ZugEstates

Ad hoc announcement pursuant to Art. 53 LR
Zug, 25 August 2023

Solid operating results in a challenging market environment

- Net income excluding revaluation and special effects up 7.4% to CHF 18.0 million (previous year: CHF 16.8 million)
- Increase in property income of 7.7% during first half of 2023
- Solid equity ratio of 54.0% (55.2% as at 31 December 2022)
- Portfolio value almost unchanged at CHF 1.83 billion thanks to acquisitions made
- Due to renovation work, the vacancy rate rose to 3.3% as at 30 June 2023 (1.6% as at 31 December 2022)
- Greenhouse gas emissions were significantly below the sector average at 0.9 kg CO_{2eq} per m^2 of the energy reference area

The changed interest rate and market environment are affecting the Swiss real estate market. On the one hand, higher interest rates are leading to higher financing costs and increased discount rates, which in turn are putting downward pressure on property values. On the other, the indexation of commercial leases and the increase in the benchmark interest rate are resulting in higher rental income, thereby underpinning the values and ensuring that real estate remains an attractive investment class. Additionally, the scarcity of supply in a few individual use categories, including in the residential segment and office space in prime locations, for example, mean that demand still remains good.

Zug Estates generated solid operating results in this market environment. Thanks to a portfolio that is broadly diversified in terms of use, the focus on attractive, well-developed locations and a very solid equity base, Zug Estates is poised to tackle the challenges presented by the changed market environment. Property income rose in the first half of 2023. Alongside this, the hotel & catering segment continued its recovery in the last half, leading to a gratifying result in this segment.

Thanks to significantly better results of operations, net income excluding revaluations and special effects amounted to CHF 18.0 million, up CHF 1.2 million or 7.4% over the previous year’s figure of CHF 16.8 million. Due to a negative revaluation result given overall market conditions of CHF 18.3 million, net profit was CHF 1.9 million. Net income was therefore down CHF 26.0 million or 93.1% on the previous year’s figure of CHF 27.9 million.

Higher property income and sustained recovery in the hotel & catering segment
Property income rose by CHF 2.4 million or 7.7%, from CHF 30.4 million to CHF 32.8 million, as a result of the Renggli Group acquisition carried out at the end of 2022, the full-period effect of successful rental activities as well as indexation-related rent increases.

In the previous year, the hotel & catering segment had reported a steady recovery from the negative effects of the COVID-19 pandemic from May 2022 onward. This recovery held on during the first half of 2023. As a result, revenue in the hotel & catering segment increased substantially by CHF 1.7 million or 26.6%, from CHF 6.4 million to CHF 8.1 million. Gross operating profit (GOP) also rose from 38.0% to a remarkable 42.3%.
Operating revenue increased by a total of CHF 4.4 million, or 11.4%, from CHF 38.5 million to CHF 42.9 million.

Slightly higher property expenses, generally higher expense items in conjunction with the increase in revenues and higher electricity costs pushed operating expenses up by CHF 1.7 million or 12.3%, from CHF 14.0 million to CHF 15.7 million.

Portfolio value unchanged thanks to acquisitions
At CHF 1'830.7 million, the market value of the portfolio as a whole as at 30 June 2023 remained at the level of 31 December 2022. An average increase in the real discount rates by 9 basis points in the first half of 2023 resulted in a negative revaluation effect of CHF 18.3 million, which corresponds to around 1.1% of the value of the portfolio's investment properties. There had been a revaluation gain of CHF 12.7 million in the prior-year period.

On the other side, there were acquisitions and investments in the portfolio of CHF 22.8 million. The lion's share of that amount, CHF 19.4 million, is attributable to the acquisition of co-ownership shares amounting to an additional 3.5% stake in Miteigentümergemeinschaft (MEG) Metalli, bringing the Group's co-ownership share of MEG to a total of 78.75%.

Renovation-related increase in vacancy rate
Commercial lease extensions and new leases relating to more than 9'000 m^2 of space and rental income of over CHF 3.8 million per year were concluded in the first half of 2023. The agreements concluded related to both office space in Zug and Rotkreuz and retail space at the Metalli complex. In one case, the lease entered into with UBS AG for the property located at Baarerstrasse 14a in Zug was extended for five years.

Despite these successful rental activities, the vacancy rate rose during the first half of 2023, from 1.6% on 31 December 2022 to 3.3% as at 30 June 2023. This increase is attributable to both a reduction in the amount of space leased by Novartis at Suurstoffi from the start of 2023 as well as renovation-related vacancies at the Metalli complex due to adjustments made to C&A's store footprint. The weighted average unexpired lease term (WAULT) of 6.5 years (6.3 years as at 31 December 2022) continued to be at a very high level for the industry.

New retail brands at the Metalli complex
The spaces that had previously housed C&A and Zara at the Metalli shopping mall will be redivided to make space for shops offering consumer staples. Attractive brands were recruited to fill the newly created spaces. Lidl Schweiz AG will lease more than 1'600 m^2 in retail space in the basement and a portion of the ground floor (currently Zara) from 1 January 2024 onward. Two additional shops will also be created on the ground floor and can be leased from the start of 2024. A lease for one of the two spaces was signed in July 2023 with Mr. Goodfun AG, which will open a doodah shop featuring skateboard, snowboard and streetwear products.

