

PATRIZIA AG

Preliminary Financial Year 2021 Analyst and Investor Call

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Transcript

Speakers:

Martin Praum

Karim Bohn

Thomas Wels

Martin Praum

Hi, it's Martin speaking, and welcome also from our side to this year's preliminary financial year 2021 analyst and investor call. I'm happy to have our Co-CEO, Thomas, and our CFO, Karim, in the room with us, and they will present to you an update on our operating business, the market environment and our financials. During today's call, we will refer to the preliminary financial results presentation which we circulated yesterday, and which you can find on our website in the section "Shareholders" under "Most recent publications".

The presentation includes details about our new KPI set which we introduced at the beginning of 2022. In case of questions, the IR team is more than happy to guide you through these changes and to help updating your models. As usual, this call will be recorded and be made available on our website, and we will also offer a call transcript later for further reference. With that, I'd like to hand over to Thomas for an introductory statement and to start the presentation. Thomas?

Thomas Wels

Thank you, Martin. Hi, everybody, this is Thomas speaking. First of all, I want to do a very quick side remark. We are all shocked as everyone this morning about the attack on Ukraine. I, personally, never thought war in Europe would happen again. This shows how important a united democratic and peaceful Europe is.

Our solidarity, clearly, is with the people in Ukraine. Of course, we will watch the situation carefully. I, personally, would have hoped never to see war again in Europe, having grown up directly at the border of the German Democratic Republic many years ago. Some people just didn't learn from history. With that, I go into the main topic of the call. I have four key areas I would like to discuss with you today. In my view, they are a good summary of our achievements in 2021.

Please have a look at page two of the presentation. First, despite Covid-19, we delivered very solid financial results and we can confirm a clear recovery in business activity in 2021. We've added 50 institutional clients to our platform in 2021, and also continued to attract new clients in the private and semi-professional area. Over 50% of raised equity came from international investors, and our flagship funds continued to attract a larger share of raised equity. This is fully in line with our strategy. At the end of November 2019, we announced the launch of the Living Cities Fund. Only two years later, we talk about a 1.5bn equity product.

Second, our diversified platform helps to offer your clients the right product at the right time, even at times of significant uncertainty and structural changes in the market environment. We are building on this successful strategy and will continue to expand into new markets and products. We have made good progress in building a new hub in Asia, where we expect continued growth in business going forward.

Another good example is our first real estate debt product we structured for a Hong Kong client. Again, I would like to revisit November 2019, when we announced our mid-term strategy to the market. The expansion in the product offering was one of the key elements of our story – and as you can see, we are delivering on it.

Third, we expanded into global infrastructure and can meanwhile confirm the successful closing of the Whitehelm transaction on February 1st 2022. The Whitehelm teams in Sydney, Canberra and London are now part of PATRIZIA and form the new “PATRIZIA Infrastructure” unit. We are now on our way to offering the great infrastructure product Whitehelm brought to the table to our global client network. We believe infrastructure offers great growth opportunities for our clients and for PATRIZIA.

Fourth, we made very good progress on our Sustainability Strategy and ESG. Those of you who have followed us through the year saw the formation of a new, international and tech-savvy Supervisory Board. With new committees and the Supervisory Board, we are now 100% compliant with the latest corporate governance standards.

Two things we are proud of. Of our first Impact investing fund, which we structured during 2021 and launched early this year, it was called PATRIZIA Sustainable Communities, an article 9 fund with seed investments from two leading Danish pension funds. The other point is our new ED&I Council, which will further accelerate diversity and inclusion at PATRIZIA. Last but not least, reporting becomes ever more important in the area of ESG. We will soon publish your 2022 ESG report, which will show another step forward in ESG and in measuring our progress.

After these strategic and operational highlights, let's move to page three. I have selected three transactions out of the many we've done for our clients in 2021, just to give you some examples of our activities last year.

