

# publity AG

Germany / Real Estate  
 Frankfurt Stock Exchange  
 Bloomberg: PBY GR  
 ISIN: DE0006972508

Initiating  
 coverage

**RATING** **BUY**  
**PRICE TARGET** **€ 29.00**  
 Return Potential 35.8%  
 Risk Rating High

## BRAKING BAD

The publity share price has plunged some 70% this year on insolvency fears stirred by a drawn out feud with several of its bond holders and two profit warnings. News headlines, led by a €40.5m capital increase, recently turned positive braking the bad news flow and poor sentiment in H1. We believe the worst of the storm has passed and see an excellent opportunity. Despite having underachieved set targets in 2017, the asset manager is well placed in the German commercial real estate (CRE) market with €4.6bn in AuM (assets under management). The company also is well capitalised, highly profitable, and is taking steps to address investors' transparency concerns. We start coverage with a Buy rating and €29 target price.

**You say you want a resolution** publity (PBY) had been embroiled in a dispute with some of its convertible bondholders over a breach of covenant pertaining to excessive dividend payout on 2016 earnings. The quarrel sent investor sentiment and the share price plummeting early this year. A resolution has been since been found, and plans to issue a new bond have been shelved. We now expect operational news to return to the forefront going forward. A strong recovery in the share price this month suggests the sentiment gauge is recalibrating.

**Getting back to business** Forgotten in the covenant dispute is a highly profitable operating business, which we expect to gain momentum in the coming quarters. After a disappointing end to 2017 followed by a rough start in H1 that included reduced guidance, the company recently raised its 2018 outlook on the back of an NPL (non-performing loan) portfolio disposals and a lucrative success fees from a property sales. Management now look for revenues and net income (NI) 20% - 30% above the 2017 level (old: on par with last year). PBY also completed a €40m cap-hike in October to strengthen the balance sheet and drive growth. We look for the company to resume its growth trajectory (2018: +25% Y/Y), thanks to ample opportunity in a robust CRE environment, where publity can leverage its extensive know-how and watch list.

## FINANCIAL HISTORY & PROJECTIONS

	2015	2016	2017	2018E	2019E	2020E
Revenue (€m)	23.83	41.58	23.57	29.40	38.49	44.26
Y / Y growth	22.0%	74.5%	-43.3%	24.7%	30.9%	15.0%
EBIT (€m)	20.31	34.08	12.18	20.33	30.11	35.83
EBIT margin	85.2%	82.0%	51.7%	69.2%	78.2%	81.0%
Net income (€m)	12.80	23.32	10.00	13.03	20.04	24.11
EPS (diluted) (€)	2.27	3.86	1.65	2.15	3.31	3.98
DPS (€)	2.00	2.80	0.00	0.66	1.02	1.23
FCF (€m)	82.42	-16.36	-0.54	19.74	20.70	24.81
Net gearing	43.0%	35.5%	72.9%	-15.5%	-24.1%	-31.6%
Liquid assets (€m)	17.35	7.11	7.97	57.36	60.32	74.20

## RISKS

Risks include, but are not limited to, unfavourable interest rate developments, unfavourable macroeconomic developments, and the departure of key personnel.

## COMPANY PROFILE

Founded in 1999, the Frankfurt am Main-based publity AG is an established asset manager, with a focus on commercial real estate in German metropolises such as Frankfurt and Munich. The company pursues a "manage-to-core" concept to leverage its expertise and drive growth.

## MARKET DATA

As of 11/22/2018

Closing Price	€ 21.35
Shares outstanding	9.83m
Market Capitalisation	€ 209.89m
52-week Range	€ 9.86 / 35.05
Avg. Volume (12 Months)	23,932

Multiples	2017	2018E	2019E
P/E	12.9	9.9	6.4
EV/Sales	10.4	8.4	6.4
EV/EBIT	20.2	12.1	8.2
Div. Yield	0.0%	3.1%	4.8%

## STOCK OVERVIEW



## COMPANY DATA

As of 30 Jun 2018

Liquid Assets	€ 14.37m
Current Assets	€ 63.20m
Intangible Assets	€ 0.70m
Total Assets	€ 116.86m
Current Liabilities	€ 3.25m
Shareholders' Equity	€ 62.09m

## SHAREHOLDERS

Thomas Olek	58.0%
Free Float	42.0%



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## INVESTMENT CASE

### Alternative real estate (RE) play

publity AG is an asset management company specialised in the German commercial real estate market. The company differentiates with its service-driven business model, which gives the company exposure to a large volume of assets, while maintaining a lean balance sheet. Operations cover several key steps of the RE value chain and are driven by a portfolio of 120 assets. Recent news flow has turned positive braking the flow of bad news in H1. We regard publity as an attractive alternative asset with strong growth potential.

### Veteran of the German property market

publity benefits from a wealth of experience dating back to 1999. Operations are centred on a “manage-to-core” concept applied to the German commercial property market. The track record includes the acquisition of 615 German properties and sale of some 530 assets. The company applies manifold asset management services to the CRE and debt servicing markets (non-performing loans) to generate high margin recurring fees.

### Low risk strategy

publity's strategy is to leverage its expertise and vast network to further strengthen its position as an asset manager and win new mandates. Presently, the company is focused on commercial real estate in Germany and wants to expand its AuM through new mandates. Direct investments are limited to minority stakes in joint ventures, where publity co-invests (< 3%) in select cases. Previously, the company applied its expertise in a similar fashion to the NPL (non-performing loan) segment. However, this segment is largely dormant (limited to legacy portfolios) at the moment as market conditions favour property related activities.

### Operations differentiate from landlords

publity benefits from exposure to the attractive German property market. The company generates high margin bottom line results with its approach, while keeping a lean balance sheet. Whereas the key players in the segment are dominated by “Buy and Hold” strategies, which require significant amount of cash and sizable balance sheets to reap attractive rental income and cash flows, publity participates in the strong CRE dynamics with an asset management approach. This strategy gives the company a €4.6bn exposure with a highly manageable balance sheet total (YE17: €110m) and high equity ratio (YE17: 52%).

### Improving sentiment after successful equity raise

We use a discounted cash flow method to value publity and start coverage with a Buy rating and €29 price target. The publity share price was under heavy pressure for much of this year and had shed some 70% of its value by mid August. We attribute this chiefly to the bondholder feud over a breach in the terms and conditions combined with two profit warnings. The latter stemmed largely from postponed service and success fees. Lately, PBY stock has recovered from the nine month drubbing, thanks to positive news flow in Q4 including raised guidance on the back of lucrative operational developments. With the bondholder issue having been put to rest, a bolstered balance sheet from the October cap hike, and a ~€13bn watch list from its proprietary database to drive operations, we view this as an excellent opportunity to pick up publity shares at an attractive level. We also expect management to resume its dividend policy (50% of NI) on 2018 results and reward investors with attractive dividend yields.



## SWOT ANALYSIS

### STRENGTHS

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- **Low balance sheet intensity & risk** publity does not pursue the “Buy and Hold” strategy common to most listed property companies. This reduces exposure to down cycles in real estate markets, consumes less cash and thus reduces the need to finance growth with high debt loads.
- **Proven know-how and infrastructure** publity has an extensive track record having resolved over 1,100 successful property transactions. This experience combined with a robust infrastructure built upon a massive proprietary database is the foundation of a proven ability to execute quickly at key steps of the property value chain. These factors have helped establish the company as a valued partner for its clients.
- **High cash flow conversion** The lean business model is fee driven for services rendered. publity runs with low staffing and admin requirements. Financing needs are consequently also low (YE17 €50m bond outstanding). This setup allows revenues to filter quite cleanly to the bottom line, which translates into strong free cash flows, due to low working capital and investment requirements.

### WEAKNESSES

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- **Management credibility** The company has taken significant steps to meet investor demands for greater transparency and a higher equity ratio with an announced switch to IFRS for 2018 reporting and the €40.5m capital increase. However, the bad optics of the covenant breach and the early year profit warnings shook investor sentiment and trust, which will take some time to fully recover.
- **Late to Berlin** publity has little to no exposure to the German capital. Berlin is thriving and attracting investors, corporates, and talent from across the world. The city is quickly becoming the European hub for technology companies with tech titans such as Apple, Google and Facebook having set up shop. Consequently, office leasing in Berlin has been soaring.
- **Leaving money on the table?** publity's earnings are limited to asset management service fees, whereas the landlord business model directly captures attractive rental income cash flows and disposal gains from held portfolios. Although the latter requires higher balance sheet risk, the earnings upside is much greater.



## OPPORTUNITIES

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- **Sweet spot of the property market** Business is focused on the German commercial sector—specifically the office segment. The commercial sector is much earlier in the cycle than the residential market providing better growth and value extraction opportunities.
- **Scalability** publity has added new mandates without having to bulk up staffing. Its proprietary infrastructure and systems help a lean staff to service higher volumes, thus allowing the company to onboard more clients without weighing heavily on profitability.
- **What happens at the end of the cycle?** The property markets are at various stages in the cycle and are booming thanks to rock bottom interest rates. publity's asset-light balance sheet mitigates exposure to a potential cliff at the end of the cycle and the company can switch gears into its NPL activities in the event of a major collapse.

## THREATS

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- **Plenty of competition** Office assets are highly coveted by large, well financed and networked commercial landlords, who are racing to scoop up portfolios to satisfy large yield appetites. publity may not be able to match the firepower and flexibility of these operators to drive AuM growth.
- **The next financial crisis** Banking meltdowns are an unfortunate part of human history—there were 124 of them between 1970 and 2007. The precise shape of the next one is unclear; otherwise it would be avoided. But one way or another, macro watchers reckon the next financial crisis will likely involve property.
- **More regulation** The regulator could beef up oversight and tighten AIFM (alternative investment fund manager) guidelines in the future, which could complicate some of the structures (grey markets) in which publity operates. Even with the NPL business to backstop a downturn, we do not believe a transition would happen overnight, which could result in a growth interruption.



## VALUATION

We use a DCF model to value publity. In our view, this approach is best suited to the company's fee-driven income streams. We expect the company to resume its growth trajectory in 2019 and forecast a three-year revenue CAGR of 23%. By comparison the four year CAGR is a more stable 1.6% based on the record sales generated in 2016 (€41.6m), which benefitted strongly from the sale of credit portfolios. PBY features high cash generation thank to low direct costs and high operational scalability. We believe the EBIT margin should top 80% over the mid term, while the bottom line is also exceptionally strong, due to low financing costs.

