PATRIZIA AG

3M 2021 Interim Statement Call

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Transcript

Speakers:

Thomas Wels

Karim Bohn

Martin Praum

Welcome, everyone, to our first quarter 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 to you an update on strategy, operations, and financials. During today's call, we will refer to the three month 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. This quarter, we will also, for the first time, offer you a call transcript for further reference. With that, I'd like to hand over to Thomas to start the presentation.

Thomas Wels

Thank you, Martin. Hi, everyone. This is Thomas speaking. We thought it was a good idea for me to join the quarterly calls from time-to-time to give you an update on our strategy, market environment, and on the operating business, so you get another impression of our progress, beyond the financials, which Karim provides in this quarterly video and later in this call. With that, let's move to page three of the results presentation.

The first message, we had a good start into the year. Despite continued lockdowns, we were quite active with clients and signed transactions worth €1 billion. This is an increase of 16% year-on-year, and a great result, if you look at the market average volumes, which actually declined over 30% in the same period. It is our well-diversified product offering, forward thinking research, and a combination of local experts and cutting edge technology that allows us to offer attractive investment strategies to our clients, even in this difficult environment.

We currently see few large ticket transactions, but a number of smaller deals that add up to nice overall volumes. Compared to last year, we have also seen a higher number of deals where PATRIZIA was approached directly and exclusively. This, again, confirms our excellent reputation as a trusted player in the market.

Let's talk about pipeline. We have a multibillion pipeline at the moment and from the signed transactions, we have seen since the end of Q1, we can confirm an acceleration in transaction activity during Q2. Overall, acquisitions significantly outweigh disposals, which supports our assets under management growth targets for the year. The second important point, our strategy is unchanged and the structural growth market case is fully intact. Growth in global pension money increased allocation to real assets and consolidation of the sector remained a major growth driver for that

PATRIZIA.

Our clients just recently confirmed this. Over 70% expect to increase their real estate allocation over the next five years, of which, 16% actually plan to expand strongly. There was no investor who plans to reduce real estate exposure. Also interesting and fully in line with our strategy, every second investor plans to grow their infrastructure exposure. Our clients also care about an expected increase in regulatory requirements, which include state of the art reporting.

This is why we continue to invest in technology and processes to further improve the client experience. We believe it will become an even more important and decisive factor for doing business in the future and we are prepared. PATRIZIA has a strong international platform, and the financial flexibility to deliver best in class solutions. This also includes the expected increase in ESG reporting, both at portfolio and individual property level.

That brings me to my third point, sustainability. The nature of our business model, the assets that we manage, and the DNA of our people have one thing in common, we want to create something sustainable, something that lasts. That means that sustainability, which is on everyone’s lips these days, is not a new thing to us. We create value for our clients to make pensions secure, we help people create and have a better future, and with the PATRIZIA Foundation, we have helped children worldwide, for over 20 years, to get access to education.

But we, and here, I mean the entire industry, have a lot of work ahead of us to further integrate ESG into the daily business decisions we are making. Also, we need to be able to support our clients with investment opportunities that meet the ESG requirements. And here is an important link between technology and ESG. Having the data in place to track ESG performance and build the basis for business decisions become a key success factor.

Again, another reason for PATRIZIA to continue to invest in technology. We believe our responsibility as an investment manager of real assets is also to focus very much on the impact we have on the environmental communities. This is why we made strategic hires in this area. One example is Mathieu Elshout, who is joining us from PGGM in his new role as Head of Sustainability and Impact Investing.

Together with the ESG committee, which I chair, and the ESG teams we already have in place, we believe we can become a leading sustainable investor and a leading impact investor in real assets in the next few years. With that, let me hand over to Karim to give you a brief update on our Q1 financials. Karim.

Karim Bohn

Thank you, Thomas. Let's move to page four of the presentation. I can only confirm what Thomas has just said, we had a good start into the year. Our balance sheet remains rock solid. We increased revenues and decreased costs, and we confirm our guidance for the full year 2021 as we see certain accelerating trends in transaction activity and client demand. Let's move to the next page for more details.

