

## **Patrizia AG**

9M 2021 Analyst and Investor Call

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Transcript

**Speakers:**

Martin Praum

Karim Bohn

Thomas Wels

Martin Praum

Hi, everyone, and welcome to our nine-month 2021 analyst and investor call. This is Martin speaking, head of investor relations and group reporting. I'm happy to have our co-CEO, Thomas, and CFO, Karim, with us today to present to you an update on our operating business, the market environment and financials. During today's call, we will refer to the nine-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, 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 usual, let me start our call with a quick overview of key strategic and operational highlights, on page three of the results presentation. The first message, after a strong first half of 2021, we continued with a solid third quarter, due to our resilient and well-diversified platform. No doubt COVID still weighs on the market, in certain real asset sectors, but we continue to be very active on behalf of our clients.

During the first nine months of '21, we were able to sign EUR 3.7 billion of transactions, and raised EUR 2.1 billion of equity for international investments. Both KPIs show strong growth compared to last year, with 40% growth for signed transactions, and 58% growth for equity raised. The transaction volume growth we delivered is a great result considering the average European transaction volume rose only 8% within the first nine months compared to last year.

What else have we seen in the market? Demand for the living sectors, which include residential but also healthcare, is unbroken. 2021 might actually become a record year for the residential sector, and given limited product availability we see more investors willing to invest early in project development that will be delivered to the market in the next two to three years.

Besides that, we see continued strong interest for logistics and industrial property. There's still good demand for offices, but only with a focus on best-quality assets that offer a modern, new work environment to attract talent back to the office. The hotel segment is on the road to recovery, with high transaction growth rates in the second and third quarter of this year. The overall retail sector still have many question marks attached, but food-anchored retail still is a completely different story with significant investor interest.

In terms of geographies, the UK, Germany and France remain the most liquid markets so far this year. We continue to see an overall recovery of the market, and transaction volumes accelerating. We also have a well-filled, multi-billion pipeline under exclusivity, which makes us optimistic to deliver on our ambitious transaction volume targets for our clients in the remaining three months of 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 allocations to real assets, and consolidation in the sector remained major growth drivers for Patrizia. Our clients also confirmed this with a high level of interest in increasing their real estate allocation over the next years. With this appetite for real assets, we remain strong in Germany, our home market, but are growing fast outside of Germany. Our goal is to become at least as strong in our other key markets as we currently are in Germany.

We have told you already about our expansion plans in Japan, and that we believe to contribute over EUR 2 billion of AUM from Japan to our platform in the next few years. A few days ago, we also published another milestone in the expansion of our product offering. Patrizia launched a global real estate debt fund for a Hong Kong insurance client.

Talking about geographic and product expansion fits nicely into our recently-announced M&A transaction, which brings me to the third point, Whitehelm Capital. On 13<sup>th</sup> September, we announced the acquisition of this international infrastructure asset manager. Whitehelm currently manages EUR 3.2 billion, with EUR 1.6 billion additional commitments. The planned acquisition will triple the infrastructure AUM of Patrizia to approximately 5 billion, with the mid-term goal to grow the segment to EUR 15 billion to EUR 20 billion.

The acquisition strengthens Patrizia's global footprint, particularly in Asia-Pacific, and accelerates the execution of Patrizia's sustainability strategy with a clear ambition to achieve net zero carbon emissions in respect of more than 70% of our AUM by 2040. The acquisition will further enhance Patrizia's quality of earnings and stability of revenues to create long-term value for shareholders. More than 80% of Whitehelm's revenues come from highly-recurring management fees with long duration.

Let us now turn to the fourth item on my agenda, our new supervisory board and further improved governance. Our shareholders in our recent AGM agreed on all agenda items

which included a dividend increase to 13 cents per share, shareholder approval for the comp and ben system for both management board and supervisory board and, most importantly, the expansion of the supervisory board to five members and the appointment of new members, which you will find on page four.

Patrizia attracted supervisory board candidates who are internationally experienced and diverse with a broad set of skills. Candidates offer a wealth of knowledge and experience as senior global executives in customer-facing industries, investments and finance, operational excellence, private equity and technology and innovation. Wolfgang, my colleague on the management board found the right words to describe our strategy. The real assets industry is changing rapidly, and the changes are being driven by technology and innovation. We want to stay ahead of the curve. That's why our supervisory board has hand-picked members who are tech-savvy, have managed digital transformation in their industries successfully, and bring a strong entrepreneurial mindset to the table.

All of them have made a positive impact on their respective industries and the communities they live in, fully in line with Patrizia's purpose of building communities and sustainable futures. For more information on the CVs of each of the independent members of the supervisory board, we invite you to visit our company website. With that, let me hand over to Karim to give you a brief update on our nine-month financials. Karim?