We assign a WACC of 10.6% based on our multifactor risk model which takes into account company specific risks such as (1) strength of management; (2) earnings quality; (3) transparency; (4) financial risk; (5) competitive position; (6) as well as company size and free float. The primary risk in our view is the lack of transparency into operations that are driven by fee income from an array of funds and JV's.

Our model discounts cash flows from 2030 for a total enterprise value of €304m, of which 64% stems from the explicit period. We adjust for pro-forma net cash of €17.4m, which reflects the recent cap hike. Earlier this month, publity completed a capital raise issuing 3.8m new shares at €10.70 for gross proceeds of €405m. The basic share count thus increases to 9.8m. Based on fully diluted shares outstanding of 11.07m, our fair value estimate corresponds to €29 / share.

## DCF MODEL

All figures in EUR '000	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Revenue	29,395	38,490	44,264	47,362	50,204	52,714	54,822	57,015
NOPLAT	13,725	20,323	24,187	25,555	27,095	28,190	29,400	30,200
(+) depreciation & amortisation	118	119	137	147	156	163	170	177
Net operating cash flow	13,843	20,443	24,324	25,702	27,250	28,354	29,570	30,377
(-) Total investments (CAPEX and WC)	353	-652	-319	-516	-512	-358	-483	-339
(-) Capital expenditures	-176	-121	-139	-149	-158	-166	-173	-180
(-) Working capital	529	-531	-180	-367	-354	-192	-310	-159
Free cash flows (FCF)	14,196	19,791	24,005	25,186	26,738	27,995	29,087	30,038
PV of FCF's	14,052	17,716	19,434	18,440	17,704	16,764	15,752	14,711

All figures in thousands	
PV of FCFs in explicit period	193,647
PV of FCFs in terminal period	110,324
Enterprise value (EV)	303,971
(+) Net cash / - net debt (pro-forma)	17,357
(+) Investments / minority interests	0
Shareholder value	321,329
Fair value per share (€)	29.00

		Terminal EBIT margin						
		70.7%	72.7%	74.7%	76.7%	78.7%	80.7%	82.7%
WACC	7.6%	40.35	41.16	41.97	42.78	43.58	44.39	45.20
	8.6%	35.02	35.65	36.27	36.89	37.51	38.13	38.75
	9.6%	31.00	31.49	31.98	32.46	32.95	33.44	33.92
	10.6%	27.86	28.25	28.64	29.02	29.41	29.80	30.19
	11.6%	25.33	25.64	25.96	26.27	26.59	26.90	27.21
	12.6%	23.25	23.51	23.77	24.02	24.28	24.53	24.79
	13.6%	21.52	21.73	21.94	22.15	22.36	22.57	22.78

Cost of equity	12.8%
Pre-tax cost of debt	6.0%
Tax rate	32.5%
After-tax cost of debt	4.1%
Share of equity capital	75.0%
Share of debt capital	25.0%
WACC	10.6%

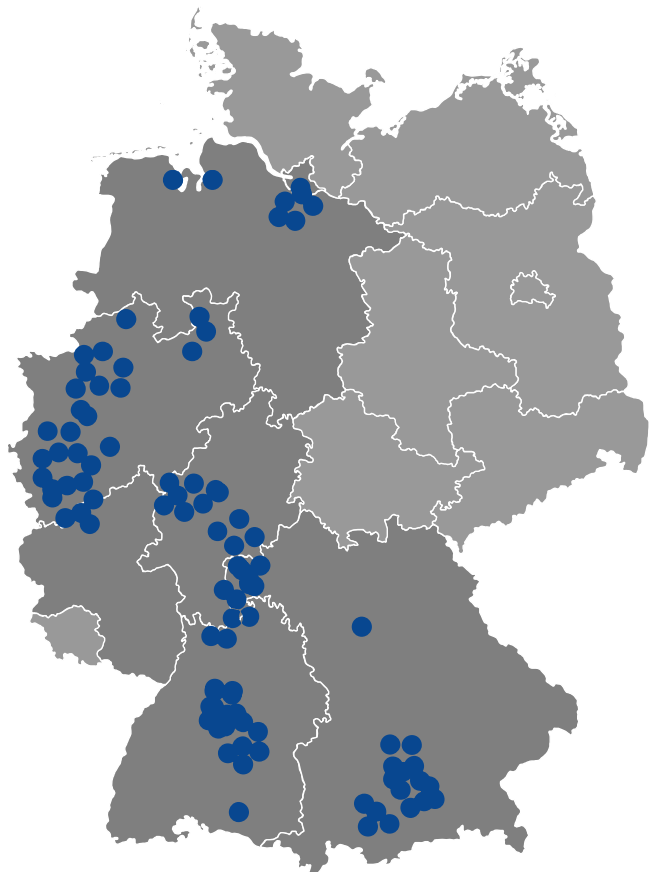
		Terminal growth rate						
		0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%
WACC	7.6%	38.42	39.67	41.10	42.78	44.75	47.11	49.99
	8.6%	33.90	34.77	35.76	36.89	38.18	39.69	41.47
	9.6%	30.35	30.98	31.68	32.46	33.35	34.37	35.54
	10.6%	27.48	27.95	28.46	29.02	29.66	30.37	31.17
	11.6%	25.13	25.47	25.85	26.27	26.73	27.25	27.82
	12.6%	23.15	23.42	23.71	24.02	24.37	24.75	25.16
	13.6%	21.48	21.69	21.91	22.15	22.41	22.70	23.01

\*Please note our model runs through 2030 and we have only shown the abbreviated version for formatting purposes

## COMPANY PROFILE AND HISTORY

publity AG is an asset management company specialised in activities surrounding the German commercial property market. Founded in 1999, the company has over €4.6bn in assets under management. publity offers a wide range of services across the real estate value chain including acquisition, management, development, and disposal of assets. The product portfolio ranges from asset-backed financial investments to AIFM-compliant closed-end real estate funds.

**Figure 1: AuM footprint**



Source: First Berlin Equity Research; publity AG

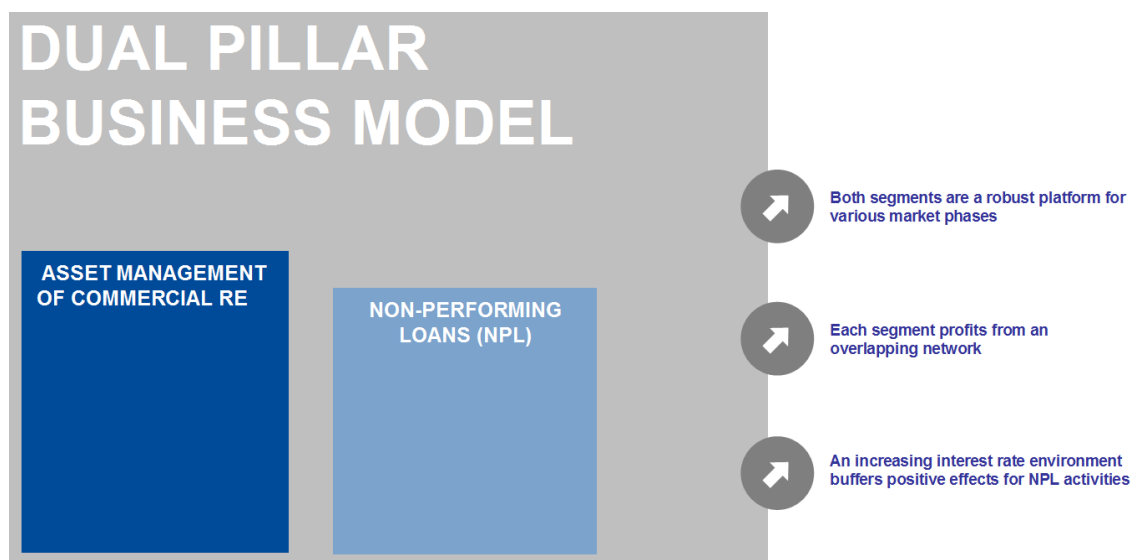
The company's business has evolved over the years from its early roots in 1999 as a digital solutions provider for companies to go public. publity partnered with several prominent German regional banks, such as LBBW Trust GmbH Stuttgart and Nord/LB Hannover, to help over 70 companies successfully float their shares on the German stock market. The company pivoted operations in 2004 into the non-performing loan (NPL) market and quickly established itself among the top players.

The current iteration of the business began to take shape in the summer of 2013 with the launch of closed-end real estate fund offerings. The services provided to these funds, joint ventures, and third parties make up the core activities of the publity group today. As shown below, publity boasts a solid track record that includes over 1,100 property transactions.

publity floated its shares in April 2015 and trades on the Scale Market of the Frankfurt Stock Exchange. In August, the company packed up its Leipzig headquarters and migrated to Frankfurt am Main. After 10 years in the east, the company now sits in the heart of the financial capital, which will make it easier to orchestrate operations.

The publity corporate structure includes three German-based subsidiaries: (1) publity Performance GmbH, a capital management company, which oversees the three Performance Fonds; (2) publity Emissionshaus GmbH, which acts as the general partner for the funds; and (3) publity Investor GmbH, which serves as the general partner and liquidator for NPL funds.

**Figure 2: Operational drivers**



Source: First Berlin Equity Research; publity AG

The publity group also has participations in three Luxemburg-based joint ventures. PREOS 1 (50% publity stake) holds real estate located in Germany, whereas PREOS 2 (49%) and PREOS 3 (49%) hold debt portfolios via property companies. publity is neither represented on the respective boards nor involved in management duties. The company merely generates fees for services provided to the JVs.

## WHOLLY OWNED SUBSIDIARIES

### publity Investor GmbH

Established in December 2008, the subsidiary serves as an asset manager, participates in other companies, and assumes liabilities as a general partner. The company also designs fund concepts, prepares investment prospectuses, and handles share offerings for launched companies as well as acquisitions.

### publity Emissionshaus GmbH

Founded in September 2012, the subsidiary acts as an asset manager of its own assets, participates in third party operations, and assumes the liabilities of a general partner. The company also designs fund concepts, prepares investment prospectuses, and handles share offerings for launched companies as well as acquisitions. publity Emissionshaus GmbH is the founding shareholder and general partner of publity Performance Fonds Nr. 6, Nr. 7, and Nr. 8 depicted overleaf (table 2).

