



Revive Aareal

April 2021

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I

Executive Summary

Executive Summary (1/2)

- Petrus Advisers worked for close to two years (Q2 2019 through November 2020) with Aareal's leadership to identify value potential
- As soon as in Q2 2019, we agreed with management that Aareal's software business (Aareon) and the bank differ too much in terms of operations and priorities to be developed under one umbrella:
 - **Aareon:** Expand the strong market position in Germany and selected adjacent residential real estate markets across Europe; grow RPU by driving growth of digital solutions for clients
 - **Aareal Bank** (i.e. Aareal group excluding Aareon): Develop a strategy that will allow the regulated commercial real estate lender to earn its cost of capital of 8-10% RoE (post tax)
- Petrus Advisers have always believed that a **spin-off of Aareon to Aareal shareholders** would be the best solution:
 - Enables full focus on the respective strategic and execution challenges
 - Allows Aareal shareholders to remain invested in the Aareon story and value creation
 - Avoids value leakage from a sale to a third party
- Upon management's admission that Aareon management was not yet up to the standard for a spin-off, we (reluctantly) backed the partial sale (30%) of Aareon to Advent International as Aareal management would not have been able to develop Aareon's full potential without help
- By Q3 2020, we had to conclude that Aareal will not or will only partially address necessary improvement potentials:
 - **Cost:** Top management not willing to address excessive management pay across Aareal group
 - **Asset-light Revenue Streams:** No plans to generate RWA-light business in the core commercial real estate lending operations
 - **Reliance on Regulatory Relief:** Management plan is to grow the asset-heavy CRE lending book to €30bn while assuming significant return of capital to shareholders in order to improve RoE
 - **Aareon Unbundling:** Guidance is for Aareal to keep 70% in Aareon until 2024/25 vs. our preference for 2021/22

In conclusion, we believe Aareal Bank under its current leadership is unlikely to achieve a sustainable level of profitability without change to the interest rate / regulatory environment

Executive Summary (2/2)

- Against this backdrop and in light of significant imminent changes of the management board (CEO sick; two further mandates coming to an end), we have therefore proposed that three independent candidates replace Supervisory Board members who have failed in their roles:

(1) Mr Heinz Laber to replace Ms Marija Korsch

- Mr Laber has extensive experience managing HR and operating improvement processes. He also has significant IT / digitisation experience and has run real estate financing operations
- As Chairwoman of Aareal's Remuneration Control Committee, Ms Korsch has backed the remuneration excess at Aareal. In our opinion she lacks experience and understanding of Aareal's lending and software operations and is not capable of helping steer the business

(2) Ms Marion Khüny to replace Mr Christof von Dryander

- A Supervisory Board member of Erste Bank, Ms Marion Khüny has extensive experience in commercial banking and in particular risk and portfolio management
- Mr von Dryander joined the Supervisory Board only one year ago but as a member of the Remuneration Control Committee has backed the remuneration excess at Aareal and has not been able to substantially contribute to Aareal's strategy development

(3) Mr Thomas Hürlimann to replace Mr Dietrich Voigtländer

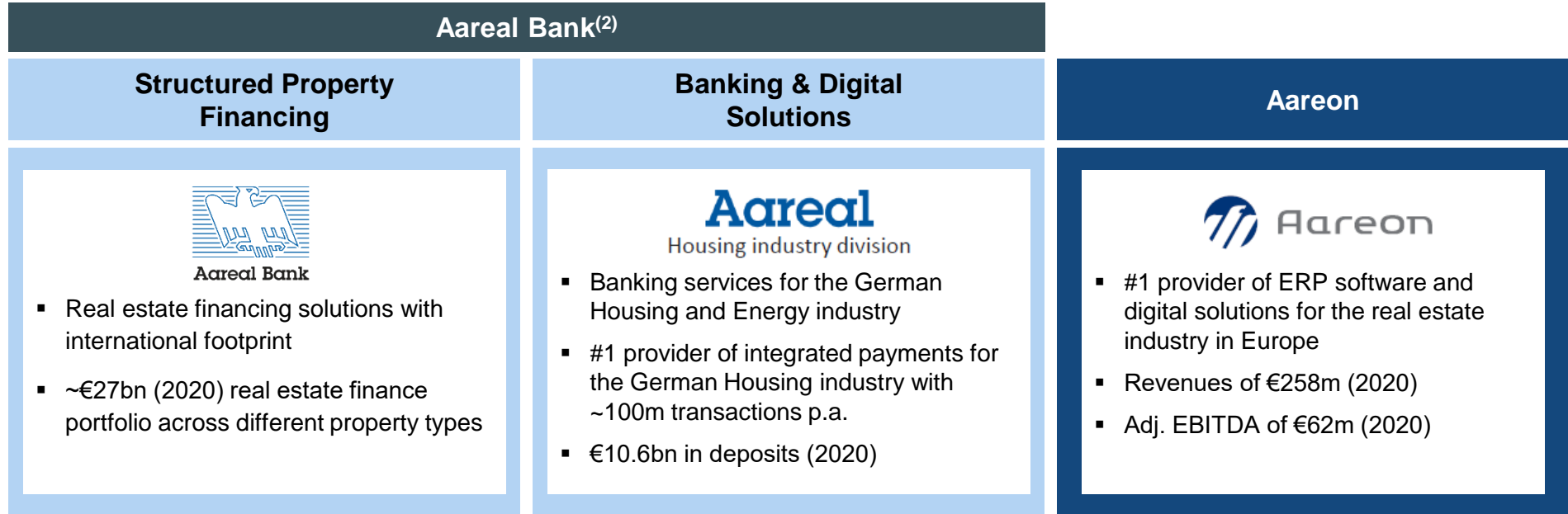
- Mr Hürlimann combines extensive expertise in regulatory and risk matters with substantial IT/software as well as strategic/M&A experience
- Mr Voigtländer has been a member of the Remuneration Control Committee and has failed to reign in excessive pay. As Chairman of the Innovation & Technology Committee he has historically failed to exploit the growth opportunity at Aareon



