PATRIZIA SE

FY 2022 preliminary figures

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Transcript

Speakers:

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Martin Praum

Good afternoon, everyone, and welcome to our Preliminary 2022 Analysts and Investors Call. This is Martin Praum speaking, Head of Investor Relations and Group Reporting. I'm happy to have our CFO, Christoph Glaser, with us today. He will present to you an overview of the business development and our preliminary financial results for the business year 2022, as well as further details on the guidance for the fiscal year 2023, followed by the usual Q&A session.

During today's call, we will refer to the preliminary results presentation, which you can find on our website in the section Shareholders, under Most Recent Publications. The presentation includes the preliminary financial results figures and details about our guidance for fiscal year 2023. And in the case of questions, IR team is more than happy to help you.

As usual, this call will be recorded and will be available on our website, and 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?

Christoph Glaser

Thank you very much, Martin, and it's a privilege for all of us to be here once again today with all of you. I would like to start our presentation, sharing with you what's top of our minds. So, if you could go to the first slide, I've highlighted here a couple of key themes. First of all, and not surprisingly, we're still in a fairly volatile environment with multiple challenges. We've been seeing, what we would probably best describe as mixed financial results, and in parallel to that, a very successful transformation of the company.

And as a combination of those two observations, we're really moderately optimistic going into 2023, which will still be a year with a significant degree of volatility. All of you are probably familiar with the geopolitical and global and inflation and interest rate shift-related challenges that surround us. What I'd like to highlight here, maybe, is that volatility will continue to be, at least for another six to nine months, probably.

But that said, we do feel good about one thing coming out of 2022, which is our strong growth of assets under management. We, obviously, feel less good about certain compression of our EBITDA, but all of that, looked at in context, high-quality AUM growth, organically and via M&A, in combination with the growth of recurring income, are two very positive things to highlight.

And contrary to that, obviously, less client activity has led to a reduced transaction and performance fee income, and there's also been a temporary expense inflation and a bit of restructuring cost in the mix. But notwithstanding that, cashflow has been quite strong for us, and we're very pleased to communicate today that we're going to pay a cash dividend again, an increased one, in fact, and that we're going to continue, for a little bit of time, our cash share buyback programme as well.

I already alluded to the point that the company has actually fared tremendously well from a repositioning point of view in 2022, and it's really summarised best by saying that, leaving 2021, we were a pan-European real estate investment company, but leaving 2022, we are really a global real asset investment manager. And that is something that is very important for us because it positions ourselves very well for the years to come.

And that, in combination with a new leadership setup, a recurring cost base reduction, legacy issues being retired, the ability to do a lot more in the infrastructure and multi manager space and a couple of brand new blue chip APAC partnerships and strategic focus really round out the picture. So, going on 2023, there's one more thing that is important to note, which is that our balance sheet remains very strong, liquidity remains very strong, and we have more than EUR 4 billion of firepower to grow AUM.

So, even if capital-raising activities will remain a little bit subdued for the short term, at least, we are able to grow AUM regardless of that, and if and when opportunities arise in an environment where people will have to start to sell where there was a certain ability to buy and to make the company bigger. So, that's really what's top of mind.

And if you take it from there and go to the next slide, we've summarised for you once again the essence of the company transformation, which has really happened in line with our strategy, despite the challenging environment in 2022. So, as I already alluded to, organic and inorganic growth have really led us to close to EUR 60 billion of AUM.

And we are particularly proud of a couple of new large mandates that we have, one in Asia Pacific with large sovereign wealth funds, as well as very large local players in Japan. And that gives us a tremendous base to grow in partnership, which is really essential in the Asian environment.

The infrastructure capabilities are clearly there now, with a strong focus on decarbonisation, digitalisation and also social infrastructure, which is very much in line with our sustainability and ESG-focused company strategy, with ESG and sustainability really being built into every aspect of our business model these days. So, that, in combination with debt offerings, as well as listed securities being in the mix now, and enhanced by the ability to also go with wholesale channels into more of a semi-institutional and high-net worth individual customer base is really something that we value.

And that, coming out of 2022 and going into the midterm and into 2023, is really something we feel good about. Now, some of the resilience of the company and ongoing managed transformation's also visible in the broad diversification of our AUM, which you can see on the next slide, which can be looked at from a geographic point of view, a sector point of view and a risk style point of view.

Most of you are familiar with this chart, and all of these graphs are continuing to develop in line with us implementing our strategy. So, Asia-Pacific is now 5% of AUM, North America as well, close to 5%. We have seen a lot of organic growth in Spain, Scandinavia and also the Netherlands, and a lot of the new deals that we've done have been closed outside of Germany. In fact, the number's somewhere around 70%, so the share of German-based assets is actually gradually declining, reflective of our continued diversification geographically. The sector split is equally increasingly diversified, and you can see the makeup in the chart in the middle.

Risk style-wise, we continue to be very much focused on core investments, round about two thirds, and then you see roughly 50/50 core plus and value-add activities. Of course, in the market, as we are facing it in 2023, there may be more value-add plays at hand.

And as I alluded to before, with the cash we have and the equity position we have and the investment grade rating we enjoy with our partner banks there, we are very well positioned to operate at the PATRIZIA level, if and when opportunistic plays arise. But we can also do the same at the fund level where we have a lot of firepower embedded, as I mentioned before.