Karim Bohn

Thank you, Thomas. Let's move to page six right away. I can only confirm what Thomas just said, as we can see growth momentum also in our financial KPIs for the first nine months of the year. First, assets under management continued to grow, to now EUR 48.7 billion, and recurring management fees, almost 7% year on year, so we continue to improve the quality of our revenues. And I think it's worth reiterating how steady our 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 we manage.

Second, despite redeeming parts of our bonded loans during the first half of the year, available liquidity remains strong, and gives us great financial flexibility to grow and to invest. Thomas already mentioned the third point, our business activity, and that leads us to the fourth point, we are pleased to specify our guidance for the full year of 2021 to an operating income range of between EUR 150 million and EUR 135 million, from EUR 100 million to EUR 145

million before.

Let's move to page seven. Here, you will find the composition of operating income in the first nine months of this year. Management fees and transaction fees show solid growth year on year. Performance fees came in slightly below last year's strong nine-month period, but they are 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 more significantly year on year, due to the stronger revenues occurring in this category last year. Again, this is fully in line with our strategy as an independent, asset-light business model with full focus on our third-party clients.

On the cost side, we are not surprised by the 7.7% increase to the previous year. This is rather a technical effect given a lower positive impact from other operating income compared to last year, which increases the net operating expenses on a relative basis this year. Overall, we will continue to expand the Patrizia platform and invest in the future for the benefit of the operating income tomorrow.

Let's move to page eight, on management fees. Management fees once again stand out with a convincing growth rate. This year is positively impacted also by management fees we received from managing real estate developments for our clients. That explains the gap between the 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 the projects progressing in construction. While the assets under management guidance remains unchanged, we are pleased to confirm an increase in the management fee guidance, to between EUR 208 million and EUR 210 million for the full year of 2021.

Page nine gives a little more detail on transactions and transaction fees. Transaction fees also showed a solid 17% growth year on year. Based on our well-filled transaction pipeline, we believe there is more to come in the remaining three months of the year. However, due to expected timing differences in the realisation of transaction fees related to this pipeline, we adjust the guidance for transactions fees slightly down, to a range between EUR 45 million and EUR 55 million for 2021.

Let's move to performance fees on page ten. I talked about timing of performance fees before, and we also expect performance fees to contribute to the remaining three months of this year, based on what we have already

achieved after nine months of this year, we increased the guidance range for performance fees at the lower end of the range, from EUR 60 million to EUR 80 million, so the new guidance for performance fees is now between EUR 80 million and EUR 90 million.

The chart on the right-hand side of slide ten reiterates there is more to come in the short and in the mid-term. The exit performance fee claim on Dawonia alone now stands at close to EUR 400 million pre-tax, and EUR 320 million post-tax. In addition to our 5.1% stake in Dawonia, it's worth close to EUR 1.70 million post-tax. In total, we talk about a post-tax value of close to EUR 500 million that will crystallise in the next few years.

Let's move to page 11. As I said before, we specified our guidance for the full year to give the market a better feeling for our expected full-year performance. We increased the lower end of the range by 15%, and lowered the upper end by around 7%. The midpoint of our narrowed guidance range for operating income is EUR 125 million, which would represent an increase in operating income of over 7% compared to last year. We find this a solid performance in a year that is still significantly impacted by COVID-19 market uncertainties.

Let's move to page 12 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 last few years. As you already know, we have redeemed 66 million out of the 300 million bonded loans to optimise financial expenses, and we continue to buy back shares in the market. We now own around 3.4 million of treasury shares worth EUR 77 million. This is M&A currency which comes on top of the available liquidity of EUR 520 million, so in total close to EUR 600 million liquidity reserves, of which we will use rather a small portion for the Whitehelm acquisition on expected closing in Q1 2022. With that, I would like to hand back to the operating, Andrea, to start the Q&A session.

Martin Praum

Andrea, can you start the Q&A session, please?

Operator

We will now begin the question and answer session. Anyone who wishes to ask a question, you 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're 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. Our

first question comes from Lars Vom Cleff of Deutsche Bank. Please, go ahead.

Lars Vom Cleff

Yes, good afternoon, thank you very much for taking my question. I guess this is one for Karim. Would you be able to clarify the roundabout 9 million net effect we saw in the change of the other operating income, given that it's almost 10% of your nine-month operating profit?

Karim Bohn

Hi, Lars. Yes, absolutely. The other operating income in the first nine months of 2020 was positively impacted by the release of provisions amounting to EUR 4.7 million, and a badwill for consolidating the project developments of another EUR 4 million, so those were the main effects in 2020 impacting the other operating income. Just as a comparison, the first nine months of '21, the other operating income amounts only to a EUR 3.7 million release of provisions, and another EUR 2.5 million reimbursement of expenses, so rather small compared to last year.

Lars Vom Cleff

Got it, thank you very much.

Karim Bohn

Sure. Is that it, or is there any other question, Lars?

Operator

Ladies and gentlemen, if you would like to ask a question, please press the star key followed by the one key on your telephone. Please wait while we look for additional questions. And the next question comes from Philipp Kaiser of Warburg Research. Please, go ahead.