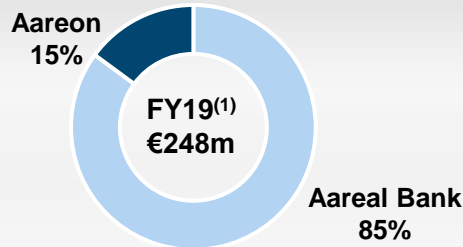
Overview of Aareal: Aareal Bank and Aareon

A Bank with A Vertical Focused ERP / SaaS Subsidiary

Aareal has a very focused real estate lending strategy but owns a legacy software business that has limited strategic overlap with the core banking unit



EBT Contribution



Aareal Bank PBT CAGR '17-'19⁽¹⁾ (11%)

Aareon Adj. EBITDA CAGR '17-'20 12%

Growth

Source: Company filings
 Notes: (1) Based on FY2019A EBT due to negative EBT in FY2020A; (2) Aareal Group excluding Aareon AG.

Two Businesses Running at Two Different Speeds

Restructuring a bank and speeding up the international growth of a SaaS software business under one umbrella does not makes sense

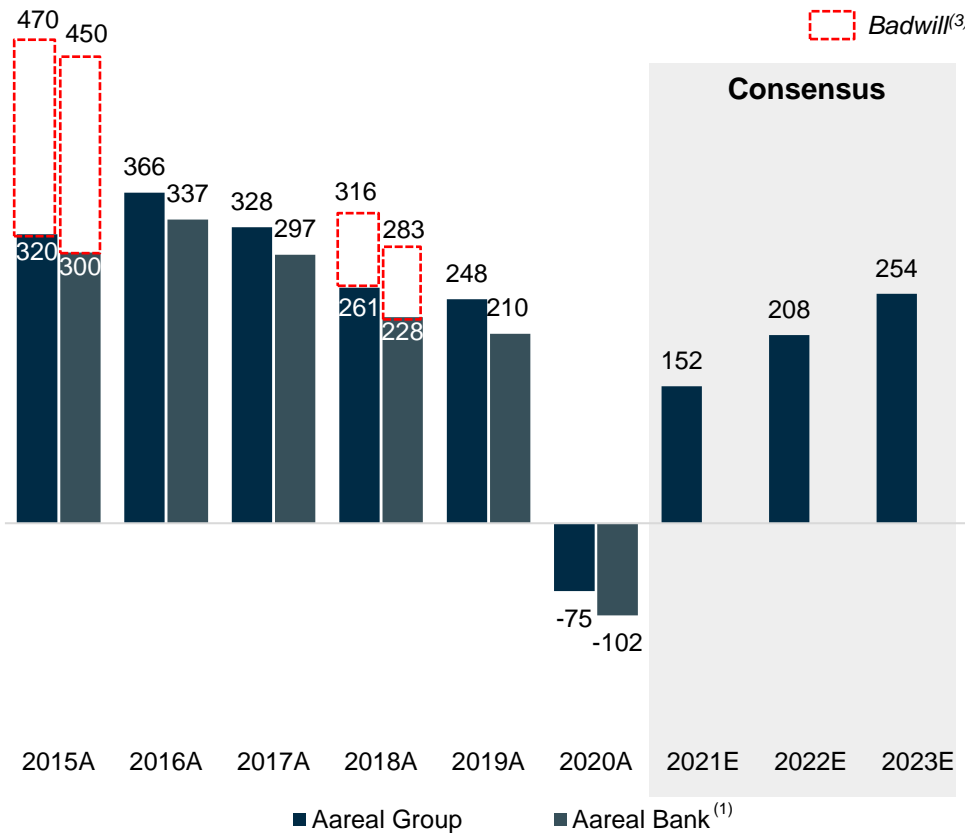
	Aareal Bank <i>(i.e. Aareal group excluding Aareon)</i>		Aareon
	Structured Property Financing	Banking & Digital Solutions	
Current Assessment and Key Execution Challenges	<ul style="list-style-type: none"> Has not been able to respond to the challenging market environment of low interest rates and increasing regulatory pressures Earnings have been dropping since 2015 as cost measures have not been able to offset lower revenues Underlying assets have also dropped by some ~2.6% per year since 2015 General provisions taken in 2020 led to negative €103m Net Profit post AT1 at the bank level in 2020 No plan in place to earn its cost of capital in the mid-term without support from the regulator in the form of letting Aareal Bank return capital to shareholders 		<ul style="list-style-type: none"> US peers have dramatically outgrown Aareon over the past decade Management has not been capable of capturing Aareon's growth opportunity Aareal took expensive private-equity-capital on board to compensate for management shortcomings at Aareon and develop its potential Contribution by Advent has now resulted in tangible progress: target of doubling EBITDA brought forward
Key Strategic Priorities	<p>Restructure:</p> <ul style="list-style-type: none"> Develop a strategy that will allow the regulated commercial real estate lender to sustainably earn its cost of capital of 8-10% RoE (post tax) Generate RWA-light business in both commercial real estate lending and payment processing Increase ESG-relevant lending business Align management compensation with industry standards, reduce the cost base and close the CIR gap vs. pbb Optimize the capital structure 		<p>Accelerate growth:</p> <ul style="list-style-type: none"> More than double EBITDA by 2025 and execute on 'Rule of 40' target Expand the strong market position in Germany and selected adjacent residential real estate markets across Europe Grow RPU by driving growth of digital solutions Increase the revenue contribution from SaaS Drive incremental growth via M&A

