PATRIZIA AG

First Half 2021 Analyst & Investor Call

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Transcript

Speakers:

Thomas Wels

Karim Bohn

Martin Praum

Martin Praum

Welcome, everyone, to our first half 2021 analyst and investor call. This is Martin Praum, Head of Investor Relations, speaking. I'm happy to have our Co-CEO, Thomas Wels, and our CFO, Karim Bohn, with us today to present you an update on our operating business, on the market environment and our financials.

During today's call we will refer to the first half 2021 results presentation, which we circulated yesterday and which you can find on our website in the section Shareholders, under Most Recent Publications.

As usual, this call will be recorded and be made available on our website and we will also offer a call transcript for further reference. With that, I'd like to hand over to Thomas to start the presentation. Thomas.

Thomas Wels

Thank you, Martin. Hi, everybody. This is Thomas speaking. As I did last quarter, I would like to give you an update on our strategy, the market environment and on the operating business so you would get another sense of our progress beyond the financials that Karim provided in his quarterly video and later in this conference call.

Let's turn to page three of the results presentation. First message. We started with a good first quarter and continued with a solid second quarter due to our resilient and well-diversified platform. Despite COVID, we were very active on behalf of our clients. During the first half of '21, we were able to sign EUR 2.1 billion of transactions and raise EUR 0.8 billion of equity for international investments.

Both key performance indicators show strong growth compared to last year, with 30% for signed transactions and 20% growth for equity raised. The transaction volume growth we delivered is a great result considering the average European volume was down 8% compared to last year. Another interesting fact from European transactions markets and fully in line with our strategy, the number of net buyers of European real estate is almost four times higher than those of net sellers.

What else have we seen in the market? Demand for the living sectors, which include residential but also healthcare, is unbroken. Besides additional continued growth interest, strong interest for logistics. Office transactions are back, especially in the second quarter, with focus on best quality assets that offer a modern working environment to attract talent back to the office.

In terms of geographies, Germany, the UK and France remain the most liquid markets, with the UK showing increased appetite from international capital having left the Brexit troughs behind it. Overall, we see markets opening up fast again and transaction volumes accelerating. We also have well-filled multibillion pipeline under exclusivity which really makes us optimistic to deliver on our ambitious transaction volume targets for our clients in the second half of the year.

Second important point, our strategy is unchanged and the structural growth market case is fully intact. Growth in global pension money, increased allocations to real assets and consolidation in this sector remain the major growth drivers for PATRIZIA.

Our clients also confirm a high level of interest in increasing their real estate over the next years. The appetite for real assets will remain strong in Germany, our home market, but also grow faster outside of Germany.

Our goal is to become at least as strong in our other key markets as we currently are in Germany. One example of PATRIZIA continuing to expand its international presence and offering attractive product to our clients are our expansion plans in Japan.

We just recently strengthened our local leadership team in Tokyo, with Katsumi Nakamoto as new president. He is a renowned real estate expert and former CEO of Diamond Realty Management, in short DREAM. You might have read our AUM target for the Japanese market. We believe the team around Katsumi will be able to contribute over EUR 2.0 billion of AUM to our platform in the next few years.

Being able to cater to different needs of domestic and global clients but also different local regulatory requirements is just another element of being a successful international investment manager. Client expectations are, without doubt, high and growing. To be a trusted partner to our clients you need the right mindset, a forward-thinking approach, but also the platform and technology to deliver continued solid performance and services.

This brings me to the third point, technology and ESG. The nature of our business model and the DNA of our people have one thing in common. I'm not getting tired pointing this out. We want to create something sustainable, something that lasts. That means that sustainability, which becomes more and more urgent, is not a new thing to us. It has always been anchored within our business model.

With the real estate and construction industry responsible for 40% of the world's greenhouse gases, we have the opportunity and responsibility to have a real positive impact and to create a better future. This is reflected by our four clear long-term sustainability goal.

One, become a leading sustainable investor in real assets with consisted UN PRI A+ rating from 2025 onwards. Two, become a leading European impact investor in real assets with over 15% of our AUM dedicated to impact investing by 2035. Three, become carbon neutral by 2040 with over 70% of our AUM, client and our own internal AUM. And, four, become an employer of choice.

But, not only the future will become more sustainable with PATRIZIA. Already, decades ago, we started giving back to society and engaging for a brighter future. We create value for our clients to make pensions secure. We help people create a better future and, with the PATRIZIA Foundation, we have helped children worldwide for over 20 years to get access to education and healthcare.