So, with that as an introduction, I'd like to transition to slide 7, where we're going to start to focus a little bit about financial performance to later round it out with a bit of guidance, vis-à-vis 2023.

Perhaps one of the most appreciated facts is that we managed to grow our assets under management from EUR 48.6 - 59.1 billion. And the organic portion of that accounts for about a third of the respective growth, and the inorganic- or M&A-driven growth accounts for about two thirds of it.

This is really reflected for us doing what we've always said, to continue to grow, even under tough market circumstances and to execute our M&A strategy as planned. There's really nothing more to be added to that, and the fact that we've still been seeing a positive valuation effect in 2022 is really reflective of the quality of our asset base. I'm going to allude a little bit more to that, perhaps, during the Q&A session.

The M&A activities that were executed, not only added AUM under our belt, but they rather also represent a door opener for accelerated and continued growth because, in particular, infra-structure will be a space, in which we will be able to grow, and probably faster than in the real estate space, for the foreseeable future.

But both of them will have to grow, and therefore, we are very happy that, with the acquisitions we've made in 2022, we have not only added size, but also added what we refer to as door-openers for future growth.

And perhaps one more important point to make, it's the last one on the page, that our so-called flagship funds, both on the real estate and the infrastructure side, account now for almost 50% of our total AUM. And a lot of these vehicles, which are in place today, really can be grown and can be grown at higher speed in particular, if and when we choose to make co-investments when they're strategically meaningful.

So, with that, I would like to go into a bit more detail with regard to AUM growth in the fourth quarter, because it's interesting to talk a little bit, how things have been trending in the last part of the year. And interestingly, you see a very similar picture here, albeit maybe slightly more subdued, but still positive in nature. Again, about one third of the growth being organic in nature and about two thirds, the EUR 1.3 billion, being M&A-driven, in this case, linked to the Advantage acquisition we did in early December 2022.

So, growth was still there, albeit a little bit less, relatively speaking. There were still very small positive valuation effects, again, reflective of the resilience or quality of our AUMs and the acquisition, which I already alluded to, rounded out the picture. It is, perhaps, again important to note, and that's what the last point on the slide refers to, that we are facing a very equity-rich AUM base. There's very limited loan to value level at 32%, and with a firepower of EUR 4 billion in our structures, we really differentiate ourselves along two criteria quite well from competition locally and regionally in particular, i.e., the low, or relatively low, LTV, and, secondly, the firepower or dry powder that we have in our existing structures.

So, with that, I would like to transition to slide 9, where we are talking a little bit about the revenue side of the P&L. And there, there's, basically, a very positive message here and then two market environment-driven negative messages, the positive one being that our management fee revenue has grown from EUR 209 million to roughly EUR 241 million, which is very solid double-digit growth, and it almost managed to compensate for the decline we were seeing, with regard to transaction fees and performance fees.

Now, the transaction fee decline was particularly severe, from EUR 51 - 22.5 million, but all of you know that the transaction activity last year was, except, maybe, for the first quarter, quite weak, and there was, in essence, a no-season in late as Q3 and early Q4 2022. With regard to performance fees, the decrease has been relatively smaller at 25.3%, which, essentially, just means that we've continued to benefit from our high-quality portfolio here.

But that trend is probably going to still continue, going into 2023. So, from a forward-looking point of view, I would maybe add two comments, which is that we do expect the transaction fee income profile to bounce back over the course of 2023, most likely in the second half, either in the Q3 or Q4.

But you will have to wait for a little bit longer for the performance fee profile to come back to 2021 or 2022 levels, because that will probably only happen towards the end of the first half of the next cycle, so three/four years from now. So, there's going to be a distinctly different dynamic here, with transaction fee profile coming back earlier than performance fee profile of the past.

With that, let's go to the expense side of the P&L. Our net operating expenses have, in essence, grown due to acquisition consolidation, but also integration efforts. So, M&A activities, we have already talked about, and with that, cost has, basically, been added. But then there has also been an integration effort, which we have already talked about in previous calls.

And on top of that, we have done quite a bit of reorganisation and restructuring in the fourth quarter to address the absence of a transaction season and to make sure we balance costs and revenue appropriately, and, given the ongoing volatility in the market, we have probably taken on certain legacy exposures, also a slightly more conservative stance than in the past, just to be prudent.

So, all of these factors have played a role in the development of our cost base. If you go into a little bit more detail here, staff costs have, in essence, been driven by the acquisitions that were mentioned. Other operating expenses increase has been driven by special effects from strategic investments and integration efforts, I already mentioned. There has also been a little bit of a clean-up with regard to historical VAT exposures, and so on and so forth.

One thing that it's worth to mention to provide a balanced view is that, like in the past, certain favourable project developments have helped us, in a positive sense, with our net operating expenses. In this case, it was, in particular, a project called Silver

Swan in the city of Hamburg, which we have alluded to already on prior calls as well. So, for purposes of transparency here, we have to single that out to show you the gross picture on both sides.

There has been a lot of questions already asked about our reorganisation expenses. We have spent around about EUR 10 million here to rebalance for growth. What we mean by that is that we have, essentially, looked at our cost base from three angles. Number one, we have looked at what is essential to execute our business as usual in good quality, and whatever else was not falling into that category was earmarked for removal.