A spin-off of Aareon to Aareal shareholders would be the best solution to enable full focus on the respective strategic and execution challenges

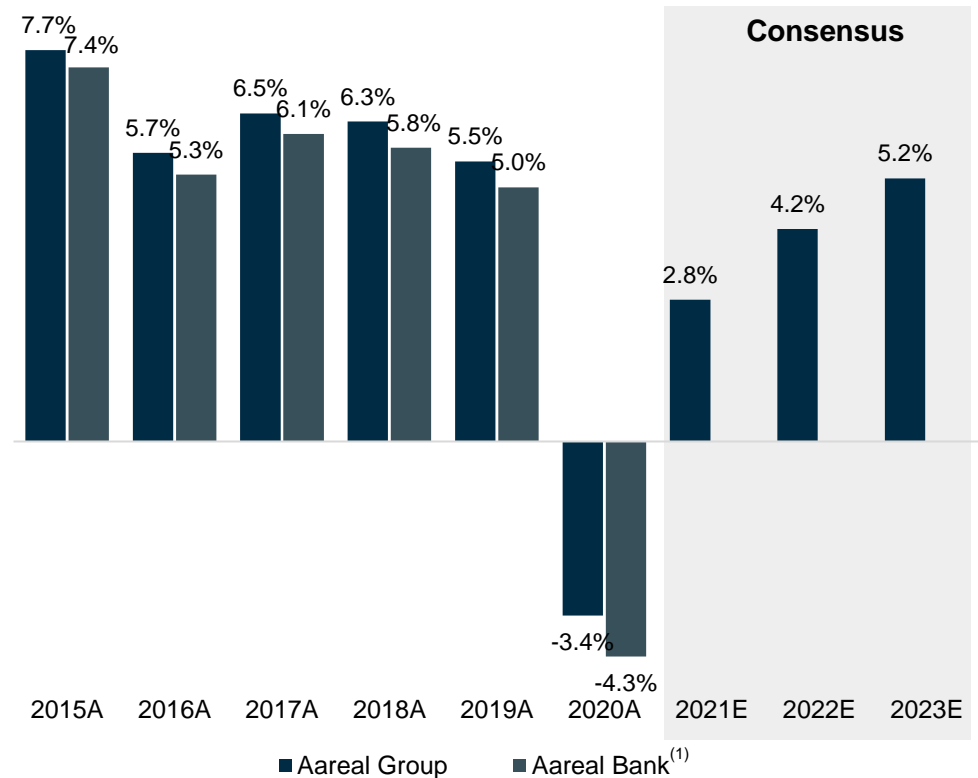
A History of Declining Earnings

Operating Profit has declined by ~€400m from 2015 to 2020 while Aareal has not managed to earn its cost of capital in each of the last 5 years

Operating Profit Evolution (€m)



Adj. RoE⁽²⁾⁽³⁾ (%)



Source: Factset, Company filings

Notes: (1) Aareal Group excluding Aareon AG per Aareon's audited accounts, small delta driven by reconciliation of the accounts; (2) Post minorities and AT1 expense; (3) 2015A and 2018A for Aareal has been adjusted for badwill of EUR 150m and EUR 55m respectively, net income adjusted using effective tax rate of 21.5% and 29.3%.

