

PATRIZIA AG

M&A Whitehelm Capital – Analyst & Investor Call

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Transcript

Speakers:

Thomas Wels

Karim Bohn

Martin Praum

Martin Praum

Hi. Good morning, everyone. This is Martin Praum speaking, Head of Investor Relations. Welcome to our call regarding the transformational M&A transaction we announced today. This morning, we announced the acquisition of Whitehelm Capital, a leading infrastructure investment manager with offices in London, Sydney and Canberra.

Our Co-CEO, Thomas Wels, and our CFO, Karim Bohn, are with me here today. Both will guide you through the strategic rationale and the financial impact of the transaction. We will refer to the analyst and investor presentation which we circulated this morning and which you can find on our website in the section “Shareholders”, and then under “Most recent publications”.

As usual, this call will be recorded and will be made available on our website and we’ll also offer 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. I still have to calm down a bit after the signing last night. Hi, everybody. This is Thomas speaking. I am really excited to announce to you today that over the weekend we’ve entered into a share purchase agreement for the infrastructure manager, Whitehelm Capital.

The strategic move into infrastructure has been our M&A focus for quite some time, as you may know, and I may have shared my ambition to do a deal already 12 months ago. The search for the right partner has been quite challenging. We have looked at many potential candidates over the last two years but now, with Whitehelm, we are convinced we have found not only the perfect strategic match but also, even more importantly, the perfect cultural match. I would like to take you through some key information on Whitehelm Capital so you will get a deeper sense of the strategic and cultural fit of the acquisition.

Let’s turn to page two of the analyst presentation. Why do we call this a transformational acquisition for PATRIZIA? Because Whitehelm is a key enabler for us to execute on our mid-term strategy to become the leading partner for global real assets. Whitehelm has the knowhow and great track record in infrastructure and we have knowhow in real estate plus a large global client base. This is a perfect strategic match because together we really complement each other very well.

Let me highlight three focus areas. First, our clients will benefit from a much broader product offering, ranging from private infrastructure equity, private infrastructure debt to listed infrastructure. Second, the transaction significantly strengthens our global footprint, especially in the Asia/Pacific region. Third, it accelerates our sustainability strategy.

You know that my role is to help PATRIZIA deliver on our strategy and growth ambitions. With the expertise and support of Whitehelm, we want to grow our infrastructure AUM up to EUR 20 billion in the next five years starting at today consolidated around EUR 5.0 billion.

We want to double our overall AUM of currently EUR 48 billion in the mid-term. Why? Because we want to stay relevant for our global clients who are growing bigger and bigger. Whitehelm's strong footprint and network in the infrastructure equity and credit business, especially in APAC and Europe, plus its existing investments in North America, will help us to accelerate that growth together with our existing client base.

Let's turn to page three of the analyst presentation. Successful partnerships are all about having the right chemistry, similar values and a compatible culture to build trust. From the people I have met and from what I've heard and learned in the due diligence, I'm convinced that we have a perfect cultural fit.

We both think and act like entrepreneurs. We are innovative and agile. We are independent and we both always put the needs of our clients first, no matter what. So, that's why I believe this will be a unique and very valuable fit for all us, which is really hard to find. By the way, the cultural fit is also one of the key reasons why Whitehelm management, which owns 70% of the company, choose PATRIZIA as their new partner.

You know we spend shareholders equity wisely and we've taken the time to find the right partner, exactly as we did back in 2017 and '18 with TRIUVA and Rockspring. The strategic deployment of our existing cash and treasury shares is accretive to our operating income and, at the same time, we keep our strong financial flexibility which we will use for further investment. Besides that, with more than 80% of Whitehelm's revenues coming from recurring fees, we further increase our quality of earnings massively.

To paint a better picture for you I'd like to provide you with a snapshot of Whitehelm. Let's turn to page four. What are we buying? Whitehelm is one of the world's most experienced infrastructure managers, with 23 years track record of successful investments. Whitehelm currently manages EUR 3.2 billion with an additional EUR 1.6 billion of commitments of not yet invested dry powder.

It has over 60 investment specialists over three offices, in London, Sydney and Canberra, with a track record of more than 100 direct infrastructure equity and credit investments bolstering our exposure, especially in Australia and APAC. They have more than 20 institutional investors for which they have delivered value with an IRR of 11.9% for global core infrastructure

investments since inception.

Let's turn to page five of the analyst presentation. The great thing about Whitehelm is the broad skillset. It has a well-diversified product offering and investment expertise that will significantly broaden PATRIZIA's portfolio of investment solutions for our clients, with a particular focus on smart cities and digital infrastructure, decarbonisation and energy transition, water and environmental services, social infrastructure across equity, debt and publicly listed infrastructure investments.

