



Additional Thoughts on Aareal and Aareon

February 2021

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I

Executive Summary

Executive Summary (1/2)

- On 17 January 2021, Aareal Bank AG (“**Aareal**”) published cornerstones of the results of a strategy review undertaken with the help of McKinsey:
 - Consolidated operating result of €300m by 2023 assuming no changes to interest rates
 - 8% post-tax RoE by 2023 assuming 15% CET1 (Basel 4, phase-in, revised IRBA ratio)
 - 40% cost-income-ratio (CIR) in the Structured Property Financing segment (SPF) by 2023; supported by efficiency measures covering organizational matters, processes and infrastructure
 - Expansion of the SPF real estate financing volume to €30bn by 2023
 - Optimization of the capital structure: Aareal is planning to refinance the AT1 / Tier 2 components by 2023
 - Allocation of capital: Beyond a dividend of up to €90m in 2021, significant amounts of capital are to be distributed to shareholders in order to achieve the 15% CET 1 and 8% RoE targets
 - Consulting / Services segment: growth of commissions and fees planned in the payment processing area
 - Completion of Aareon unbundling combined with focus on profitable growth of Aareon
- Petrus Advisers believe the current plan falls substantially short of our demands and demand that Aareal rework the plan by 24 February 2021
 - **Cost Savings:** Targeted CIR for SPF short of potential (e.g. 3-4% above pbb’s 2019 I-f-I CIR). A review of Aareal’s German personnel costs points to highly inflated remuneration levels for managers both on the board level and below. Estimated €20-30m of savings appear possible from aligning compensation levels with industry benchmarks. Additional efficiency measures to come on top
 - **Asset-light Income / Reduction of Capital:** Aareal’s plan relies on growth of its asset-intensive SPF lending business combined with an apparently significant reduction of capital by €600-700m to achieve an 8% RoE. We believe this increases the dependency on external factors (interest rates, regulation). Instead, management needs to create more asset-light revenue streams
 - **Fee/Commission Income Growth Only in Payment Processing:** Aareal seems not to plan growth of RWA-efficient income streams in SPF
 - **Pensions & HQ:** Aareal has not provided any update on hiving off the pension provisions (we estimate ~€30-50m value creation potential) nor downsizing and monetizing its headquarters

Executive Summary (2/2)

- Additionally and following progress at Aareon, we demand the spin-off of Aareal's 70% stake in Aareon to shareholders by Q4 2021
 - Upon Petrus Advisers' 2019 spin-off demand, Aareal management argued the subsidiary was not ready for independency yet
 - Recent progress seems material given the doubling of Aareon EBITDA goal has been brought forward from 2025
 - More importantly, the recent RealPage acquisition by private equity (Thoma Bravo) for \$10.2bn and ~9x EV / Sales has demonstrated again that the value of Aareon will not be realised as long as Aareon remains part of a regulated bank

- Transparency on future leadership
 - Hermann Merkens has been on medical leave since 8 November 2020 for 3-4 months
 - Shareholders have not been given any information since then
 - We demand that the Supervisory Board work out leadership options with a priority for an external candidate who will be able to re-position the bank for profitable growth and successfully spin-off Aareal



Preliminary Assessment of Aareal / McKinsey 360 Review of Aareal Next Level

Petrus Advisers Demands vs. Aareal Responses (1/2)