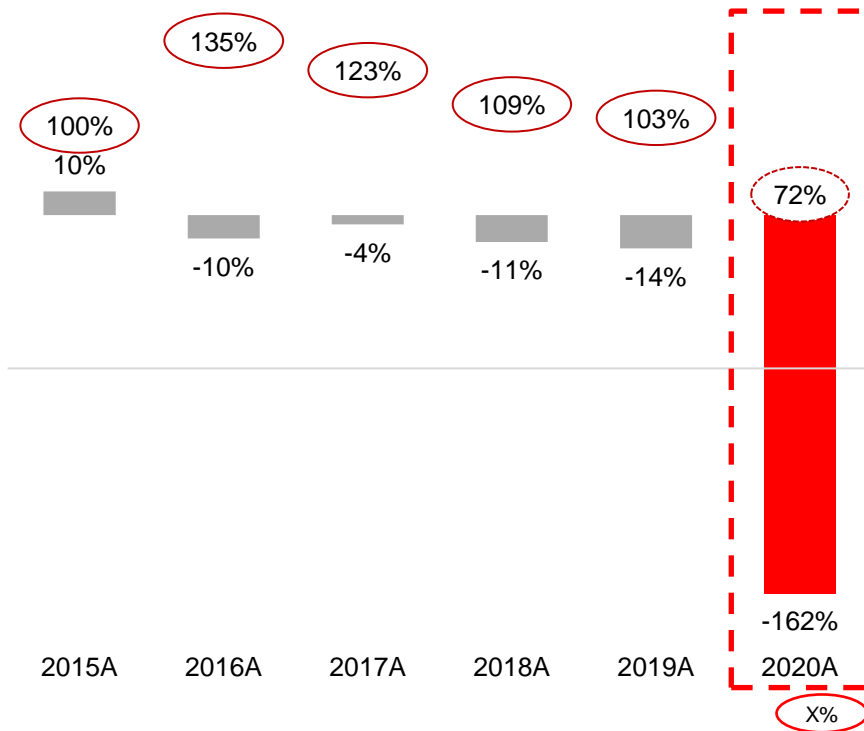


Cost: Excessive Management Pay

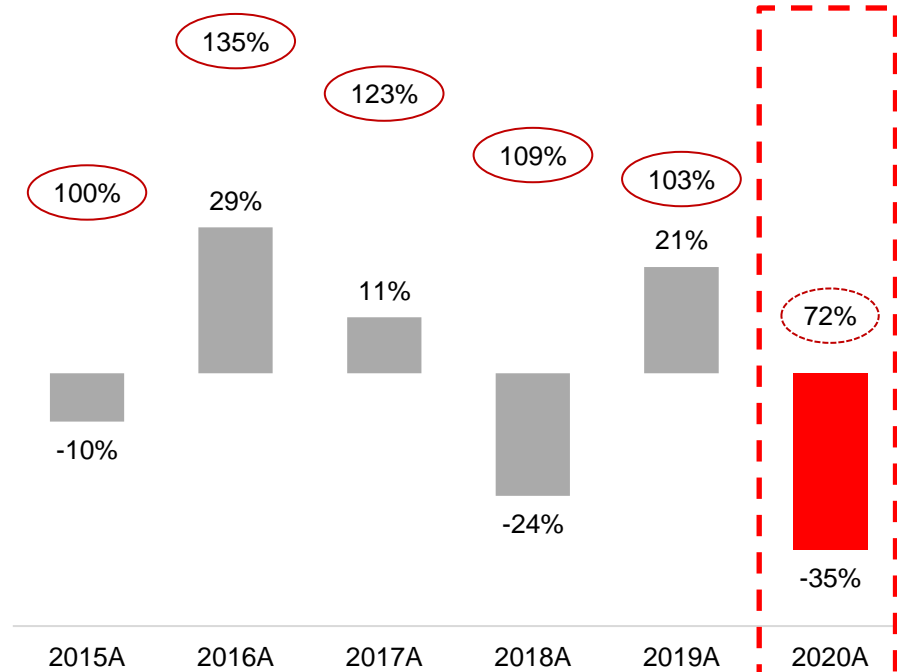
Management's Incentives Not Aligned with Shareholder Value Creation...

- The management team has profited from consistently portraying failure as success
- The CEO example below shows how profitability and targets have differed

2015A – 2020A CEO Target Achievement vs Reported Group Net Income Growth



2015A – 2020 CEO Target Achievement vs TSR



Targets are being consistently set to be undemanding and easily achievable while they are completely detached from economic reality

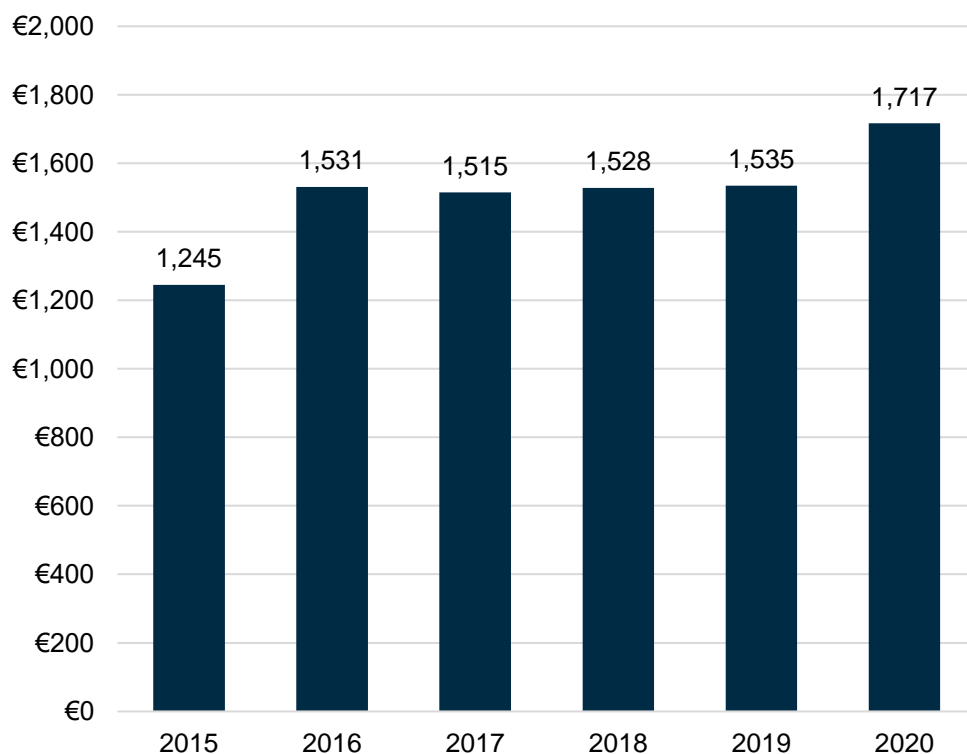
Notes: (1) As defined by remuneration committee: $\frac{\text{total variable compensation}}{\text{total variable compensation at 100\% target achievement}}$

