

PATRIZIA AG

First quarter 2022 Analyst and Investor Call

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Transcript

Speakers:

Martin Praum

Christoph Glaser

Martin Praum

Welcome, everyone, to our first quarter 22 analyst and investor call. This is Martin Praum, Head of Investor Relations and Group Reporting speaking. I'm happy to have our CFO, Christoph Glaser, with us today, to present to you an update on our operating business, the market environment and our financials. During today's call, we will refer to the first quarter 22 results presentation, which you can find on our website in the section shareholders and then under most recent publications. The presentation includes the first quarter 22 figures and the adjusted guidance for 22, which we released yesterday. In case of questions, the IR team, as always, is more than happy to help you. As usual, this call will be recorded and will be made available on our website and, in addition, we'll also offer a call transcript for further reference. With that, I'd like to hand over to Christoph to start the presentation. Christoph, the floor is yours.

Christoph Glaser

Thank you very much, Martin. Good morning, everybody, and welcome to our call. I do appreciate your interest and I also do look forward to meeting some of you in the near future. Today we'll talk about our strategic progress, we'll talk about our financial results in the first quarter and, also, provide you with an update regarding our outlook for the year. As far as I understand, that will be followed by a Q&A session at the end.

First, before we get into this agenda, let me introduce myself, since I've just been for about six weeks in the company. I came to PATRIZIA on 1 April after five years at PPF Group, where I was the CFO of Home Credit, a global retail banking and consumer finance specialist, spanning nine mature and emerging markets. The other 20 years of my 25 years of professional work I spent at GE in financial services in the energy sector, but also, in corporate roles.

Now, academically speaking, I have a background in economics and in Chinese studies, but what's probably more important for you to know is that my experience from a typology point of view, spans across financial services and energy or infrastructure, across banking and renewable energy in particular. It spans across Europe, Asia and the US, and it includes stints in finance, and also, in sales.

I think that dovetails nicely with PATRIZIA's efforts to become a real asset investment management company with more infrastructure assets in the mix. It dovetails nicely with our drive towards renewable energy vehicles focused on decarbonisation trends. It dovetails, also, with our geographic expansion goals, vis-à-vis Asia Pacific and, potentially in the mid-term future, also the US. Of course we also want to diversify our distribution footprint and there I think my sales experience will also be beneficial. Long story short, in the context of PATRIZIA becoming a global real asset investment manager of maybe 2X

the size that what it's today, in the mid-term future, and spanning maybe two or three continents, versus just one. And really focusing as a multi-asset cost provider across both equity and debt in multiple channels, I think that all fits together. With that said, I would like to transition into the first chapter of the agenda, which revolves around an update on strategic progress and operational activities.

Now maybe one thing first, Martin, if you feel to chime in, please do so because I'm still relatively new to the company. If you go to slide five, where we talk about the topic I just mentioned. At the end of the day, the first point I would like to make is the following. In the first quarter of the year we have performed in a challenging environment. We have signed more than a billion of transactions, we have raised about 200 million of fresh equity, and we are now standing at a level of 55 billion of assets under management. We have a very good pipeline of transactions in place, although of course, and we will talk about that later, a certain uncertainty exists around the timing of that being harvested. We will get back to that a little bit later. That said, though, we have a structural demand for investment in real estate, which remains unchanged. There's certain underlying stabilising trends around demographics, sustainability, decarbonisation, urbanisation, in particular, which play really in our favour. Of course, that against disruptive trends around inflation and deglobalisation and so on will have to be seen how that plays out. We strongly believe that the stabilising trends are still going to prevail and, therefore, a demand for real assets, and especially real assets with stable cashflows and decent yields will prevail in terms of demand. And on that basis, we have no reason to believe that our performance will remain good under challenging circumstances, being reflective of a resilient business model and a strong platform.

Now, that said, one thing that is really important to note, as we speak about the first quarter, is that we created an infrastructure pillar of material size. We've closed the Whitehelm acquisition or, to be more precise, the Whitehelm Capital acquisition. And I feel really great about that because that's the right thing today, again, on the path of the strategic evolution of PATRIZIA that I just eluded to. If I use a simple term, I think that in an inflationary environment, an infrastructure focused drive could well beat real estate from a return point of view under those circumstances. So, good timing, right thing to do, and good performance.

Whitehelm Capital has already four to six infrastructure funds in place, which we will very quickly scale, and we may put further NPIs on top of that. One thing we'll consider quite strongly is to drive our capital allocation behaviour towards the support of an accelerated scaling and further buildout of that infrastructure pillar. That said, growth by new markets and products is

something we're also progressing on. We have expanded client coverage and product offering. We have made big strides with our flagship funds, like Living Cities. Made a 600 million investment in Barcelona and we have opened or we are in the process of opening offices in Singapore and Australia, so geographic expansion is also progressing in a productive and proper way, without spending too much.

Now, last but not least, a fourth topic to highlight is our progress on ESG. Progress on governance, impact investing, diversity and reporting. Maybe most importantly are three things to mention. Sustainability report has been published. Our first impact investing fund launched in February, so, just within the first quarter. And our Annual General Meeting, which is scheduled for 1 June, and will also culminate in the conversion of the company to an SE, is also well on track. That will further fuel the internationalisation of the company. Our new supervisory board is very strong, very supportive of the company and very well positioned to support us in that effort.

That said, let's talk really briefly a little bit about what I call heroes and stories because it's always important to take the discussion from the corporate through the fund and product level, to the actual asset or underlying asset level. When you look at what we do there and you look at the investment we've made in the first quarter into high-quality residential assets or Living Cities on the left side, like in Barcelona, which is European focused, residential and institutional nature. But we also continue to do Germany focused asset investments, we do office focused ones, and more geared towards private investors. What I'm trying to say here is that we are focusing on core and core-plus, with also a little bit of value-add in the mix, but we're stable. We grow and we have a good risk performance profile. We believe that under these circumstances, as they emerge, there will be a flight to quality. The two assets I'm showcasing here are reflective of high-quality assets. Our capability to generate those, based on global research and local expertise on the ground in these markets, i.e. asset expertise at its best, that will matter more and will probably be even more appreciated in the near and mid-term future than it is being appreciated today.