Let me give you another example that shows the PATRIZIA DNA. Just recently, our staff initiated the #patriziaride, together with the foundation, with a goal of cycling together the distance from Augsburg to Nepal and back, a distance of 17,500 kilometres.

In the end, three times the target distance could be reached by more than 232 participants, internal and external, raising thousands of euros for the Digital Classroom Project in Nepal. Compared to the global ESG task ahead of us, it might sound like a small project but it shows what we can achieve if we work together.

On another note, offering our clients investment opportunities that meet their ESG requirements is an urgent matter. That's why we just launched the first close-ended ESG strategy fund for private clients in Germany. No doubt, we are convinced this will become the market standard going forward.

But, there is even more we can do. The entire industry, including us, has a lot of work ahead to further integrate ESG and ESG reporting. Therefore, we continuously invest in technology and processes to further improve the client experience. We believe this will be an even more important and critical factor for doing business in the future and we are prepared.

PATRIZIA has a strong international platform, becomes more and more digitalised and has the financial flexibility to invest and to offer first-class solutions, which includes the expected increase in ESG reporting, both at portfolio and individual property level.

Here's an important link between technology and ESG. Having the data in place to track ESG performance and build the basis for business decisions becomes a key success factor, again another reason for us to continue to invest in technology. By investing in technology and innovation, we gain access to the most promising proptech solutions across the world that enhance our managed assets and services.

You can be sure, the largest part of the transformation of our industry, through digitalisation and technology, still lies ahead of us and we, as PATRIZIA, have the strength and the chance to drive the disruption and not being disrupted. With that, let me hand over to Karim to give you a brief update on our first half financials.

Karim Bohn

Thank you, Thomas. This is Karim speaking. Let's move to page four right away. I can only confirm what Thomas just said and we can see growth momentum also in our financial KPIs of the first half of the year.

First, assets under management continued to grow to now over EUR 48 billion and recurring management fees showed over 8% growth year-on-year. So, we continued to improve the quality of our revenues and I think it is worth reiterating how steady our assets under management have been growing over the past few years, even in times of market volatility and distress.

It shows the strength of our platform but also the high quality of the assets that we manage. Second, despite redeeming parts of our bonded loans during the second quarter, available liquidity remains strong and gives us great financial flexibility to grow and to invest.

Thomas already mentioned the third point of business activity and that leads us to the fourth point. We confirm our guidance for the full year of 2021, as we see certain accelerating trends in transaction activity and client demand.

Let's move to page five for details on our balance sheet and financial flexibility. Our strong balance sheet and liquidity position is nothing new to you, as we have built this up, step by step, over the past years. What has changed?

We have redeemed EUR 66 million out of EUR 300 million bonded loans to optimise our financial expenses and we continue to buy back shares in the market. We now own around three million treasury shares worth EUR 66 million. This is M&A currency, which comes on top of the available liquidity of EUR 537 million, you see in the table.

As you may know, we have no plans to delete these shares. We are fully committed to find the right partners to strengthen the PATRIZIA platform and to make potential vendors shareholders of PATRIZIA for alignment of interests.

Let's move to page seven. We already talked about some of the highlights mentioned on this page. Let me focus on the key things. Operating income of EUR 57.4 million shows that we are well on track to reach our guidance range of EUR 100-145 million for the full year.

Is the 22% decline in operating income year-on-year a concern to us? Not at all. First of all, we had timing differences in the realisation of performance fees between the first and the second half of the year and remember the majority of performance fees are generated once our clients realise returns, and there can be timing difference depending on asset or fund disposals.

We also had around EUR 10 million higher contribution from co-investment income last year. This was offset by growth in management and transaction fees this year, so a further quality increase of revenues. At the same time, we had some aperiodic effects in the cost line. So, overall, a solid set of results in our view. That is why we confirm our guidance for the full year in all KPIs, ranging from transaction volume, AUM growth, to operating income.

On page eight you will find the composition of operating income in the first half of this year. Management fees and transaction fees with solid growth year-on-year. Performance fees with timing differences compared to last year but still an important contributor to total service fee income, simply reflecting the attractive performance we generate for our clients.

Net sales revenues and co-investment income are down significantly year-on-year, which is fully in line with our strategy as an independent, asset-light business model with full focus on third party clients.

On the cost side, we have some aperiodic effects that lowered the cost base last year and one-off costs this year for optimising office space used by PATRIZIA. Overall, we will continue to expend the PATRIZIA platform and invest in the future for the benefit of the operating income of tomorrow.