Sources: Aareal Bank annual reports, FactSet

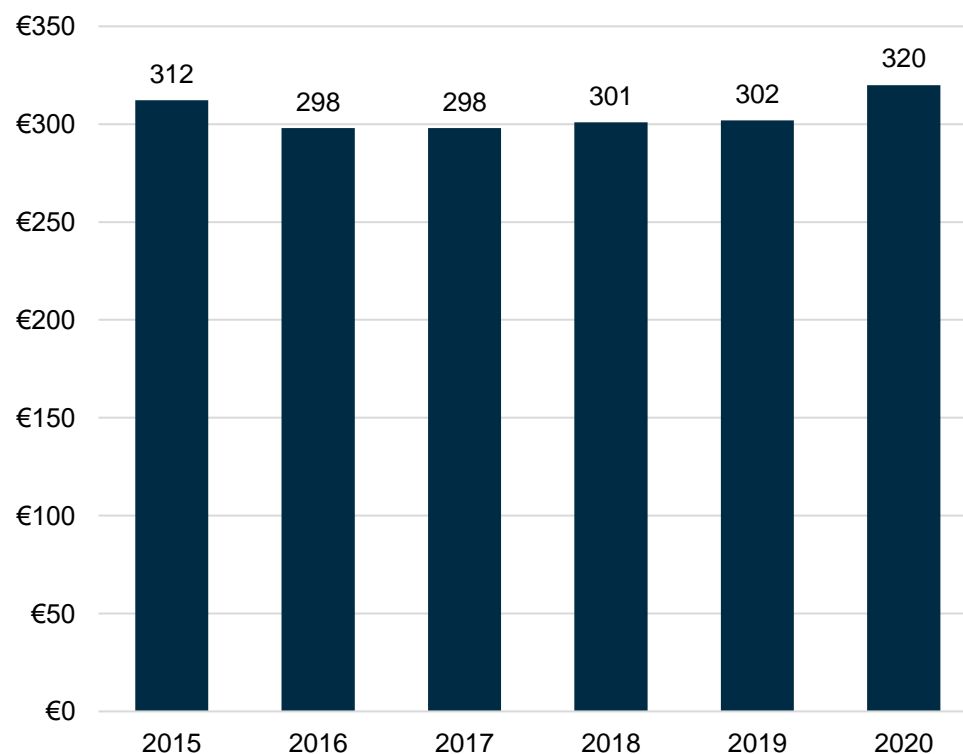
...With the Supervisory Board Sharing in the Feast...

- The cost to shareholders of Aareal's supervisory board has remained excessive
- Not included below are costs for the personal assistant and office of the Chairwoman as well as at least one senior manager in charge of supporting her / the Supervisory Board

2015 – 2020 Supervisory Board Compensation (€'000)



2015 – 2020 Chairwoman Compensation (€'000)



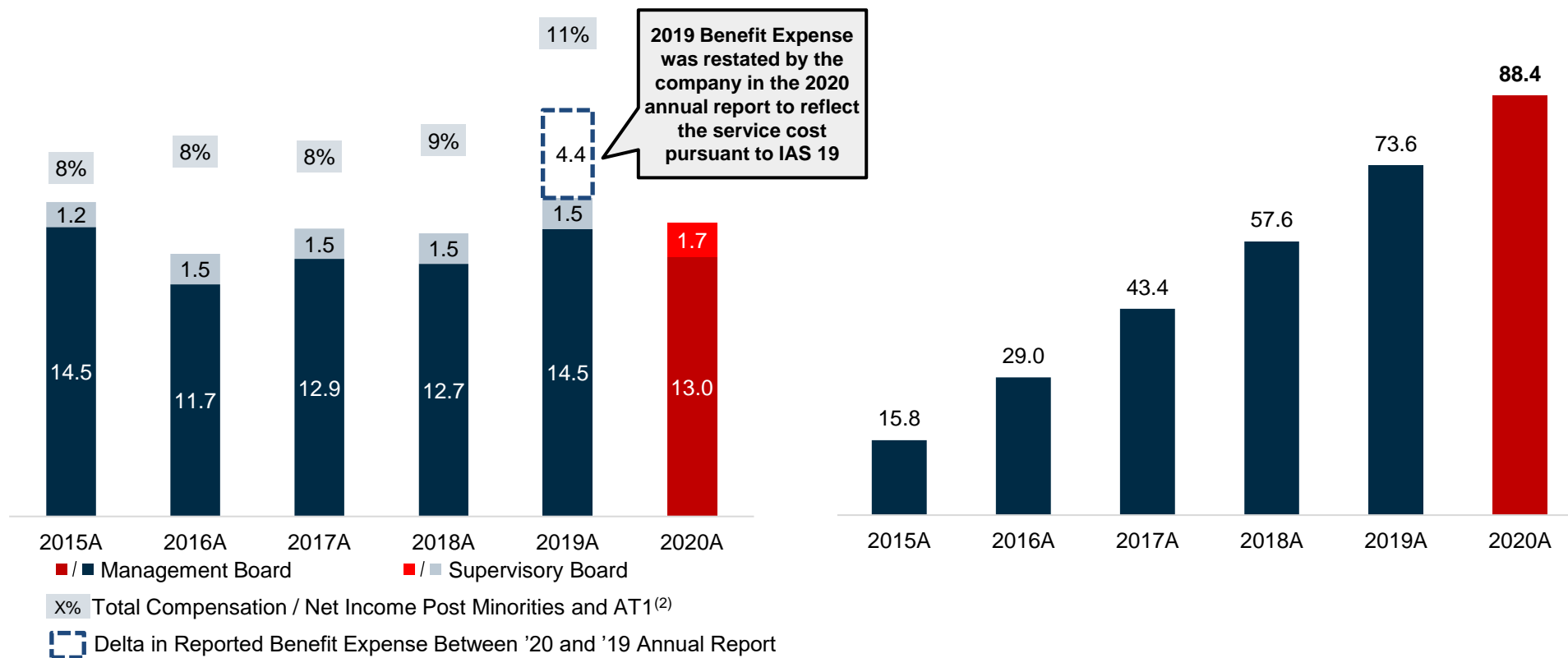
...Resulting in Pay Close to €15m to the Boards in 2020

