

LEG Immobilien SE

# Shift to a more defensive set-up during an uncertain period

## Background on new steering KPIs

18 November 2022

**LEG**

KPIs



# Old and new definition of key KPIs

## Adjusting steering whilst uncertainties remain

### New definition

#### Current net rental and lease income / adj. NOI

- **NEW**  
NOI  
+ Maintenance for externally procured services  
./ Own work capitalised

- **RATIONALE**  
Focus on topline impact, disregarding of capitalisation rate and internal vs. external commissioning

#### Adjusted EBITDA

- **NEW**  
EBITDA  
+ Maintenance for externally procured services  
./ Own work capitalised

- **RATIONALE**  
Based on adjusted NOI

### No change

#### FFO I

- **No change**

#### Capex

- **No change**
- Adj. Capex  
+ Adj. Maintenance  
+ New development<sup>1</sup>  
+ Own work capitalised

#### AFFO

- **No change – adjustment in case of subsidised loans**

- FFO I  
./ Capex

**./ Subsidised investments, i.e. financed via subsidised loans or grant**

- **RATIONALE**  
Enablement of investments in CO<sub>2</sub> reduction and/ or innovation

- In order to increase focus on cashflow, LEG has switched from the FFO I to the AFFO as key performance indicator
- AFFO as cashflow proxy and less volatile than operating cashflow
- The steering of the operations team has been amended accordingly
- Adjustment of NOI also for maintenance part to avoid focus on capitalisation rate
- Deduction of own work capitalised to avoid focus on internal vs external commissioning
- Adjusted EBITDA reflects the changes made to NOI, as it is based on the NEW adjusted NOI calculation
- FFO I remains unchanged
- AFFO unchanged in principle but adjusted by future subsidised investments

<sup>1</sup> on own land, excl. acquired third party developer projects. Overall development will run down until 2025 as existing projects will be completed

# NOI adjustment triggers new adjusted EBITDA definition

FFO I unchanged and AFFO adjusted for subsidised investments from FY2023 onwards

## Effect on KPI's based on new steering

	9M-2022		31.12.2021		
	OLD 01.01.- 30.09.2022	NEW 01.01.- 30.09.2022	OLD 01.01.- 31.12.2021	NEW 01.01.- 31.12.2021	
<b>Calculation of FFO I, FFO II and AFFO</b>					
€m					
Net cold rent	596.6	596.6	683.9	683.9	Effects
Profit from operating expenses	-5.2	-5.2	-2.4	-2.4	
Maintenance for externally procured services	-50.9	-	-65.7	-	
Staff costs	-79.8	-79.8	-87.9	-87.9	
Allowances on rent receivables	-12.4	-12.4	-10.3	-10.3	
Other	19.6	3.5	16.0	-0.2	
Non-recurring project costs (rental and lease)	9.0	9.0	6.4	6.4	
<b>CURRENT NET RENTAL AND LEASE INCOME/ adj. NOI</b>	<b>476.9</b>	<b>511.7</b>	<b>540.0</b>	<b>589.5</b>	change
<b>CURRENT NET INCOME FROM OTHER SERVICES</b>	<b>11.4</b>	<b>11.4</b>	<b>8.3</b>	<b>8.3</b>	
Staff costs	-20.8	-20.8	-26.7	-26.7	
Non-staff operating costs	-20.4	-20.4	-105.6	-105.6	
Non-recurring project costs (admin.)	11.6	11.6	96.2	96.2	
<b>CURRENT ADMINISTRATIVE EXPENSES</b>	<b>-29.6</b>	<b>-29.6</b>	<b>-36.1</b>	<b>-36.1</b>	
Other income and expenses	0.0	0.0	0.0	0.0	change
<b>ADJUSTED EBITDA</b>	<b>458.7</b>	<b>493.5</b>	<b>512.2</b>	<b>561.7</b>	
Cash interest expenses and income	-82.4	-82.4	-86.7	-86.7	
Cash income taxes from rental and lease	-	-	-0.6	-0.6	
Maintenance for externally procured services	-	-50.9	-	-65.7	
Own work capitalised (prev. within other)	-	16.1	-	16.2	
<b>FFO I (BEFORE ADJUSTMENT OF NON-CONTROLLING INTERESTS)</b>	<b>376.3</b>	<b>376.3</b>	<b>424.9</b>	<b>424.9</b>	
Adjustment of non-controlling interests	-2.0	-2.0	-1.8	-1.8	no change
<b>FFO I (AFTER ADJUSTMENT OF NON-CONTROLLING INTERESTS)</b>	<b>374.3</b>	<b>374.3</b>	<b>423.1</b>	<b>423.1</b>	
Weighted average number of shares outstanding	73,309,866	73,309,866	72,482,244	72,482,244	
<b>FFO I per share</b>	<b>5.11</b>	<b>5.11</b>	<b>5.84</b>	<b>5.84</b>	
Net income from the disposal of investment properties	0.9	0.9	0.7	0.7	
Cash income taxes from disposal of investment properties	-2.0	-2.0	-3.9	-3.9	
<b>FFO II (INCL. DISPOSAL OF INVESTMENT PROPERTIES)</b>	<b>373.2</b>	<b>373.2</b>	<b>419.9</b>	<b>419.9</b>	
CAPEX	-259.7	-259.7	-330.9	-330.9	no change
<b>Subsidised investments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	new for FY2023
<b>AFFO</b>	<b>114.6</b>	<b>114.6</b>	<b>92.2</b>	<b>92.2</b>	
<b>adj. NOI margin</b>	<b>79.9%</b>	<b>85.8%</b>	<b>79.0%</b>	<b>86.2%</b>	change
<b>adj. EBITDA margin</b>	<b>76.9%</b>	<b>82.7%</b>	<b>74.9%</b>	<b>82.1%</b>	change

