Leaseback

- 14 assets in Athens and locations around Greece with c. 136,000 sqm of office areas
- 100% occupancy rate, annual rental income of €14.055m
- Transaction price: €145.8m
- Transaction expected to be concluded in 2014Q1



Portfolio of three warehouses in Aspropyrgos

- Newly constructed assets with modern specifications and total GLA of c. 39,000 sqm
- 100% occupancy rate, annual rental income of €2m
- Transaction price: €17m
- Implied price per sqm: € 435 per sqm, i.e. 30% below replacement cost
- Transaction expected to be concluded in 2014Q1

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Lessons we have learned so far in Eurobank Properties

Principles for uninterrupted, efficient performance

Strategy

Clear strategy and solid orientation to value-investing principles and strong fundamentals

Patience

Thorough analysis and solid grounds needed for all investment decisions

Market awareness

Dedicate resources to identify market conditions, demand & supply forces and trends – Know where you stand in the macro-economic cycle

“Rule No. 1: Never lose money.

Rule No. 2: Never forget rule No. 1.”

Warren Buffett

What also matters for the Shareholders

Persons

Strong management team with high integrity, experience & skills, who care about the company and enjoy their work

Organisation

Lean structure with incentives in place, safeguarding alignment of interests between company and management

Transparency

Transparent structure, full disclosure of information (good & bad), implementation of best practices on Corporate Governance

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