With that, let's briefly talk about the product offer. At the end of the day, our product offer, and you can see that on slide seven of the deck, is theme-based and solutions-based. It is research-backed, it is multi-geography, multi-asset, multi-channel and multi-risk return profile focused. We are not a mono-liner. I would like to particularly highlight on the right-hand side the themes around living and infrastructure. And again, stabilising trends, which will remain in place, around urbanisation and around demographics, around digitisation and around sustainability and decarbonisation. Flagship vehicles, like Living Cities or smart

cities, like on the Whitehelm Capital side, can very nicely combine our today's focus on urbanisation from a real estate and residential point of view or office point of view, but it can also now add the infrastructure component of it. That combination gives us a lot of possibilities to adapt and flexibly move forward, and it dovetails with our strategic journey, which I've outlined before.

With that, let's go a little bit more into the topic of financials and outlook update. I've turned to slide nine. On slide nine you see a summary of the highlights that I would like to bring to your attention. We feel very good about our growth and assets under management, almost 14% year-over-year. I feel really good about our revenue performance when it comes to management fee growth at 7.4%, which is particularly important because of its recurring nature. Our EBITDA has dropped from a year-over-year comparison and part of the answer for that lies in a lower than prior year transaction fee revenue. And I will get to that in a moment, but it also lies in a temporary increase of cost, which I will also elude to in a moment. It lands at a point where we see some pressure on one component of the revenue line and some pressure, but mostly temporary in nature, on the cost line, and that takes us where we are.

That said, the balance sheet is very strong, with a net equity ratio of 71.5% and ample of liquidity, roughly 500 million. That gives us a lot of strategic flexibility going forward, even if the current uncertainties remain or even if certain trends develop in an unfavourable fashion. It will give us the opportunity to capitalise on opportunities that may come along the way. And our strengths, I think, will pay off nicely in the near and mid-term future.

We have adjusted our full-year guidance for 2022, fundamentally because of two reasons. The environment is very volatile right now, there's a lot of risk in macroeconomic trends emerging, and we believe that we need to review our transaction outlook and our transaction fee income outlook and to take a slightly more conservative stance in that respect. Secondly, because we're reviewing our technology investments on a recurring basis and we look at where they are with regards to their stage of evolution, and we look at the payback profile. When you are in uncertain environments you should take a more conservative stance on those and, therefore, we part them into what we want to continue or discontinue. And, on the back of that, we've decided to discontinue some of them. These two topics leads to a situation where guidance remains unchanged under AUM and management fees, but it leads to a change of EBITDA guidance and also a change of guidance related to the respective margin and, also, below the EBITDA line to an adjustment of the EBIT guidance, based on what I've said before.

All of that said, let's spend a little bit of time on the EBITDA composition on slide ten. Let's first focus on revenue. I've already mentioned that we feel good about the management fee increase by 7.4%. As I also already mentioned, in the revenue line there's a significant decline in the transaction fee income year-over-year. One thing I would like you to bear in mind, though, is that some of that is the result of a wanted change of fee mix in certain transactions, i.e., less upfront transaction fees, but rather higher management fees. So, a recognition of income over time, rather than upfront. That is an effect of a wanted shift in strategy. However, we also have a certain expectation on what transaction fees should still come in, regardless of that deliberate shift. That is not yet trending where it needs to trend and that leads to the cautionary position we have taken. Performance fees have actually outperformed so far. We see an increase also on a year-over-year basis, so we feel good about that, and it will stick.

Net sales and revenues and co-investments are also quite strong on a year-over-year basis and we feel very good about that. Let's talk again a little bit more about net operating expenses and their growth. What I'd like you to know is that, first of all, there's certain extraordinary expenses related to the acquisition of Whitehelm and the closing of that deal, which are part and parcel of that increase of cost on a year-over-year basis because some of them fall in the first quarter of 22. Secondly, there is a natural increase in cost because the business is growing, which is actually relatively moderate. Thirdly, there are certain temporary cost increases, which we incur for two reasons. We hire more people to reposition our operational setup, to enable a stable cost base in the medium and long term, while the business continues to grow. Secondly, we have to engage into certain restructuring efforts, which partly are also linked to the discontinuation of certain investments, and that will also add temporary cost. Once again, in summary, Whitehelm Capital acquisition-related one-time cost. Secondly, business as usual growth-related cost increment, which is rather moderate. And thirdly, two components of temporary extra cost to reposition the business with a better cost-based outlook for the mid and long term, especially as we are continuing to sail through uncertain environments.

With that said, I would like to turn to a bit more detail on the management fees or the revenue lines in general, so starting on page 11. The management fee story is quite decent under the circumstances, we also confirm our guidance in that respect. One thing to mention here upfront that could be of interest for the audience, is the fact that we had quite a lot of deals signed in 2021, so we're sitting on a very strong pipeline of signed deals, so we expect to get some tailwind from that for closings in 22.

Therefore, we believe that even if there would be an early-stage moderate negative impact on management fee outlook stemming from partially delayed transactions within the reporting period, we would still expect that to be offset by the fact that we have a much, much better pipeline of signed deals in place than we historically had. Then, on top of that, the built-in mix shift away from transaction fees and towards richer management fees should also support us and neutralise, or more than offset, certain negative trends. That's the story on management fees.