### publity Performance GmbH

Launched in May 2012, the wholly owned subsidiary is an external AIF capital management company. The company serves as asset manager of public closed- and AIF-funds providing risk management services for the real estate assets. publity Performance GmbH currently performs this function for publity Performance Fonds Nr. 6, Nr. 7, and Nr. 8.





## BUSINESS MODEL OVERVIEW

Unlike like the residential and commercial landlords that populate the German stock markets, publity AG does not invest directly into properties. Rather the strategy is to leverage its expertise through a combination of real estate services and grow AuM (assets under management). publity’s business model runs on an array of asset management services applied to the commercial property and debt servicing markets.

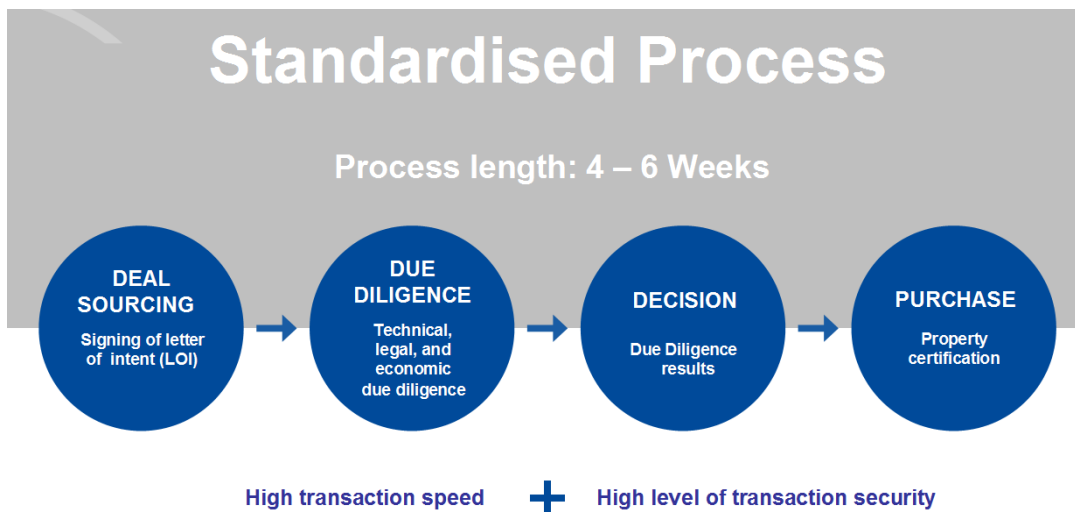
**Table 1: Business segments and activities**

Segment	Activity	Revenue streams
Asset management through closed-end funds	Acquisition of office assets between €2m - €10m for clients	Asset management fees
Asset management for institutional investors	Acquisition of office assets between €10m - €25m for clients	Finder’s fees, Asset management fees, Profit share from disposals
Asset management on behalf of joint ventures	Acquisition of office assets between €25m - €100m including 3% co-investment	Finder’s fees, Asset management fees, Profit share from disposals
NPL services	Exploitation of distressed receivable portfolios	Service fees on all revenue streams

Source: First Berlin Equity Research; publity AG

Asset management services cover several key steps of the real estate value chain from sourcing, due diligence, and acquisition, to property management and potential disposals to allow clients to lock in profits and recycle cash. These services are then funnelled according to investment volume to third party clients, which include closed-end funds, joint ventures, as well as other institutional and private investors.

**Figure 3: Accelerated process across the property value chain**



Source: First Berlin Equity Research; publity AG

Group activities are segmented into: (1) Property and debt portfolio management; (2) structuring of investment products for third party institutional and private investors, and (3) participation in joint ventures. publity generates fees from all three segments differentiating itself from landlords focused on FFO (Funds from Operations) and NAV growth.



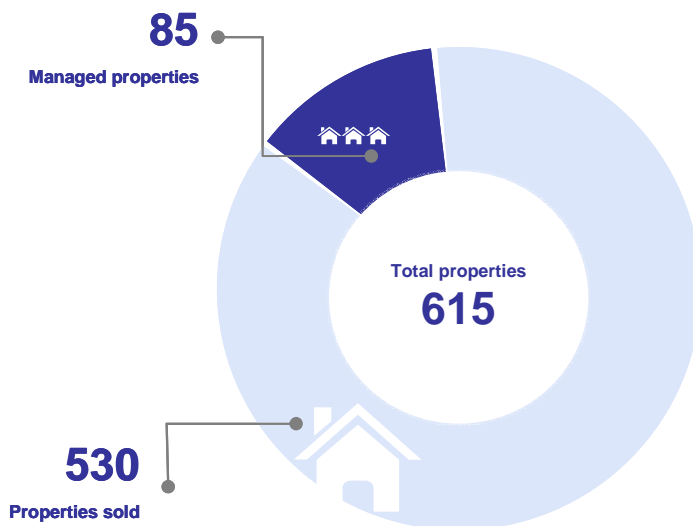
publity does not hold any assets on its balance sheet. Rather assets under management are held by the established property funds or Luxemburg based Joint Ventures. The company also invests alongside institutional investors via the JVs, which publity holds a 49-50% stake in. The co-investments are in the form of loans to the various joint ventures based on 1% - 10% of transaction volumes. These are reflected in the balance sheet line item "loans to other long term investees and investors" and totalled €48m in of H1/18 (YE17: €53m).

Non-performing loans (NPL) are also a core operational driver. However, there are no new funds planned or credit portfolios to buy at present as the pendulum has swung away from credit portfolios in favour of property acquisition and asset management. The company still has legacy portfolios that it will continue to service in the meantime. But after recently speaking with management, we expect NPL activities to remain in the background until the next correction in the markets.

## MARKET AND ASSET FOCUS

publity is entrenched in the German commercial market and focuses on the office asset class, which alongside logistics is currently at the sweet spot of the commercial segment where landlords are racing to build up their office portfolios. Management believe they can take advantage of their strengths in the German market and see ample opportunities to grow AuM and revenue streams without internationalising.

**Figure 4: Track record of orchestrated deals in German CRE<sup>1</sup>**



<sup>1</sup>Figures based on deals orchestrated by publity, whereas managed assets total 120

Source: First Berlin Equity Research; publity AG

The company boasts a long investment track record in the commercial property space having executed its “manage-to-core” strategy in German hubs and regions such as Frankfurt am Main, Munich, Hamburg, Düsseldorf, Cologne, Lower Saxony, North-Rhine Westphalia, Rhineland-Palatinate and Baden-Württemberg. publity is particularly well-known for its ability to execute transactions quickly and for its purchasing power owing to non-leveraged cash acquisitions. The company has orchestrated the profitable sale of over 530 German based assets.



## BUSINESS MODEL

### ASSET MANAGEMENT

Asset management services cover several key stages of the German commercial real estate value chain under the following categories:

#### Acquisition Services

As part of the screening process, publity develops a business plan for each property that considers industry standard KPIs such as WALT, rental income, vacancy rates and tenant structure. This serves as the basis for an initial offer. The company also uses external professionals to help conduct a systematic due-diligence process and provide expert opinions on existing assets of development projects. Essentially, publity acts as a broker on behalf of an extensive client network and excels at crafting property dossiers from its database tailored for individual client needs.

At present, publity concentrates on the German office sector, which is currently surging due to supportive macro economics as employers scramble to secure workplaces for growing business operations. The office segment suffers from acute supply shortage as we discuss later in this report. The acquisition team targets up to 15 year old assets in most of Germany's Big 7 hubs: Frankfurt am Main, Munich, Düsseldorf, Hamburg, Cologne, and Stuttgart, where economic tailwinds are the strongest. The company also prefers assets that are operating above break even.

A similar due-diligence process applies to the now idling NPL business. However, our focus in this note is on active operations, although we note the company can easily switch focus when the suitable macro-environment prevails.

#### Asset Management Services

Asset management follows a manage-to-core strategy. This means the company initially targets properties for its clients with high revisionary potential and value creation upside that the management team can incrementally capture through in-place rent and vacancy optimisation.

The team is helped by proprietary in-house systems geared towards asset repositioning and optimisation. We believe this infrastructure will allow the company to drive revaluations and long term profitability for its clients even when portfolio expansion cools.

#### Asset Disposal Services

publity also handles asset rotation services, which allow clients recycle cash when desired or simple lock in profits once a property has been fully optimised. Assets are usually disposed of: (1) through a direct sale to international investors—private or institutional; (2) via a portfolio sale to a foreign institutional buyer; or (3) through the creation of specialty funds or similar commercial instruments suitable to institutions.

Deals can be structured for individual assets or portfolios depending on the client's need. publity has an extensive network but also uses international brokers to get the best deal done. In the future, the company wants to leverage its know-how in structuring special funds to optimise disposal returns. Special funds are limited to professional and semi-professional investors: banks, insurers, pensions, and high-wealth investors with appropriate experience.



## STRUCTURED PRODUCTS

To date, publity has launched three closed-end funds and functions in the capacity of general partner via publity Performance GmbH (KVG), which is charged with three primary tasks: (1) identification of potential assets; (2) conception of disposal strategies; and (3) the development of investment products for institutional and private investors.

The identification and acquisition of suitable properties as well as asset management services follow the processes outlined in the Asset Management section. publity Performance GmbH acts as external fund manager according to the German Capital Investment Code ("KAGB") for the three public alternative investment funds (AIF) shown below. The company does not participate as a co-investor in any of these funds.

**Table 2: Overview of alternative investment funds**

	publity Performance Fonds Nr. 6	publity Performance Fonds Nr. 7	publity Performance Fonds Nr. 8
<b>Launch</b>	Jul-13	Feb-14	Jan-16
<b>General partner</b>	publity Performance GmbH	publity Performance GmbH	publity Performance GmbH
<b>Focus</b>	Real estate	Real estate	Real estate
<b>Volume</b>	€33.4m	€42m	€30.3m
<b>Investor distributions</b>	€12.3m	€1.8m	€1.2m
<b>Maturity</b>	Dec-18	Dec-19	Dec-21

Source: First Berlin Equity Research; publity AG

As of this writing, we expect NPL activities to remain in the background with no new funds planned until the next correction in the markets. There are simply no credit portfolios available at the moment to consider.