Secondly, we have looked at what five to ten highly critical strategic activities we need to support, in terms of resourcing in the short and medium and long term. And then we have, in step number three, really looked at what of the freed-up resources we can reallocate to, what we call, rebalance for growth. All of that has happened over the course of October, November and December.

And we are very pleased that we have put this behind us, and at this stage, we are not planning to do any more of this in the foreseeable future. And with that, we are entering 2023 with a streamlined recurring cost base, all of our strategic focus areas being fully resourced and the company transformation enabling us to take opportunities as they arise.

So, with that, I would like to go to the summary chart covering the entire EBITDA evolution. And here, you can see that a combination of market inertia and proactive reorganisation efforts obviously has led to a not so insignificant compression of EBITDA. And as I already mentioned, recurring income growth almost managed to compensate for non-recurring income compression.

And then there has been a bit of a temporary cost inflation, due to the reorganisation I mentioned and us taking a conservative stance in certain exposures. So, yes, we have been seeing a 38.3% EBITDA compression, but on a positive note, having transformed the company over the course of, literally, 12 months, we feel quite good, going into 2023.

So, it’s been a mixed year with a mixed financial picture throughout the period, but it’s been a very successful year from a repositioning point of view, and in that sense, we’re ahead of competition.

If you go to slide 12, you can see that we have managed to either meet or exceed our latest guidance for fiscal year 2022, due to recurring income and cost containment. We are equally proud of both of those. The asset-light investment management platform has demonstrated its resilience. The shift towards recurring management fee income has continued, and the platform cost profile has been whipped into shape.

So, on the topic of management fees, we have been at the upper end of the guidance. Transaction fees, somewhere just in the middle. Performance fees, slightly above the upper end, so overall, total service fee income in good shape. And then we are, obviously, particularly pleased by our effective cost containment in the latter parts of the year, which ended up as the EUR 250.1 million, which was actually beating our guidance.

And then EBITDA, AUM and EBITDA margin outcome is mentioned and commented at the bottom of the page. So, that's the overall picture with regard to the total EBITDA situation.

And maybe a couple more facts. As usual, to the strong balance sheet position, as summarised on slide 13, which provides for security and the ability to make opportunistic moves, which is of particular interest for the months to come. So, an equity ratio of 61.5% and the net cash position of EUR 172 million, which is probably a slightly conservative perspective because the bank loans of EUR 91.7 million are really temporary in nature and are just there to enable us to host, temporarily, certain assets in our PGK platform in Germany.

And then there's treasury shares on top of this. So, the true picture's actually even better than the EUR 172 million, and the net equity ratio, north of 70% is, obviously, something we are really proud of. Total available liquidity stands at EUR 375 million, and that is really, really a lot of liquidity to work with.

And again, as I mentioned, at the level below PATRIZIA, the corporate across our 140-plus vehicles, we're sitting on EUR 4 billion of dry powder, and therefore we have the capability to opportunistically move at the PATRIZIA level, if it's required, and also, of course, at the fund level, which is what we would normally do.

So, our ability to make co-investments, to overcharge the growth of some of our flagship vehicles, our ability to make opportunistic moves is really there, and that's one of the main reasons for why we're going into 2023 with a good degree of optimism and in a, well, shall I say, perhaps relaxed fashion, because the balance sheet is so strong.

As already alluded to the P&L, so maybe a couple of words on cashflow on slide 14. Operating cashflow has been quite strong, at EUR 120 million-Pplus. Investment cashflow has also been positive, financing cashflow, negative. Overall, a very, very solid picture. And because of that, we are very pleased that, as a result of having a very high level of retained earnings in PATRIZIA SE, as well as a very positive operating cashflow, despite the compressed EBITDA and earnings before tax profile, we can pay a dividend again.

And that's why we will do so, and we will, once again, I think for the fifth time, increase that dividend paid. And again, we believe that this is a clear differentiator, vis-à-vis our competition in the market.

Last, but not least, if we turn it to slide 15, we would like to take a moment to provide a little bit of guidance, vis-à-vis 2023. And once again, I would summarise it by saying that we're taking a moderately optimistic stance. We do expect AUM growth to a level of somewhere between EUR 60 – 65 billion. I've mentioned already that the incremental new capital we have to raise for that is not really a challenge for us because we have so much dry powder available that we can grow AUM, even if and when net capital raising continues to stay a little bit subdued.

So, we should have the opportunity to make moves here, in particular, if other market participants will have to start to sell for different reasons. Secondly, at the EBITDA level, we're going into 2023 with a relatively wide range, saying that we're going to land somewhere between EUR 50 – 90 million. The key question here is really when the normal transaction behaviour of market participants will come back and when there will be a more active transaction market.

So, timing is really of the essence here, which is why we've purposefully left the range a bit wider. Secondly, obviously, there is probably less of a favourable tailwind to be expected from project development. On the other hand, we will not have the headwind of restructuring expenses in 2023, so there are puts and takes here, but again, as I already mentioned, the key question is when markets will normalise.

And then, us being more in a position of a buyer than a seller, for sure, we're quite optimistic. The EBITDA margin, similar to the EBITDA range, so not much more comment is needed here. Perhaps one last comment, if you really peal the onion, all of this, we expect a decent upper-single-digit revenue growth, and we expect a subdued lower-single-digit cost growth. So, overall, probably something ballpark 2X of operating leverage, which is, kind of, the right profile to go through 2023 with.