If we talk again briefly about transaction fees on slide 12. We've signed 1.1 billion of transactions in the first few months of the year. That's pretty good. It's outperformance against the market, so we feel good about that. I already eluded to the fact that our transaction fees in the first quarter are about two-thirds lower than in the prior year. I would have liked to see that more at the level of 50% lower than last year, so I see a little bit of an early stage trend evolving. That is really also at the heart of our revision of guidance. Our acquisition fees are a bit lower and, otherwise, there is a well-filled transaction pipeline, which will unfold. The question is really what the market uncertainty will do vis-à-vis the lengths of negotiation period, the time that has to pass between signing and closing. And, as assumptions shift, these time windows may extend and we may see a bit of slippage in the year, and we may see some slippage as we leave the year in late 22. That's a trend we're watching extremely carefully and because we see some early signs of a negative diversion here, we take a conservative stance and address that. I think that's really it on the transaction fee side.

If you go to performance fees, they are at a fairly high level of €25.9 million. Successful realisation of investment strategies, again, the hallmark of our track record. And the performance fee claim on Dawonia, which sits at 414 million, is quite solid and we expect that to remain in place at that level. At the end of the day, the Dawonia portfolio is one of the best, if not the best, residential portfolio in Germany. The demand for these types of assets continues to be high. Global supply chain and development-related challenges are suppressing supply, so we believe there is a positive tailwind coming from that direction. That's really the key message on that item.

If you go to slide 14, I would like to highlight that the balance sheet does not only remain strong, but it's stronger than ever, which gives us a lot of financial flexibility to invest in inorganic growth, the platform in technology. I will get back to that in a moment, but let me first explain what we have in place as of the end of March. We have an equity ratio of 59.5%. There is about 366 of cash and another 170 of deposit securities. If you net that all out against bank loans and bonded loans, we're sitting on a net cash balance of 150, but that is after having temporarily

invested in certain warehousing facilities, so this number's actually more around 200 million. If you take that and then you take what we have on the balance sheet vis-à-vis Dawonia and expected value, you get into quite, quite strong territory. And our net equity ratio today stands already at 71.5%, available liquidity at almost half a billion. Which takes me back to my earlier point, that we have a lot of flexibility to invest. So, as we go through 22 and as the market remains very interesting, we will have additional opportunities with regard to M&A. Whether that will centre around product suite enhancement or maybe rounding out our distribution capabilities is something to be seen. We're working actively on both.

Secondly, it gives us an opportunity to do more co-investments, especially when it comes to the scaling of strategically important, either real estate, or, more importantly, infrastructure flagship funds. That is something that carries a lot of importance for us. Then there is, of course, also the opportunity to allocate more into organic growth, which we are also doing, and I talked already a little bit about some of the things we're doing to reposition the operational model, but also to focus more and clean out certain things that create otherwise too much of a drag in the medium term. That's it on the balance sheet.

If we then transition on page 15 to the guidance, which we very recently adjusted. I already very briefly eluded to the fact that there's basically two themes that caused us to make a move. One is the evolving situation in the markets. All of you know, potentially, more than I do about that, but it's very real and we see early signs of some diverging trends on the transaction side. We believe we can manage those, but we also believe that we need to take a more cautious stance, knowing what we know today, in the middle of May. The second theme revolves really around the fact that we're going to continue living in uncertain times. That, in combination with the regular review of some of our investments that we've done to propel the company forward, leads to two very simple questions. Are those investments where they should be from an evolution point of view, between start-up, early growth, growth and then maturing? Secondly, are they expected to pay back in the short, medium or long term, or, in maybe one or two cases, not at all?

As we go through that assessment, also with the support of a very investment and technology savvy supervisory board, we have come to the conclusion that we need to tighten our belt in that space and to take some actions on a couple of investments, which leads to some exit either through liquidation or sales. So, that's really the two trends that are driving our perspective on guidance update and, as a result, we have upheld our guidance on AUM growth, we have upheld our guidance on management fees. I already eluded to the fact that there could be a little bit of

a spill-over from a transaction timing challenge, but we believe that that will be offset, or more than offset, by the fee mix changes that we have proactively created and, secondly, by the richness of the pipeline of signed deals. On the performance fee side, we have slightly increased our guidance for two reasons. One, we have performed better year-to-date than expected. Secondly, we have a track record in that space, so we believe that there's no reason to not either hold or slightly up guidance. Same applies to net sales revenue and co-investment income.

And now, back to what I said before, we have also felt a need to update our guidance on the cost outlook. And I already explained that, although the business growth or business-as-usual related cost increase, which comes with a positive operating leverage compared to revenue growth. So, let's say management fee growth of about 7 or 8% and you have a, say, underlying BAU cost growth of 3 or 4%, let's say, there's an additional cost growth component, which is driven by us spending money to reposition the operation core, which is about another third of the overall cost increase. And then there's another third of the overall cost increase, which is driven by the activities we undertake to restructure the business and to accompany the exit from certain direct investments. In a nutshell, when it comes to the increase of guidance with regards to cost growth, take a framework of one third, one third, one third, and think about one third of that increase maybe being sticky and two thirds coming out again because it's temporary in nature. Whether it's going to be exactly like this, I cannot yet tell you, but this is directionally what I have in my head, being just five or six weeks in the company. That's really it on the adjustment of the guidance.

Once again, we feel good about AUM, we feel good about recurring revenues, and I've talked about the topics revolving around transaction fees and cost guidance, and also, of course, below the EBITDA line around liquidation of investments. Now maybe a general comment before we leave that page. To change guidance for EBITDA to 100 to 120 after the historical guidance, on the one hand makes me not feel great, but I'm thinking about making 100 million of EBITDA in the current environment, I think that's pretty strong. Secondly, knowing that it's 100 and maybe not 110 or 115 because of the temporary cost load, I think it's returning to a level of maybe... Or it being on a proforma basis maybe at more of a level of 110 excluding these two topics I just mentioned, makes me feel quite good. As we're going to sail through 22 and the environment stays where it is in terms of uncertainty, or even deteriorates further, I think this is a good base to have. With that, I would like to hand over back to the operator because, as far as I understand, it's now going to be time to answer your questions. And I am more than happy to take those questions. Operator, it's over to you.