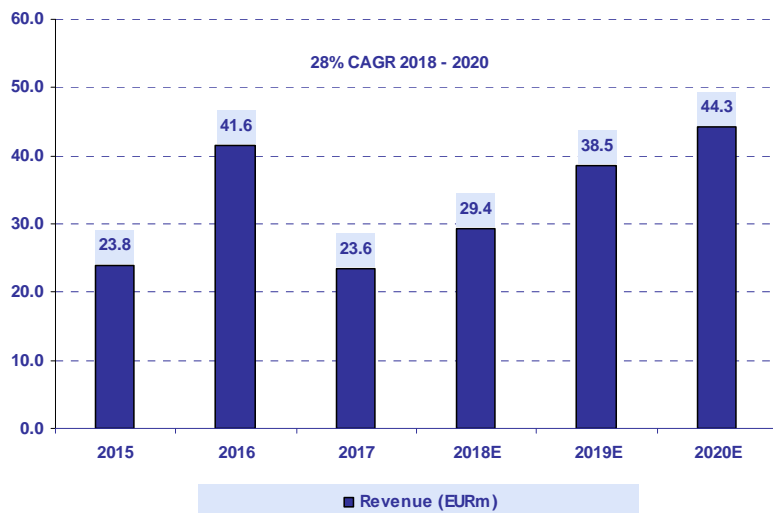


## FEE STRUCTURE DRIVES REVENUE MODEL

The outlined services are coupled with various fee structures: publity receives a finder's fee for acquisition services based on the transaction volume of single properties or portfolios. For its management services, the company collects a lump sum fee. In the case of property sales, the company collects a sales commission. The fee structure reflects standard rates: finder's fee of 1%—2%, asset management fee of 0.5%—1.0% of purchase price / market value, and disposal success fees in the range of 8%—12% after hurdle rates.

At the same time, publity aims to avoid the risks associated with buy and hold models and remain focused on the service driven business activities, which provide the company solid recurring revenue streams without balance sheet and financing risks. The ability to participate in upside from property disposals augments recurring revenue streams. We expect publity to generate some €29m in revenues in 2018 and for the topline to approach €39m next year.

Figure 5: Revenue development



Source: First Berlin Equity Research, publity

## NEGATIVE NEWS FLOW WEIGHED ON SENTIMENT

publity shares collapsed earlier this year losing some 70% in value in the wake of profit warnings and a dust up with its convertible bond holders. We believe the June profit warning represents a trough in the negative news flow. A look back over the last year helps explain the bearish sentiment that has burdened the share price.

### BACK TO BACK PROFIT WARNINGS RAISE OPERATIONAL CONCERNS

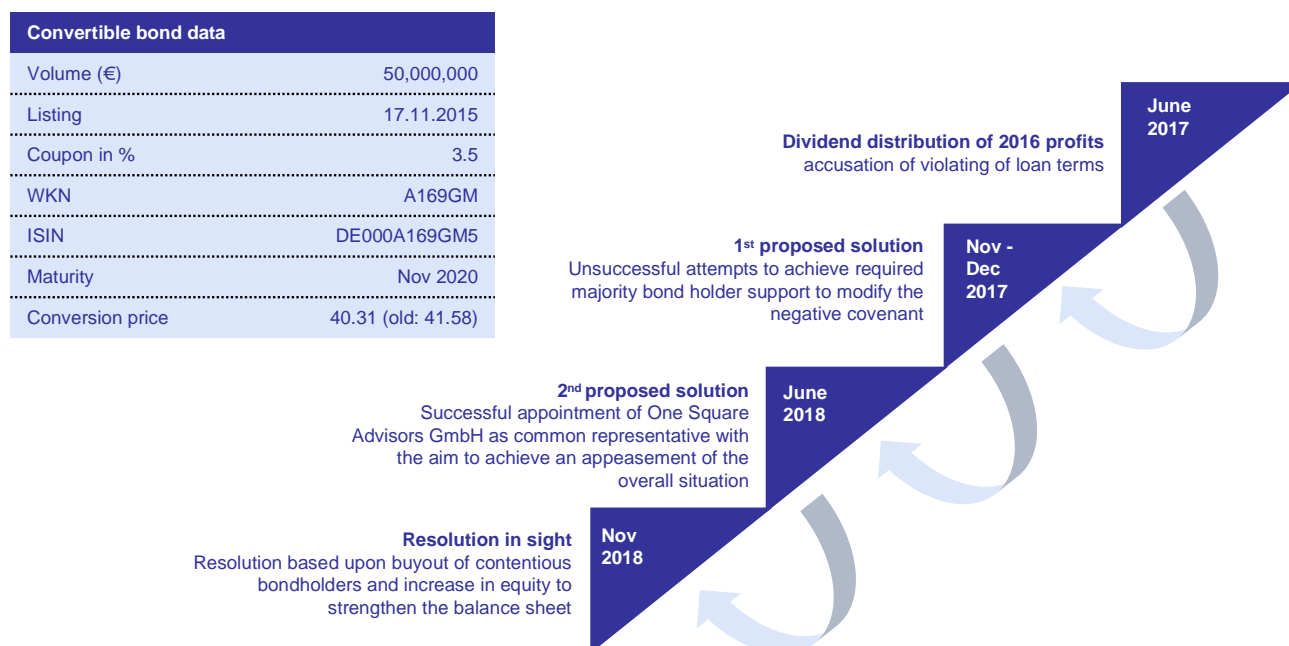
**Profit warning I** In late January, publity announced that 2017 earnings would fall well short of the prior year level (NI: €23.3m) but that net income would remain comfortably positive at €10m. The culprit was the delayed disposal of several properties with a volume of some €280m. Management had originally guided for an increase in the topline after an encouraging start to the year owing to certification of highly profitable property disposals. The company also confirmed AuM of €4.6bn for the Asset Management business.

**Profit warning II** Then in June, publity reduced its 2018 annual forecasts guiding for EBIT and net income on par with prior year levels of €12m and €10m respectively. Management had previously guided for €15m—€20m in January. EBIT was likewise expected to match 2017 despite the comparatively lower revenues figure (€23.6m). This cautious forecasts owed to a slower than expected development on the deal pipeline.

### WRANGLING WITH CONVERTIBLE BOND HOLDERS

publity had been entangled in a dispute with its institutional convertible bond holders since late 2017, when the company attempted to amend the terms and conditions of its outstanding convertible notes. In January 2018, publity announced that a November 2017 vote on the proposed changes was inquorate, while a second meeting a month later also failed to garner the required majority. Dialogue centred on the negative covenant regarding dividend distributions found in section 12, paragraph 3 (iii) of the publity bond (“Bond Terms”).

**Figure 6: Key data and timeline of convertible bond controversy**



Source: First Berlin Equity Research; publity AG



**Background . . .** We rewind the events leading to the dispute starting in May 2017, when publity tapped up its outstanding convertible bond by €20m to an aggregate amount of €50m and amended the terms and conditions of the bond rolling back the date of the aforementioned negative covenant to YE 2018 (previous: YE 2016 earnings).

The situation boiled over when publity distributed a dividend to shareholders amounting to 73% of 2016 net income. Bond holders argued that this was in breach of the negative covenant—based on the original language—that restricts publity from distributing dividends in excess of 50% of net income according to German GAAP. Some bond holders consequently applied to terminate their notes. publity disagreed with this opinion and considered the termination request unjustified.

To cleanly resolve the issue in the interest of all involved parties—bond holders and publity, the company wanted to issue a new bond to the current bond holders effectively swapping them 1:1 on largely unchanged terms. The negative covenant found in §12 of the Bond Terms and the maturity (November 2020) would remain unchanged as part of the New Bond Terms. New bond holders would benefit from a higher 7% interest rate (old: 3.5%) plus a 3.5% kicker for the first six months of the new term to account for red tape lag.

At the same time, publity held the view that the new bond would void any termination notices declared by individual bondholders according to German Federal Court of Justice law. Instead, bondholders would be able to either exercise acquisition rights to receive new bonds or opt to receive a cash settlement.

Prior to the scheduled 30 May 2018 vote on the proposed bond conversion, feedback suggested that the bondholders would not sufficiently support the proposal leading management to amend the submitted resolution. In June, the convertible bondholders and publity instead agreed to appoint One Square Advisory Services GmbH, a Munich based advisory specialised in corporate financial restructuring, as a joint representative to help publity negotiate a concept to gain the required support from bondholders and permanently resolve the overall situation.

**. . . and aftermath** publity disagrees with any accused predations and retorts that the covenant breach was merely an unfortunate administrative oversight. In our view, the fact that the breach even went unnoticed at the subsequent AGM supports this claim. Nevertheless, the optics of the dispute are bad, pushed investor sentiment off a cliff and hurt investor trust in the publity boss. Several market observers have also been critical of the fact that Mr Olek—based on his large stake in publity—trousered a sizable sum based on the 23% doled out above the 50% dividend pay out limit.

publity has since redeemed the bonds of the most contentious bondholders for some €3.1m and expects no further issues with the remaining bondholders. In the meantime, the conversion price was dropped to €40.31 per share (old: €41.58) at the recent AGM.

publity will be able to buy back the outstanding notes with cash on hand after the capital increase should matters re-escalate. But bondholders have already commended the capital increase to strengthen the financial structure. We thus see little worst-case-scenario risk for the company. As operational news returns to the forefront, we reckon that the sentiment meter will recalibrate as publity demonstrates it is back on track with positive results.





## BRAKING BAD

After a turbulent nine months stirred by negative headlines and investor uncertainty, news of a cap-hike to bolster the balance sheet braked the downward pressure on the share price. Recent announcements provided evidence that management is addressing transparency concerns and taking steps to strengthen the management board.

**Reloading the balance sheet** publity issued new equity at €10.70 per share for gross cash proceeds of €40.5m in October. The rights issue to shareholders included 3,781,250 new shares raising share capital to €9.8m. The principal shareholder, TO-Holding GmbH, took up the unsubscribed shares and now holds 58% of the share capital. Proceeds will be employed to facilitate growth and strengthen the equity ratio on the balance sheet.