So, that's on guidance for 2023, and I guess, with that, I would like to hand it back to Sabrina to open the session for Q&A, and Martin Praum and myself are very happy to take your questions.

Sabrina	Ladies and Gentlemen, at this time, we will begin the question-and-answer session. Anyone who wishes to ask a question may press star followed by one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star followed by two. If you are using speaker equipment today, please, lift the handset before making your selections. Anyone who has a question may press star followed by one at this time. One moment for the first question, please. The first question is from Andre Remke of Baader Bank. Please, go ahead.
Andre Remke	Yes, good afternoon, Sirs. A couple of questions from my side, please, and thanks, first, for the presentation. First question, regarding your guidance on AUM, is the upper end of the range, the EUR 65 million, without any external growth, i.e, only a mix of disposal, acquisition and valuation movements?
Christoph Glaser	Yes, thanks, and happy to have you on the call, Andre. Look, the AUM guidance is EUR 60 – 65 billion, roughly. With the dry powder we have in place and the market, as we believe it to come back, we think we should be able to play within the entire range on a purely organic basis. If and when opportunistic portfolio moves will be possible, there’s a chance that we could blow through that, but I would just say, for now, that the EUR 60/65 billion is purely organically based. And just as a matter of fact, we actually never planned for M&A in this type of guidance, so that’s the answer to your question.
Andre Remke	Yes, and the follow-up question on that, with regard to the valuation, you mentioned you expect somewhat limited valuation pressure here. Is this just a kind of disclaimer, or being based on more concrete look into any vehicles or asset classes?
Christoph Glaser	Yes, look, we are hosting something between 1,500 and 2,000 assets on the real estate side, and we do that across roughly 150 vehicles, and we do something like 3,000/4,000 valuations a year through external appraisers. And so, we do have quite a bit of experience here, and we, obviously, simulate for, let’s say, the next rolling 12 months, what the world could look like, going forward. If you ask us, with regard to our portfolio, we see something between 4 - 7% of a downside scenario across our entire portfolio, and depending on the sector and the geography and the type of asset, it could be anywhere between sidewards move or marginally positive moves, and also negative moves in some combinations.

But in aggregate, across the whole AUM base, I would say 4 to 6/4 to 7%. All of that should be possible to be outperformed by organic growth, so we do believe a net positive effect, and that's, kind of, what we're referring to with regard to that statement. I do know that competition is probably directionally, on average, in not as good shape, but that's, again, because the quality of our assets tends to be very good.

And we are also quite a bit of an operator, in addition to just being an investment manager, so we probably have a little bit of upside there, managing our assets proactively in the down, in that consolidation period. So, that's it on that front.

Andre Remke: Yes, but the, let's say, 5% downside risk, is this, should be on EUR 60 billion. It is EUR 3 billion, right? Is this included in this guidance, or is it just a maximum risk approach?

Christoph Glaser: No, look, when we talk about that ratio of 4 - 6 or 4 to 7%, this is what we would consider the maximum, in terms of how bad it could get, and, yes, it is included.

Andre Remke: Okay, that's clear. Okay, thank you. The next question on your discussed EUR 4 billion firepower, dry powder. Could you indicate where the funds have to be invested, in terms of regions and asset classes? You talked about real estate in Japan, as well as in Asia-Pacific, and infrastructure. Could you provide us with a rough split? Is it even more in Asia-Pacific, rather than in Europe, so to speak? So, any indication on that?

Christoph Glaser: Yes, I'm happy to do that. Maybe just one more add-on to your previous question. Just be mindful that out of the six, you have to back out EUR 8 billion or so of infrastructure to get to the real estate as AUM base, across which, you have to do the multiplication was that 4% - 6% downside potential. So, the number is probably more like EUR 2.4 billion versus three, just as a little clarification here.

Now, to your last question. We don't see a big concentration of the AUM growth that we envision across any specific geography or any specific asset class. But it's probably fair to say that infrastructure will, relatively speaking, maybe see a bit faster growth, or relatively speaking, a bit more growth, because the spreads are better, there's more indexation, there's more appetite for this in the current environment.

So, the infrastructure related AUMs have a chance to probably grow faster than the real estate related AUM base. Now, secondly, it's probably going to be a little bit more international than historically. So, we will continue to nurture are German business, and there will be growth there on certain flagship vehicles, and some of them, we will position more in a value-add fashion than a core plus fashion. So, there will be growth there.

But I would say that relatively speaking, again, probably the pan-European vehicle growth will probably be a little bit more pronounced than the German key vehicle growth. And then in Asia, there will be growth, and it could be quite rapid. But bear in mind that we're starting from a relatively low base there, so in the grander scheme of things, I would not want to overemphasise the Asian potential from an absolute size point of view, but from a from a speed of growth, yes, it's going to a key area.

And then I would not be surprised if there's going to be a bit of movement, also, across the Atlantic. But perhaps the most intriguing topic, beyond Europe, is that, as you may have heard, we have started to partner with some blue chip entities in Asia-Pacific. One large sovereign wealth fund in Southeast Asia, and a very large Japanese blue chip player. And these partnerships are exactly how we want to grow there, because there is potential.

There is appetite, there are slightly better margins. We have the power to do co-investments somewhere around 5%, 7%, 8%, which is very well received in the Asia-Pacific region. So, Asia-Pacific will see rapid growth. It will be very much partnership based, which is also good for a player of, let's say, still relatively small stature in Asia today, but with a licence now in Singapore and very strong partnerships.