Aareal has taken a step in the right direction, but the bar has been set too low

	Petrus Advisers Demand	Aareal Response	Petrus Advisers Current Assessment
1 Cost	<ul style="list-style-type: none"> ● Reduce the cost base, particularly personnel cost, targeting c. €30-50m in cost savings at SPF and Payment Processing ● CIR in line with pbb, implying a c. 7-8% reduction 	<ul style="list-style-type: none"> ● SPF CIR at 40%; Payment Processing at c. 100% ● Implied efficiency gains of maximum €15-20m over 3 years ● Implied estimated CIR reduction by only 4% at SPF 	<ul style="list-style-type: none"> ● Less than half of our Demanded savings targeted ● 2023 CIR ratio still 3-4% above pbb's 2019 level (like-for-like) ● Management apparently not willing to tackle bloated remuneration structures
2 Optimise Capital Structure	<ul style="list-style-type: none"> ● pbb comparison suggests 3-4% CET1 over-capitalisation, equivalent to c. €350-450m ● Removing this gap will deliver RoE increase 	<ul style="list-style-type: none"> ● €90m dividend pay-out in 2021 ● Additional optimisation of funding mix and capital structure to further enhance profitability ● We estimate €600m-700m of planned capital distribution by 2023 	<ul style="list-style-type: none"> ● Planned capital reduction seems significant
3 Commissions / Fees	<ul style="list-style-type: none"> ● RWA-light commission / fee income crucial to sustain profitability of Aareal Bank ● Relevant for both SPF and Payment Processing 	<ul style="list-style-type: none"> ● Projected expansion and further partnering planned in Payment Processing ● Apparently no commission fee growth potential in SPF 	<ul style="list-style-type: none"> ● SPF needs to target much higher RWA-light income growth related to commercial real estate lending
4 New Business Areas	<ul style="list-style-type: none"> ● Leverage Aareal's core competences in financing of commercial real estate into new business areas 	<ul style="list-style-type: none"> ● No targets communicated 	<ul style="list-style-type: none"> ● Present a strategic plan for growth in new business areas
5 Pensions & Aareal's Headquarters in Wiesbaden	<ul style="list-style-type: none"> ● Aareal's pension obligations to be hived off, leading to €30-50m of shareholder value ● Move into a more appropriate, much more modest building in the wider Rhine-Main area – monetisation of the current building in Wiesbaden 	<ul style="list-style-type: none"> ● Assessment not yet completed 	<ul style="list-style-type: none"> ● Present the assessment by 24 February 2021

Petrus Advisers Demands vs. Aareal Responses (2/2)

	Petrus Advisers Demand	Aareal Response	Petrus Advisers Current Assessment
6 Aareon Progress / Spin-off	<ul style="list-style-type: none"> Detailed update on Aareon and tangible progress on value creation 	<ul style="list-style-type: none"> Value Creation Plan prepared Execution of the M&A roadmap with Arthur as the first transaction Doubling of EBITDA likely before 2025 	<ul style="list-style-type: none"> Aareon spin-off to shareholders by Q4 2021
7 Top Management Remuneration	<ul style="list-style-type: none"> No bonus for 2020 No catch-up prior to achievement of 8-10% post-tax RoE Independently led review of risk-taking behaviour – claw-backs where appropriate 	<ul style="list-style-type: none"> Not addressed 	<ul style="list-style-type: none"> Inflated remuneration also at management levels below board Claw-back-review to also cover compensation review and age structure of workforce €20-30m savings from aligning compensation levels to industry benchmarks alone
8 Size of Management Board	<ul style="list-style-type: none"> Management Board size to be reduced to 3-4 (from 6) 	<ul style="list-style-type: none"> Not addressed 	<ul style="list-style-type: none"> Reduction by 2-3 in H1 2021
9 Cost of Supervisory Board	<ul style="list-style-type: none"> Cost of Supervisory Board c. €1.5m plus perks not appropriate Size of Supervisory Board seems too large 	<ul style="list-style-type: none"> Not addressed 	<ul style="list-style-type: none"> Substantial reduction of Supervisory Board cost to be achieved in 2021

Focus Points of Aareal Plan – Illustrative Projections⁽¹⁾ (1/3)

Aareal to expand the loan book to €30bn, driving operating profit to c. €250m at Aareal Bank⁽²⁾

Aareal Bank⁽²⁾ – Financial Projections

<i>in EURm (Except Where Stated Otherwise)</i>	2019	2020E	2021E	2022E	2023E
Average Outstanding Loans 1	26,139	26,132	27,282	29,107	30,132
SPF Net Interest Income	549	496	508	582	603
Payments Processing NII ⁽³⁾	-15	30	30	30	30
Total Net Interest Income	534	526	538	612	633
<i>% Implied Net Income Margin (SPF)</i> 2	2.1%	1.9%	1.9%	2.0%	2.0%
Commissions, Other Rev. and Net Derecognitions	75	53	32	37	39
Total Revenues	624	579	570	649	672
- Administrative Expenses	(324)	(302)	(294)	(320)	(324)
<i>O/w: from SPF</i> 3	(255)	(231)	(222)	(247)	(249)
<i>O/w: from Payment / Deposit Processing Business</i> 4	(69)	(70)	(72)	(73)	(75)
- Loss Allowance 5	(90)	(317)	(155)	(105)	(91)
<i>% Avg. Outstanding Loans</i>	0.3%	1.2%	0.6%	0.4%	0.3%
Operating Profit	210	(40)	121	224	257
- Taxes 6	(73)	14	(41)	(66)	(87)
+ Capital Gain on Business Disposal		180			
- Minorities / AT1 7	(16)	(16)	(16)	(5)	--
Net Profit to Aareal Bank (Post Minorities / AT1)	121	138	64	143	170