Our balance sheet remains rock solid and you might have seen the news today that we have decided to buy back shares in the market over the next few weeks and months. To make this clear, we have no plans to delete those shares. One of the options is actually to use these as M&A currency. So, 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 interest. We will also use the available liquidity to redeem €66 million of bonded loans shortly and reduce our financial expenses. Let's move to page seven to look at our financial performance.

In addition to our video presentation for the first quarter, the point I want to make here is that despite the overall market uncertainty in certain asset subsectors, our assets under management continue to prove very resilient. This is a result of forward thinking investment strategies for our clients and our focus on high quality risk reward strategies. We currently see good momentum, in terms of market activity, and we will update and specify our guidance range for both AUM and operating income during the year. Let's move to page eight of the presentation.

On page eight, you will find the composition of operating income in the first quarter of this year. You, by now, may be used to some volatility in our transactions and performance fees, if compared to the previous year's quarter. In case of transaction fees, this is due to a very strong first quarter last year, which benefitted from spill over effects from 2019, namely major transactions where the transaction fee was triggered at closing and not at signing.

Performance fees were up due to the Dawonia performance fee from outperforming the annual cashflow targets and from profitable realisations for our clients. Management fees, however, grow steadily and in line with continued organic growth of AUM. Let's move directly to page 11 for the guidance.

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 remain at 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's rather a question of when will they feed into our operating income?

The performance fee claims we have generated over the last few years, and which we will be able to harvest in the next few years, give us confidence in a further strong balance sheet with lots of financial flexibility and the opportunity to take market opportunities when they arrive. Fully in line with our mid-term strategy. Now, with that, I'd like to hand back to Sarah to start the Q&A session.

Sarah — Thank you. Ladies and gentlemen, at this time, we will begin the question and answer session. Anyone who wishes to ask a question may press star, followed by one, on their touchtone telephone. If you wish to remove yourself from the question queue, please press star, followed by two. If you're using speaker equipment today, please lift the handset before making your selection. Anyone who has a question may press star, followed by one, at this time. One moment for the first question, please. Our first question comes from Andre Remke with Baader Bank. Please go ahead.

Andre Remke — Good afternoon, sirs. I have two questions from my side, please. The first question is on your SBB programme. How to phrase the question? What was the most decisive factor for launching it? To support the declining share price or simply saying that you regard the current share price as undervalued? Or is it more to use the treasury shares in any kind of M&A transactions, i.e., are there already some on the horizon for this year? Your thoughts on that would be helpful. That's the first question.

Karim Bohn — Hi, Andre. It's Karim. The question is very simple, Andre, the answer, both are correct. First, we'd like to create further M&A currency for upcoming deals, and secondly, the stock was down or is down, 15% since the beginning of the year. And comparing the current share price level to the average analyst targets, we think that the pricing is actually quite attractive at the moment to buy back shares and benefit from the weakness in the share price.

Andre Remke — I see that you answer in that way, so is there no chance to get a closer view on whether there is some M&A around the corner?

Karim Bohn — Andre, as you know, we've been talking about this for two years and I understand that the market is waiting for M&A.

	But remember, we've been very disciplined over the past ten years really to find the right target, be very diligent, and make sure that the targets we are ultimately taking up or buying, as a partner, have the right cultural fit, are complementary to what we do, and ultimately, accretive.
Andre Remke	I get it. Then the second question. Quickly remind me on the bonded loan. You mentioned this in your presentation. What amount is due and will be repaid? And will you launch new loans at, presumably, lower interest costs? Or do you not need that large amount of available liquidity anymore?
Karim Bohn	That's a good question, Andre. This year, nothing is due, but there is a tranche of 66 million, which at the time, was financed on a floating basis, rather than a fixed basis. And this is the portion we're paying back this year. We think that we have ample liquidity at the moment to do both. Return a little bit of the debt, and thereby, save interest expenses and negative interest, buy back shares.
	And given the strong balance sheet we have and the strong cashflow we are producing on an annual basis, we think that if our M&A activity exceeds the current cash balance, we can always go back to that market and borrow more money, based on the very strong balance sheet, and as I said, strong cashflow production. So, it's really an optimisation of our balance sheet situation.
Andre Remke	So, there is no immediate change into another tranche?
Karim Bohn	No. Not at all.
Andre Remke	That's clear. Thank you from my side.
Karim Bohn	Thanks, Andre.
Sarah	The next question come from Klose Kai with Berenberg. Please go ahead.
Kai Klose	Good afternoon, it's Kai Klose. I've got three questions, if I may. The first one, in your video presentation, you mentioned yesterday that you have 300 million equity from investors to be invested into European, as well as global properties. Could you specify a little bit more on the second aspect, on global investment? Is this new fundraising and in which regions you expect this equity to be an asset on behalf of the clients?
	The second question is on the expense ratio, which came down a little bit. Could you indicate how much was because of the lockdown? Meaning travel expenses, etc., for the team were a little bit lower, and how much might have come from efficiency gains and your money has been invested into processes to improve? And the third question is on the