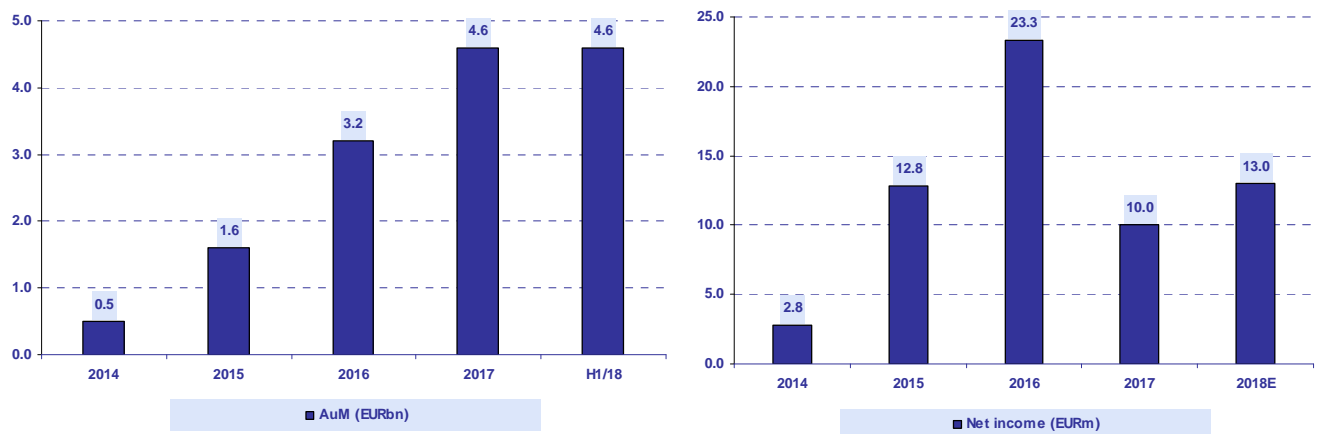
**Improved transparency on the way** Shareholders were particularly vocal at the last AGM about publity's lack of operational transparency, and several unhappy investors challenged the company to switch to IFRS accounting. Management apparently listened and announced last week that they will move from German GAAP to IFRS starting with 2018 reporting. Although overall reporting is not as transparent compared to listed landlords, the switch should be highly appreciated by investors.

**Evidence of healthy operations** publity announced the disposal of a large credit portfolio, which we estimate will contribute a mid-single digit million sum to the topline. After cautiously cutting the 2018 outlook last summer, management raised guidance last week and now look for revenues and earnings some 20%—30% north of prior levels (old: on par with 2017). Given the aforementioned deal and the fees due for a large property sale, we believe these targets are fully achievable.

**Beefing up the executive board** After Frederik Mehlitz stepped down from the management board in August, Thomas Olek was the sole member of the executive level. Mr Frank Schneider is now set to join the board as Chief Operating Office (COO) effective 1 December 2018. The move will certainly be welcomed by investors, particularly in the aftermath of the turbulent year. Mr Schneider and Mr Olek have worked together on past deals. His familiarity with publity and its boss should result in a stronger management team and network. He has an abundance of legal expertise in construction and property transactions that publity can leverage with its deal flow.

## FINANCIAL STRUCTURE & HISTORY

Figure 7: Operational KPI development



Source: First Berlin Equity Research; publity AG

Operational success starts with the number and quality of the asset management mandates. In 2017, the company added two new mandates bringing the total to 8. Presently, a core driver is an internal database that includes over 8,450 properties of which 335 are on the current watch list (table 6 overleaf).

Asset management services cover the key steps common to property management from letting and operating services, rent and vacancy optimisation, to modernisation and personnel management services. Remuneration for these services is in the form of finders' fees, management fees and exit commissions.

The company regularly updates the market regarding key portfolio events such as the acquisition or disposal of key assets under management as well as significant asset optimisation. For instance, the company recently announced the successful sale of four office properties with 89,000m<sup>2</sup> of lettable space and a total volume of €167m. publity will book a strong profit share for advising DEMIRE Deutsche Mittelstand Real Estate AG on the transaction.

### BREAKDOWN OF PROFIT AND LOSS STATEMENT

As noted earlier, shareholders were particularly vocal at the last AGM about publity's lack of transparency. Therefore, we will connect the financial dots on key revenue streams and line items to provide greater insight under the current financial hood.

In the past, the company had two primary revenue streams from asset management and NPL servicing, the latter of which is idling for the foreseeable future. The remuneration package for the asset management chiefly entails finder's fees, management fees and exit commissions. On the credit portfolio side, the company generally received a 22% of the profits realized through redemption of credit claims. Upside can also be realised from performance commissions, when the company is able to purchase properties below their market values and flip them for clients.



We note that the spike in the 2016 topline (+75% Y/Y) stemmed from strong revenues from the asset management side of some €15m, which included exit fees amounting of €9.5m for property sales on behalf of PREOS 1. publity also booked an exceptional gain of €8m from the sale of its own credit portfolios in conjunction with the winding down of NPL funds.

The sharp decline in 2017 revenues vs 2016 owed mainly to a winding down in NPL serving activities, which trimmed some €11.5m off the topline. The decline was also traced to a retreat in asset management and exit fees of ~€4.3m.

Direct costs encompass expenses associated with the servicing of credit portfolios and marketing expenses. The jump in 2017 direct costs was largely attributed to pay packets amounting to €3.1m to third parties for property sales generated by affiliates of the PREOS 1 JV.

'Other income' captures the modest rental income generated from tenants and other one-off results. The line item contained an exceptional item in 2015 traced to a sale-and-lease back deal, when publity sold the lone property on its balance sheet. We expect other income to be marginal going forward.

Staffing expenses include executive member pay packages and have been stable despite the increase in head count from 23 in 2015 to 28 in 2017. We look for this to remain stable going forward, due the scalability of the business.

Other operating expenses (OpEx) have risen steadily the past two years owing to costs associated with equity and bond issuances conducted in 2016 and 2017 as well as the increased rent expenses after the aforementioned sale-and-lease back deal.

publity also has a profit sharing agreement with publity Performance GmbH for administration of the funds. This is recognised under the 'income from profit transfer' line item and amounted to €1.2m in 2017 and €0.6m in H12018. We account for this under other income. publity also takes the gains stemming from the loans in conjunction with its JV co-investments (PREOS 1-3) into the P&L. The co-investments in PREOS 2 & 3 are fixed at 2% p.a., while the agreement with PREOS 1 is performance based. Income from these loans is recognised on the P&L under 'income from long-term loans' and amounted to €4m in 2017 with PREOS 1 accounting for some €3.1m, PREOS 2 for €0.6m and PREOS 3 for ~€0.3m.

## KEY BALANCE SHEET POSITIONS

**Table 3: Balance sheet highlights 2017 vs 2016**

in € '000	2017	2016	variance
Cash and liquid assets	7,961	7,105	12%
Total assets	110,009	101,805	8%
Total debt	50,000	30,000	67%
Net debt	42,039	22,895	84%
Shareholders' equity	57,677	64,531	-11%
Equity ratio	52.4%	63.4%	-

Source: First Berlin Equity Research; publity AG



**Current assets** Trade receivables encompass accounts receivable (2017: €26m), the short term portion of the co-investment JV loans (€0.9m), and receivables from debt portfolios (€13m) and totalled €39.9m last year and €39.7 in H1. Receivables from affiliated companies contain the short term portion of the loans to the affiliated companies, publity Investor GmbH and publity Performance GmbH, and amounted to €2.6m YE17 (H1/18: €2.8m). publity exited 2017 with cash and liquid assets of €8m and €14.4m at the six month mark. Cash on hand is made up of bank deposits.

**Fixed and financial assets** PP&E constitute only a minor portion of the balance sheet (<€0.5m), given the asset light business model. As we have written, publity participates as co-investor in three JVs. The stakes are structured as loans to the JVs and recognised on the balance sheet under 'long term loans to investees.' The line item totalled €52.7m at YE17 and €48.3m at the end of the six month period this year.

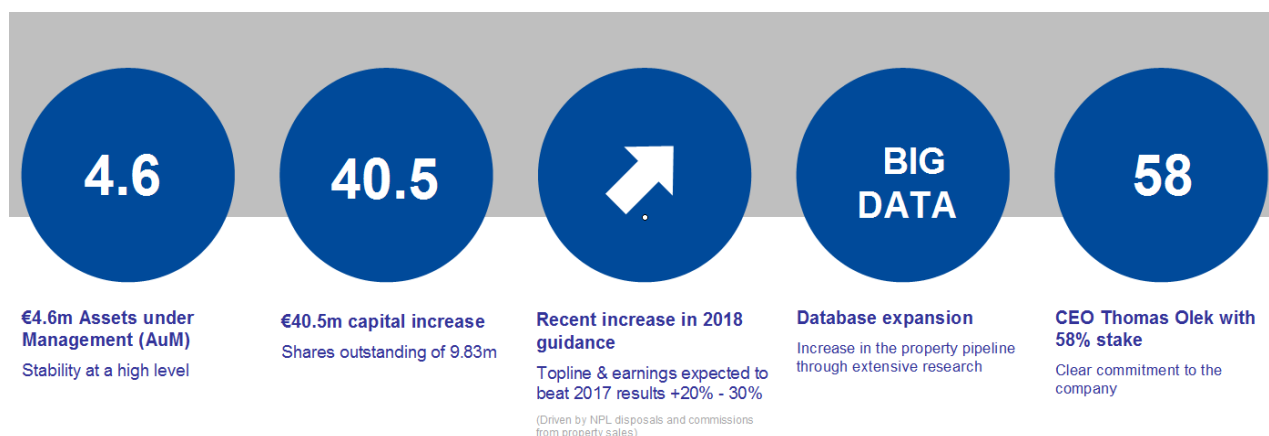
**Liabilities** The convertible note makes up the bulk of the liabilities and totalled €50m at the end of 2017. The note matures in 2020 and has a 3.5% coupon. Following this year's turmoil, publity bought out several disgruntled bond holders and we expect the outstanding notes to total some €40m - €45m at year end and be reduced through further buybacks next year, given the abundance of cash on the balance sheet and the expected strong results. publity carries no bank debt on the balance sheet, while trade payables traditionally run less around €1m p.a.

**Shareholders' equity** Share capital totalled €6.1m last year and will increase to €9.8m with the recent cap hike. Capital reserves will likewise rise to €71.5m on the capital raise compared to €33.9m at the end of 2017. Retained earnings totalled €17.8m YE17 and €22.1m at the end of H1 2018. The equity ratio was a healthy 53% at the six month juncture compared to 52.4% in 2017.