Key Assumptions

- 1** Assumes ~€30bn of SPF financing volumes reached at the end of 2022
- 2** Assumes stable average net interest margin ~200bps
- 3** Projected SPF cost-income ratio of 40%, implying c. €15m cost efficiency vs. the 2019 level and c. €20m vs. the expected 2020 level by 2023E
- 4** Assumes ~2% cost inflation in the deposit processing business
- 5** Assumes improvement in non-performing loans, reaching a loan loss provision of 30bps of the loan book by 2023E
- 6** Assumes 34% tax rate
- 7** Assumes repayment of €300m AT1 in 2022

Notes: (1) Petrus Advisers illustrative projections based on Aareal's 17 January 2021 announcement; (2) Aareal Group excluding Aareon: means SPF plus Payment Processing; (3) Assumes all interest income/expense of Consulting/Service Bank segment relates to Payment Processing.

Source: Aareal communications, company filings, broker research, Petrus Advisers estimates

Focus Points of Aareal Plan – Illustrative Projections⁽¹⁾ (2/3)

Aareon was expected to double its EBITDA organically by 2025 – new guidance says likely sooner

Aareon – Financial Projections

(EURm)	2019	2020E	2021E	2022E	2023E	2024E	2025E
Revenues	252	264	290	311	334	359	385
Growth, % 1	6.5%	4.9%	9.8%	7.3%	7.3%	7.3%	7.4%
Operating Costs 2	(195)	(211)	(225)	(240)	(253)	(266)	(282)
- Cost of materials	(44)	(46)	(50)	(53)	(57)	(60)	(64)
- Staff costs ex. R&D	(93)	(97)	(106)	(113)	(120)	(128)	(137)
- R&D 3	(35)	(42)	(53)	(57)	(56)	(55)	(57)
Other own work capitalized 4	7	10	13	14	14	13	14
- Other opex 5	(29)	(26)	(29)	(31)	(33)	(36)	(38)
Exceptional	--	(10) 6	--	--	--	--	--
EBITDA 7	61	52	65	71	81	92	102
EBITDA margin, %	24.3%	19.8%	22.3%	22.7%	24.1%	25.6%	26.5%
EBIT	39	28	38	41	49	58	66
EBIT margin, %	15.4%	10.5%	13.0%	13.2%	14.6%	16.1%	17.1%
Consolidated Net Profit 8	26	18	25	28	33	39	45
Net Profit Margin, %	10.3%	7.0%	8.8%	8.9%	9.9%	11.0%	11.7%
Net Income (Attributable to Parent)	22	15	15	17	20	24	27

Key Assumptions

- Revenue growth within the guided 7-9% range
- Growth of cost of materials and staff cost at 90% of the respective year's revenue growth, due to operating leverage
- Increasing R&D as % of sales to ~25% in 2022, followed by gradual decline to ~20% in 2025
- ~24% capitalisation rate, in line with historic data
- ~10% growth p.a. in other opex
- Includes €10m exceptional costs related to the Covid-19 pandemic
- Assumes doubling of EBITDA by 2025, in line with the original company guidance
- After tax expense based on ~30% assumed tax rate

Notes: (1) Petrus Advisers illustrative projections based on Aareal's 17 January 2021 announcement.

Source: Aareal communications, Company filings, broker research, Petrus Advisers estimates

Focus Points of Aareal Plan – Illustrative Projections⁽¹⁾ (3/3)

Target of 8% RoE at the bank level appears ambitious and hard to reconcile with the current profitability target

Selected Financial Metrics

in EURm	2019	2020E	2021E	2022E	2023E
Cost Income Ratio					
CIR SPF ⁽²⁾ 1	44.3%	43.1%	42.2%	40.9%	40.0%
CIR SPF + C/S	51.9%	52.2%	51.6%	49.3%	48.2%
pbb ⁽³⁾	44.7%				5
Selected Consolidated items					
Group Operating Profit 2	247	(14)	157	264	304
Group Net income (to Parent)	144	153	79	159	190
Dividend	--	90	90	155	185
Dividend Pay-out ratio		59%	114%	97%	98%
AT1 Repayment		--	--	300	--
Cumulative cash distributions to shareholders		90	180	335	520
					6
RWA & CET1					
RWA B3 3	11,195	11,411	12,190	12,990	13,077
RWA B4 phase-in	--	12,620	13,481	14,366	15,403
CET 1 B3	19.3%	20.9%			
CET 1 B4 phase-in 4		18.9%	17.5%	16.3%	15.1%
					6
ROE					
Average Book Equity Bank excl. AT1	2,419	2,400	2,411	2,391	2,378
After-tax ROE Bank	5.0%	-1.7%	2.6%	6.0%	7.1%
Average Book Equity Group	2,595	2,592	2,618	2,615	2,619
After-tax ROE Group	5.5%	5.9%	3.0%	6.1%	7.2%
					6