We can benefit with that from the structural growth of infrastructure investments across sectors and globally. You know we've been active in the Asian region for a while now and we've been quite successful in fundraising. With Whitehelm, we strengthen our footprint in APAC to support our growth opportunities in the region. For PATRIZIA, Australia represents a really exciting opportunity. Domestically, it's a growing market with a thriving infrastructure sector, while on the international stage it is the gateway to APAC and a key contributor to the region's economies.

Let me also use this slide to reiterate the strategic product diversification we are achieving. While PATRIZIA was so far primarily focused on private real estate solutions, we now diversify the product sphere to infrastructure, tripling our exposure in that area. At the same time we diversify into infrastructure debt and into listed strategies. This is all fully in line with what we had communicated to you with our mid-term strategy end of 2019, repeating it for the last two years.

Let's turn to page six on the analyst presentation. In the future, PATRIZIA is not a monoline real estate investment manager anymore as some described us in the past. We now become a truly real asset manager with a strong global positioning in the alternatives sector. First, the timing couldn't be better. Infrastructure is key on delivering on our sustainability strategy targets in offering our clients more investment opportunities that are net zero carbon and I don't need to tell you that future demand in infrastructure is brighter than ever.

Some experts predict that infrastructure investments are expected to rise by 35% to 3.8 trillion a year by 2040. We all need private capital to realise these ambitious carbon zero target we have in mind worldwide. PATRIZIA becomes even more the gateway for private capital to fund this important transition. So, we are well-positioned to benefit from the tailwinds of this sustained growth.

Let's turn to page seven of the analyst presentation. Whitehelm's clients are predominantly pension funds located in APAC and Europe. The client overlap to PATRIZIA is very limited and our

global client base is a springboard for Whitehelm to accelerate growth. Where we have a massive overlap, and this is one we like, is that all clients have something in common. They are looking for stable and growing cash flows with limited risks to manage their asset liability management and to safeguard the future of pensions. That is reflected in Whitehelm's investment focus which, like PATRIZIA, is primarily in the core and core plus area.

Let's turn to page eight of the analyst presentation. You might remember the chart on the left side we've shown you repeatedly over the last two years and you can see we fill the boxes step by step. We can now offer our clients a variety of investment solutions out of one hand and this is what our institutional clients want because they are growing bigger every day and look for stronger and reliable partners that offer solutions across sectors, geographies and investment styles.

Then, coming back to the point of this being a transformational year, we will now become a truly global investment manager, also with our AUM, which is far from where we primarily focus on Europe. The first step was the acquisition of Kenzo two years ago, building up AUM in the Japanese market. This transaction here is a significant step in diversifying our AUM and income streams.

Let's turn to page nine. Last but not least, ESG. As you may already know, PATRIZIA has clear ambitions to achieve net zero carbon emissions in respect of more than 70% of our AUM by 2040 and Whitehelm's infrastructure offering accelerates the execution of our strategy and so is a perfect match for us in this respect, as well.

With a UN PRI A+ rating for overall implementation of ESG in its strategy and governance activities and focused products like the Low Carbon Infrastructure Fund, we believe we add extremely valuable expertise to PATRIZIA's platform to help achieving net zero carbon emissions. With that, let me hand over to Karim to give you a brief insight on the financial implications on page ten.

Karim Bohn

Thanks, Thomas. Hi. This is Karim speaking. Let's have a look at the financial implications of the deal for PATRIZIA. We expect to pay the initial purchase price of roughly EUR 67 million at closing at the latest in Q1 2022. The total deal consideration might increase to a low three-digit million EUR range if ambitious business growth targets in the infrastructure segment are reached in the next few years.

We have aligned the interest of Whitehelm and PATRIZIA shareholders by the following deal structure. First, as mentioned before, Whitehelm management shareholders agreed on a earn-out structure which connects the future business performance of

the infrastructure segment with a total deal consideration.

Second, the initial purchase price and the total consideration is financed by a mix of existing cash and existing PATRIZIA shares, which we acquired through our share buyback programme of the past months. Third, Whitehelm management shareholders have agreed to a lock-up period for the PATRIZIA shares they will receive as part of the deal.

Next, to the aligned interests of the deal, we are convinced of the financial aspects. The acquisition multiple we are paying is fully in line with historic PATRIZIA M&A deals and the transaction comes along with a further increase of our earnings quality. More than 80% of Whitehelm's revenues come from highly recurring management fees and asset consulting fees with long duration.