Marija Korsch's leadership has allowed the two boards to rack up cumulative costs of ~€90m in 6 business years or c. 6.5% of the current market capitalisation⁽¹⁾

2015A-2020A Management Board and Supervisory Board Total Paid Compensation (Incl. Benefits, €m)

Annual

Cumulative



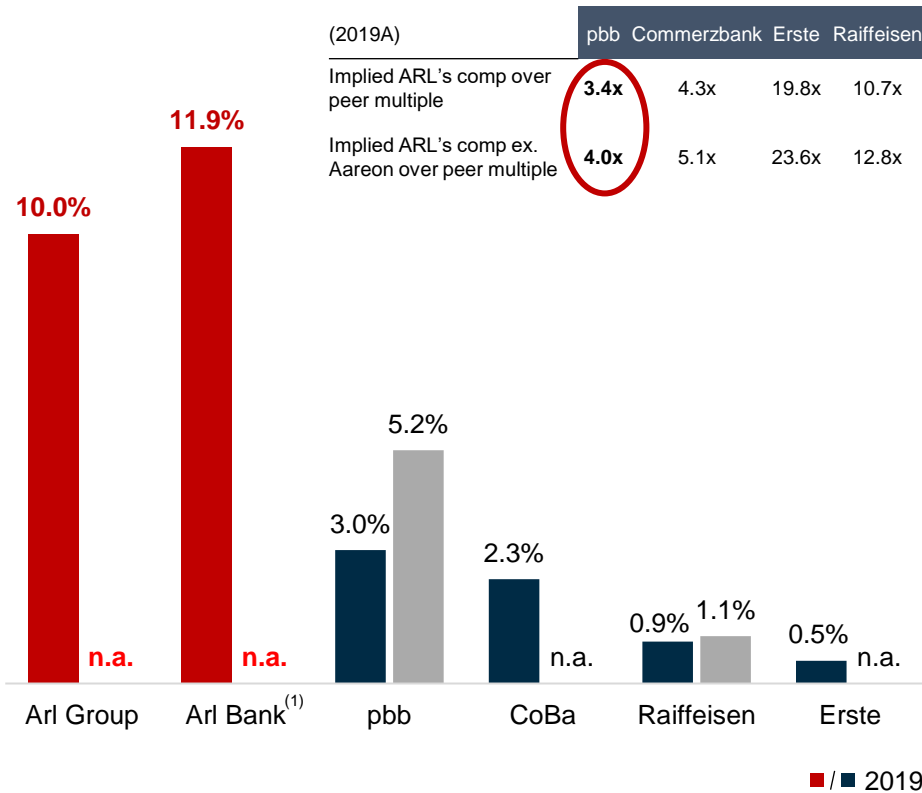
Source: Aareal Bank annual reports

Notes: (1) Euro 1,368 million as of 21 April 2021 as per FactSet; (2) 2015A and 2018A for Aareal has been adjusted for badwill of EUR 150m and EUR 55m respectively using effective tax rate of 21.5% and 29.3%

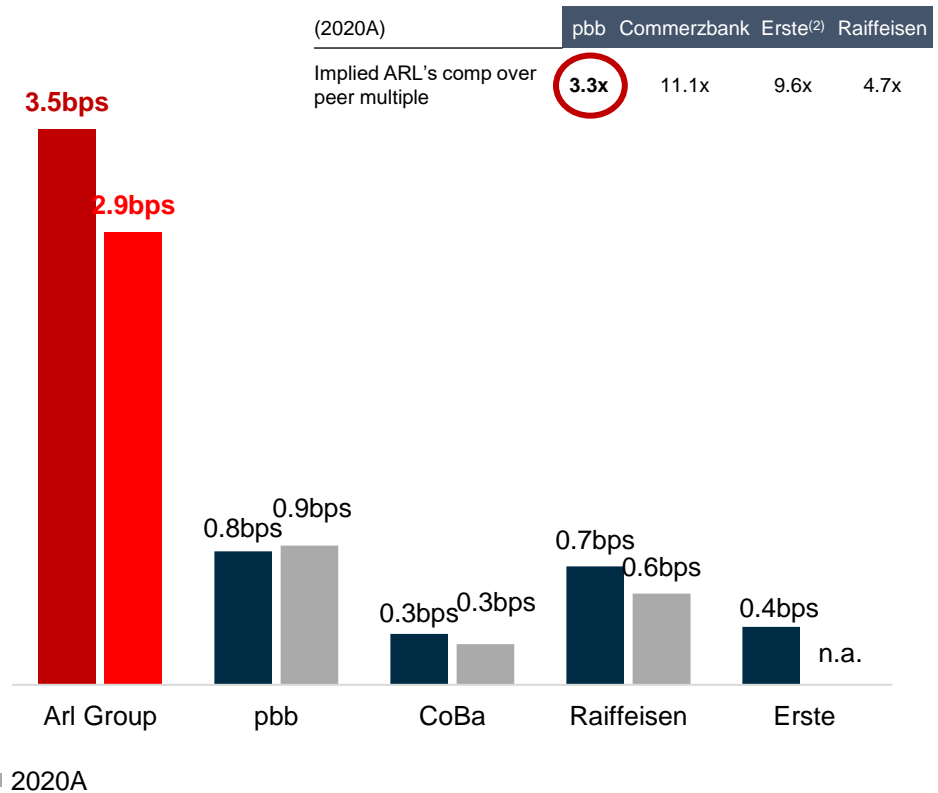
Aareal's Compensation Is a Sign of Reckless and Unethical Culture