New shops will also be created in the space that had previously housed C&A. The space on the ground floor was split into three retail spaces where LUSH (Switzerland) AG (a handmade cosmetics specialist), Bijouterie Maison Carat SA and Parfümerie Douglas AG will offer their products for sale from autumn 2023 onward. Work has already begun to convert C&A's retail space on the first floor to be used as office space going forward. This will create two approximately 900 m^2 offices. Construction is in progress and expected to be concluded in autumn 2023. Zug Estates AG has operated offices at two locations to date – in Zug and Rotkreuz; these two offices will be merged and are scheduled to move into the new office facility at one of the two sites at the start of December 2023.

Change to catering options
The first half of 2023 saw the start of conversion work on the ground floor of Parkhotel as well as the refurbishment of the Bären property. At Parkhotel, work is being done to enlarge the restaurant, bar and conference facilities while also redesigning the spaces to lend them a more open, modern and inviting ambience. The new restaurant and bar will open at the end of October 2023. Information regarding the catering concept, design and branding will be published via the social media channels of Hotelbusiness Zug AG and at www.place-to-become.ch in the coming weeks.

The listed Bären property will undergo full refurbishment between the start of April 2023 and the end of March 2024. A lease for the restaurant was concluded with Tibits AG in July 2023. This restaurant company, which specialises in vegetarian and vegan cuisine, will open its first location in Zug in April 2024.

Equity ratio remains solid
The purchase of an additional stake in MEG Metalli as well as the payment of a dividend of CHF 20.9 million caused interest-bearing debt to increase from CHF 660.5 million to CHF 683.5 million as at 30 June 2023. At 54.0%, the equity ratio remained at a very solid level (55.2% as at 31 December 2022).

The average maturity of the debt declined from 3.4 years as at 31 December 2022 to 2.8 years as at 30 June 2023. The substantially elevated interest rate environment caused the average interest rate to increase slightly from 1.3% to 1.5%.

Project development work on the Metalli Living Space and S43/45
Work to draft the content of the revisions to both development plans – Metalli and Bergli – within the scope of the Metalli Living Space project proceeded well overall during the first half of 2023. The report from the preliminary examination at cantonal level arrived in April 2023 and the two revisions of the development plans should have been assessed by the city council at the end of June 2023 with the goal of submitting them to the Grand City Council for the first time in October 2023.

The acceptance on 18 June 2023 of the city initiative “2’000 flats for Zug’s middle class”, which demands that at least 40% of newly built residential spaces in all agglomerations must be affordable, is causing delays in the development planning process. It is impossible to predict at this point how this initiative will affect the changes to the Metalli and Bergli development plans. We are communicating with the City of Zug in this regard and examining its impact on the Metalli Living Space project. However, given the delays it has caused, we currently expect the development plans to be approved in 2025 at the earliest and for construction to be able to start in 2027 at the earliest.

Revision work on the construction project at the S43/45 property at the Suurstoffi site in Rotkreuz is proceeding according to plan. The change was submitted to the municipality of Risch Rotkreuz in July 2023 and the revision of the construction project is expected to be completed by the start of 2024.

Greenhouse gas emissions substantially below average for the industry
Zug Estates will publish its Sustainability Report in accordance with GRI standards at the same time as its Half-Year Report. Our sustainability strategy continues to revolve around the goal of reducing greenhouse gas emissions. Despite the 1 October 2022 acquisition of the Renggli portfolio, which still operates largely on fossil fuels, the Group’s greenhouse gas emissions of 0.9 kg per square metre of energy reference area (Scope 1 and 2) are at the same level as in the previous year, meaning that they

are well below the industry average. The acquisition-related increase was offset by savings at the City Centre site/Metalli, where additional properties – Haldenstrasse 9–16 and Hotel City Garden – were connected to the Circulago lake water energy network.

Discussions about grey energy and aspects of the circular economy related to building construction are becoming increasingly important. Zug Estates has already addressed this topic in depth in the past and implemented pioneering projects, particularly with respect to wood-based construction. Going forward, Zug Estates plans to continue to pursue ambitious goals and promote an exchange of information within the sector. To that end, Zug Estates joined eleven other large companies and organisations to sign the "Circular Building Charta" in June 2023.

Our buildings and sites will shape the way people live for generations to come. We focus not only on transformation projects such as the living space at Metalli, but are also responsible for existing sites and properties. We have gone to great lengths in the past few months to improve the quality of the outdoor areas at the Suurstoffi site even further and to create spaces where people enjoy spending time.

Full details of our sustainability strategy can be found at www.zugestates.ch/en/sustainability.

Confirmation of the 2023 outlook

The acquisitions made in 2022 and 2023, a decrease in vacancy-related loss of income, indexation-related increases in rental income and changes made to the reference interest rate will lead, also from a full-year perspective, to an increase in property income despite the fact that renovation-related vacancies at a few of the rentable spaces in the Metalli shopping mall will slow this increase down somewhat. This improvement in income is offset by higher financing costs.