Steering based on AFFO requires separation of operating cash generation from investment spending:

- Maintenance for externally procured services
- Own work capitalised (part of Other)

are adjusted within new EBITDA set-up

Effects:

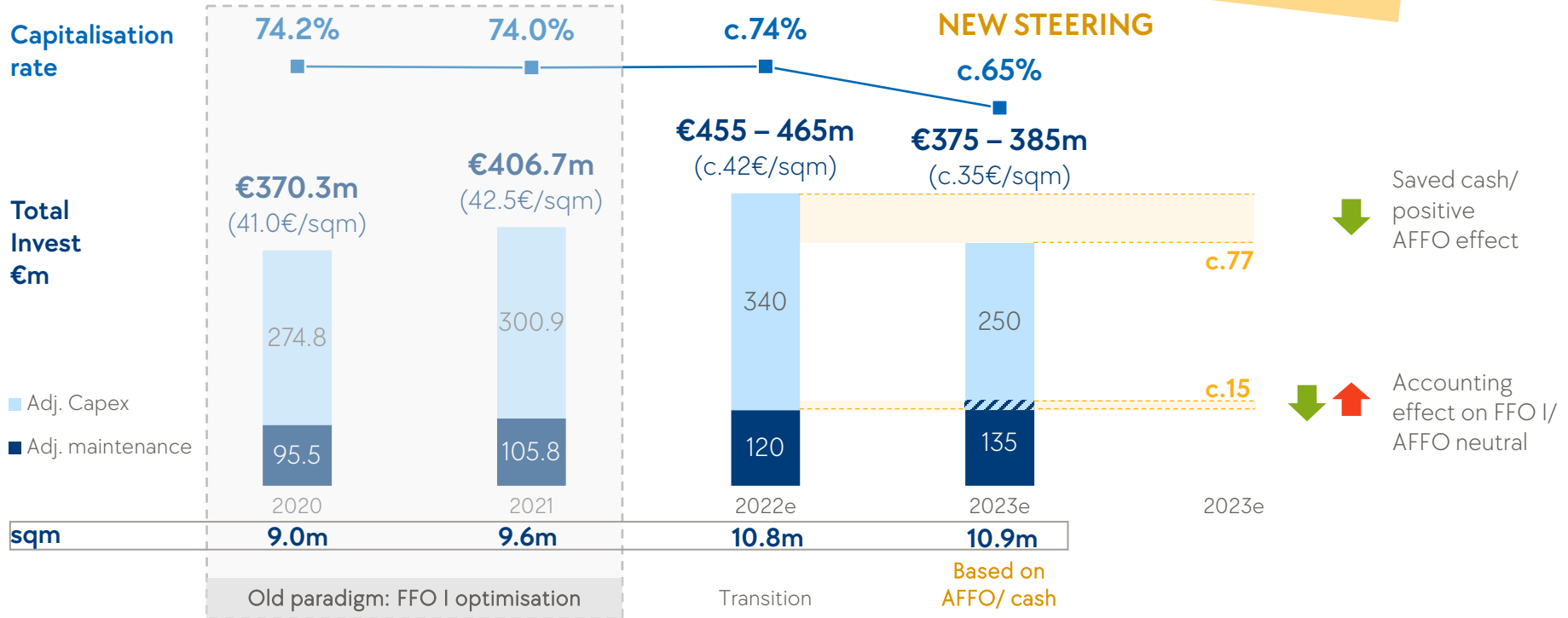
- FFO I (no longer core KPI) remains unchanged and will be still reported
- Capex unchanged
- AFFO adjusted for future subsidised investments

