ZugEstates

Press release
Zug, 28. August 2020

Half-year results of the Zug Estates Group impacted by the coronavirus

- Property income rose by 5.4% year over year to CHF 28.2 million.
- The Aglaya project generated promotional profit before tax of CHF 9.5 million
- Net income amounted to CHF 8.3 million (prior-year period: CHF 26.1 million). Excluding revaluation and special effects, net income declined from CHF 15.4 million to CHF 11.9 million.
- Solid capital base with an equity ratio of 55.7% (54.7% as at December 31, 2019)

At Zug Estates, the first half of 2020 was also full of challenges related to the COVID-19 pandemic.

In our real estate unit, many of our tenants were forced to close their businesses during the government-mandated lockdown. This primarily affected our retail tenants and thus the Metalli shopping area. In the hotel & catering segment, international business travel ground to nearly a complete halt, which caused a substantial decline in sales.

Fortunately, we were able to hand over all 49 of the remaining condominium units in the Aglaya promotional project to their new owners on schedule, even despite the pandemic. What's more, we have already been able to find fair, finalized solutions involving one-time rent reductions for more than 90% of the tenants directly impacted by the lockdown.

Net income of CHF 8.3 million was generated in the first half of 2020, down 68.3% from the prior-year period (CHF 26.1 million). After adjustments for revaluation and special effects, declining figures in the hotel & catering segment were largely responsible for a 22.7% reduction in net income, from CHF 15.4 million to CHF 11.9 million.

Increase in property income with a substantial decline in hotel and catering sales
The full-period effect of rental agreements, most of which were concluded in the previous year, increased rental income in the first half of 2020 by 5.4% to CHF 28.2 million compared to the same period of the previous year. Rent reductions of CHF 0.7 million were granted in response to the COVID-19 pandemic.

Income from the hotel & catering segment declined from CHF 8.2 million to CHF 3.6 million. At times during the lockdown, occupancy at our hotels fell to below 10%. While we have been able to report rising numbers since then, they are still significantly lower year on year. Gross operating profit (GOP) is at a mere 7.8% compared to 39.3% in the first half of 2019.

The sale of the last 49 condominium apartments in the Aglaya project generated CHF 72.5 million in income and promotional profit before tax of CHF 9.5 million. For the Aglaya promotional project as a whole, this translates into a return of 17.3% on our investment. Since no sales proceeds were booked in the prior-year period, this resulted in a substantial increase in operating revenue from CHF 36.7 million to CHF 105.4 million.

A revaluation of the real estate portfolio revealed an overall decline of CHF 13.6 million in the value of the portfolio, which corresponds to around 0.9% of all investment properties contained in the portfolio on June 30, 2020, and is attributable to a slightly more conservative appraisal of the market rents of retail spaces, both in general and with respect to a few specific office spaces. In the prior-year period there was a revaluation gain of CHF 11.5 million.

The average rate of interest of interest-bearing debt was reduced even further, from 1.4% to 1.3%. As expected, the significant decline in construction activity led to a reduction in capitalizable interest and a corresponding increase in financial expenses from CHF 2.5 million to CHF 3.5 million.

Stable portfolio with slightly higher vacancy rate
The portfolio's market value of CHF 1.63 billion is the same as on December 31, 2019. The building on construction site 1 in Rotkreuz was commissioned in the first half of 2020. As expected, this caused the vacancy rate to rise accordingly from 3.3% on December 31, 2019, to 5.3% on June 30, 2020. Overall, we invested CHF 16.2 million in our portfolio during the reporting period. The weighted average unexpired lease term (WAULT) of 6.7 years (6.8 years on December 31, 2019) is very high for the industry.

While our residential products are in very high demand in the current market environment, we are currently seeing a certain amount of restraint due to the COVID-19 pandemic, particularly among large prospective tenants of office space. We are confident, however, that demand for the centrally located, high-quality and sustainably run office space offered by Zug Estates will remain brisk in the future, as well. Fortunately, the number of inquiries concerning retail space in the Metalli complex has remained stable and we do not currently see any indications that this might decline.

Solid capital base
The influx of funds from the sale of the final apartments in the Aglaya building enabled the Group to reduce its interest-bearing debt during the first half of 2020 from CHF 597.4 million to CHF 587.1 million, even despite payment of a special dividend. This debt has an average maturity of 4.8 years (previous year: 5.2 years). With an equity ratio of 55.7%, one percentage point higher than in the previous year, Zug Estates has a very solid equity base.

Project development with a focus on the Metalli Living Space
The city of Zug and Zug Estates presented the initial results of their joint "Metalli Living Space" planning process in March 2020, after which they collaborated with professional planners to perform a feasibility check. The reference project and a request for changes to the two development plans concerned are currently being prepared, along with all relevant documentation. The reference project is to be submitted to the city of Zug during the third quarter of 2020. The legally binding, modified development plans are expected to take effect in 2022/23.