To sum it up, we delivered on what we promised to you. We made use of our share buyback programme and deployed your balance sheet cash to conduct an acquisition that will further strengthen PATRIZIA's quality of earnings and stability of revenues.

This strategic transaction will be accretive to operating income from day one of closing and we remain sufficient financial flexibility to continue to invest in people, technology and market opportunities to deliver on our mid-term strategy and growth targets. With that I'd like to hand back to Nairobi to open the Q&A session.

Operator

Ladies and gentlemen, at this time we will begin the question & 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 are using speaker equipment today, please lift the handset before making your selections. Anyone who has a question press * followed by 1 at this time. One moment for the first question, please. The first question comes from the line of Miro Zuzak, from JMS Invest. Please, go ahead.

Miro Zuzak

Hello. Thank you for taking my question. Can you hear me?

Martin Praum

Yes, Miro. We can hear you loud and clear.

Miro Zuzak

Okay. Hello. Thank you. The first question is basically it took 23 years to raise the EUR 3.0 billion or let's say the EUR 5.0 billion including the commitments and now basically if I look at page ten I see the hockey stick right now, it goes up to EUR 8.0 billion until 2026, so in a quarter or the time or like a fifth of the time that it took to raise the first EUR 3.0 billion.

Can you please give some more granularity and some more insight how you want to grow the assets because also you have

EUR 3.0 billion assets and EUR 2.0 billion in commitments? When you have EUR 8.0 billion in assets you probably want to achieve an additional EUR 4.0 billion in commitments probably if I keep the ratio stable. If you can elaborate on this.

Secondly, what is the key people risk in Whitehelm because now basically they get a lot of money? You buy the shares from them. They can, at least after the retention period, they can walk away. What are the key people there? How big is the risk that they're going to walk away? How do you mitigate this? Thank you.

Thomas Wels

Thomas speaking. I'll start with the pipeline. Typically, in the infrastructure space, which is built entrepreneurial over the last 20 years, there was always a slow build-up phase. More recently they added products at a higher speed which actually led to the commitment of one very large institutional client who committed 750 million and additional funds.

The tenure of these funds, as you know, in some cases is 15 years, so much longer than in real estate and the success of raising larger funds is pretty new to them. So, the growth is actually coming from funds which were raised over the last 18 months to three years. They are building the portfolio. For globalising that they needed a new partner and we are this new partner. In the business case we paid for, we did not pay for any synergies, so it's their organic business case.

Miro Zuzak

What makes you confident that this will continue, the growth? Do you have clear plan there and, if you have, could you please share some details on it?

Thomas Wels

There is a clear plan. There are two sets of products. They started with infrastructure debt only recently. My experience, out of my former career, is that large institutional investors start with trying a new strategy with this partner. They raised 500 million in their first fund but typically, if they are able to deliver on the investment performance, which they currently do, the probability that they are able with the next fund to raise 1.0 billion to start with or 2.0 billion with a third fund is pretty obvious.

The demand for infrastructure debt is significant, specifically in the European insurance company space, which is basically Solvency II-driven, where actually long-term liabilities are in very high demand these days. On the traditional infrastructure equity space they have built a couple of funds along niches. The most recent one is called Smart Cities and Smart Cities is all related to modernisation of the cities. It's a combination of renewables, availability and transmission of data, so everything modern city governments can't afford anymore and privatisation is going to happen. This is great timing.

Thirdly, since they are focusing on not the very large

potential for economies of scale and that's obviously behind the financial targets I just explained to you.

Miro Zuzak Cool. Thanks a lot. I'll go back into the queue.

Karim Bohn Thank you, Miro.

Thomas Wels Thank you.

Operator Ladies and gentlemen, if you would like to ask a question, please press * followed by 1 on your telephone. The next question is from the line of Lars Vom Cleff, from Deutsche Bank. Please, go ahead.

Lars Vom Cleff Good morning. Thank you very much for taking my questions. Some were already answered but I have some additional ones and a precondition, if you agree, I would ask them one by one. You said that by the acquisition your assets under management will now exceed EUR 50 billion. Will the additional EUR 3.0 billion of assets under management you just acquired already be included in your financial year '21 AUM target of EUR 50-53 billion or only from next year onwards? I'm only asking in order to get a better feeling of the organic growth we should expect for the remainder of the year '21.

Karim Bohn Lars, hi. This is Karim. AUM growth is only forecast on an organic basis because at the beginning of the year when we give our guidance we actually don't know how much M&A is going to happen. So, the organic growth target remains unchanged. The EUR 3.5 billion of additional AUM or the addition to our AUM depends on the closing. If we close the acquisition this side of Christmas it will obviously be added to AUM. If we close the deal sometime next year it will be added next year, as the AUMs are based on closed transactions, organically as well as on the M&A side.