# Effects of lowered investment levels on capitalisation rate/p&l



Focus on cash instead of accounting effects

As shown with 9M 2022 presentation



1 Rounded numbers for 2022e and 2023e.

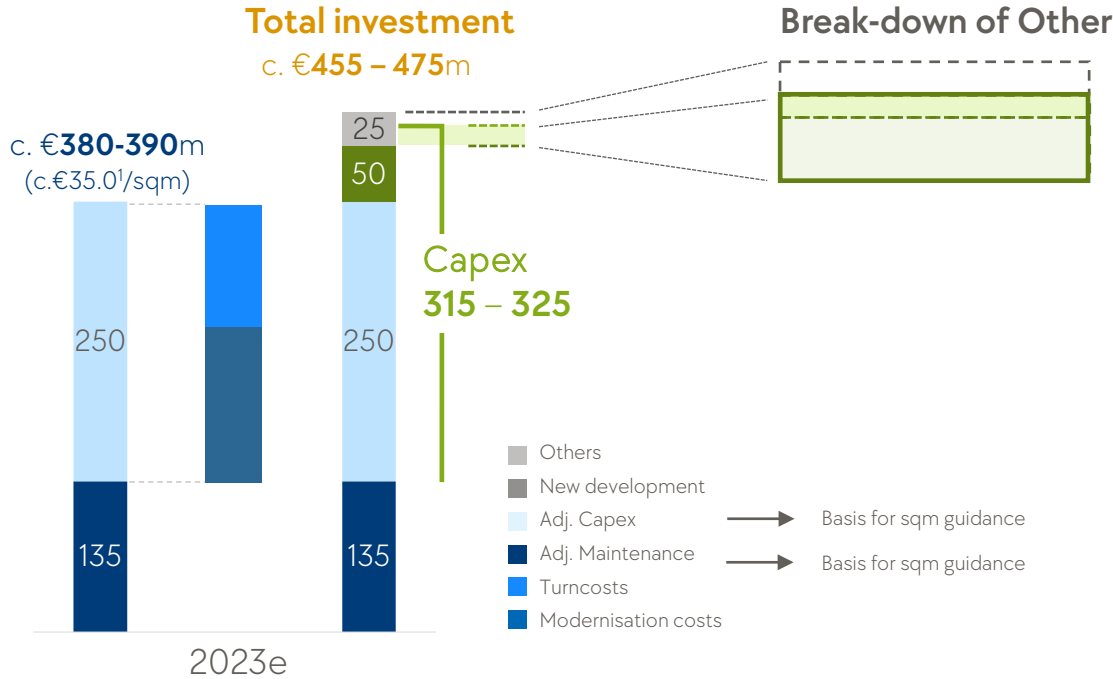
# Additional information regarding capitalisation ratio

- **IAS 40** which regulates the accounting of investment property does not specify requirements in respect to the treatment of maintenance costs and/or capitalisation of modernisation costs
- **IAS 16** is applied and allows the capitalisation of costs if the measures
  - Prolong the life time of the building
  - Improve the quality of the building/ unit
  - Reduce operating costs
  - Allow for rent increases
- Regular small repair jobs like painting walls, fixing leaking water taps etc. which are not seen as value enhancing are treated as maintenance and fully expensed
- IFRS does not provide specific € amounts to be used to distinguish between expensed vs capitalised investments as different real estate sub sectors (e.g. residential vs. office vs. logistic) require different levels of maintenance and modernisation in respect to scale and scope of investment, technical requirements and time frame of the measure
- Detailed catalogue of measures agreed with auditor based on IFRS criteria, catalogue has **NOT** been amended as a result of the new steering
- Differentiation between turn cost measures and modernisation measures on an individual basis
- Example: Turn cost investments above a specific investment level to be fully capitalised
  - In an **FFO I** world this sets the incentive for larger investments
  - In an **AFFO** world this sets the incentive to reduce cash outflows