Key Assumptions

- 1 SPF business reaching the disclosed ~40% CIR target in 2023
- 2 Consolidated operating profit €300m target achieved in 2023E
- 3 RWAs under B3 and B4 expected to grow in line with the expansion of financing volumes
- 4 Phase-in RWAs B4 obtained by assuming ~2% lower CET1 ratio vs. under B3
- 5 2023 profitability level still 3-4% below pbb's 2019 level (like-for-like)
- 6 To achieve 8% RoE, Aareal would need to distribute €600-700m of capital

Notes: (1) Petrus Advisers illustrative projections based on Aareal's 17 January 2021 announcement; (2) 2019 CIR adjusted for 2020 change in transfer pricing between Payment Processing and SPF; (3) pbb's disclosed CIR of 43.5% adjusted for bank levy and write down of non-financial assets.

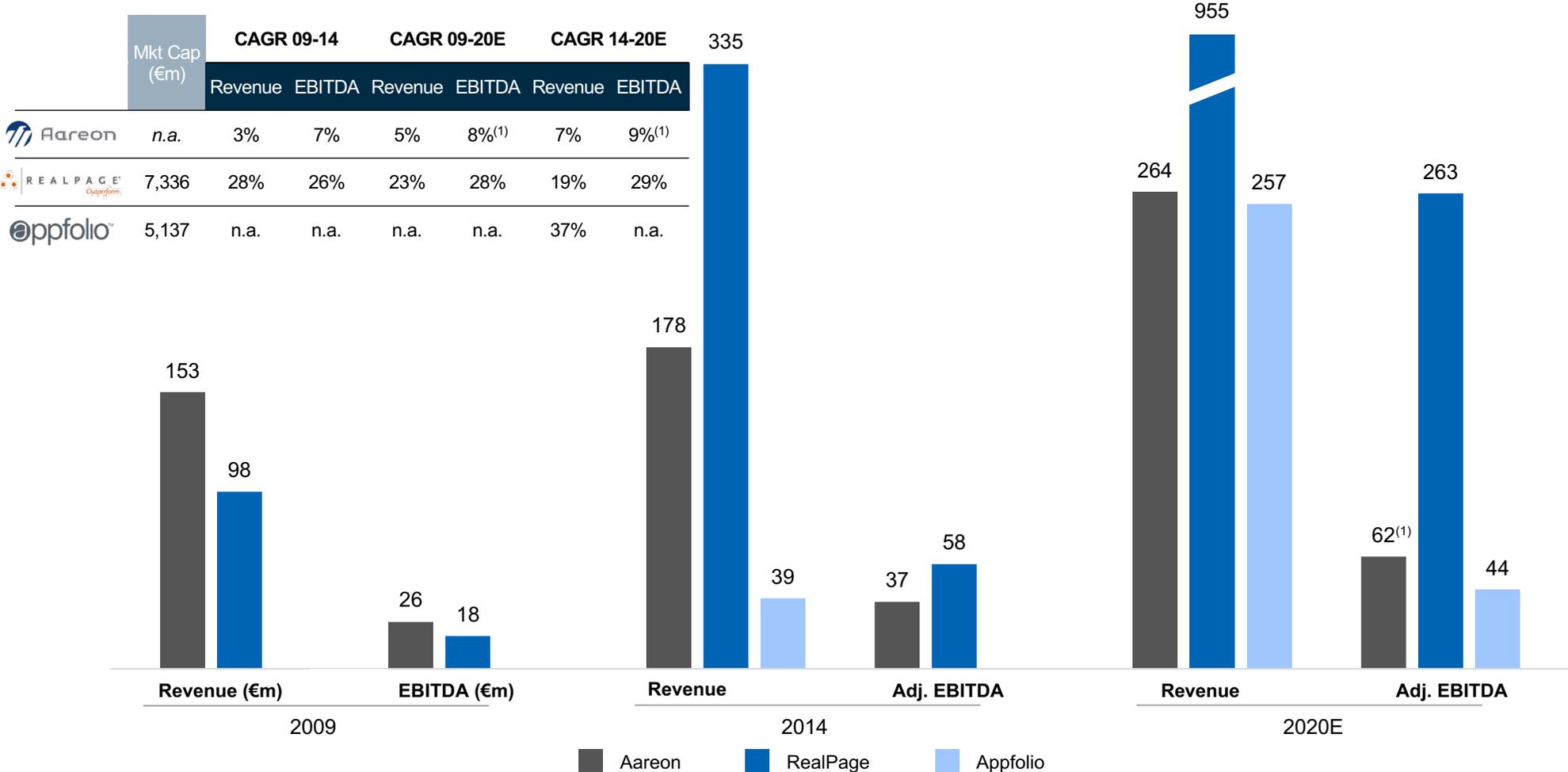
Source: Company filings, broker research, Petrus Advisers estimates