As soon as it received the building permit, the board of directors greenlighted the planning phase for the final two buildings (S43/45) on the Suurstoffi site in Rotkreuz. Construction will begin as needed, taking COVID-19-related market recovery into account.

Gradual implementation of the sustainability strategy
The Metalli complex was connected to the Circulago lake water district according to plan in April 2020. Contracts to connect the remaining 16 properties were signed in December 2019. Commissioning is to take place in stages in 2021, 2023 and 2025. From that point onward, Zug Estates will be able to

operate its entire portfolio nearly carbon free. Customers visiting the Metalli shopping area have been able to take advantage of public e-vehicle charging stations since early June. Two of the six stations are high-power, rapid charging stations, the very first to be installed in the city of Zug.

The installation of a carbon-neutral air conditioning system in the rooms of Parkhotel Zug was completed on schedule in April 2020, meaning that guests can now enjoy a considerably higher level of comfort.

Outlook for 2020

Due to the temporary impact of the rent relief measures enacted in response to the COVID-19 pandemic, we still expect rental revenue to increase for the year as a whole. Property expenses and financial expenses will be higher due to increased renovation and maintenance work as well as a decrease in capitalizable financing costs.

Although developments in the second half of the year are difficult to forecast, we expect sales and GOP in the hotel & catering segment to fall significantly short of the prior-year level due to the fact that our regular customers' international business travel came to a halt, causing sales to plummet.

Both operating income before depreciation and revaluations and net income excluding revaluation and special effects are expected to be significantly lower year on year as a result.

Report dated August 28, 2020
Please refer to our website for the detailed half-year report:
https://www.zugestates.ch/en/mn/downloads.html

We will be conducting an **audio webcast in German** today at **10:30 a.m.** Patrik Stillhart (CEO) and Mirko Käppeli (CFO) will be available to answer questions following the presentation. No registration required.

Dial-in number:
CH +41 44 580 65 22
DE: +49 692 017 44 220
UK: +44 203 00 92 470

PIN: 10811060#

Live and replay link: https://webcasts.eqs.com/zugestates20200828

Link for participants of the audio conference (only slides, no audio):
https://webcasts.eqs.com/zugestates20200828/no-audio

The corresponding presentation can be viewed on our website:
https://www.zugestates.ch/en/mn/downloads.html

Upcoming events:

3 September 2020	Publication of Sustainability Report
5 March 2021	Publication of Annual Report 2020
13 April 2021	General meeting of shareholders

For further information, please contact:

Patrik Stillhart, CEO T +41 41 729 10 10, ir@zugestates.ch
Mirko Käppeli, CFO

About Zug Estates
The Zug Estates Group conceives, develops, markets and manages properties in the Zug region. It focuses on central sites which are suitable for a wide range of uses and allow sustainable development. The real estate portfolio comprises the two sites in Zug and Risch Rotkreuz. The Group also runs a city resort in Zug incorporating the two leading business hotels Parkhotel Zug and City Garden, augmented by a range of restaurant outlets. As at June 30, 2020, the total portfolio value was CHF 1.63 bn.
Zug Estates Holding AG is listed on the SIX Swiss Exchange, Zurich, (ticker symbol: ZUGN; securities number: 14 805 212).