No doubt logistics and residential were the most sought-after asset classes of 2021, and a large part of equity raised was invested in these sectors. The acquisition of a

210,000sqm Rotterdam logistic centre with excellent ESG credentials is exactly the product that fits to our investment strategy. And it is an excellent example of the potential we have in the logistics sector to use property roofs for solar energy.

On the right-hand side another acquisition, this time in Helsinki, this time residential, a project development to be finalised in 2023 with a class A energy certificate and “social infrastructure” attached, like a kindergarten – an important element of “building communities & sustainable futures”. Another reason for showing this – our clients increasingly look at project developments and are willing to invest in forward deals. They are okay to wait one, two, three years before cash flow generation starts, but they in return get high quality, ESG-certified and future-proof assets.

Lastly, the disposal of the Astro Tower in Brussels, a major deal in the office sector in 2021. Performance realisation is an elementary part of our business, and we make sure that the assets we manage for our clients are perfectly positioned and maintained until the exit.

So, what are the plans for 2022? Let’s move to page four.

We now have a truly unique platform, and people that can offer perfect solutions for our clients, be it a real estate fund for a number of investors, or a single mandate, or a Global Partner solution for our Fund of Funds business with investments even across the globe. Based on these solutions, we invest in key themes that are identified by our cutting-edge Data Analytics team, together with our local people on the ground in each of the markets we invest in.

So, what are the themes for 2022? We believe that “living”, which is much more than simply “residential”, will continue to play a major role. Also enabling supply chains via logistics will continue to be a major theme. Impact funds and ESG products are no doubt becoming the new market standard, so we will continue to offer our clients products in this area. Our new infrastructure expertise will no doubt accelerate our activities in this area in 2022.

And lastly, sometimes forgotten in recent months, the office sector is back on the radar screen for many investors. Collaboration, direct exchange with colleagues, innovation culture and training young talent are all elements that lead to continued demand for high quality office space in good locations. With that, let me hand over to Karim to give you an update on the financials for 2021 and outlook for 2022.

Karim Bohn

Thank you, Thomas. Let's move to page six right away. I can only confirm what Thomas just said, and we can see growth momentum also in our business activity of 2021.

First, growth in equity raised of close to 39%, and growth in signed transaction volume of 24% are a confirmation of a solid recovery from Covid-related business slowdown in 2020.

Second, AUM continued to grow to now EUR 48.6bn, and recurring management fees showed 8.1% growth y-o-y. So, we continue to improve the quality of our revenues.

If we look at the pro-forma figures, which include Whitehelm Capital's AUM, we reach an AUM of EUR 52bn. AUM has 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 assets that we manage.

Third, we continue to return cash to our shareholders and propose to distribute a dividend of 32 cents per share at the upcoming AGM. This is the fourth consecutive increase in dividends, and 6.7% higher compared to last year. In addition to the direct participation of the positive business developments, we also carried out a share buyback programme in 2021, and this was intended not only to support the share price but also to create acquisition currency for future M&As. We are also currently running a share buyback programme which will continue until the end of this year.

Fourth, despite redeeming parts of our bonded loans during the first half of 2021, available liquidity remains strong and gives us great flexibility to grow and to invest.

Fifth point – due to the successful transformation into a global investment manager, we will now adapt our key performance indicators to the existing business model. Therefore, from 2022 onwards, operating income will be replaced by EBITDA, and the Cost Coverage Ratio will be replaced by EBITDA margin as key financial performance indicators. This should make your life easier as it will simplify financial reporting and significantly reduce the number of adjustments in our operating reporting, and it should also make our results better comparable to peers.

Let's move to page seven. On page seven you will find the composition of operating income of the financial year 2021. What you see is that management fees and transaction fees show solid growth y-o-y. Performance fees remain at almost the same level as in the previous year, but they are still an important contributor to total service fee income, simply

reflecting the effective performance we generate for our clients. Net sales revenues and co-investment income are down more significantly, y-o-y. The reduction is largely due to lower earnings from co-investments.