Operator Ladies and gentlemen, at this time we will begin the question and answer session. Anyone who wish to ask a question may press star followed by one on their touch-tone 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. The first question is from the line of Andre Remke from Baader Bank. Please go ahead.

Andre Remke Good afternoon. Firstly, Mr Glaser, congrats to your new role. Then, starting with a couple of questions, I prefer to do it one by one. First question refers to the AUM. Based on my calculation, Whitehelm contributed roughly 5 billion to the infrastructure part, with acquisitions and disposals roughly evening out, this will result in value uplifts of 1.5 billion, so 3% volume uplift. Is this correct and, if so, are there any large contributions from any specific investments? As the value of Dawonia seems to be rather stable, so I'm a bit surprised by such a value uplift. This is the first question, please.

Christoph Glaser Thank you very much, Andre, for the question and nice to meet you. Our assets under management growth is driven, essentially, by three components. One is the addition of Whitehelm Capital AUM, number one. Number two, organic growth and, number three, an uplift in valuations. The uplift in valuations is quite distributed in nature, so there is no specific outlier there, either positive or negative, to my best knowledge. Secondly, as some of you may know, we take a relatively conservative stance when it comes to valuations, and we have done that historically all the time, as far as I know, and we have no intention to change that. That of course gives us a bit of additional comfort, maybe compared to other market participants, but I can't judge that. But that's why it is not surprising that on an ongoing basis there is a decent amount of valuation uplift coming in, so I don't really see any unusual trend here. Of course the organic growth component could've been a bit bigger, fair enough, but I already eluded to the fact that the pipeline is strong and we will see some of that picking up more strongly as we go through the year. I think that the organic component will probably pick up in terms of size, in increments that will be added quarter by quarter. Whitehelm will now execute its business plan, if we turbocharge some of their flagship vehicles, we may be able to accelerate that as well, and I think the valuation uplift will continue to be there at a reasonable level. But I have no other comment on that at the moment. I guess we can go to your second question.

Andre Remke Yes, sure. It's also on assets under management. In general the question part may be answered, but if I get it correctly, you

probably will invest more into funds of Whitehelm or together with them, otherwise I would not really see that, given the transactional environment at the moment and the lower guidance on the market, your more cautious views on the market, will not raise a question on your asset under management target. So, from today's point of view, another 2 billion in growth, but on the other hand, you're saying clients are hesitating to close the deals at the moment.

Christoph Glaser

You're hitting on a big topic, which is also of course top of mind for us. Maybe one comment first, to make you aware of a situation that will help us, or continue to help us. We have quite a bit of spill-over from last year, signed but not yet closed, so that creates tailwinds as we go through 2022. But if I put that aside for a second, I mentioned the transaction pipeline is good. I'm quite comfortable that the transaction pipelines will materialise, but what I've also said is that there could be an extension with regards to the time that will expire between signing and closing, for transactions that are going to happen within 22. With that comes a certain risk that certain transactions that are slated for, say, third or early fourth quarter, maybe just, because closing will not be accomplished towards the end of the year, slip into 23. That's the only thing that worries me a little bit.

The good news is that if that happens later in the year, the impact on management fees will be immaterial. That said, the outlook vis-à-vis acquisition and additions of incremental AUM will differ between real estate and infrastructure. I have no illusion about it, I see more concerns and more pressure on the real estate side and I see probably less pressure on the infra side. Because return profile is better, there's going to be maybe a bit stronger mix of equity and debt compared to real estate and [...] against the inflation trends, just simply because it's a different risk return and yield business.

Now, with Whitehelm having closed, I would say just in time, I feel a lot better than if that would not have happened. We have the team in place, we have a business plan that is very rich and we have plenty of capital in PATRIZIA to scale their flagship vehicles in the global infra vehicles or in the decarbonisation vehicles, much faster than they could have done on their own. We were actually discussing exactly that topic yesterday at the strategy session of the whole team. There's a huge opportunity to more smartly deploy capital to accelerate Whitehelm's business plan and make it bigger. And some of that I think can easily happen already in 2022, and we've already taken first steps for that to unfold. Which takes me back to the real estate side, where I think the game is slightly different. So, yes, there's pressure, but we have a good pipeline.

Secondly, the trends that we are revolving around with our

investment strategy, around urbanisation, decarbonisation, sustainability, or Living Cities, one example, for flagship vehicle. I think they will continue to attract investments and I think they will continue to grow. I don't see any reason to dial back guidance on that front, to be honest, of course, short of any more severe market disturbance. Long story short, as a result of having real estate and infra now, as a result of having favourable stabilising trends on the real estate side and the opportunity to accelerate on the infra side, all that together against the markets portion that you were eluding to, I think we are still feeling okay.

Andre Remke

Okay, fine. A follow-up, on the Whitehelm structure, could you remind me of the fee structure here? From such investments we will not see transactions, but rather higher management fees. Is this the correct way of thinking?

Christoph Glaser

Whitehelm is quite dominated by fairly rich management fees and very low transaction fees and also very low performance fees. When I look at the historical numbers, which I actually did this morning, and also the budget, I think it will stay that way, which is good. Whitehelm is rich in recurring revenue and there is no reliance on upfront transaction fees and high performance fees. Scaling AUM on the Whitehelm side, thus scaling a very rich management fee, again it's back to my earlier point, I can catch two birds with one stone, size and stability of revenue streams, and also, rich revenue streams. Again, we feel really good about AUM outlook, in particular following the Whitehelm deal closing.

Andre Remke

Got it, thank you. The next question is on the EBITDA margin. It's guided now for 30-32% this year, you mentioned some mixed earning across the year. But from your new CFO perspective, what do you regard as a possible mid maybe or also over the cycle margin to reach this business? Because you have a lot of experience in other businesses, in other corporate structures, what would you say could be a reasonable EBITDA margin to reach?