LEG has NOT changed its accounting policy  
– the reduced capitalisation rate is the consequence of the new cashflow focus

# Components of the AFFO relevant Capex...

Cf. 9M 2022 presentation p. 17



LWS Plus margin (elimination of internal margin and not capex relevant)

Public Safety measures  
Own work capitalised

1 Excl. new construction activities on own land, backlog measures, own work capitalised and LWS Plus margin.

# ...have always been disclosed

## Reconciliation from investments to adjusted investments

Based on 9M 2022 presentation, p. 39 and FY 2021 presentation, p. 45

€m	9M-2022	FY-2021	Comment
<b>Total maintenance</b>	<b>84.8</b>	<b>110.9</b>	
<b>Adjusted maintenance</b>	<b>81.9</b>	<b>108.0</b>	<b>Basis for sqm guidance</b>
<b>Total capex</b>	<b>269.6</b>	<b>341.2</b>	
Thereof LWS Plus margin	9.9	10.2	Elimination of internal margin
<b>AFFO relevant capex</b>	<b>259.7</b>	<b>330.9</b>	<b>AFFO relevant capex</b>
Thereof public safety measures in connection with acquisitions	2.4	2.2	Includes
Thereof own work capitalised <sup>1</sup>	16.1	16.2	<ul style="list-style-type: none"> <li>▪ Public safety measures</li> <li>▪ Capitalisation of own work</li> <li>▪ New construction on own land</li> </ul>
Thereof new construction <sup>1</sup>	11.7	13.9	
<b>Adjusted capex</b>	<b>229.6</b>	<b>298.7</b>	<b>Basis for sqm guidance</b>
<b>Total investments</b>	<b>354.4</b>	<b>452.1</b>	
<b>Adjusted total investments</b>	<b>311.4</b>	<b>406.8</b>	<b>Basis for sqm guidance</b>
<b>Area of investment properties (million sqm)</b>	<b>10.81</b>	<b>9.57</b>	
<b>Adjusted investment per sqm (€)</b>	<b>28.82</b>	<b>42.50</b>	<b>Basis for sqm guidance</b>

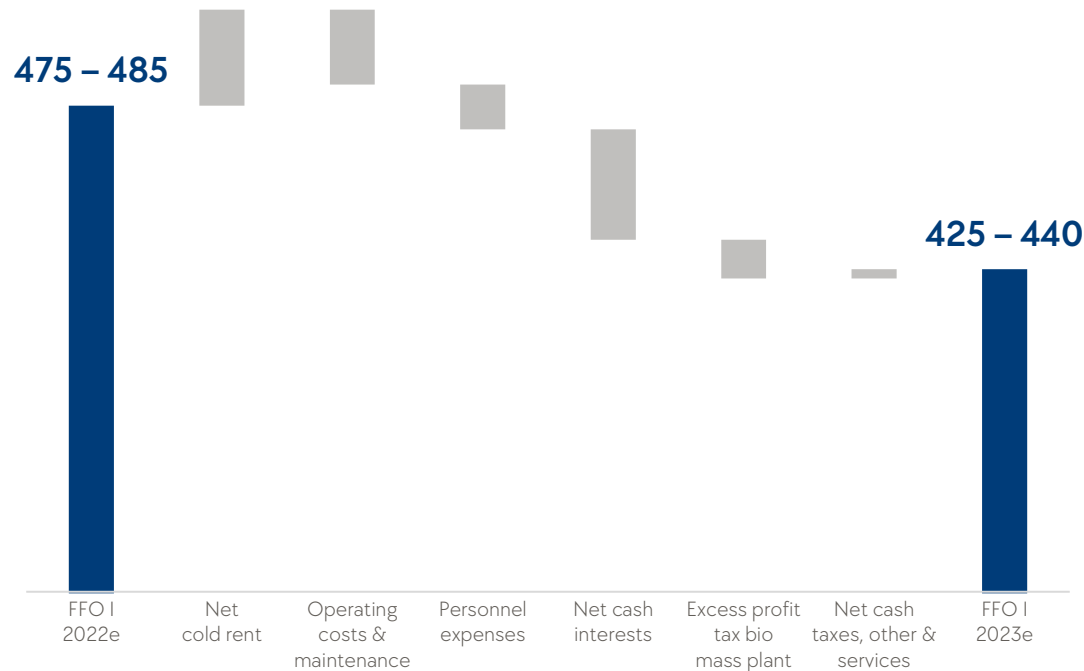
<sup>1</sup> Adjusted for own work capitalised within new construction, therefore deviation from slide 39 of 9M 2022 presentation, in order to better align the p&l and capex perspective