On the cost side, we are not surprised by the 3.2% increase to the previous year. This is mainly due to one-off M&A-related costs and continued strategic investments. Excluding M&A costs, we would have seen a cost growth of only 1.4%. Overall, we will continue to expand the PATRIZIA platform and invest in the future for the benefit of the EBITDA tomorrow.

Let's move to page eight, on management fees. Management fees once again stand out with a convincing growth rate. 2021 was also positively impacted by management fees be received for managing real estate developments for our clients, as we see increased demand by our clients for attractive development profits and forward deals. This also explains the gap between growth in AUM and management fees. The services we provide for our clients in this area already generate fees with assets under management rising later, step by step, in line with projects progressing in construction.

Our 2022 guidance for management fees is EUR 245m to EUR 260m. This is primarily driven by the consolidation of Whitehelm plus additional organic growth. At the same time, we expect AUM to rise to a range between EUR 57bn and EUR 60bn.

Let's flip over to page nine. Page nine gives a little more detail on transactions and transaction fees. Transaction fees also showed a solid 6.9% growth, while the transaction volume grew even faster, with a 24% increase, y-o-y. Bear in mind that not all funds we manage charge transaction fees. Some instead generate a higher management fee, explaining the possible disconnect between the two growth rates. Our guidance outlook for transaction fees in 2022 is EUR 50.0m to EUR 55.0m.

Let's move to performance fees on page ten. Performance fees remain stable at almost EUR 86.0m. The new guidance range for performance fees is EUR 50.0m to EUR 60.0m for the financial year 2022. The chart on the right-hand side of slide ten, however, reiterates there's more to come in the short term and in the mid-term. The exit performance fee claim on Dawonia alone now stands at close to EUR 416.2m pre-tax, and EUR 339m post tax. We are still in discussions with our investors in the fund about the future of the funds. But if there's one thing we can confirm, is that the value for

PATRIZIA continued to increase in 2021. Do not forget, we also have a 5.1% co-investment stake in that fund which has increased in value to now over EUR 175m after tax.

Let's move to page 11. As I said before, our guidance for the full year of 2022 will be partially based on new KPIs. This is the reporting style you are used to, which is why we have incorporated this graph for the 2022 guidance. To better explain the changes in reporting, please move to page 12.

You will see the familiar setup of management, transaction and performance fees, building total service fee income, followed by net sales revenues and co-investment income and net operating expenses. This is where EBITDA will come into play going forward. In addition, Cost Coverage Ratio (CCR) will be replaced by the EBITDA margin as a new financial performance indicator.

AUM growth, a third key item, will continue to be a key financial indicator. So, nothing will change here. If you look at the major changes applied, we will eliminate a number of adjustments – so the idea is to simplify the financial reporting and make it more comparable, as I said before. We also looked at how operating income and EBITDA compare for the last few years, and both figures actually were not far away from each other in the last three years.

As an additional service, we've also included a guidance for EBIT and Earnings before tax. You might remember that the M&A related amortisation of fund management contracts on a regular basis do lower the results below EBITDA, and these amortisations are non-cash items, which is why we will continue to focus on EBITDA to show our economic progress.

Now, let's turn to page 13. This table is unchanged to the previous slides, but we do reiterate the major drivers of our expected performance in 2022. Our AUM growth and the consolidation of Whitehelm should drive management fees which we expect to increase, from around EUR 209m today to between EUR 245m and EUR 260m. This strong growth offsets low performance fees and lower co-investment income compared to the previous year – at the same time further improving the quality of our earnings. Cost growth is primarily driven by the Whitehelm consolidation, so that we expect EBITDA in the range of EUR 120m to EUR 145m in 2022.