So, we feel good about that. But in the absolute grander scheme of things, I would not yet over emphasise that, from a total AUM point of view. The pan European flagship funds will grow quite a bit. We have a very well-known TEP series in place, for instance, TransEuropean, which will continue. And there will be others that have a lot of potential.

Andre Remke

Thank you. The next question refers to page nine of the presentation, when you talked about the transaction piece. There is a remark below the chart that there are a number of transactions with all-in management fee structures. We've talked about this in the past, but is this materialising trend a general trend, i.e., could we expect management fees, as a rate of assets under management, to improve over time, and transaction fee income ratio will go down over time?

Christoph Glaser

The answer, in short, is two times yes. So, there is a continuing trend towards all-in-fees, which, in turn, means that the relative weight of our management fees is going to increase. It will still take some time, and of course, it depends a little bit on the type of vehicle going through 2023. Some of them will be almost entirely be all-in management fee focused.

Some of them, especially if they have a bit more of a core plus or value add character, could see a continued mix of transaction fee income, and we're actually looking forward to what that mix will look like. Because if you mentioned doing a EUR 500 million or EUR 1 billion transaction, let's say, in this regard to a value add fund, there could be an instant boost in transaction fee income and a pretty decent management fee attached to it.

Equally, if I see that on a core fund versus an all in fee or core plus fund, I may just have a differently timed revenue recognition associated with it. So, this is something that we will see how it develops. As I mentioned before, we're in a visual flight regime now for the next three, four, or five months, so it’s too early to call out, probably.

Andre Remke: And what does it mean for the performance fee? Is this also the same as with the transaction fee? So, it's also included here?

Christoph Glaser: Well, in the guidance, we have assumed that performance fees will, overall, be of a more moderate level than historically. If I recollect, from memory, I think we were seeing something like EUR 80 million plus of performance fees in 2021, where we’ve seen around about EUR 60 million or so in 2022 now. And in 2023, it's probably going to be less than that. So, the trend is pointing us more towards the level of EUR 40 – 45 million of performance fee.

Which is natural, because as I mentioned before, as we're transitioning between cycles right now, the moment transactions come back, transaction fees will come back. So, that will be short term in a way. Performance fees will take a few years to come back at the level that we used to see them in 2021 or 2020. The ones we do have on the radar for 2023, and which are part of our guidance, are pretty much locked in, and we have good line of sight into those.

So, we are going with a high degree of substantiated planning security into that part of the P&L. But there will be a limited amount, simply because it will take a couple of years for the next cycle to get traction.

Andre Remke: Not to overstress my questions, so my very last question is on the operating expenses of EUR 97 million for the year. For last year, you mentioned integration cost, VAT effects, especially many one-offs. What kind of magnitude are we talking about here? And will the number be lower than next year, i.e., this year?

Christoph Glaser: You mean operating expenses, as a whole?

Andre Remke: No. The other operating expenses, apart from the staff. You have already talked about the staff costs, but there is a block of EUR 97 million other operating expenses. So, it went up very strongly from last year, and within this block, an increase by 11%, you mentioned, in the presentation, is driven by special effects, so one-off costs, etc. And I was curious to see what we could expect for next year.

Christoph Glaser: Let me answer the question, taking first a step back, and then I'll answer the question. So, on the revenue side, we're going from EUR 329 million to a guidance range from EUR 323 – 370 million. So, if you take the midpoint of that, we're talking around about 7%, 8% growth on the revenue side. Now on the cost side, from a reported point of view, you see EUR 250 million going towards a range of EUR 273 – 280 million.

Now, what do you have to do to put the EUR 250 million into perspective? You have to, basically, back out the project effective of Silver Swan, and you have to back out the reorganisation expenses, which are not going to repeat themselves. And then you have to also look at the other income of ten.

And then you net that all out, you basically normalise 2022 at roughly EUR 268 million, EUR 269 million, or so. And from there to the midpoint of the guidance, you're talking about 3% of cost growth, which is something I alluded to before, that we're actually going to see a little bit less than half of the revenue growth on the cost side, which is why I was referring to about a 2X operating leverage, which is something we feel good about.

And we will continue to enhance that going into 2024, 2025, because ultimately, the operating leverage needs to reach a level of three to four between revenue growth and cost growth to lead to a margin accretive situation. And there is maybe one more comment on what you're not going to see any more in 2023. So, M&A integration of consolidation effects, you're not going to see.

And the run rates or the standalone costs, when you really peel the onion, excluding the cost we've consolidated from the M&A activities, when you look at that and you normalise it, we're actually flat. So, that's pretty good in an inflationary environment to the tune of, I guess, 4% - 8%, depending on what market you pick. So, that's really it.

Andre Remke: Understood. That's it from my side, thank you very much, Christoph.

Christoph Glaser: You're more than welcome.

Operator: The next question is from Kai Klose of Berenberg. Please go ahead. Mr Klose, your line is open. The next question, sorry, he withdrew his question, the next question is from Philipp Kaiser of Warburg Research. Please go ahead.

Philipp Kaiser: Thanks a lot. Thanks for the presentation and for taking my questions. I have a couple of questions left from my side. You have already pointed out what you expect for the valuation for this year. But what are the particular drivers for your valuation result back in 2022, sector wise or country wise?