In the hotel & catering segment, we anticipate that business will remain stable. Losses of income are arising in connection with the full refurbishment of the Bären property (since April 2023) as well as the renovation of all catering and conference spaces at Parkhotel (from June to the end of October). We therefore expect income to be on a par with the previous year. Ongoing reconstruction work and considerably higher electricity costs, however, will weigh on the GOP margin and cause a year-on-year decline in the results.

All in all, we expect net income excluding revaluation and special effects to exceed CHF 32.0 million for the 2023 financial year.

Report of 25 August 2023

The detailed report on the first half of 2023 can be found on our website:
https://zugestates.ch/en/downloads

A video conference will be held in German at 10 a.m. today. CEO Patrik Stillhart and CFO Mirko Käppeli will present the half-year results for 2023 and then respond to questions. The associated presentation will be available on our website from 9 a.m. at: https://zugestates.ch/en/downloads

Please register for the conference via the link below. We look forward to your participation.
https://zugestates.ch/en/stories/registration-media-conference

Important dates:

6 September 2023	Sustainability Forum
21 February 2024	Publication of the 2023 Annual Report
9 April 2024	General meeting of shareholders

For further information, please contact:

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

About Zug Estates

The Zug Estates Group conceives, develops, markets and manages properties in the Zug region. It focuses on central sites that are suitable for a wide range of uses and allow sustainable development. The real estate portfolio is comprised mainly of the two sites in Zug and Risch Rotkreuz. The Group also runs a city resort in Zug incorporating the leading business hotels Parkhotel Zug and City Garden and a comprehensive range of restaurants. The total value of the portfolio came to CHF 1.83 billion on 30 June 2023. Zug Estates Holding AG is listed on the SIX Swiss Exchange, Zurich (ticker symbol: ZUGN, security number: 14 805 212).

Selected key figures

Income statement		H1 2023	H1 2022	
Property income	TCHF	32 799	30 443	7.7%
Operating revenue[1]	TCHF	42 901	38 499	11.4%
Operating expenses	TCHF	15 739	14 015	12.3%
Operating income before depreciation and revaluation	TCHF	27 162	24 484	10.9%
Revaluation of investment properties (net)	TCHF	– 18 271	12 662	–244.3%
Operating income (EBIT)	TCHF	7 152	35 402	–79.8%
Net income	TCHF	1 922	27 900	–93.1%
Net income excluding revaluation and special effects[2]	TCHF	18 000	16 757	7.4%
Balance Sheet		**30.06.2023**	**31.12.2022**	
Total assets	TCHF	1 795 392	1 792 074	0.2%
Interest-bearing debt	TCHF	683 516	660 470	3.5%
– Interest-bearing debt in % of total assets		38.1%	36.9%	
– Average rate of interest of the interest-bearing debt (period)		1.5%	1.3%	
– Average maturity of the interest-bearing debt	YEARS	2.8	3.4	
Shareholders' equity	TCHF	970 265	989 253	–1.9%
– Equity ratio		54.0%	55.2%	
Employees		**30.06.2023**	**31.12.2022**	
Headcount	FTE	132.5	137.7	–3.8%
Share		**H1 2023**	**H1 2022**	
Closing price	CHF	1 595	1 990	–19.8%
Market capitalisation[3]	TCHF	813 450	1 014 900	–19.8%
Earnings per series B registered share[4]	CHF	3.8	54.7	–93.1%
Earnings per series B registered share excl. revaluation and special effects[2, 4]	CHF	35.3	32.9	7.4%
NAV at market value per series B registered share[3,5]	CHF	2 027.8	2 042.9	–0.7%
Portfolio		**30.06.2023**	**31.12.2022**	
Investment properties	TCHF	1 712 709	1 713 445	0.0%
Investment properties under construction	TCHF	12 572	11 758	6.9%
Undeveloped plots	TCHF	2 524	2 524	0.0%
Total real estate portfolio	**TCHF**	**1 727 805**	**1 727 727**	**0.0%**
Operating properties (market value)[6]	TCHF	102 890	102 890	0.0%
Total portfolio	**TCHF**	**1 830 695**	**1 830 617**	**0.0%**
Vacancy rate investment properties[7]		3.3%	1.6%	
Gross return investment properties[8]		3.9%	3.9%	
Weighted average unexpired lease term of rental contracts in portfolio (WAULT)	YEARS	6.5	6.3	
Average discount rate (real)		2.9%	2.8%	

1 Excluding income from revaluation of investment properties.
2 Corresponds to net income excluding income from revaluation of investment properties (net) and corresponding deferred taxes (see page 18).
3 In relation to number of shares outstanding on the balance sheet date (series A registered shares converted).
4 In relation to average number of shares outstanding (series A registered shares converted).
5 NAV at market value includes properties used for operational purposes at market value and corresponding deferred taxes.
6 Operating properties are revalued once a year at year-end.
7 As at the balance sheet date, expressed as a percentage of projected rental income.
8 Projected rental income (annualised) expressed as a percentage of the market value on the balance sheet date.