Let’s move to page nine on management fees. Management fees stand out with a convincing growth rate, this year positively impacted also by management fees we received from managing real estate developments for our clients. That explains the gap between growth in assets under management and management fees in the first half.

The services we provide for our clients in this area already generate fees. Assets under management, however, will rise later, step by step, in line with the projects progressing in construction.

Page ten gives a little more detail on transactions and transaction fees. Transaction fees also showed a solid 4% growth year-on-year. However, we believe there is more to come in the second half of the year given the fees generated so far only reflect 38% of our full year guidance at mid-point. As expected, we see more acquisitions than disposals, confirming the continued demand for attractive products in real assets.

Let's move to performance fees on page 11. I talked about timing of performance fees before and we also expect performance fees to contribute to the second half of the year. What the charts on the right-hand side of slide 11 show should reiterate there's more to come.

Performance fees always have a certain element of volatility once they are realised but these performance fees have been generated over several years through active asset management, smart investments and forward-looking strategies of PATRIZIA's experts. Performance fee claims mean future cash flows for PATRIZIA and its shareholders and provide continued financial flexibility to grow the PATRIZIA platform.

Page 12. As I said before, no surprises here. We stick to our guidance for the full year with continued growth in management fees. The big unknown to our operating income range remains the level of performance fees and, as you know, these fees, to a large extent, depend on client activity and client investment strategies.

So, the question is not will we generate performance fees, it is rather a question of when will they feed into operating income. We expect to have a better picture on timing and market activity with our next results release. With that, I'd like to hand back to Stuart to start the Q&A session. Thank you.

Operator: Thank you, Karim. Ladies and gentlemen, at this time we will begin the question and answer session. Anyone who wishes to ask a question may press * followed by 1 on their touchtone telephone. If you wish to remove yourself from the question queue, you may press * followed by 2. If you're using speaker equipment today, please lift the handset before making your selections. Anyone who has a question may press * followed by one at this time. One moment for the first question, please. The first question is from the line of Kai Klose, from Berenberg. Please, go ahead.

Kai Klose: Hello. Good afternoon. I've got a first question on page 11 of the first half report. Could you elaborate a bit more why we have seen an increase in the other operating expenses by around 29% in the second quarter compared to Q1?

Karim Bohn: Hi, Kai. I was a little confused because page 11 actually shows performance fees but your question is very clear. Why have operating costs increased a little bit. Mainly, there are two effects, Kai. One is we merged offices in Frankfurt. I think we spoke about this, that we refurbished a new office to new work, basically to have a modern office space and therefore we merged two offices. With the merging of two offices, according to IFRS 16, the capitalised rents have been amortised immediately rather than paying the rent over the next few years. That was one major effect.

Then, as you know, we have a service investment platform where we manage a small amount of assets for other managers and one item that went through the P&L on the cost side is actually costs for those funds which are neutral to the balance sheet because they're also under the revenues. Those two effects led to an increase of the cost side, but from a fundamental perspective costs haven't really increased.

Kai Klose

Okay. Then, I have a second question, again on the report, not on the presentation but on the first half report. Can you elaborate a bit more on the volatility of the cash flow from operating activities? I was just a little bit surprised to EUR 15.8 million for Q1 and now just EUR 800,000 for this first half. Maybe you could explain why that volatility on this number was so high in the second quarter.

Karim Bohn

That's a good question and when you read the cash flow statement, that's an obviously question but as you know the operating cash flow includes aperiodic effects and items like payments of bonuses, for example, or tax payments. If you compare it to the operating EBT, the operating cash flow is after tax, operating income is before tax.

One of the reasons why we have the operating EBT as a KPI is because that's actually a good proxy for the recurring cash flow before taxes. So, in short, Kai, the cash flow statement or the cash flow is impacted by aperiodic effects coming from bonuses and tax payments.

Kai Klose

Understood. Two very quick questions. You mentioned that the target range for the transaction volume for this year stands between EUR 6.0-9.0 billion. Could you give a bit more details about the split regarding segments and regions where your clients are currently particularly interested to invest?

Karim Bohn

First of all, the transaction volume is really across the major areas of our Western European platform. I think it's fair to say that at the moment there's high demand for, I would say, the living sector, for logistics. There's less demand for retail and we also see, as Thomas said, demand for office slowly coming back.

Kai Klose

Understood. The very last question. You mentioned in a release recently that you want to change the corporate structure into an SE. Maybe you could give a bit more details what advantages you expect from that change.