Aareon Spin-off to Shareholders

Aareon's Potential Has Historically Not Been Exploited

- Aareon's management has not been capable of capturing Aareon's growth opportunity – US peers have dramatically outgrown Aareon over the past decade
- The currently targeted doubling of EBITDA by 2025 seems very unambitious



Notes: All amounts in m. EUR; (1) EBITDA estimate for 2020E, adjusted for €10m one-off charge related to Covid-19.

Source: FactSet (as of 9-Feb-2021, in EUR), company filings, broker research, Petrus Advisers estimates

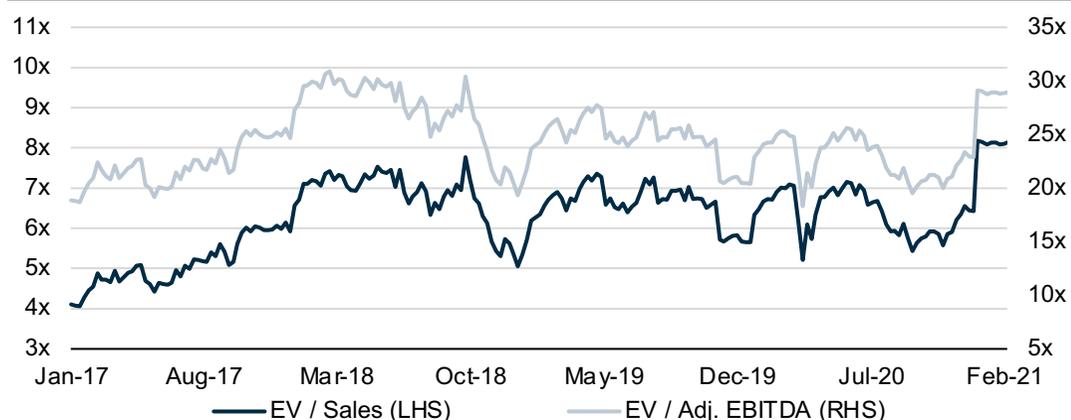
The Acquisition of RealPage by Thoma Bravo Points to Massive Value Upside at Aareon

A valuation of Aareon close to the multiples paid by Thoma Bravo for RealPage would result in an Enterprise Value of ~€1.4-2.3bn for Aareon

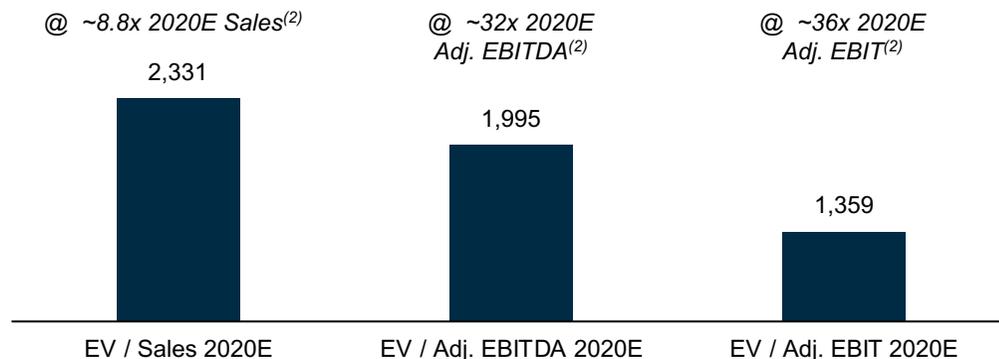
RealPage Share Price Evolution Since 2017 (\$)



RealPage Historical EV / Sales & EV / Adj. EBITDA (LTM)



Implied Aareon EV @ Thoma Bravo / RealPage Multiples (2020E, €m)



Notes: (1) EBITDA and EBIT adjusted for: change in fair value of equity investment, acquisition-related expense, organizational realignment, regulatory and legal matters, stock-based expense; (2) As per Factset consensus as of 09-Feb-2021.