Christoph Glaser

Thanks for your question, Philipp. Looking back, let's look at it from a geographic point of view. First, there has probably been a handful of countries where we've seen positive valuation trends throughout 2022, for instance, Germany, Japan, and Switzerland, to just name three. On a more headwind side, you've seen single digit, 4% or 5%, deteriorations in markets like Ireland, the UK, or Finland, just to name three on the other side of the coin.

When you look at it from a sector point of view, interestingly, logistics has been faring quite well. Healthcare, as such, excluding clinics, has been faring quite well, residential as well. And when you look at the other side of the coin, mixed uses, i.e., mixed use between commercial and residential, so I'm not referring to mixed commercial use, but rather, really, mixed commercial and residential use, they have been suffering a bit to the tune of 4% or 5%.

Clinics, as a special sector on the health side, have been suffering a bit. And then, of course, not surprisingly, the hotel sector, although the deterioration there has been quite low, more like 1% or 1.5% or so, perhaps, which is after some of the hits they've taken in the past, maybe expected. So, it's a sidewards trends, slash, moderately negative trend. So, that would be the backward looking perspective.

Looking forward, as I said, we see, at the moment, a maximum of maybe 4% - 7%. That said, we don't believe that the German market, at least from our angle, will be as badly impacted as some of the international investors believe. Again, flight to quality developments are stopping.

Demand is going to be high, the population is rising, so there are going to be quite a few positive counter trends, so we are not bearish on Germany as much as some of our competitors or international investors.

Philipp Kaiser

Understood. Thanks a lot. My next one is on M&A. You were quite active recently, but you still have six million treasury shares and ample liquidity. Are there still any interesting targets out in the market in the short term? And if so, in which sectors would they be?

Christoph Glaser

Maybe, again, one step back, before I answer your question. Our capital allocation strategy, probably first and foremost, centres around turbo charging the growth of our key vehicles in the foreseeable future, because we have the products that we need, pretty much, and so a very strong focus is on strategic co-investments to accelerate growth where others can't. So, that's point number one.

Point number two is probably centring around opportunistic plays, if and when they shall arise, with different degrees of PATRIZIA engagement. After that, we will always look at M&A opportunities, if and when they come along. But there's got to be a strategic angle to it. I don't think we're going to make moves just because of price on that front. That's probably more reserved for asset plays.

But if something interesting comes along that gives us an additional consolidation opportunity in a geographic focus area, whether that's Asia-Pacific or the Americas, we would probably look at it. Or if it's something that gives us an instrument that we are missing, say, maybe on the front of real estate debt, we would probably look at it. But we've done that in the past, and we continue to be a bit conservative there.

And also, please bear in mind, we have consolidated a lot in Germany seven, eight years ago. We concluded the Rockspring acquisition in 2018, and we have just now bought Whitehelm Capital in early 2022, and then much smaller Advantage business in December 2022. So, for a company of our size, we've done a lot, and I think we've done the right things.

We need to be mindful of not overextending ourselves, but if the right thing that we can handle comes along, we will make a move. And we have a lot of opportunity, based on the balance sheet that we're running, and also, based on the investment grade position we enjoy with our partner bank. So, I think we can move, if it makes sense, but I wouldn't put it in the foreground of a discussion right now.

Philipp Kaiser: Very helpful. As you pointed out yourself, the turbo charging off your funds, how is that going? How much cash have you already invested, and are there some positive effects already visible? What can we expect for this year?

Christoph Glaser: When you really look at our capital allocation, as of December 2022, and I think it's somewhere on page 60 or 65 in the annual report, there's about EUR 113 million of co-investments out there, of which, around about EUR 80 million are in the real estate space, and around EUR 30 - 40 million are in the infrastructure space. And the infrastructure related co-investments will probably grow faster than the real estate related co-investments.

And then, of course, there's the Dawonia acquisition to the tune of around about EUR 180 million, which is stable, and the performance will be related to that. So, EUR 113 million, EUR 80 million real estate, EUR 30 - 40 million infrastructure right now.

And that mix will probably shift in favour of infrastructure, in particular, infrastructure debt, sustainable investment vehicles in Asia-Pacific, Europe, European infrastructure. There will be a lot of activity there.

It may be important to note that some of these co-investments will be relatively short and medium term in nature, so they'll recycle that capital, once some of these vehicles will have reached critical mass. So, we're looking at, not necessarily in all cases as a long- term commitment, but rather, as a short or medium term commitment to get growth going and establish confidence, and then move on.

But if there's a big portfolio going to be available, either on, most importantly, the real estate side, and we want a vehicle to special into, we're probably going to think about making a move ourselves. So, you may end up seeing a few moves in that context. Maybe not in the very near term, but later in the year, so let's see.

Philipp Kaiser — Thank you very much, that's very helpful from my side.

Operator — The next question is from Jochen Schmitt with Metzler. Please go ahead.

Jochen Schmitt — Thank you. Good afternoon. I have three questions, please. Firstly, management fee income in Q4 seems to have been down quarter-on-quarter, when comparing the full year figures with the nine month results. Could you give some explanation here? Secondly, do staff costs include a release of a provision in Q4?

And thirdly, could you please briefly comment on the financial result in Q4? Because it seems that there were some non-recurring items included. These are my questions.

Christoph Glaser — Could you repeat the third one again?