Aareal affords a pay bonanza ~3-4x higher than its direct peer pbb and even higher compared to other German and Austrian banks

2019-2020 Management Board Compensation (Incl. Benefits, Paid) / Net Income⁽³⁾



2019-2020 Management Board Compensation (Incl. Benefits, Paid) / Total Assets



Source: Annual Reports, FactSet

Notes: (1) Aareal Group excluding Aareon AG per Aareon's audited accounts; (2) Erste comparison uses 2019 data; (3) 2020 Net Income for Aareal Bank/Group and Commerzbank has been negative, whilst 2020 remuneration report for Erste has not been published.

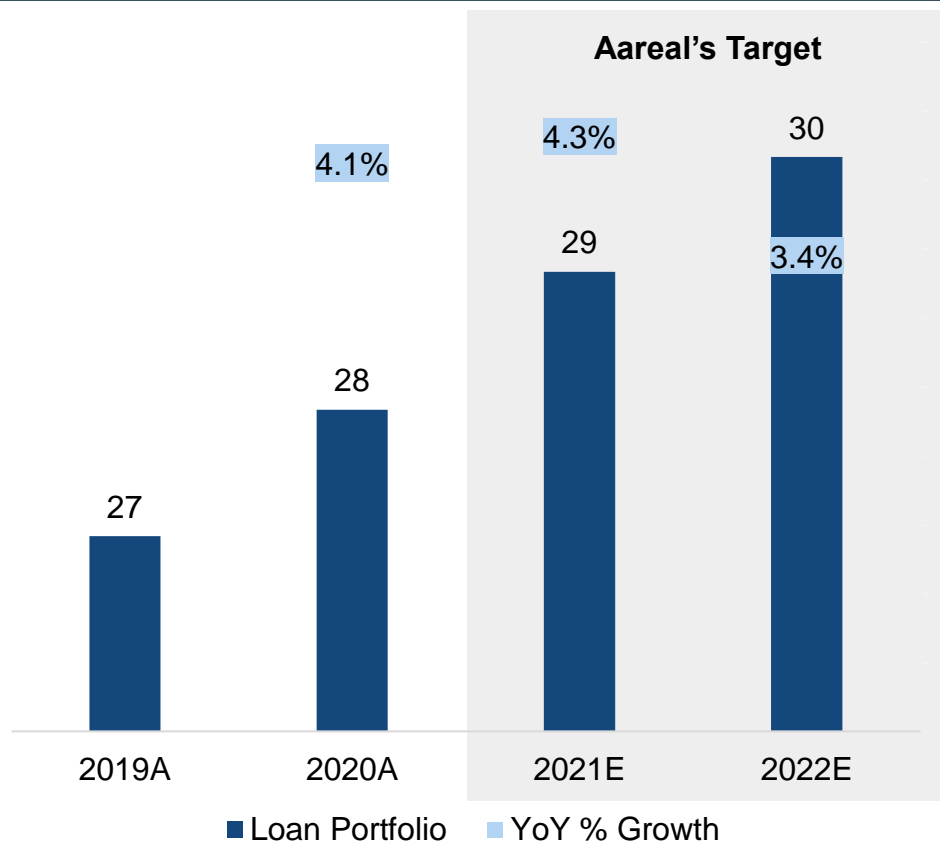
IV

Asset-light Revenues at Aareal Bank

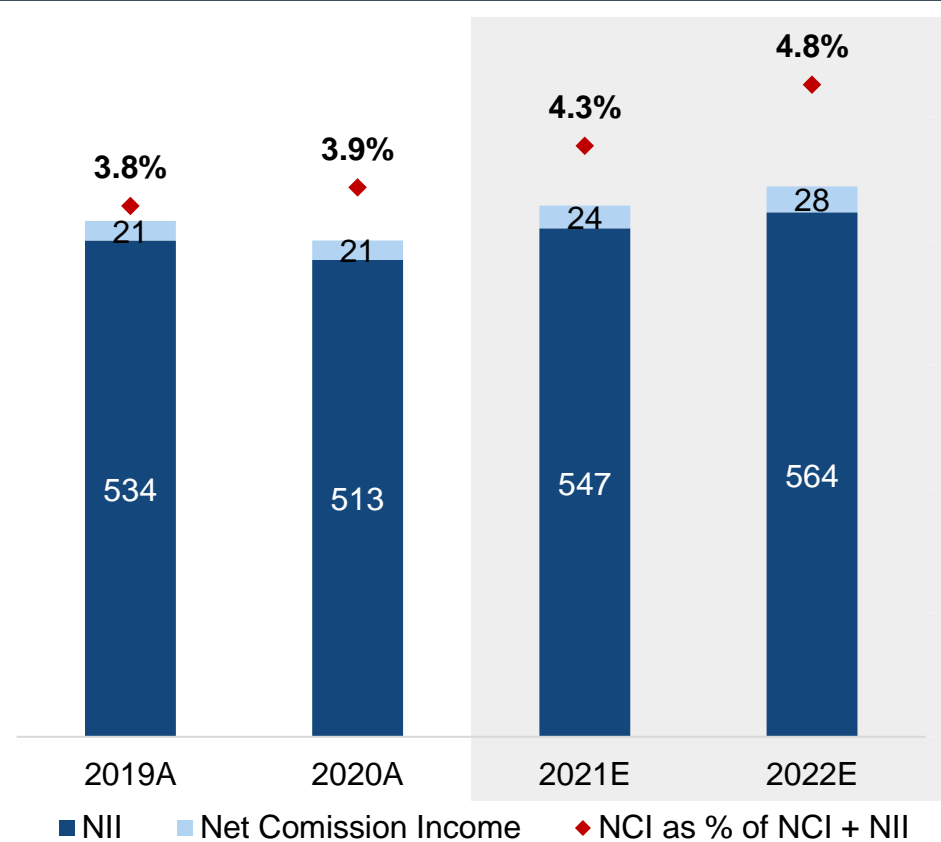
Aareal's Strategy Is Built on a Asset-Heavy Business Model