Christoph Glaser

To answer that question being six weeks in the job's a bit sporty, but in principle I would say that's a relatively low base. We're dialling in here as a result of what I eluded to before on the different components of the EBITDA story here. I expect it to go back up. If you ask me where to, I probably see it definitely something north of 35 towards 40 or so, directionally maybe 40ish. I see that, as I said, because I see strengths with regard to recurring revenues, I see stability with regards to performance fees and other income streams. I see some risk on transaction fees. I see a cost base that is at the moment higher than I would like it to be, but I explained that, and that will come down. Let's say two thirds of that will disappear over time. As a result, margin will have to bounce back, but don't nail me on the exact level,

but I meant that it'd actually be somewhere at the 40% level, probably. Which again, under the circumstances, would not be bad.

Andre Remke

Okay, perfect. My very last question, also here, coming to your CFO role. Since years PATRIZIA has plenty of available liquidity, 500 million plus treasury shares plus Dawonia, etc. So, fair enough to say that this gives you high liquidity, or high flexibility, for any kind of opportunities. But from your CFO perspective, is this really the right capital structure, apart from today? Simply saying there's flexibility also limits the margins and return on equity. What are your thoughts on that view?

Christoph Glaser

I have no illusion about the fact that we're sitting on a lot of cash already. We're going to potentially sit on even more cash in the mid-term future. And so, the question is what do you want to do? Again, I would say that there are maybe four or four-and-a-half tracks here. Track number one, additional incremental M&A activities, which as I said, will either centre around product suite expansion, like the Whitehelm Capital, for example, or distribution channel diversification. If you ask me where I put my money there, I would put it maybe rather on the second than the first because with the Whitehelm acquisition we've already made a huge stride and we will see.

So, secondly, co-investments in a smart way, to accelerate the scaling of existing real estate flagship vehicles or, more importantly, infrastructure flagship vehicles, with the objective of making them bigger, faster. And that dovetails super well with the market. Thirdly, investment into organic growth, but that we have to do carefully and to not overshoot. Then number four, there is growth in dividends, which I could imagine to play a bigger role than in the past. And then there's the topic of buybacks, which when I say four-and-a-half, that's kind of the half at the end because that's obviously also something we need to judge carefully. You know what our plans are in that respect, we have been executing exactly against those plans in the past, so that's going to continue to be a topic.

The key point I would make at the end is that I think we are sitting on a lot of cash that will further improve at a time when opportunities start to unfold. If you want my new to the job CFO view, I would say let's wait and see for the next couple of weeks, months, quarters, because there will be opportunities coming along that will either be strategically good fits and we will just execute them swiftly, or they will be distressed strategically good fits, which we will try to execute even faster. That's on the M&A side. On the co-investment side, it's under our own control what we want to do to accelerate or turbocharge certain flagship infrastructure. That process has already started. We're already making a move with regard to capital allocation into that

direction, which I think will pay back nicely as infra will rise to a different level. That's where my head is on that question. That was now four questions and four answer, if I counted correctly.

- Andre Remke Yes, that's enough.
- Christoph Glaser Doubling up within a single call. No big deal, thank you for sharing your questions with us.
- Andre Remke Thank you.
- Operator The next question is from the line of John Munge from Highclere Investors. Please go ahead.
- John Munge Hi. Thank you for taking my call. I'd like to get some more information on the technology and investments, the ones which you're writing down and discontinuing. Can you please provide us with some more information as to what exactly these are, how did they come about, and what exactly you're discontinuing?
- Christoph Glaser Hey, John, if I'm not mistaken we met already on a video call at some stage.
- John Munge Yes, we did.
- Christoph Glaser Glad to have you back here. Let me first take one step back before I answer your question, so that you understand the context, which is super important for me, because I want to look at this topic in the context of our approach towards technological enhancement at PATRIZIA. There's five things we do at PATRIZIA to become a technologically even more leading company. Number one, we do trend scouting in the market. We have a team for that and we feed that into our core business to make them better, like smart building management, for instance. Secondly, we make direct investments with the objective to invest into technology companies, of course for return, but also for a strategic fit. Thirdly, we do indirect investments into real asset related venture funds, and there's three of them, if I'm not mistaken. Number four, we do ourselves set up something called a sustainable venture fund, like any other fund we set up, but with the objective of investing into real asset related sustainable ventures. Then we have very specific activities in place, which revolve, for instance, around the topic of smart building management, which is in essence geared towards making our asset management core business unit smarter and to provide smart solutions to our investors. Those are five pillars that are essential to us embracing technology at PATRIZIA.
- Now, with regards to the direct investments, you're only touching one of these pillars, point number one. Point number two, we have round about six or seven of them and the investment in those is still relatively young in nature, when you think about the big picture. It just started a couple of years ago, a year-and-a-

half ago, a year ago, half a year ago, and so on. This is a relatively young activity that PATRIZIA has started to execute in the not-so-far-away past. We are now at a point where we are regularly reviewing how these investments are doing and, frankly speaking, I would say two of them are ahead of where we would expect them to be, regarding their evolution as a venture.

Secondly, two of them are probably where they should be, and we feel okay about them. Then there's two to three which we feel are behind the expected evolution curve, performing below expectations, and are subject to a decent or not-so-good or really bleak payback outlook. That said, one of them for sure will have to be liquidated, one of them may have to be liquidated and one of them I feel pretty okay about. I'm not going to give you specific names here because we're not in the business of doing that, but we have earmarked €12 million below the EBITDA line for taking those hits.

We believe that these hits are the right thing to do right now for two reasons. One, because we see what we see. And if I see no payback or very far away payback, let's pull the plug and stop the bleeding. Especially in a situation where we are in an uncertain environment, I think it's not a time to stick to questionable, non-core activities. Questionable in the sense of their performance outlook. They were probably the right thing to do a year, a year-and-a-half ago, but today they're not inline with expectations. I want to stop the bleeding and reduce the mid-term running cost base. Basically, I'm already starting to reduce that, it's already starting to come down in the second half of 22 and then be solid and locked-in as a reduction in 23. That is what I care about. That cost me a little bit of money right now because to liquidate one or two of those comes with a bit of restructuring cost, also, above the EBITDA line, it comes with some cost related to liquidation itself, you have to reposition certain underlying activity.