Finally, let's have a look at key balance sheet items, on page 14. Our strong balance sheet and liquidity position is nothing new to you, as we have built this up, step by step, over the past few years. As you already know, we have redeemed

66m out of the 300m funded loans to optimise financial expenses, and we continue to buy back shares in the market. The bank loans of around EUR 170m are – as some of you might remember – only temporarily held on our balance sheet and it relates to our business line with private and semi-professional investors. They will be redeemed as soon as the distribution of the related closed end fund products start.

By the end of 2021, we have 3.7m treasury shares worth EUR 73m. This is M&A currency which comes on top of the available liquidity of EUR 513m. So, in total, liquidity reserves close to EUR 586m at year-end. The number of treasury shares has since been reduced to approximately 3.2m shares, as the Whitehelm Capital acquisition was successfully closed on February 1st, 2022, and the first part of the total consideration payment was partly settled with PATRIZIA shares.

To sum it up, we see good momentum in business activity, and despite Covid-19 also impacting 2021, we showed solid financial results. Shareholders will benefit from another increase in dividends, where we continue to buy back shares. Our outlook for 2022 implies further growth, and further growth of recurring income. With that, I'd like to hand back to Natalie to start the Q&A session.

Operator

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, you may press star followed by two. If you are using speaker equipment today, please lift the handset before making your selections. Anyone who has a question may press star followed by one at this time. One moment for the first question, please. And the first question is from the line of Kai Klose from Berenberg. Please, go ahead.

Kai Klose

Yes, hello, good afternoon. I have got two questions, if I may. The first one, when looking to the net transaction volume, you were a net buyer of EUR 1.1bn and total AUM went up, net, by EUR 1.6bn, so is it fair to say that the main driver for the AUM growth came from net acquisitions? Or could you also indicate what was the like-for-like change of the underlying AUM?

Karim Bohn

Hi, Kai. This is Karim. One of the key drivers in 2021, given the balance between acquisitions, or closed acquisitions, and closed sales in 2021, one of the main drivers was also valuation uptick, despite Covid-19. And the difference, as you know, Kai, between signed deals and closed deals is

that some of the signed deals, in particular acquisitions which we signed in 2021, partly only closed in 2022. And when you look at AUM by the year-end, we look at closed deals. That's why you always have deviation between signed and closed deals.

Kai Klose: And what was the like-for-like uplift of the AUM?

Karim Bohn: Like-for-like, you mean without valuation?

Kai Klose: Yes.

Karim Bohn: The like-for-like uptick without valuation was just barely positive, so it was a few hundred million positive.

Kai Klose: And which segment or which region contributed the most to that small uplift, uptick?

Karim Bohn: Generally, what we bought was mainly residential and logistics. What we sold was mainly retail and office, really across Europe, with the majority of, I would say 50%, of both acquisitions and disposals was in the DACH, the German, region, and the rest was across Nordics, UK, Ireland and Benelux.

Kai Klose: Sorry, I was not precise, it was what contributed the most to the like-for-like uplift by segment or by region, not was the split in transactions.

Karim Bohn: Are you referring to the valuation, Kai? I'm not sure.

Kai Klose: Yes.

Karim Bohn: Ah, okay. So the main contribution to valuation was really residential and logistics, with office being flat and retail obviously contributing a negative valuation result.

Kai Klose: Thank you.

Karim Bohn: Thanks, Kai.

Operator: Ladies and gentlemen, as a reminder, if you would like to ask a question, please press star followed by one on your telephone. The next question comes from the line of Manuel Martin from ODDO BHF. Please, go ahead.

Manuel Martin: Hello, gentlemen, thank you for taking my question, it's just one or two questions. My first question would be on your guidance for 2022. You're guiding for a strong increase in assets under management, however if you have a look at the EBITDA guidance, it seems that you could have an EBITDA loss, y-o-y, compared to 2021, despite having actually good guidance in AUM and in terms of fees. Maybe you could elaborate a little bit on that, please?