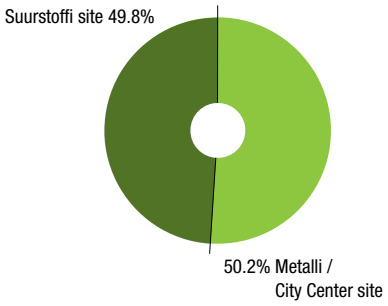
Selected key figures

Income statement		H1 2020	H1 2019	
Property income	TCHF	28 195	26 744	5.4%
Operating revenue[1]	TCHF	105 426	36 721	187.1%
Operating expenses	TCHF	77 115	14 715	424.1%
Operating income before depreciation and revaluation	TCHF	28 311	22 006	28.7%
Revaluation of investment properties (net)	TCHF	–13 612	11 513	–218.2%
Income from sale of investment properties	TCHF	0	982	n/a
Operating income (EBIT)	TCHF	12 883	32 848	–60.8%
Net income	TCHF	8 273	26 084	–68.3%
Net income excluding revaluation and special effects[2]	TCHF	11 900	15 401	–22.7%
Result from sale of promotional properties after tax[3]	TCHF	8 351	0	n/a
Balance Sheet		**30.06.2020**	**31.12.2019**	
Total assets	TCHF	1 601 754	1 654 946	–3.2%
Interest-bearing debt	TCHF	587 106	597 443	–1.7%
- Interest-bearing debt in % of total assets		36.7%	36.1%	
- Average rate of interest of the interest-bearing debt (period)		1.3%	1.4%	
- Average maturity of the interest-bearing debt	YEARS	4.8	5.2	
Shareholders' equity	TCHF	891 470	905 637	–1.6%
- Equity ratio		55.7%	54.7%	
Employees		**30.06.2020**	**31.12.2019**	
Headcount	FTE	140.2	139.6	0.4%
Share		**H1 2020**	**H1 2019**	
Closing price	CHF	2 010	1 820	10.4%
Market capitalization[4]	TCHF	1 025 100	928 200	10.4%
Earnings per series B registered share[5]	CHF	16.2	51.1	–68.3%
Earnings per series B registered share excl. revaluation and special effects[2, 5]	CHF	23.3	30.2	–22.7%
NAV at market value per series B registered share[5, 6]	CHF	1 895.9	1 821.2	4.1%
Portfolio		**30.06.2020**	**31.12.2019**	
Investment properties	TCHF	1 504 460	1 478 364	1.8%
Investment properties under construction	TCHF	7 811	31 402	–75.1%
Undeveloped plots	TCHF	2 524	2 524	0.0%
Total real estate portfolio	**TCHF**	**1 514 795**	**1 512 290**	**0.2%**
Operating properties (market value)[7]	TCHF	118 250	118 250	0.0%
Total portfolio	**TCHF**	**1 633 045**	**1 630 540**	**0.2%**
Vacancy rate investment properties[8]		5.3%	3.3%	
Gross return investment properties[9]		4.1%	4.1%	
Weighted average unexpired lease term of rental contracts in portfolio (WAULT)	YEARS	6.7	6.8	
Average discount rate (nominal)		3.6%	3.6%	

[1] Excluding income from revaluation of investment properties and gains on the sale of investment properties
[2] Corresponds to net income excluding income from revaluation of investment properties (net), excluding income from the disposal of investment and promotional properties and corresponding deferred taxes as well as the effect of adjustments made to deferred tax rates (see page 18)
[3] Corresponds to the income from the sale of promotional properties, less expenses incurred directly through the sale of promotional properties and corresponding deferred taxes
[4] In relation to number of shares outstanding (series A registered shares converted)
[5] In relation to number of shares on average outstanding (series A registered shares converted)
[6] NAV at market value per share includes properties used for operational purposes at market value and corresponding deferred taxes
[7] Operational properties are revaluated on a yearly basis at financial year-end
[8] As at the balance sheet date, as a percentage of projected rental income
[9] Projected rental income (annualized) as a percentage of the market value on the balance sheet date

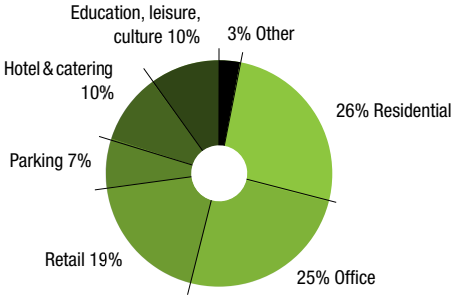
Portfolio by site

Based on market value as at June 30, 2020



Portfolio by use

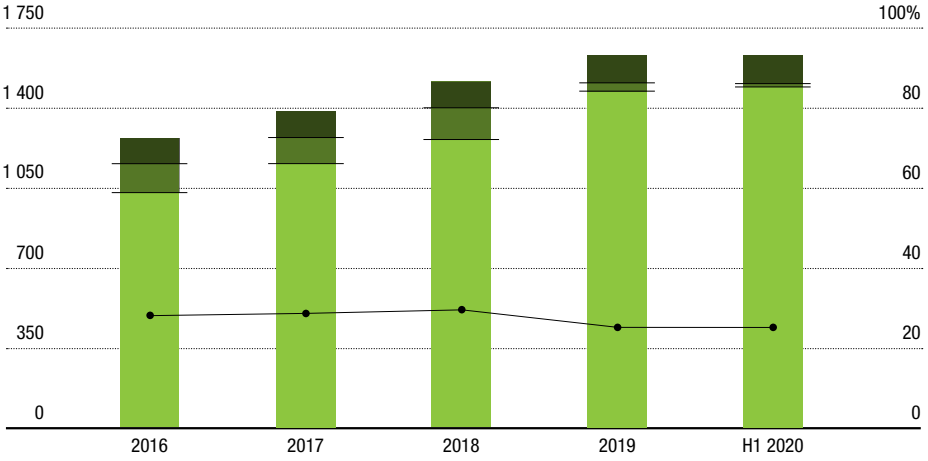
Based on projected rental income[1] as at June 30, 2020



[1]From point of view of real estate business unit

Value of portfolio

in CHF million



Operating properties (market value)
Investment properties under construction and undeveloped plots
Investment properties
Proportion of residential property (based on projected rental income, right-hand axis)