So, there is a write-off with regard to technology assets and/or goodwill and then there is a bit of an Opex temporary hit above the EBITDA line. But going into an uncertain environment, which could even become more uncertain, not focusing on the core and turbocharging the core is not the right thing to do. We need to fasten our seatbelt, decide quickly what we want to go with and what we want to jettison overboard, and then we move. It's a natural process and you just see it for the first time because PATRIZIA has not been in this activity for very long, so this is also a bit of a learning curve for the company, I think. Sorry for the slightly long-wound answer, but I just wanted to give you the full picture again.

John Munge

Are these investments fully consolidated or do you hold a certain proportion of these components?

Christoph Glaser We have multiple levels of intensity here. We have some that we own only a small stake in, as small as 5 or 10%, and we have also investments that we own 100%.

John Munge Just for my own understanding, when I look at your annual report, where would I find this investment? Would they be on the associate line or do they occur somewhere else?

Martin Praum I'm not sure I understood this question. Could you repeat the question?

John Munge [Overtalking] knocking down on your balance sheet, where would I find these investments.

Christoph Glaser I guess it would be in participations. I would have to check what the exact name of the line is. It's in participations and probably also partially in goodwill, logically.

John Munge Understood. And, finally from my end, is around the point that you're making around capital allocation. Am I clear in understanding that you might be considering a possible transaction in the coming months or so?

Christoph Glaser We always look at opportunities, that doesn't change. There's a handful at them in any point in time. We have a pipeline, including possible transactions that could materialise in the near-term future. As I told you, they will either revolve around further product suite enhancements or, possibly, also the distribution diversification. I have personally been involved in looking at one or two of those, but I'm not going to tell you which one we are likely to consider to be able to bring over the finish line in the near-term, that would not be appropriate, I think.

John Munge Understood. Thank you.

Operator The next question comes from the line of Manuel Martin from Oddo BHF. Go ahead.

Manuel Martin Hello, gentlemen, and thank you for taking my questions. Christoph, I have three questions, maybe we can go one by one through them. The first question is a follow-up question, just to make sure that I got the point on the AUM growth between the fourth quarter 2021 and the first quarter of 2022. The increase from 48.6 billion to 55.3 billion in euro, when I try to make a bridge in euro on my whitepaper here, that means that 1.1 billion came from signing transactions and some of that came from Whitehelm. Maybe you can give us a bridge in euro of the three components, including the value increase?

Christoph Glaser My apologies, I forgot to hit the unmute button. I will repeat the wise words you didn't hear. About 75% is Whitehelm, around about 5 billion. You have about 10 to 15% in valuation uplift and you, therefore, have between around 10% in organic. That's from memory, but I would have to look at the numbers. Certain

valuation, which is reflective of 1 billion, correct, 2 organic and 80 Whitehelm. And the remaining 5% margin, subject to clarification.

Martin Praum

There's other foreign exchange, etc., [overtalking] 5%.

Christoph Glaser

The main message is that Whitehelm is leading, followed by valuation uplift and followed by organic, but organic is also, as I mentioned already, there's a bit of a delay factor here building up, and I think we'll see a catchup very shortly.

Manuel Martin

That leads me to my second question. To have a deeper understanding on the AUM growth and transaction fees. In PATRIZIA you kept the AUM growth guidance unchanged, while you decreased the transaction fee guidance. I understand that part of the reduction of the transaction fee guidance is due to the shift in the fee structure, more management fees, less transaction fees. However, the lowering of the guidance is significant. How can we reconcile keeping an AUM growth target unchanged and the transaction guidance lowered at this magnitude? Does it have something to do with signing and closing or how can I understand that?

Christoph Glaser

First of all, with regard to management fees, there's a positive spill-over effect from last year, number one. Number two, they're going to benefit from the change in the fee mix, so to speak. Number three, there is an ability to accelerate the growth of certain flagship vehicles. All of that together I think will outweigh the headwinds we may face if transactions are delayed, with an impact on management fee earnings starting later than planned in the year. That's why we feel good about the management fee guidance. There's about a billion of signed deals which have not yet closed, so there's a rich cushion that we sit on.

On the transaction fees, if I take a slightly more operational perspective here, let me say the following. You are eluding to the guidance drop being fairly significant, but I'm looking at it at three or four levels. I'm coming out of 21 and I'm going into 22 and I'm saying my transaction volume will grow quite significantly and my transaction fees will grow much more moderately because I have this mix shift built in. That's the starting point. Then I'm saying we make a growth assumption on both volume and fees and factor in the mix shift. But we do it in an environment that was not yet as volatile, from an expectation formulation point of view in late 21, and now it's a lot more volatile. So, the growth assumption, no matter whether the volume related growth assumption is more pronounced than the transaction fee growth assumption, because the mix shift is being addressed, it is still to growth assumption. Which, under the current circumstances, must be subject to review.

Secondly, I look at it operationally and I look at the hit rate of the

teams, which is pretty good. We have hit rates, i.e., do versus say ratio, which is probably somewhere between 90 and 100% and in some areas north of 100%, historically. That hit rate or that do versus say ratio in the transaction teams is already pretty strong. And, although it could occasionally be even better, I think it's more likely that it will suffer from the circumstances as they evolve.

So, let's factor that in, that the hit rate will be, let's say, subject to challenge to be upheld. When I do that, and then I look into the market either staying with us on transactions or moving away from transactions, I run a couple of scenarios and multiply my growth expectations over my hit rate, or an adjusted hit rate. And I multiply that over a change in client behaviour, I'm getting to a transaction fee corridor that is what the new guidance is. I think at the moment I would feel that we'll probably be more in the upper end of that guidance, but I also only see four months of trends or subtle trend diversion. I'm sitting here in early May and I expect a transaction fee profile of about 50% of prior year, which would be about 3.5 million. I'm seeing 2.2, 2.3 and I see a slight divergence. Is that going to stick or bounce back? Is it going to continue on a prorated basis or further deteriorate?