# Bridge FFO I 2022e to AFFO 2023e

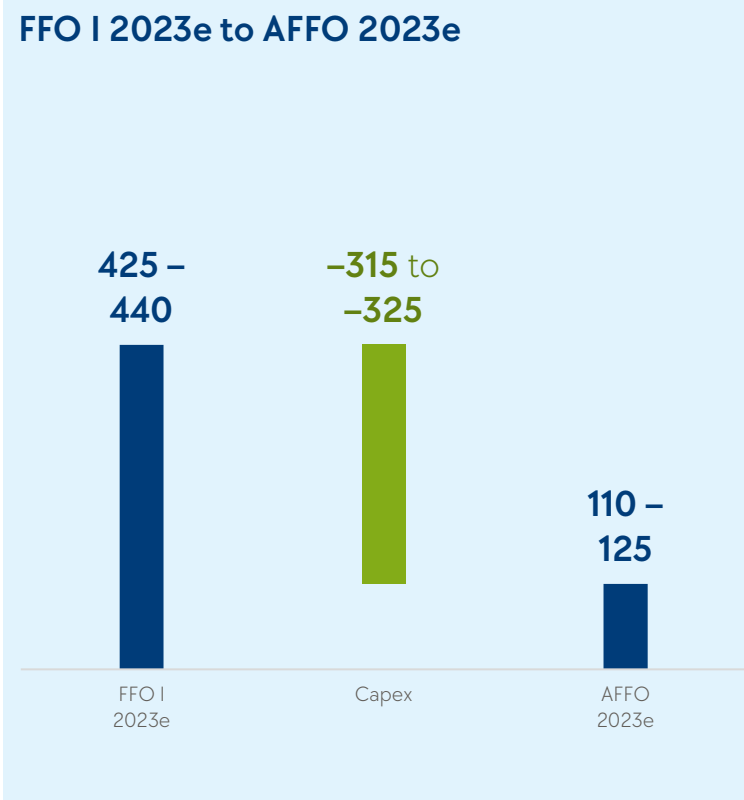


As shown with 9M 2022 presentation

## FFO I 2022e to FFO I 2023e



## FFO I 2023e to AFFO 2023e





# Timeline



FY 2022 reporting

Based on „old“ methodology, but bridges for „new“ set-up

Q1 2023 reporting onwards

2022 and 2023 figures based on new KPIs

AGM 2023

AGM to vote on adaption of remuneration system,  
i.e. new financial STI targets in line with new set of KPIs

# IR Contact



## Investor Relations Team

### **Frank** Kopfinger, CFA

Head of Investor Relations & Strategy

Tel: +49 (0) 211 4568 – 550

E-Mail: frank.kopfinger@leg-se.com

### **Karin** Widenmann

Senior Manager Investor Relations

Tel: +49 (0) 211 4568 – 458

E-Mail: karin.widenmann@leg-se.com

For questions please use [ir@leg-se.com](mailto:ir@leg-se.com)

### **Elke** Franzmeier

Corporate Access & Events

Tel: +49 (0) 211 4568 – 159

E-Mail: elke.franzmeier@leg-se.com

### **Gordon** Schönell, CIIA

Senior Manager Investor Relations

Tel: +49 (0) 211 4568 – 286

E-Mail: gordon.schoenell@leg-se.com

LEG Immobilien SE | Flughafenstraße 99 | 40474 Düsseldorf, Germany

E-Mail: [ir@leg-se.com](mailto:ir@leg-se.com) | Internet: [www.leg-se.com](http://www.leg-se.com)