Source: Factset (as of 09-Feb-2021), company filings, press, broker research

All Relevant Valuation Metrics / Approaches Confirm Vast Upside

A going concern valuation of Aareon in the €1.3bn-1.7bn Enterprise Value range seems realistic



Trading Peers: AppFolio, CoStar Group, Black Knight, CompuGroup Medical, Nemetschek, AVEVA Group, Intuit, Autodesk, ANSYS, SS&C Technologies Holdings, Cornerstone OnDemand, Alarm com Holdings, Oracle.

Note: EV / Sales valuation ranges based on + / - 0.75x to base multiple; EV / EBITDA valuation ranges based on + / - 2.0x to base multiple.

(1) Post minority sale, attributable to Aareal shareholders assuming EUR 80m Net Debt; (2) Based on ~32x EBITDA 2020E; (3) Based on ~8.8x sales 2020E; (4) Conservatively based on ~30% discount to M&A multiples; (5)

Based on average of EV / Sales and EV / Adj. EBITDA multiples.

Aareon's Value Is Not Reflected in Aareal's SOTP Valuation

- Aareal Bank is significantly undervalued assuming a fair valuation of Aareon
- We believe a spin-off of Aareon to shareholders will reduce/eliminate the valuation gap
- Progress of Aareon's growth plan will further drive value to shareholders

Implied Valuation of Aareal Bank⁽¹⁾

	Aareon Valuation			
	Advent Valuation ⁽²⁾	Implied RealPage EV/Sales ⁽⁴⁾	Implied RealPage EV/EBITDA ⁽⁴⁾	Implied Football Field Mid-Point
<i>(EURm)</i>				
Aareon Equity Value (100%) ⁽⁵⁾	860	2,251	1,916	1,460
Implied Aareon Equity Value p.s. (Pro-rata, EUR)	10.1	26.3	22.4	17.1
x Sales 2020E	3.6x	8.8x	7.6x	5.8x
x EBITDA 2020E	15.1x	37.4x	32.0x	24.7x
Implied Aareal Bank Equity Value⁽³⁾	513	-461	-227	92
Implied Aareal Bank Equity Value p.s. (EUR)	8.56	-7.71	-3.79	1.54

Implied Aareal Bank Multiples

	Advent Valuation ⁽²⁾	Implied RealPage EV/Sales ⁽⁴⁾	Implied RealPage EV/EBITDA ⁽⁴⁾	Implied Football Field Mid-Point
P/E 2021E	8.1x	-7.2x	-3.6x	1.5x
P/E 2022E	3.6x	-3.2x	-1.6x	0.6x
P/B (Dec-2020E)	0.21x	-0.19x	-0.09x	0.04x

Implied Share Price

Implied Aareal Share Price (EUR)

		Aareon Valuation			
		Advent Valuation ⁽²⁾	Implied RealPage EV/Sales ⁽⁴⁾	Implied RealPage EV/EBITDA ⁽⁴⁾	Implied Football Field Mid-Point
Aareal Bank P/B	0.00x	10.1	26.3	22.4	17.1
	0.25x	20.2	36.5	32.5	27.2
	0.50x	30.3	46.6	42.7	37.3
	0.75x	40.4	56.7	52.8	47.5
	1.00x	50.6	66.8	62.9	57.6

Implied % Upside / (Downside) vs. Spot

		Aareon Valuation			
		Advent Valuation ⁽²⁾	Implied RealPage EV/Sales ⁽⁴⁾	Implied RealPage EV/EBITDA ⁽⁴⁾	Implied Football Field Mid-Point
Aareal Bank P/B	0.00x	-46%	41%	20%	-8%
	0.25x	8%	96%	75%	46%
	0.50x	63%	150%	129%	100%
	0.75x	117%	205%	183%	155%
	1.00x	172%	259%	238%	209%

Notes: (1) Aareal Bank considered as Aareal Group excluding Aareon; (2) Based on the purchase price for Aareon (100% Basis) of €860m paid by Advent International, without considering the earn-out of up to €167m (100% basis); (3) Based on €1,115m market capitalisation as of 9-Feb-2021; (4) Adjusted 2020E based on FactSet consensus; (5) Assumes EUR 80m Net Debt.

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