There needs to be a corridor around that, and that's what we've built. It revolves around the underlying growth expectations, which has to be revised I think, the hit rate expectations. We are good, but the teams, they're not God. And then certainly, the customer behaviour, which is probably creating the most sensitivity. The corridor is what we've set now. I feel more being in the upper half for a third or fourth quarter right now, but I may drop towards the middle of it, I may stay where I am. I don't know yet. So, TBD, just stay with us. I'm going to take a slightly conservatively biased stance here. I don't want to be in the business of downwards revising this going through the year. For that, these three layers of perspective, they're just there, but let's see.

Manuel Martin

Okay, I see. That leads me to my third question. The topic, client behaviour. Could you maybe give us some colour on the current client behaviour? Are buyers shying away to spend money right now, sitting on cash and they don't know what to do because of Ukraine war or a seller not willing to sell or prices under pressure and the sellers don't want to go down with the selling price? Maybe you can tell us a bit on that, if possible?

Christoph Glaser

Our investors portfolio is very high quality. It's largely institutional, resting on long-term relationship. I think that differentiates from some other players in the market. Secondly, we played predominantly core and core-plus and some value-add on the real estate side. There will be a flight to quality. Whether it comes at the price of having to accept smaller

returns... Yes, I think some people will just keep chasing returns, but some will just fly towards quality and safety. And that's us.

The second avenue is infra, which will continue to stand tall. All of that said, to answer your question, we don't see at the moment much of what you are asking about in terms of people or investors walking away, other than the occasional client changing his risk strategy or whatever. I think part of that is because we are who we are and we have that investor base. Could that change as the environment emerges? Maybe. We keep watching, we keep researching and we keep pulsing our client base. I don't see any substantial negative pattern there, yet, in brackets.

And on the acquisition side, so far, so good. We acquire either built properties or infra assets or some of those which are fairly late-stage. We have, even in our own development business, large late-stage and negotiated through projects. Again, compared to some other market participants, we're probably less exposed to the risk of developments falling apart. Of course we are cognisant of the fact that we do have an increasing risk towards developers, in general, but there's no substantial pattern unfolding that makes us uncomfortable. But again, under the current circumstances, I'm not going to put my hand down for that staying that way, but so far, so good. Knock on wood.

Manuel Martin

Thank you and good start, despite this tricky environment.

Christoph Glaser

It makes the role more interesting. Very good. Nice to meet you, Manuel. Do you have any other questions?

Manuel Martin

No, I'm fine so far, thanks.

Operator

The next question is from the line of Miro Zuzak from TMF. Please go ahead.

Miro Zuzak

Hello, gentlemen, can you hear me?

Christoph Glaser

Yes, we can, loud and clear.

Miro Zuzak

Excellent, thank you. The first one is just a clarification question. In your guidance, you guide for 235 to 250 million for the net operating expenses. There was a slight change in the way you reported this line in Q1 versus the previous quarter, in the sense that you included also the depreciation, amortisation, financial result and other in the 61.4 that you reported. Is this guidance, the 235 to 250, including depreciation, financial result and other or is it excluding?

Christoph Glaser

It's excluding. You're above the EBITDA line, with the other one you are below the EBITDA line. Which is why the two main pillars of guidance change, transaction fees obviously hit above the EBITDA line and the write-downs we expect to make are hitting below the EBITDA line. That's also where the financial results

are and some other small items.

Miro Zuzak

Okay, thank you. Then, the second question, if I do the math, take the midpoint of your management fees and deduct the Q1 management fees, I get to 197 million that you still want to achieve in management fees this year. This breaks down to roughly 65, 66 million per quarter, which is 10 million higher, compared to the run rate you had in Q1. Please tell us, how will this 197 million be split over the upcoming three quarters? Will we see still a relatively Q2 and then a back-end loaded, massive increase? Or will it be evenly split at around, roughly, 64, 65 and 67 million?

Christoph Glaser

Thanks for the question. I'm acutely aware of the fact that from an outside perspective we seem to be run rate-wise behind. But don't forget that there is the spill-over effect I was eluding to. Management fees will pick up in terms of traction, it's mathematically built in because of the timing of the signing and the closing. Secondly, I expect with that, the fee component shift from transaction fees away towards management fees will also get only traction over the course of the year. Thirdly, this is under our control, as we accelerate some of the scaling of the flagship vehicle, that will also be more or faster increments. Because of that, we believe that the guidance, although 1Q run rate, technically speaking is below, it's holding.

Miro Zuzak

But it's back-end loaded, clearly, so we will see the majority of this 197 clearly in late Q3 and Q4 and not yet in Q2.

Christoph Glaser

I would say directionally, it's loaded more into the second half of the year, that's for sure. I would not use the same terminology here as being back-end loaded, as much as a transaction-heavy third or fourth quarter towards October, November. I think it's a more gradually shaped, strong loading as we go through the year. I'll give you a practical example. Take a flagship fund like Living Cities, which I just talked about. That one is a fund that will have richer management fee profile, but the inception of this management fee stream is happening later than previously thought, but it's coming. So, that means, as I said, there's a built-in expectation, which is just a matter of time, literally. But yes, it does mean that the profile has tilted a bit on a quarter-by-quarter basis.

Miro Zuzak

Then the other questions are probably a bit more esoteric. Typically in the valuation of the real estate objects, there is a kind of caution with regards to the discount rate. If interest rates go up, the valuations are not immediately affected, but if they have to go up a certain amount until this is the case, can you comment on that? In your portfolio, what is the caution? And to ask the other way round, by how much do interest rates have to go up in the Europe area until you will see an impact or a significant

impact in the portfolios you are managing?