Karim Bohn

There are actually a few things, Kai. Thanks for picking this up.

	First of all, you know the legal structure, and you are familiar with international structures. The legal structure of an SE really follows the internationalisation of our business over the past years and there are many European listed companies that converted into an SE already.
	Also, when you think about the evolvement of the management structure and the leadership of this firm, we are really adopting the management structure to international standards. If you compare ourselves with the companies we'd like compare ourselves, if you look at Brookfield or Blackstone or even Partners Group in Switzerland, they all have the same international legal structure.
Kai Klose	Many thanks, indeed.
Karim Bohn	Thanks, Kai.
Operator	The next question is from the line of Lars Vom Cleff, from Deutsche Bank. Please, go ahead.
Lars Vom Cleff	Good afternoon. Thank you very much for taking my question. I realise that you've recently become extremely vocal about screening potential M&A opportunities, either in press interviews, in releases such as yesterday's, or even on today's call. Is there any additional information you might be willing to share with us at this point in time? I guess Asia is still on top of your wish list, infrastructure assets and/or private or public debt. Correct?
Thomas Wels	I think, as you summarise nicely, the priorities are infrastructure, where we already had looked into numerous opportunities over the last two years. APAC is high on the radar screen but the liquidity is relatively low. We are screening and obviously I can't give you any details today.
	A year ago I would have said if we can't deploy our excess capital within the next 1.5 years and that was precisely a year ago, September or so. I would argue the market is much more liquid. We are in the middle of looking at things and the moment we have something available and something close we, for sure, have to come back to you with an ad hoc statement. Today, I can't say anything additionally. I'll just repeat, infrastructure, APAC are clearly high on the radar screen.
Lars Vom Cleff	Perfect. Thank you very much.
Operator	As a reminder, if you'd like to ask a question, please press * followed by 1 on your touchtone telephone. The next question is from the line of Manuel Martin, from Oddo BHF. Please, go ahead.
Martin Manuel	Thank you. Hello, gentlemen. Three questions from my side, please. Question number one, after hearing the conference call,

	you sound very confident. Would you say that you might come out rather at the top end of your guidance range? Any indication on that?
Karim Bohn	Hi, Manuel. This is Karim. As you know, we're actually pretty good in indicating whether we come out at the top end or the lower end when we have sufficient visibility to do so. As of today, after six months, we have reiterated the wide range because it's too early for us to give a clearer indication. I'm sure that in the next release in November, Manuel, we will be able to be a little more precise on the guidance range.
Manuel Martin	Understood. My second question would be on your business abroad, outside Germany. Do you have any timeline in mind for being abroad as equally strong as you are in Germany right now? Are there any regions, in particular, which you are targeting?
Thomas Wels	Thomas speaking. It's basically driven by the investment strategies of our larger funds. If I look into Living Cities, our large European residential vehicle where we, today, have overexposure to Germany or the allocation to Germany is full, all the growth is going to come from other markets.
	So, the investment strategies focus on Northern Europe ex Germany plus certain developments in Spain or Northern Italy. These are also the markets where our transaction teams today are most active. This is also true for our logistic activities.
Manuel Martin	I see. My third and last question, it's a rather P&L item. I see that there were restructuring costs of EUR 1.1 million in the second quarter. The question would be was there something special? What was the background to that? Is there, maybe, more to come? Maybe, you can elaborate on that point, please.
Karim Bohn	Good catch, Manuel. The reorganisation or restructuring expenses are mainly severance payments. As you know, we conducted a restructuring programme in the summer of 2018 and this year's reorganisation expenses broadly still relate to the initial restructuring and the implementation of the operating model.
Manuel Martin	So, it's a kind of finalisation of the restructuring programme, if I understand that correctly.
Karim Bohn	Yes, that's fair to say. As you know, Manuel, we always said we are pretty focused on cost containment generally and that's why the programme spanned basically over a number of years rather than six months.
Manuel Martin	I see. Thank you very much.
Operator	There are no further questions at this time and I would like to hand back to Karim Bohn for closing comments. Please, go

ahead.

Karim Bohn	Great. Thank you, Stuart. Thanks, everyone, for joining the conference call. We wish you a great summer. Stay healthy. We will be back on a roadshow starting 31st August, so please check out our roadshow calendar. We are happy to meet you then, most likely still virtually but we're hoping, at some point, to go back to live meetings and see you all personally. Thank you very much for joining.
Thomas Wels	Thank you.