

Media release

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Varia US Properties 2019 Half-Year Report

Varia US Properties significantly increases total income (+ 42%) and EBITDA (+ 18%)

Profit boosted to USD 22.2 million (+ 82%)

Earnings per share increases 79% to USD 2.47

- **Total income of USD 66.1 million (June 30, 2018: USD 46.4 million; + 42.4%)**
- **EBITDA¹ of USD 19.4 million (June 30, 2018: USD 16.4 million; + 18.4%)**
- **Net gain from fair value adjustment on investment property of USD 19.0 million (June 30, 2018: 7.4 million; + 156.3%)**
- **Property portfolio value at USD 793.7 million as of June 30, 2019 (December 31, 2018: USD 767.5 million; + 3.4%)**
- **Funds from operations (FFO²) of USD 8.8 million (June 30, 2018: USD 8.1 million; + 8.8%)**
- **Potential gross income up 2.3% to USD 103.3 million (December 31, 2018: USD 101.0 million)**
- **Rental income increased by 3.5% on a like for like basis (comparing results for assets that were held for the full half year in both 2019 and 2018)**
- **Targeted dividend of CHF 2.60 per share to be paid after Annual General Meeting 2020³**

Varia US Properties continued to perform positively in the first half-year of 2019. Varia focused on improving and optimizing the portfolio through the further consistent implementation of its growth and value-add strategy. It continued to implement the Company's green initiative program that will be further executed in the near term. Overall, the half-year results are in-line with Varia's expectations and underpin the efficiency of its strategy.

Manuel Leuthold, Chairman of the Board of Directors of Varia, said: "We are very pleased with the performance of Varia for the first six months of this year. These results reflect the strong and growing financial performance of the portfolio as well as the initiatives we set forth in 2019. Our promising portfolio in growing suburban markets in the US creates attractive perspectives to our shareholders. We continued this work by further implementing our proven value-add strategy as well as our water conservation program in the first half of 2019."

¹ EBITDA defined as operating profit less unrealized revaluation

² FFO defined as EBITDA less interest expense

³ Including the quarterly payments of CHF 0.50 per share

Total income up to USD 66.1 million – improvement of profitability

The Company portfolio, as of 30 June 2019, consisted of 52 properties totaling 9,737 units in 19 US states, representing USD 793.7 million of real estate value appraised by Colliers (December 31, 2018: USD 767.5 million). The occupancy rate stood at 93.8% (December 31, 2018: 93.7%). In the first six months 2019, the portfolio generated an effective gross income (defined as total income less unrealized revaluation) of USD 47.0 million (June 30, 2018: USD 39.0 million) and a total income of USD 66.1 million (June 30, 2018: USD 46.4 million). The average rent per unit was USD 802 per month (December 31, 2018: USD 760 per month). Rental income like for like between January and June 2019 increased by 3.5% compared to the corresponding period in 2018.

For the first half of 2019, total operating expenses amounted to USD 27.7 million (June 30, 2018: USD 22.6 million). After deduction of the finance cost and the income tax provision, the profit for the period is USD 22.2 million (June 30, 2018: USD 12.2 million). Earnings per share for the first half of 2019 was USD 2.47 (June 30, 2018: USD 1.38).

Varia also increased its profitability as the operating margin including revaluation was up to 58.1% for the first half of 2019 (June 30, 2018: 51.3%). EBITDA increased by 18.4% to USD 19.4 million (June 30, 2018: USD 16.4 million). EBITDA margin without revaluation remained relatively stable at 41.2% (June 30, 2018: 42.1%).

Net gain from fair value adjustment on investment property amounted to USD 19.0 million (June 30, 2018: USD 7.4 million) and reflects the continued implementation of the value-add strategy of Varia US Properties in the portfolio.

Additional funding for acquisitions due to issued corporate bond – further progress on green initiative

During the first half year 2019, Varia issued its first corporate bond in the amount of CHF 50 million for a tenure of four years and a yearly coupon of 3% which will further enhance growth and profitability of the Company. The capital raise of an unsecured corporate bond was very successful and provides additional funding for acquisitions that will be accretive to earnings for the long term. Additionally, at the Annual General Meeting in April, the shareholders approved to begin quarterly distributions of CHF 0.50 per share starting in August 2019 in order to reduce the cash dilution effect in the Company and to mitigate the risk of currency exchange rates.