Jochen Schmitt — On the financial results, I think there were some non-recurring items included in Q4. Could you please comment on that? Thank you.

Christoph Glaser — Well, let's tackle it. First of all, thanks for your questions, Jochen, good to have you on the call. On the first question, with regard to management fee income in the fourth quarter, there was less in there stemming from project developments than in the quarters before. So, that's the short answer.

Management fees linked to project development activity done by the real estate development team that we have inhouse as a service for investors has been lower than before. And therefore, there has been less of a contribution from that part of the business to the management fee income line, which is not surprising, knowing where the trends on project development have been going.

Secondly, on the topic of staff costs and one-time effects in the fourth quarter. As you may appreciate, the mixed financial performance of the year leads to a situation where management will not enjoy a target bonus pool allocation, as historically planned, but a significantly lower variable compensation level, which is why we have reduced the respective accruals accordingly, which I think is a sign of good governance and really shared responsibility.

And as a result of that, you have a relieving effect on staff costs in the fourth quarter, which is nice to see, from a cost management point of view, and obviously, hard for the team, but the right thing to accept under the conditions. And then the last question on financial results and non-recurring income. There was a technical impairment booked in the financial results, which has impacted it.

And I think we have commented on the details of that in the annual report. So, that would be the short answer on that one, and it's not that material, if I'm not mistaken.

Jochen Schmitt: Thank you.

Operator: The next question is from Manuel Martin of Oddo BHF. Please go ahead.

Manuel Martin: Thank you very much. Three questions from my side, if I may, please. The first question is from page 15 of the presentation, I would like to come back to the EBITDA guidance for 2023. The range, EUR 50 - 90 million, seems to suggest that the downside in your guidance is quite high, while the upside is relatively low. Maybe you can share your thoughts on how you constructed that guidance.

Christoph Glaser: Sorry, we had a technical issue. We still had you on mute. I apologise for that. I'll restart my answer. The guidance for 2023 oscillates between EUR 50 – 90 million. So, the midpoint is about EUR 70 million, which is slightly between the actual loss of 2022. If you make the assumption that the transaction fee income, if and when the market normalises in the second half, comes back to a level between 2021 and 2022, you're talking about adding, or not adding, roughly EUR 20 million of transaction fee income.

So, when you play with that number, starting at a level of EUR 70 million, you know you're playing in that range. There can be upside, there can be downside, but that's the main driver for why the range has been chosen the way it has. And I would not say that the downside outlook is outweighing the upside outlook, not at all.

Because as I mentioned before, there can be opportunistic transactions, which we are not necessarily planning for aggressively, which could take you in the upper end of the range, or even beyond that. But that's a bridge we're going to cross, when we get there. So, I look at that range, really, in a relatively neutral fashion. But it would be not appropriate to say that the upper end is in the bag.

Because if the transaction behaviour revival occurs in the later part of the fourth quarter, we may see another partly disappeared season, and it's still too early to talk about that. So, a note of caution is important. Secondly, we obviously get tailwinds from not having to incur restructuring expenses again. And we are probably not going to see favourable project development impacts anytime soon.

So, really, it boils down to what's going to happen on the transaction side, and whether opportunities will outweigh the risks associated with another subdued season. So, that's really the logic there. We may end up with a recovery as we go through the year, we will see.

Manuel Martin: Okay. The second question would be on Q4. The full year results were a bit better than expected on an EBITDA level, so it seems that Q4 was a bit more favourable. Could you give us, in a few words, what has been better in Q4 than expected? Maybe to have a feeling for that quarter.

Christoph Glaser: The fourth quarter, on the revenue side, has seen, let's say, a little bit of embedded downside on management fees, because of the development fee adders disappearing, and it has seen a little bit of upside on performance fees, and transaction fees have been very subdued. So, that is the short answer on the revenue side. On the cost side, we have managed to do more cost containment than we were originally planning to do, so that's good news, in a way.

We feel good about that. Obviously, the bonus accrual reduction has helped that, which we feel mixed about, but it is what it is. So, we feel good about the cost upside, and on the revenue side, it's been puts and takes between management fee income and performance fee income.

Manuel Martin: Very clear. Thanks. My last question refers to page seven of the presentation, regarding the valuation impact. There was a detail, which I didn't completely understand, in brackets, and there's ex Dawonia, so that means the valuation impact of 0.4% - 2.5% per annum. That does not include effects from Dawonia. If that is the case, can you say something about that Dawonia evaluation effect?

Christoph Glaser: The effects highlighted here are essentially giving you an average feeling for the portfolio, excluding Dawonia. The

Dawonia portfolio, itself, actually saw a favourable valuation development to the tune of, I think, 4%, give or take, because the total AUM base there has shifted from December 2021 at a level of EUR 5.1 billion to a level of EUR 5.3 billion as of December 2022.

So, that's around about 4% of upward valuation, which was actually more than we expected. Nowadays, we're probably expecting to see more of a sidewards movement in the foreseeable future. But for the portfolio, excluding Dawonia, it is the numbers that we have highlighted on the page, which is ranging from 0.4% to 2.5%.

So, long story short, if you would add Dawonia to that, the range would be 0.4% to 4.1%. But again, Dawonia is a very high quality portfolio, which is very precious, so, in that sense, there's no surprise there. But for purposes of being clear on the more normal, let's say, portfolios we have, we wanted to focus the comment on that.