Philipp Kaiser

Hi, everyone, thanks for taking my questions. As one to start, regarding the assets under management and then the unchanged guidance, you were able to increase AUMs in the first nine months of 1.7 billion, and regarding the lower end it's now 1.3 billion left, so we can expect a very dynamic fourth quarter. Could you shed some light on the visibility on the pipeline which will materialise in AUM increase in Q4?

Karim Bohn

Hi, Philipp, this is Karim. Yes, sure. As you rightly pointed out, the fourth quarter is usually a very busy fourth quarter, and despite the rising COVID uncertainties, we expect and we still see a busy quarter at the end of this year. We currently have a transaction pipeline of EUR 3 billion, which actually confirms that the last few weeks of this year continue to be very busy.

Philipp Kaiser

Okay, thanks. And one more question regarding the gap between development management fees and assets under management due to the project development, to get a feeling for the coming year, would you keep in mind by modelling the future that there will be an increasing gap between management fees and AUMs due to a rising share of project developments?

Karim Bohn Yes, that's a good question, and thanks for asking the question. The main point is that when you start a development project, we usually start getting fees right at the beginning, however the assets under management we show is actually the acquisition value of the project we buy, day one, which will increase obviously over time significantly.

Just to give you an example, I think we bought roughly development projects for EUR 240 million this year, and the future value is just shy of EUR 1 billion. That gives you an idea why management fees and assets under management usually deviates from the beginning. In the future, the increase in value of those project developments will then be reflected in the AUM over time. And I wouldn't say that there's a trend, there's always going to be a gap between AUM growth and management fee growth, because it really depends on the acquisition of those projects, and, as you know, we've been a project developer for our clients for quite a number of years now.

Philipp Kaiser Okay, thanks a lot. That's all from my side.

Karim Bohn Sure, thanks, Philipp.

Operator The next question comes from Martin Manuel of ODDO BHF. Please, go ahead.

Manuel Martin Hello, Karim, it's Manuel speaking, hi. A couple of questions from my side. Maybe we go through them one by one? Sorry, I hope I will not repeat a question, I was a bit distracted when the conference call began. One question is on the P&L. In Q3, there was an unusually high tax rate, maybe you can give us some details on that?

Karim Bohn Hi, Manuel, this is Karim. Yes, sure. Well spotted. The tax rate is higher than guided mainly due to aperiodic effects. Late tax payments for 2019 as well as 2020, and in some instances even going back to 2014 and 2015. So the general guidance remains. The general tax rate is around 28%, and the 38% we showed in Q4 is really due to effects going back to previous years.

Manuel Martin Okay. And my second question would be a follow-up question on management fees. In Q3, if I'm not wrong, I think management fees dropped, quarter on quarter, by 2 million or 3 million, while assets under management actually went up slightly. Was there a special effect there, or was Q2 a bit overstated? Maybe you can tell us something on that?

Karim Bohn Yes, in the second quarter we had higher development fees. That's why management fees dropped. Usually, the management fees, as you know, grow quite steadily, but

development fees can add a little bit of volatility within a year.

Manuel Martin

Okay, understood. My last question would be on M&A. You did see with the Whitehelm acquisition, I understand that Patrizia is keen on continuing with acquisitions. Any indications you could give us whether you're still looking for infrastructure or if you've shifted the focus in acquisitions?

Thomas Wels

Thomas speaking, hi. On the M&A side, we look into other opportunities, not infrastructure, because we think that the infrastructure business we acquired has such a wide spectrum of skills and regional diversification that we want to grow this as fast as possible organically, going forward.

Manuel Martin

Okay. And if you say, other focus, any focus that you could share with us, or is it...?

Thomas Wels

That was already formulated in the old agenda. We stick to our agenda 23, so we look into debt opportunities, because real estate debt is so complementary to the business we do, and we, up till now, were never really successful in either building a team or finding adequate targets, so we continue to look into real estate debt opportunities. And the international diversification, with the ambition of being a global player, we have to look more into Asia. We strengthened our footprint in APAC with the Australian part of the infrastructure footprint.

US, we are a bit cautious because, with the more recent real estate development valuations, we are just cautious to figure out what business is sustainable, and players who are for sale now would probably sell out on relatively high valuations. And finally, we look into strengthening our already-existing multi-manager business. Today, we are only active in real estate, but ideally we would like to have a diversified multi-manager platform, also being active in all other real asset activities, including private equity.

Manuel Martin

Okay, very helpful, thank you very much.

Thomas Wels

Thank you.

Operator

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

Karim Bohn

Thank you, Andrea, and thanks, everyone, for joining the conference call on the Q3, or nine-month, financials. We're going to be busy on roadshows and roadshow meetings over the next week, so I hope to see you at one of those conferences or meetings. Reach out to us if you have any questions or are interested in any roadshow meetings. At

the latest, we're going to speak to you again with the release of our full year financials for 2021. Stay well and safe, thank you. Bye.

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