For the business year 2019, Varia targets a dividend of CHF 2.60 per share for the business year 2019 after the Annual General Meeting 2020 expecting therefore a true-up of CHF 0.60 to be paid after that Annual General Meeting as well. The Board of Directors targets a regular distribution of 90% of FFO.

As part of the Company-wide green initiative, Varia fully executed the water conservation program and reduced the water consumption by USD 150,000 (approximately 18.5 million

gallons) by replacing aerators and shower heads and changing toilets in the first six months. In addition, Varia entered into an agreement to implement a LED program in eight properties resulting in a saving of energy costs of USD 64,000 per year. The installation of LED products should be finalized by end of third quarter.

Subsequent to June 30, 2019, Varia acquired two additional properties in Missouri (Kansas City) and Tennessee (Memphis) in August with a total of 855 units. A third one in Missouri (Kansas City) with 408 units was placed under contract in August and should be closed in September. Varia is also considering the strategic disposition of certain properties in remote locations or with small number of units in the second half of the year.

Key financial figures half-year 2019

In USD million	As of and for the half year June, 30 2019	As of and for the half year June 30, 2018	Δ%
Rental income	42.4	35.3	19.9
Other income and insurance proceeds	4.7	3.6	29.0
Net gain from fair value adjustment on investment property	19.0	7.4	156.3
Total income	66.1	46.4	42.4
Total operating expenses	27.7	22.6	22.5
Operating profit with revaluation	38.4	23.8	61.3
Operating profit without revaluation	19.4	16.4	18.4
Profit for the period	22.2	12.2	82.3
EBITDA (Operating profit less unrealized revaluation)	19.4	16.4	18.4
EBITDA margin (in %)	41.2	42.1	(0.9)
FFO (EBITDA less interest expense)	8.8	8.1	8.8
Earnings per share (EPS) (in USD)	2.47	1.38	79.0
Net asset value (NAV) per share (in USD) ⁴	35.08	35.82	(2.1)

⁴ NAV at June 30, 2019 would be USD 37.13 excluding accrued but unpaid distribution.

Outlook

Patrick Richard, Delegate of the Board of Directors of Varia, said: “We are on track with our Company’s objectives. While continuing to work on the consistent deployment of the value-add strategy, Varia is committed to maintain its efforts to increase returns, reduce operating expenses and to foster its profitability. We have a strong acquisition pipeline of US multifamily housing in attractive suburban markets for which the proceeds of the issued corporate bond will be invested during the second half of 2019. In view of the current progress and the conditions of the US housing market, we are confident that we will deliver positive results this year.”

The US economy remained strong over the first six months of 2019. The employment rate was at 3.7% as of 30 June 2019 and the inflation rate was 1.6% for the twelve months ended by June 2019, according to the published data of the US Labor Department in August 2019. These figures are positive for the rental housing market characterized by a growing number of tenants and an ongoing high demand for suburban markets.

This positive image has to be nuanced by the current macroeconomic instability, especially through the trade war between China and the US. However, the fundamentals of the US economy remain strong. Varia foresees some possible instability in the next few months but it does not anticipate a severe modification of the US economy on a longer time period.

Additional information

The media release, the analyst presentation of the results and the 2019 half-year report are available on the website of Varia at www.variausproperties.com/investors/financial-statements/.

Key dates

3 rd Quarter 2019 Update	November 7, 2019
Full-year results 2019	March 26, 2020
Annual General Meeting	April 23, 2020

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About Varia US Properties AG

Varia US Properties AG is a Swiss based real estate company exclusively investing in U.S. multifamily housing with a main focus on secondary and tertiary markets. Established in 2015,



the Company acquires, holds, transitions and repositions properties in the boundaries of metropolitan regions of the U.S. in order to secure rental income and value growth. More information: www.variausproperties.com

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