Lars Vom Cleff So, for our models, if we already want to pencil in the acquisition, we should rather expect a consolidation from Q1 next year onwards and not necessarily Q4 this year?

Karim Bohn That's a fair point. If we close, for example, in December obviously it would only have an impact on the AUM but no financial impact on the P&L. So, I think it's fair to assume that the closing will probably happen at the beginning of the year.

Lars Vom Cleff I read on Bloomberg that the former 30% holder, Challenger Limited, will only get cash. Is this correct and does it mean that the Whitehelm employees only get shares?

Karim Bohn First of all, yes, it's correct. The 30% for Challenger will be paid fully in cash and then there's a remainder which goes to the management and this will be paid 50/50, 50% in cash and 50% in shares. Obviously, a selling party is not interested in shares, they want a full cash buyout, but for the management sellers it's

50/50.

Lars Vom Cleff When would the lock-up then end?

Karim Bohn The lock-up is between two and four years.

Lars Vom Cleff Excellent. Thank you very much.

Karim Bohn Sure. You're welcome, Lars.

Operator The next question is from the line of Thomas Neuhold, from Kepler Cheuvreux. Please, go ahead.

Thomas Neuhold Good morning, gentlemen. Thank you very much for the presentation and taking my questions. I only have two actually left. The first one would be if you can elaborate please, in more detail, on the actual cross-selling opportunities. The second one would be on the earn-out agreement. Can you elaborate a little bit in more detail what KPIs you look at, what levels need to be reached trigger an earn-out payment and what the total mix from earn-out payment would be if all KPIs are reached?

Karim Bohn Hi, Thomas. I think your first question you were little hard to understand. Your first question was with regard to cross-selling?

Thomas Neuhold Cross-selling opportunities.

Thomas Wels Perhaps I can elaborate on cross-selling. Our experience with the acquisition of our Japanese platform was that actually we attracted more monies to invest from Japanese investors than investing in European funds and less European funds into Japan. The presence of the platform in a certain country builds a significant credibility, so the combination of having an infrastructure business in Australia with a client base of approximately 20 or 25 institutional Australian blue chip pension funds is not helping us only to get access to those clients which, until recently, did not invest in PATRIZIA. That's our hope and there's a high probability.

 Secondly, they are product combinations which we believe in. Our European clients have less exposure to infrastructure than others. So, the combination of our product shelf which we already provide to the European funds and life insurers plus the infrastructure offering we believe helps us to raise our share with the large pension fund schemes in Europe.

 We plan to have combined products or products which are on the back of our residential shelf. Rooftop logistics would be the most obvious one. Data nets and data centres working together with our logistics business is another. But, this is all in the ideas stage where we are convinced that in the near future we can provide customer access or deliver products through these customers.

The last one, life insurance companies are hungry for infrastructure debt. We have client access. I know, out of my former life, that the demand is actually exploding in that space. We have access and we tested the demand with our clients, whether there's future demand also working with us, which was confirmed.

Thomas Neuhold

Thank you.

Karim Bohn

Your second question, Thomas. Hi. This is Karim, again. Your second question was with regard to the earn-out?

Thomas Neuhold

The earn-out. What the key barriers are and what kind of maximum earn-out level could be achieved if all the relevant KPIs were met.

Karim Bohn

First of all, there's actually a single KPI, which is revenues. The earn-out is based on revenues and the total consideration can go up to EUR 150-200 million. That includes, by the way, the EUR 67 million initial payment. But, as Thomas referred to when we went through the presentation, one of the key disposal criteria for the management team was not only with regard to the earn-out.

Obviously, when you sell a business it's part of the negotiation but what is most important to them, it's pretty similar to our acquisition criteria and that is culture, the cultural fit in particular because the Whitehelm team is fairly young so they were looking for a team that is like-minded and has the same culture. Plus, also, what is important to them is that PATRIZIA is an independent firm. We don't belong to a bank or an insurance company. We are an entrepreneurial and dynamic investment manager and this was the second criteria they were looking for.

Thomas Neuhold

Thank you.

Operator

There are no more questions at this time. I hand back to Mr Karim Bohn, for closing comments. Please, go ahead.

Karim Bohn

Thank you, Nairobi. Thanks everyone for joining us on short notice for the call. As you've heard, we're pretty excited about the acquisition and if you have any further questions please reach out to us or IR, and we'll give you an update on the financials in November on Q3. Looking forward to seeing you or hearing you then or in between in one of the roadshow meetings or conferences we're going to attend over the next weeks. Thanks a lot. Thanks for joining.