**Dividend policy on hold but likely to resume** In the past, publity doled out highly attractive dividends to shareholders. This peaked in 2017, when shareholders received €2.80 per share equal to 73% of earnings. This indeed sparked the trouble with bondholders as we outlined earlier in this note. publity will not payout a dividend on 2017 earnings and has yet to commit on a dividend policy going forward. However, it is highly unlikely the company will simply husband its surfeit of cash, given the prior dividend policy. We have thus assumed a payout on 2018 earnings and the following years.

## LATEST RESULTS AND OUTLOOK

Figure 8: Recent 2018 milestones



Source: First Berlin Equity Research; publity AG

### H1 2018 RESULTS

publity reports on a half year basis according to its Entry Standard transparency requirements. Six month reporting showed modest topline growth and lower earnings Y/Y. Revenue was chiefly driven by the disposal of an office portfolio with some 100,000 m<sup>2</sup> of lettable area to J.P. Morgan Asset Management and LGT Capital Partners. This portfolio comprised four office properties in Munich, Cologne and Düsseldorf. publity exited the reporting period with €4.6bn AuM having also added a new office complex in Krefeld and an office asset in Cologne.

Table 4: Six month results overview

in € '000	H1/18	H1/17	variance
Revenue	13,315	12,851	3.6%
Gross profit	13,418	12,815	4.7%
EBIT	7,286	8,094	-10.0%
Margin	55%	63%	-
EBT	6,641	8,096	-18.0%
Net income (NI)	4,437	5,512	-19.5%

Source: First Berlin Equity Research; publity AG

Other operating expenses (OpEx) rose to €5.7m in the first six months in conjunction with costs traced to settling receivables and extra expenses coupled to the asset management activities. Including €0.6m in income from the transfer agreement with publity Performance GmbH, EBIT totalled €7.3m for the period (H1/17: €8.1m). Interest expenses amounted to €1.1m for the period and net income fell 20% short of the prior year level at €4.4m.

Table 5: Six month balance sheet highlights

in € '000	H1/18	2017	variance
Cash and liquid assets	14,369	7,961	80%
Total assets	116,856	110,009	6%
Total debt	50,000	50,000	0%
Net debt	35,631	42,039	-15%
Shareholders' equity	62,090	57,677	8%
Equity ratio	53.1%	52.4%	-

Source: First Berlin Equity Research; publity AG

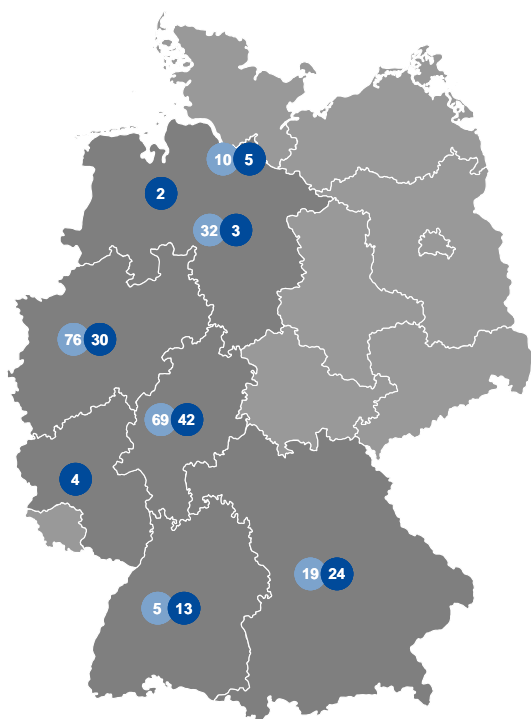
## EXPECT STRONG GROWTH IN H2/18 AND 2019

**publity upped its 2018 outlook last week** Guidance now calls for a 20%—30% annual rise in the topline and earnings following successful large deals, which included the disposal of an old NPL portfolio and a commercial property sale to stock market newcomer Godewind AG.

**Full pipeline and new mandates support growth assumptions** publity added two asset management mandates to its client base in H1 with an aggregate volume of €500m. Mandates include a New York based investment company with 10 office properties (115k m<sup>2</sup>) in Germany with plans to expand to up to 25 assets. Another institutional investor recently handed over the management keys for 5 office complexes (100k m<sup>2</sup>) to publity. The additions support our management and finder fee growth assumptions.

**Table 6: Watch list overview and target map**

Medium volume targets		Large volume targets	
Number of properties	211	Number of properties	124
Market value	€4bn	Market value	€6.8bn
Purchase price	€3.5bn	Purchase price	€5.9bn
Lettable space	2.2bn m <sup>2</sup>	Lettable space	2.2bn m <sup>2</sup>
Occupancy rate	85.5%	Occupancy rate	92.0%
Rental income	€235m	Rental income	€366m
WALT	6.6 years	WALT	5.7 years
Price / m <sup>2</sup>	€1.56	Price / m <sup>2</sup>	€2.67
RI multiple	15x	RI multiple	16.2



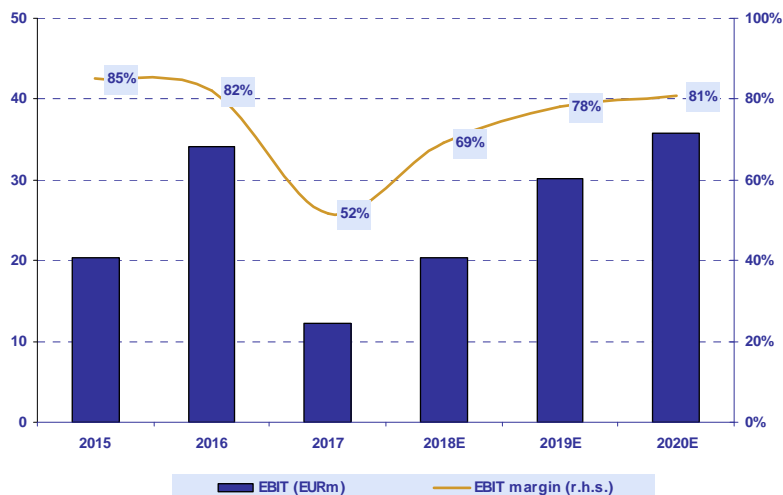
Source: First Berlin Equity Research; publity AG

A three year topline CAGR of 23% for the period 2018 – 2020 spurred by the €4.6bn AuM and the full watchlist (table 6) underpins our forecasts. We expect revenues to reach €29m in 2018, implying a 50% annualised rise in H2 coupled with the 4% growth in the first six months of 2018. We look for a strong pick up in the topline in 2019 spurred by the full impact of the new mandates won this year and target revenues of €39m (+31%).

**Operating expense (OpEx) assumptions** As we wrote above, direct costs are insignificant (<2% of sales). Operating expenses are chiefly driven by staff and other operating costs. publity employed an average staff, including board members of 28 in 2017 compared to 26 in the prior year. We expect only minor expansion, due to the scalable business model, but have assumed the addition of an addition board member. We calculate personnel expenses at 8.7% of revenues for 2018 with the ratio compressing to 6.0% in 2020 on the rise in revenue.

'Other operating expenses' contain the standard administration costs. The company will incur one-off expenses this year in conjunction with the database expansion as well as exceptional legal fees traced to the equity issuance. We believe the current infrastructure can support substantial growth over the coming years and look for the other OpEx ratio to drop to 13.0% of revenues in 2019 after peaking at 30% in 2017. Given these scenarios, we look for the EBIT margin to climb steadily over the near term and reach 81% in 2020 with EBIT topping €35m.

**Figure 9: EBIT and margin development**

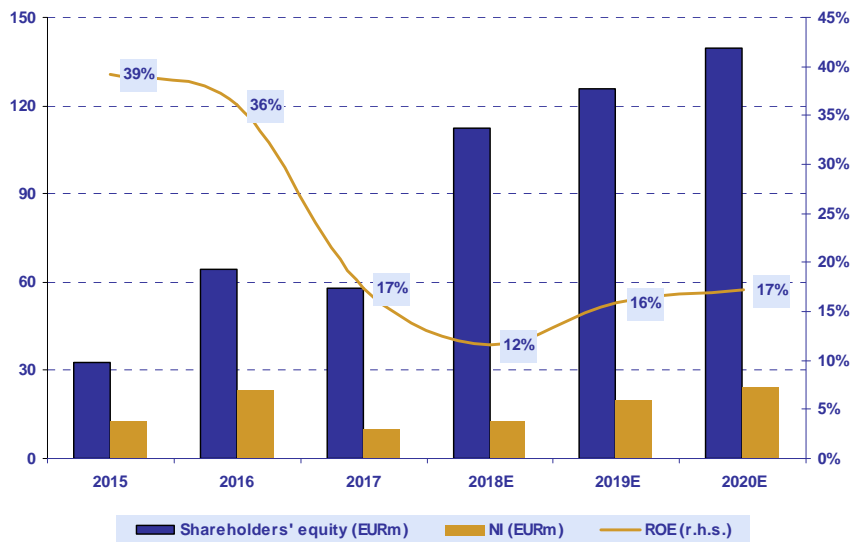


Source: First Berlin Equity Research, publity

**Operating profits sift amply to the bottom line** publity has an outstanding convertible bond on the balance sheet, which totalled €50m at YE 2017. Following the buyout of some bondholders, we expect this to be reduced €40m—€45m at the close of 2018. On our numbers, interest will run about €1.8m this year and move lower on the assumption that publity will payback another €10m of the bond next year. We have assumed the standard German corporate tax rate and look for the bottom line to reach €13m this year equal to an NI margin of 30%. We expect this to climb north of 50% by 2020 and drive a healthy rise in ROE.