Karim Bohn Hi, Manuel, this is Karim. Thanks for the question. It's well spotted and easily explained. Now, you might have also noticed that the performance fee guidance is around EUR 20m to EUR 30m lower than 2021, and if you then look at the guidance of EUR 120m to EUR 145m, you see quite obviously that we fully make up for lower performance fees by a higher contribution from management fees.

So we expect the quality of earnings to increase significantly, and one minor point, but also important in this context, is when you look at the EBITDA in 2021, EUR 128m, that includes roughly 6m income from amortisation of an earn-out from an old acquisition which positively impacts the EBITDA. So on a like-for-like basis, I would say the low end of the guidance is basically the starting point of EBITDA in 2021. But as I said, the guidance actually assumes that we at least compensate, or overcompensate, the lower income from performance fees with higher management fees.

Manuel Martin Okay, I see. My second question would be related to the performance fees again. The guidance that you're giving for 2022, is this going to be the new normal, what we could expect for the next years? And maybe you could tell also a bit on the background why the performance guidance is at that level, because it's significantly lower than last year?

Karim Bohn Yes, it is. It's a good question. We always said, if you look at the performance fees, I would say, over the past six, seven years, the average was always between EUR 50m and EUR 60m. It varied, as you know, between EUR 30m and EUR 130m, depending on the year. And it's hard, the visibility on performance fees in a given year is also depending on the sales programme we have in the pipeline, and vintages of the funds that do run out of where we sell assets. So I wouldn't say it's the new normal, but I think it's fair to say that we hold onto the average of EUR 50m to EUR 60m, and the visibility we have for 2022 is based on the sales programme we know as of today.

Manuel Martin Okay, very clear. Okay, thank you.

Karim Bohn Thanks, Manuel.

Operator The next question is from the line of Philipp Kaiser from Warburg Research. Please, go ahead.

Philipp Kaiser Yes, hello, everyone, thanks for taking my questions. To start on the management fee guidance, an untypically wide range for your management fee. Is that driven by the acquisition of Whitehelm, or also related to the switch from transaction to management fee? Or how can we read that?

Karim Bohn Hi, Philipp. There are mainly two reasons. One is closing of acquired assets, because, as you know, we start generating performance fees when we close the assets, not when we sign them. Management fees, sorry. Management fees. And that's why there's a range and there's also the wide range based on the Whitehelm acquisition, which, first of all, increases the lower end of the range. And then, the third, there's the same certainty on closed as on signed transactions. That explains the wide range in management fees.

Philipp Kaiser Okay, thank you. Then, my next question, an evergreen from my side, regarding the Dawonia performance fees, 2023 is now only one year ahead, so any news on the negotiation or how we could expect that to be generated, the cash flow out from this portfolio?

Karim Bohn Yes, it's an evergreen question. This project is also called Evergreen. You're absolutely right. We're now at the beginning of 2022, so this is the year where investors have to make up their minds whether they want to extend the Dawonia fund or not, or if they want to partially extend and some other investors come in. I think the good news is, Philipp, that, over the past years, even in 2021 or 2020, during Covid, the value of our performance fee pot increased and also the value of our RETT blocker the 5% stake we own in Dawonia increased. And I know you're going to ask the same question in May, and then again in the summer, I would be disappointed if you wouldn't, but I expect more clarity, hopefully, when we announce Q2 numbers in August, but surely, obviously, with Q3 numbers. But this is now top of the agenda for us, and top of the agenda for investors. But as you know, residential continues to be a highly sought-after asset class.

Philipp Kaiser Yes, of course. Thanks a lot, very clear. My last question connects the share buyback programme with your significant liquidity, might it make sense to even increase the share buyback programme regarding the current share price and the clear under-valuation to set an even clearer statement to the capital market as you regard the bought-back shares as M&A currency in the future?