operations. When you've arranged financing for the properties in the funds with the lending banks, do you see banks asking for somewhat higher costs or, let's say, higher margins, when it comes to different asset classes, particularly on the retail side?

Thomas Wels — Thomas speaking. Perhaps on the fundraising. We don't have global products, except in the multimanager space. In the multimanager space, actually, we do locate globally, which is small funds, but the allocation is 50% to the US, while the rest is Europe and very little in Asia. So, the funds we are raising there are around 250 million, so if half of it goes into the US, this is our international or global part. This said, generally, 95% of our business is still European. So, if we talk international, it's global monies, which come to Europe, which is, basically, mostly Korean and Japanese monies.

Kai Klose — Understood. Thank you.

Karim Bohn — To your second question, Kai, it's Karim speaking, expense ratio, it's really a combination of a little bit of operation excellence, but the larger part really comes from cost containment during lockdown. It's mainly travel and advisory expenses, which we didn't spend because the transaction volume came down. It actually shows partly the variability of our total expenses.

To your third question, the financing market. Generally, credit spreads have risen to, I would say, depending on the asset class, 30% to 50% from a very, very low basis. So, in the overall context, I would say the interest expense or interest costs, altogether, haven't materially increased, but the credit spreads have 30% to 50%.

When it comes to more difficult asset classes, like hotel or retail, those are asset classes, at the moment, which are very hard and difficult to finance at all. We do get financing done, but in the current markets, we hardly transact on retail or hotel deals. But liquidity is there, but for retail and hotel, the margins are significantly higher, probably more between 50% and 100% higher than before.

Kai Klose — Understood. Many thanks.

Karim Bohn — Thanks, Kai.

Sarah — Ladies and gentlemen, if you would like to ask a question, please press star, followed by the one on your telephone. Our next question comes from Manuel Martin with Oddo BHF. Please go ahead.

Manuel Martin — Thank you, gentlemen. One question from my side. The

	Dawonia fees were, again, similar to last year, was quite strong in the first quarter. Could you give us some colour on that? Which kinds of targets were reached, so that we can understand a bit the mechanics behind that good performance?
Karim Bohn	Hi, Manuel, it's Karim. The Dawonia performance fees, as you all know, in the first quarter, we do collect the performance fees for the performance of the previous year, in this case, for 2020. 2020 has been a very good year for Dawonia. As you all know already, it had a pretty good year last year throughout COVID. And we, again, in 2020, overachieved our cashflow hurdles, based on both very good performance on rent increases, but also, on the disposal and privatisation side.
	So, what it actually shows, Manuel, is that resi, overall, continues to perform very strongly throughout the crisis. And that's, by the way, not only true for Dawonia, there's also a small piece, a couple of million of performance fees, which come out of another resi fund. We've also outperformed our benchmark hurdles last year, and that also contributed to the strong performance fees in the first quarter. So, resi remains very strong.
Manuel Martin	Thank you. That's helpful.
Karim Bohn	Thanks, Manuel.
Sarah	There are no further questions at this time. I will hand back to Karim Bohn for closing remarks.
Karim Bohn	Thanks, Sarah. And thanks, everyone, for joining our call on the first quarter financials. We're looking forward to speaking with you at the latest in August when we report on the second quarter numbers, or in the meantime, on the virtual roadshows we're going to carry out over the next weeks and months. Thank you very much. Stay well and safe. Thank you.