Christoph Glaser

Thank you for the question. Factually speaking, our external appraisals always use long-term average discount rates, so we're not discounting at what I would call a relatively low recent or current or short-term average rate, but we're discounting based on long-term average rates. That provides us with a cushion. Secondly, with that comes a built-in hedge, so to speak, which we don't foresee to be eaten up anytime soon. Do you expect me to see the valuation gains to maybe become smaller, relatively speaking? Yes, that's kind of obvious. But this is maximum a medium- or long-term horizon until we get to that sweet spot you were asking about, when it will start to flip. Just to give you another benchmark, our value compared to other market participants, which I think is relevant.

When you look at other market participants, their valuation uptakes are somewhere between, I think, from memory, 4 and 8% or so. Whereas ours is 2% per annum, so we're tracking at half to a quarter of what other market participants have been doing, and that gives me a lot of comfort. Again, we are just philosophically a company that is built around long-term relationship track records and a bit of conservatism, I guess. And we don't intend to change that, but that is exactly what enables us to sail through cycles. That's actually one thing I like about PATRIZIA. You can debate whether I like certain things about certain operational activities, we're addressing those right now, but on that front, which is very important, the company has traditionally taken a very conservative stance.

Miro Zuzak

Then, another question. You've mentioned that there will be temporary extra costs in order to reduce cost. Can you give an example what you mean?

Christoph Glaser

I will repeat what I said and then I give you an example. We are already, as we are in the first or second quarter of this year, incurring extra cost to... Maybe more the second quarter than the first because it started... We are incurring extra cost to, what we call, reposition the core of our operational setup. We're incurring extra cost because we have to liquidate certain activities, which I eluded to. These are by nature a temporary cost. The first one you can look at as an incremental headcount increase, which is being spent on people and other expenses related to them, which is spent to reengineer a process, a system, an operational activity. If you do that across our large fund service base and, also, to a lesser degree, in some of our core business units, and you're talking about 20 or 30 or 40 people or so, this is not a small number for a certain period of time. But that cost will come out and it will hopefully lead to a situation where certain processes, systemic setups, automated data uploads and so on, will be able to handle increased scale

without the addition of additional headcount. And that's the objective.

We sometimes refer to this as turning the company operationally into a shop where the size of PATRIZIA can grow, but the size of the operational core doesn't have to grow anymore. So, it's in essence the process reengineering, digitisation and related project management effort, which is temporary in nature, but it should come out at some stage. Then, of course, if I liquidate an investment activity, there's cost associated with that, besides the write-offs that we have to handle. And then there's certain restructuring activities that we have to handle, which I don't want to elude to, which cause one-time cost. That's really it. At the end of the day, it's down to how does revenue grow?

Question one. How does cost grow? At the moment I have, with 14 or 15% cost growth year-over-year. And in the recurring revenue I have 7 or 8% growth. I have, what I call, a negative operating leverage. But if I look only at the BAU cost increase, which is about a third of the total cost increase, so let's say 4% or so, 4.5, I am at half of my recurring revenue growth. So, I have a 2X positive operating leverage. The key will be to get back to that and that's what I'm going to have a laser-sharp focus on as we go through 22. There's upside on revenue growth, especially recurring revenue growth, we can maybe take a little bit more time to go back to normal cost growth levels, otherwise, we'll have to do it faster. But that's something we will deal with as the environmental situation unfolds.

Miro Zuzak

The last question, sorry. Dawonia, you mentioned the 400 million in the call, explicitly. Any update there with regards to the negotiations you're having with the other investors in this vehicle?

Christoph Glaser

When we look at Dawonia, it's obviously, as I mentioned before, a tremendously high-quality and highly valued portfolio. Secondly, we don't know yet how the investors from the point of view of forming a majority or a view on the topic, will want to proceed as we get into early next year. I fundamentally, or conceptionally, see three scenarios. One is that it will be turned into an evergreen structure because it's a very rare set of assets, it's a very valuable asset. It has very limited or no valuation risk embedded, or maybe even upside, because of its quality. That's option one. I think option two would be to think about liquidating it.

Then the question is whether you want to do this in a price optimisation fashion, taking your time and do it properly because it's not a small asset. Or whether you want to do it more decisively. With that, we'll count three scenarios for us and no matter which one, it will either keep us from an AUM point of view

where we are, with maybe a moderately diluted recurring revenue stream, but a substantial one-time gain in terms of performances. That will come anyway, in any of these scenarios. Or it will give us a lot of extra cash upfront and no more recurring revenue stream, and then we have just a substantially high degree of flexibility of what to do. And with that amount of money, we can do a lot. We're staying close to our investors, we will see towards which direction they will tilt and we're prepared for each and every one of these scenarios. That's where my head is with this, but again, I'm still fairly new to the company, so just bear with me as I'm forming a better perspective. That's it from my side. I don't think we have... Sorry?

Martin Praum

Miro, any follow-up questions?

Miro Zuzak

No, that's all. Thanks a lot.

Christoph Glaser

Sorry, I was jumping the gun there a little bit.

Martin Praum

Operator, any other questions?

Operator

No, there are no further questions at this time.

Christoph Glaser

Good. Martin, thanks for organising this call here. Everybody on the call, thank you very much for attending. Martin is looking at me and telling me that the share price is starting to recover already, which is great news, so it looks like you found our answers helpful and useful. I do appreciate your questions and I hope I answered them all. I really look forward to upcoming future calls, but also, to maybe some meetings in person. Thanks again and please reach out to our IR team if you have additional questions or if there was maybe on one or two points insufficient precision or clarity, so feel free to do that. It's been a great thing for me to join this first call. I really think that PATRIZIA is on a good track to become what we want it to become, which is a global real asset investment manager, who is going to continue to grow and be resilient. That's what's top of my mind and that's what I'm going to keep working on once I get off this call. Thank you very much.