Karim Bohn Philipp, as much as would love to buy back more shares, given regulation, when you appoint or mandate a bank to buy back shares on a regular basis, they restrict the amount of shares they can buy back on a daily basis. And that's why it's really not in our hands, for regulatory reasons, to increase the buyback volume on a daily basis.

Philipp Kaiser Okay, understood. Thanks a lot, this was all from my side. Take care, all the best.

Karim Bohn Thank you, Philipp, and to you.

Operator The next question is from the line of Andre Remke from Baader Bank. Please, go ahead.

Andre Remke Yes, good afternoon together. Just two questions left, first starting with your calculation on the assets under management growth target, EUR 57bn to EUR 60bn. So it's a huge increase, could you run us a bit through your idea behind that? I guess it's included with the EUR 3.5bn Whitehelm, but then even so it seems to be a growth of EUR 6bn to EUR 9bn on a net basis. You have never reached such a level, so this does include any other acquisition, or how should we reach this?

Karim Bohn Hi, Andre, this is Karim. That is a good question, and a fair one. The starting point, as you know, as I mentioned earlier today, is EUR 52bn including Whitehelm, so we're looking at a growth from EUR 52bn to EUR 57bn to EUR 60bn, and this is really based on bottom-up planning we made based on a much broader footprint on a global basis, and investments we made over the past years into the capital markets organisations, or the fund-raiser organisations, as well as on the product side.

 And that makes us confident that, with a new platform, including infrastructure, we will be able to deliver on that growth. It also includes, to a certain extent, deals we have signed in 2021 but will only close in 2022. So that's really the mix. But the main point to remember, Andre, is that we believe that the investments we made over the past two to three years, plus the acquisition of the infrastructure business with a global and, more importantly, with an APAC footprint will allow us to achieve those growth rates.

 Now, this comes with a bit of a caveat, Andre, and, as Thomas said earlier on this call, this also assumes a normal health in the geopolitical environment. So when we went through the budget planning, we were obviously assuming that Covid issues will slowly go away or will be lifted and would allow us to come back to pre-Covid growth rates. Now, we have to see how the geopolitical crisis, with which we were confronted overnight, will play out and will impact our business and our investors.

Andre Remke Yes, but again a growth of EUR 5bn to EUR 8bn, this is at least kind of feasible already from today's perspective? Or is it growth rates which you are planning if the business is running? How comfortable are you on the back of this? And

maybe a follow-up on your leftover from signed deals last year, what is the magnitude of this?

Karim Bohn

The magnitude of the hangover from signed but not closed transactions is roughly EUR 1.5bn. Not all of that will close in 2022, but a large part of that. And why do we feel comfortable with the growth? As I said, we have a much better platform, and if you look at the years pre-Covid, Andre, the growth rates on a relative basis, we achieved before, that wasn't that far away from the relative growth rates we'd like to achieve in 2022.

Andre Remke

Yes, but from a much lower starting point basis. But that's fine from me, thank you for the explanations. The second question from my side is could you elaborate again on the treasury shares? You mentioned 3.7m shares, is it after Whitehelm, or was it as of year-end?

Karim Bohn

Yes, that's an easy one. We currently hold 3.2m shares, and that is after Whitehelm.

Andre Remke

You spent 0.5m shares?

Karim Bohn

Yes, exactly, that's about right.

Andre Remke

Okay, perfect. Thank you very much, that's it from my side.

Karim Bohn

Thanks, Andre, take care.

Operator

There are no further questions at this time, and I would like to hand back to Karim Bohn for closing comments.

Karim Bohn

Yes, thank you, everyone. Thanks for joining the call. Stay well and safe, and I hope to see you soon. Hopefully, one of the last conferences. If you have any further questions, reach out to us, you know where to get us. We are happy to take your calls, we are also happy to see you in person again soon, when all the restrictions are lifted. And I hope, for all of us, that the geopolitical crisis we are confronted with right now will hopefully be eased soon. Thanks a lot for listening and talk to you soon. Bye.

Thomas Wels

Thank you.