Figure 10: Return on equity development

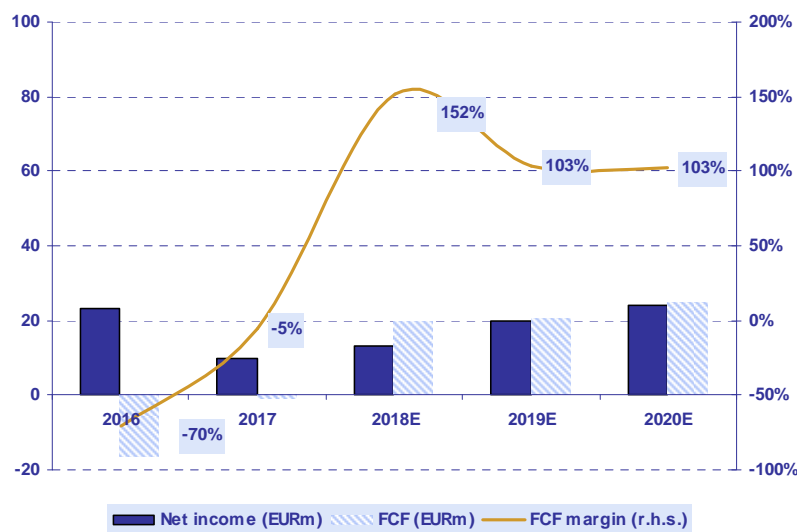


Source: First Berlin Equity Research, publity

**Working capital and investment assumptions** publity has low working capital consumption, due to the fee driven operations. Plus, the company also carries no inventory on its balance sheet. We expect receivables to convert quicker into cash going forward, given an accelerated payment schedule for the profit share from disposals.

CapEx intensity is likewise low and limited to the infrastructure requirements to support the operational staff. Otherwise, we do not foresee any major investments on the horizon. Given these low investment requirements and mild WC consumption, we expect a strong conversion of net income into free cash flows (FCF) over the next three years as depicted below. publity accounts for its JV stakes as 'loans made to affiliates' under long term assets and the short term loans under 'receivables from affiliates.' These line items resulted in a large cash outflows in 2016 accounting for the negative free cash flow.

Figure 11: Cash flow conversion



Source: First Berlin Equity Research, publity





**Re-loaded balance sheet flush with cash** We assume €30m of the convertible bond will remain on the balance sheet until it matures in November 2020, although the company might opt to fully retire the notes depending on operational developments. Following the recent capital raise, publity has a surfeit of cash—€57m YE18 pro-forma. We have not accounted for any future equity increases in our model, given the full coffers and the high conversion of net income into free cash flow.



## CRE & MACRO ENVIRONMENT

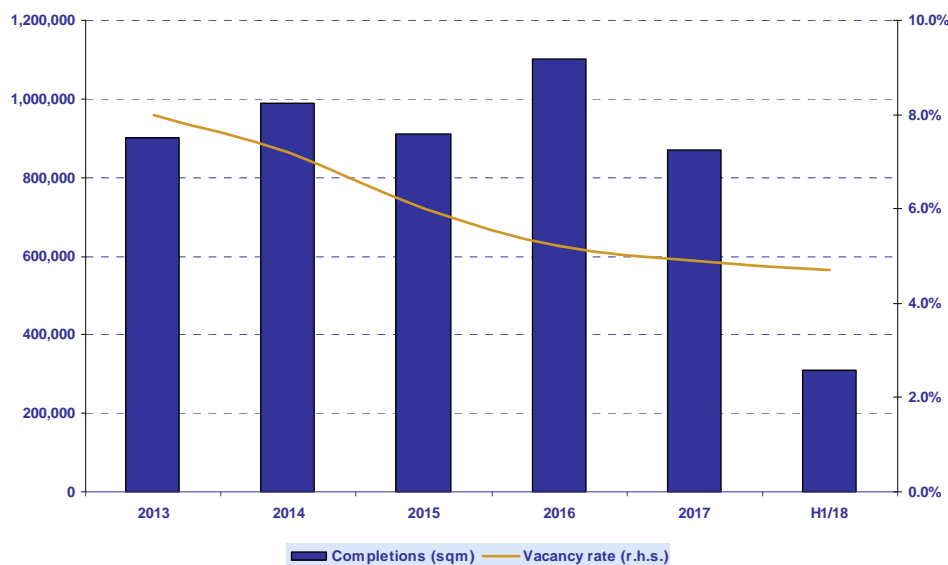
**Commercial segment is strong and earlier in the cycle than residential** Property stocks took a hit in early February in the wake of investor concerns over interest rates. As we wrote in the course our sector coverage, the correction was unwarranted, particularly in the commercial space. Property stocks began to recover a few weeks later as fear based sentiment improved. And several German property bellwethers such as Aroundtown, Grandcity Properties and TLG Immobilien marked all-time highs this summer.

In our view, German CRE continues to harbour better growth potential than residential RE where yields have been compressing for years. We regard the commercial sector as lagging the late cycle residential space—a view supported by higher yields offered by the former. Good market fundamentals also give us confidence in the sustainability of the current cycle and growth potential into 2019. The main considerations supporting our view are: (1) good growth potential compared to residential where yields are far less attractive; (2) persistent high demand for prime space fuelled by a robust job market and yield hungry investors; (3) limited alternative asset classes with comparable yields and income potential; (4) real estate yields that remain highly attractive over bond yields even after the recent moves; and (5) healthy balance sheets among the landlords with LTVs at comfortable levels meaning less funding risk in the system. Taking account of these factors, we see nothing from today's perspective that is a harbinger of a major correction.

**Going long on office space** Publity's business activities are primarily driven by the German office market, which has been booming. Looking ahead, the office sector should continue to see strong letting momentum as it continues to benefit from the strong economic environment.

Office uptake is at the high levels from 2017 led by Munich and Berlin. JLL (Jones Lang Lasalle) noted in its H1 market update that the vacancy rate for the Big 7 has fallen by a further 20 basis points to 4.3% within the last three months. "If this pace is maintained, all vacancies in the Big 7 would disappear in around five years' time." The theoretical point underscores the acute shortage of quality space throughout Germany's metropolises.

**Figure 12: Office completions and vacancy developments**



Source: Jones Lang Lasalle SE



**New build unable to fill the gap in the near term** In the first six months, only 329k m<sup>2</sup> of new office space came online across the Big 7 with another 674k m<sup>2</sup> set for completion in H2. Even more sobering is the fact that only 141k m<sup>2</sup> of this new space is still available with the bulk already pre-let.

## FRANKFURT AND MUNICH—TWO OF PUBLITY'S MOST IMPORTANT HUBS

**Munich snapshot** The Bavarian capital is benefiting from a growing population and the lowest unemployment rate in Germany. The city's occupier market has been highly competitive of late owing to a paucity of office space spurring occupiers approaching the end of their lease agreements to extend leases at a higher market rent or otherwise risk losing out to competitors.

Uptake in the Munich office market topped 470,000 m<sup>2</sup> in the H1/18 and marked a ten year high. Asking rents continued to rise and stood at €19.40 / m<sup>2</sup>. Market watchers expect Munich's office market to reach full occupancy in 2020 if the current trajectory persists.

The city's office market has not been exposed to the degree of yield compression witnessed in Germany's other metropolises in recent years. But this is mostly a factor of already low yields. Still Munich ranks atop Germany's most expensive markets and yields for prime office space have dipped to 3.0%.

**Frankfurt snapshot** Germany's banking capital is likewise prospering, thanks to strong trends in flexible workspace and the return of the banking and finance sectors to the forefront of occupier activity last year, although Commerzbank and Deutsche Bank are currently shedding staff. Despite Brexit, Frankfurt has yet to see an increase in new leases signed by international banks. However, existing renters have been proactive in renegotiating lease terms. With vacancy rates continuing their descent, occupiers want to secure ample space for business expansions in the event of a strong Brexit effect.

Following the financial crisis, Frankfurt's vacancy rate peaked at 15.0% in 2010 but has been declining ever since and is now approaching 8.0%. Consolidation in the financial services sector and the increasing trend toward redevelopment and reconversions has also contributed to declining availability. Uptake in Frankfurt climbed some 9% Y/Y in Q2, while prime rent in the city's banking district hit €38.50 / m<sup>2</sup>. Yields for prime space have dipped 75 basis points the past year and hit a record low of 3.25%.

## THE TAILGATING ECONOMY

For equity investors, a faltering economy is the juggernaut looming in the rear view mirror of a bull market that is losing steam. At home, German GDP fell in the third quarter marking the first contraction since 2015. The 0.2% Q3 decline now makes Germany's 1.8% annualised growth forecast untenable, while concerns are rising that the long expansion period might be coming to an end just as the European Central Bank plans to dial back its stimulus package. And with interest rates set to rise, market nerves are on edge and stock prices are under pressure.

Although it is too early to predict the full impact of a prolonged economic slowdown, we expect property players with the lowest balance sheet risk (low cost, long term debt) to best weather the downturn. From that standpoint, publity's manageable debt load and strong equity ratio should help the company adapt to a downturn in the property market.



## EXECUTIVE BOARD

### **Thomas Olek (CEO)**

Thomas Olek has been the majority shareholder since April 2003. He was appointed CEO in October 2003 and has spearheaded the company's operations in the German real estate market since 2004. His contract was recently extended until October 2023, and he currently is the sole C-level member. Mr Olek has been a member of the International Bankers Forum (IBF) since October 2010. Between March 2010 and May 2013, he sat on the committee of the "Bundesvereinigung Kreditankauf und Servicing" or BKS (Federal Association of Loan Purchase and Servicing) und was also a member of the "Deutsche Kreditmarkt-Standards" (DKS). From 1998 to 2002, Mr Olek served as advisor to the board members of the Landesbank of Saxony.

### **Frank Schneider (COO)**

Frank Schneider was recently appointed to the executive board. His background is in construction and procurement law, and Mr Schneider was previously a partner at CMS Hasche Sigle, the largest commercial law firm in Germany with over 600 lawyers, tax advisers and notaries public. Prior to that, he was corporate counsel for the HOCHTIEF construction group and brings a wealth of legal expertise in real estate transactions to the publity C-level.

## SUPERVISORY BOARD

### **Board Chairman**

Günther Paul Löw is an attorney and has chaired the publity Supervisory Board since May 2014. He has over 25 years of transaction and investment expertise in the small- and mid-cap segments of the Frankfurt banking metropolis. He also was the legal advisor at Rothenberger Unternehmensgruppe, head of investment management at Gold-Zack AG as well as founder and board member of the publicly listed Impera Total Return AG.

### **Board Member**

Nobert Kisterman has been a publity board member since December 2014 and brings over 25 years experience in the banking sector. Previously, he held several managing positions including board member of corporate banking for Dresdner Bank's Bavarian region, and division head at BHF Bank. He has also been responsible for business development at Opto Data in Essen since April 2014 including strategic, M&A, and private equity development.