Manuel Martin — I must say plus focus on valuation, that’s a strong number, I must say.

Christoph Glaser — Yes. And as I said, I think, going forward, it is going to probably be more of a sidewards move for the time being. We'll see.

Manuel Martin — Thank you.

Christoph Glaser — Some of the valuation developments are time-lagging in Germany because the appraisers’ assumption of what is a normal market is different from the perspective of the international appraisers who have more current market perspectives. So there’s a bit of a time lag between the different markets probably.

Martin Praum — Andre, it's Martin. If I may add to that, the focus, and that Christoph just mentioned, is, we mention it as a range. So, in that range over the last ten years, it’s really between 0.4% - 4%. But seldom we hit the 4% in uplift valuation for Dawonia. It was more, if you look at certain years, between 1.8% - 2% area.

Operator — The next question is from Kai Klose of Berenberg. Please go ahead.

Kai Klose — Yes, hello, good afternoon. I’ve got three quick questions, if I may. The first one, can you quickly explain again why transaction fees have come down by 56% where transaction volume has come down, roughly, 11%? Or, slightly differently, how much of the decline was coming that we have seen more all-in, that we have more all-in contracts rather than transaction-related? Please.

Christoph Glaser — Yes, Kai, good to have you on the call. The transaction volume has been pretty decent, somewhere around EUR 6 billion. But, as we mentioned before, transaction fee income, in terms of development, didn't go lockstep with transaction volume because we did a lot more transactions inside vehicles which are featuring all-in management fees. So, basically, no transaction fees upon signing or closing an acquisition of assets.

Again, the biggest example is our Living Cities fund, where we did the very large deal, for instance, in Barcelona. And so that's, in essence, the main explanation here, full stop.

Kai Klose: But can you quantify how much of the decline in transaction fee was due to the change in structures that is more all-in?

Christoph Glaser: Not off the top of my head, but I can get back to you on that one.

Kai Klose: Second question, would you indicate, of the EUR 2 billion of equity raised in the last year, how much will be on real estate and how much on infrastructure investment? And where was it raised from, by region?

Christoph Glaser: There was equity being raised across the board. I would say that the vast majority was on the real estate side. So it probably follows directionally the mix of the portfolio, if I exclude the co-investment related activities.

Kai Klose: And from which region, from where?

Christoph Glaser: Sorry, I forgot that part of your question. More international than domestic. Probably 70% outside of Germany, 30% inside Germany, which is not surprising, honestly speaking, because our position inside Germany is quite strong already.

Kai Klose: And the last question is that you mentioned you sometimes do warehousing properties on the balance sheet. Have you set yourself a limit on how much you want to warehouse or the maximum you want to warehouse?

Christoph Glaser: The honest answer is we haven't set ourselves a hard limit, but we're obviously watching on a monthly rolling forecast basis how much of our positive cash flow or cash balance at any given point of time we're planning to absorb. We're going to leave a healthy margin for operational purposes and eventualities. But we haven't set ourselves a hard limit.

And, secondly, depending on what we see, we will play with our own cash, or we may choose to partner or also maybe in some exceptional cases lever up. We'll see how that goes. But no hard limit, which I think would also not be appropriate because there may be large opportunities coming along. But we are watching very carefully cash cushions.

Kai Klose: And what is the maximum period you are considering warehousing properties or assets? Is it three months, 12 months, 16 months, 24 months?

Christoph Glaser	Tough to say. Not long-term, I would say, but rather maybe anything between six months and probably 24 months, somewhere there, so somewhere around the 12, 18 months, yes, 12 to 18 months, maybe midpoint. Tough to say. It depends a little bit on the speed of growth, and some of the infrastructure vehicles could be shorter, could be a bit longer in the more strategic Asian partnership vehicles.
Kai Klose	And the last question is on Page 5. When we look into the AUM by risk style, the infrastructure assets should be classified by risk style. How much of that is core, core plus and value add?
Christoph Glaser	I would say maybe directionally a bit inverse on the… No, not inverse. Inverse would be too much. I would say maybe 50/50. It depends a little bit. So, on the real estate side, we had one-third value add and core plus and two-thirds core. I would say, on the infra side, it's probably a balanced mix. But we can get back to you on that because I have to honestly say I don't have the details off the top of my head. I'm not sure whether this classification is the right one to choose here.
Kai Klose	All right, perfect.
Christoph Glaser	But directionally a bit less conservative probably.
Operator	There are no further questions at this time. I'll hand back to Christoph Glaser for closing comments.
Christoph Glaser	Thanks, everybody, for joining. A lot of questions, very much appreciated. I hope we answered them in a satisfactory manner. And I guess I'll limit my closing remarks to what I said at the beginning of the call. The environment has been volatile. We're entering a second year of market consolidation, so another half-year of market consolidation, with a lot of volatility. But we feel more than strong enough to weather that. So that's Point Number 1. Point Number 2, we are acutely aware of the fact that our results have been mixed, but we are moderately optimistic for 2023. And we have the capabilities and the balance sheet power to move proactively, unlike many competitors. And we have enough dry powder to make AUM growth-related moves across our vehicles. So that's how we're going into the year. So we feel good. We feel moderately optimistic. And we will see how the markets come back. So we'll probably know more next time we talk. Thank you very much for your attention today. And, I guess, with that, Martin, we can conclude the call.