### **Board Member**

Hans-Jürgen Klumpp worked for twelve years at Landesbank Sachsen, Leipzig - initially as a full member of the executive board and then as speaker and Deputy Chairman of the executive board. He also previously held executive positions at Stadtparkasse Köln for ten years and was a board member of Sparkasse Bielefeld. Among other things, Mr Klumpp was likewise a member of the supervisory board of DekaBank GmbH, deputy chairman of the supervisory board of SüdKA GmbH, and a chairman of the supervisory board of setis-bank AG.



## SHAREHOLDERS & STOCK INFORMATION

Stock Information	
ISIN	DE0006972508
WKN	697250
Bloomberg ticker	PBY:GR
No. of issued shares	9,831,250
Transparency Standard	Scale
Country	Germany
Sector	Finance
Subsector	Real Estate

Source: Börse Frankfurt, First Berlin Equity Research

Shareholder Structure	
Thomas Olek	58.0%
Free Float	42.0%

Source: publity AG



## INCOME STATEMENT

All figures in EUR '000	2015	2016	2017	2018E	2019E	2020E
<b>Revenues</b>	<b>23,826</b>	<b>41,577</b>	<b>23,571</b>	<b>29,395</b>	<b>38,490</b>	<b>44,264</b>
Other income	3,032	272	87	409	300	300
<b>Total output</b>	<b>26,858</b>	<b>41,849</b>	<b>23,658</b>	<b>29,804</b>	<b>38,790</b>	<b>44,564</b>
Cost of goods sold	-567	-160	-3,314	-397	-1,925	-2,213
<b>Gross profit</b>	<b>26,291</b>	<b>41,689</b>	<b>20,344</b>	<b>29,407</b>	<b>36,866</b>	<b>42,350</b>
Personnel expenses	-2,052	-2,066	-1,974	-2,545	-2,694	-2,656
Other OpEx	-4,447	-6,746	-7,160	-7,478	-5,098	-4,610
Other operating income	811	1,388	1,160	1,067	1,155	885
<b>EBITDA</b>	<b>20,603</b>	<b>34,265</b>	<b>12,370</b>	<b>20,451</b>	<b>30,228</b>	<b>35,970</b>
Depreciation & amortisation	-294	-185	-189	-118	-119	-137
<b>Operating income (EBIT)</b>	<b>20,309</b>	<b>34,080</b>	<b>12,181</b>	<b>20,334</b>	<b>30,108</b>	<b>35,832</b>
Net financial result	-286	-1,280	-1,660	-1,772	-1,225	-919
Income from long-term loans	0	1,440	3,965	815	800	800
<b>Pre-tax income (EBT)</b>	<b>20,023</b>	<b>34,240</b>	<b>14,486</b>	<b>19,377</b>	<b>29,683</b>	<b>35,714</b>
Income taxes	-7,224	-10,915	-4,490	-6,347	-9,647	-11,607
<b>Net income / loss</b>	<b>12,799</b>	<b>23,325</b>	<b>9,996</b>	<b>13,030</b>	<b>20,036</b>	<b>24,107</b>
<b>Diluted EPS (in €)</b>	<b>2.27</b>	<b>3.86</b>	<b>1.65</b>	<b>2.15</b>	<b>3.31</b>	<b>3.98</b>
<b>Ratios</b>						
Gross margin on revenues	97.6%	99.6%	85.9%	98.6%	95.0%	95.0%
EBITDA margin on revenues	86.5%	82.4%	52.5%	69.6%	78.5%	81.3%
EBIT margin on revenues	85.2%	82.0%	51.7%	69.2%	78.2%	81.0%
Net margin on revenues	53.7%	56.1%	42.4%	44.3%	52.1%	54.5%
Tax rate	36.1%	31.9%	-31.0%	-32.8%	32.5%	32.5%
<b>Expenses as % of revenues</b>						
Personnel expenses	8.6%	5.0%	8.4%	8.7%	7.0%	6.0%
Other OpEx	18.7%	16.2%	30.4%	25.4%	13.2%	10.4%
Depreciation & amortisation	1.2%	0.4%	0.8%	0.4%	0.3%	0.3%
<b>Y-Y Growth</b>						
Revenues	n.a.	74.5%	-43.3%	24.7%	30.9%	15.0%
Operating income	n.a.	67.8%	-64.3%	66.9%	48.1%	19.0%
Net income/ loss	n.a.	82.2%	-57.1%	30.3%	53.8%	20.3%



## BALANCE SHEET

All figures in EUR '000	2015	2016	2017	2018E	2019E	2020E
<b>Assets</b>						
<b>Current assets, total</b>	<b>31,338</b>	<b>43,754</b>	<b>53,489</b>	<b>101,914</b>	<b>105,668</b>	<b>119,867</b>
Cash and equivalents	17,348	7,106	7,967	57,357	60,318	74,196
Trade receivables	6,032	33,408	39,874	38,656	39,043	39,433
Receivables from affiliates	965	2,892	2,627	2,819	3,164	3,032
Other ST assets	6,993	348	3,021	3,081	3,143	3,206
<b>Non-current assets, total</b>	<b>39,930</b>	<b>58,052</b>	<b>56,525</b>	<b>52,084</b>	<b>52,086</b>	<b>52,088</b>
Property, plant & equipment	443	349	403	462	464	466
Goodwill & other intangibles	23	9	1	1	1	1
Financial assets	1,483	3,044	3,024	3,024	3,024	3,024
Long-term loans to investees	37,279	54,107	52,676	48,176	48,176	48,176
Other non-current assets	702	543	421	421	421	421
<b>Total assets</b>	<b>71,268</b>	<b>101,806</b>	<b>110,014</b>	<b>153,998</b>	<b>157,753</b>	<b>171,955</b>
<b>Shareholders' equity &amp; debt</b>						
<b>Liabilities, total</b>	<b>33,436</b>	<b>32,577</b>	<b>52,068</b>	<b>41,590</b>	<b>31,810</b>	<b>31,908</b>
Trade payables	289	1,268	823	326	527	606
Convertible note	30,000	30,000	50,000	40,000	30,000	30,000
Financial debt	1,400	0	0	0	0	0
Liabilities to affiliates	13	153	575	584	592	601
Other current liabilities	1,734	1,156	670	680	690	701
<b>Provisions, total</b>	<b>6,580</b>	<b>4,699</b>	<b>264</b>	<b>277</b>	<b>291</b>	<b>306</b>
LT provisions	241	195	264	277	291	306
Deferred tax liabilities	4,939	4,504	0	0	0	0
<b>Shareholders' equity</b>	<b>32,652</b>	<b>64,530</b>	<b>57,682</b>	<b>112,130</b>	<b>125,652</b>	<b>139,741</b>
<b>Total consolidated equity and debt</b>	<b>72,668</b>	<b>101,806</b>	<b>110,014</b>	<b>153,998</b>	<b>157,753</b>	<b>171,955</b>
<b>Ratios</b>						
Current ratio (x)	0.9	1.3	1.0	2.5	3.3	3.8
Net debt	14,052	22,894	42,033	-17,357	-30,318	-44,196
Net gearing	43%	35%	73%	-15%	-24%	-32%
Equity ratio	46%	63%	52%	73%	80%	81%
Return on equity (ROE)	39.2%	36.1%	17.3%	11.6%	15.9%	17.3%
Capital employed (CE)	7,174	35,390	42,082	41,612	42,144	42,326
Return on capital employed (ROCE)	283%	96%	29%	49%	71%	85%



## CASH FLOW STATEMENT

All figures in EUR '000	2015	2016	2017	2018E	2019E	2020E
<b>Pre-tax income</b>	<b>12,799</b>	<b>34,240</b>	<b>14,486</b>	<b>19,377</b>	<b>29,683</b>	<b>35,714</b>
Depreciation and amortisation	294	185	189	118	119	137
Change in trade rec & other assets	42,759	-22,499	-8,752	965	-793	-321
Change in payable & other liabilities	26,900	60	-4,944	-465	234	113
Net interest expense	0	1,280	1,660	1,772	1,225	919
<b>Operating cash flow</b>	<b>82,752</b>	<b>13,266</b>	<b>2,639</b>	<b>21,767</b>	<b>30,468</b>	<b>36,561</b>
Tax expense	-300	-11,162	-4,394	-6,348	-9,647	-11,607
<b>Net operating cash flow</b>	<b>82,452</b>	<b>2,104</b>	<b>-1,755</b>	<b>15,419</b>	<b>20,821</b>	<b>24,954</b>
CapEx	-28	-77	-235	-176	-121	-139
Change in financial assets	0	-18,389	1,451	4,500	0	0
<b>Cash flow from investing</b>	<b>-28</b>	<b>-18,466</b>	<b>1,216</b>	<b>4,324</b>	<b>-121</b>	<b>-139</b>
<b>Free cash flow (FCF)</b>	<b>82,424</b>	<b>-16,362</b>	<b>-539</b>	<b>19,743</b>	<b>20,700</b>	<b>24,815</b>
Equity inflow, net	14,000	19,800	0	41,420	0	0
Debt inflow, net	30,000	-1,400	20,000	-10,000	-10,000	0
Dividends paid	0	-11,000	-16,940	0	-6,514	-10,018
Net interest paid	0	-1,280	-1,660	-1,772	-1,225	-919
<b>Cash flow from financing</b>	<b>44,000</b>	<b>6,120</b>	<b>1,400</b>	<b>29,648</b>	<b>-17,739</b>	<b>-10,937</b>
<b>Net cash flows</b>	<b>126,424</b>	<b>-10,242</b>	<b>861</b>	<b>49,390</b>	<b>2,961</b>	<b>13,878</b>
Cash, start of the year	2,663	17,348	7,106	7,967	57,357	60,318
<b>Cash, end of the year</b>	<b>129,087</b>	<b>7,106</b>	<b>7,967</b>	<b>57,357</b>	<b>60,318</b>	<b>74,196</b>
<b>EBITDA/share (in €)</b>	<b>0.00</b>	<b>5.66</b>	<b>2.04</b>	<b>2.08</b>	<b>3.07</b>	<b>3.66</b>
<b>Y-Y Growth</b>						
Operating cash flow	n.a.	-97.4%	n.m.	n.m.	35.0%	19.8%
Free cash flow	n.a.	n.m.	n.m.	n.m.	4.8%	19.9%
EBITDA/share	n.a.	n.m.	-63.9%	1.7%	47.8%	19.0%



## FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	23 November 2018	€ 21.35	Buy	€ 29.00

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