- Aareal Bank has not taken adequate steps to improve RoE by growing asset-light earnings streams and the new strategy relies on growing its asset-intensive SPF lending business
- The contribution from Net Commission Income has been and will continue to be negligible

Property Finance Portfolio (€bn)



Aareal Bank – Net Interest Income & Net Commission Income⁽¹⁾



Source: Factset, Company filings
Notes: (1) Aareal Group excluding Aareon.

V

Reliance on Regulatory Relief

Regulatory Relief Vital for Reaching Aareal's RoE Target

It is difficult to reconcile management's €300m Operating Income target in 2023 with the 8% RoE ambition without substantial capital disbursements or without manipulating the relevant book equity number by allocating a portion to holdco / corporate

Reaching 8% RoE on a Group Level (€m)

8% RoE on a Group Level (m. EUR)

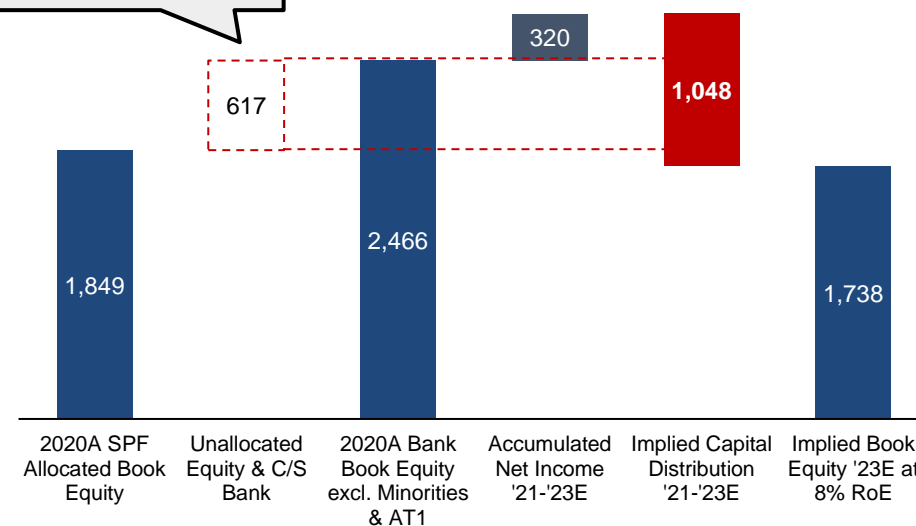
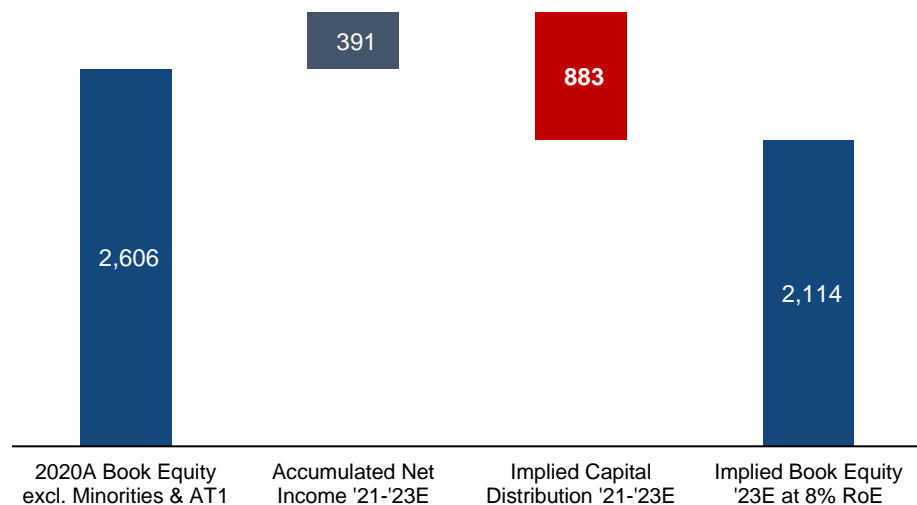
Operating Income '23E ⁽²⁾	300
Net Income Post Minorities & AT1 '23E ⁽³⁾	169
Implied Book Equity '23E at 8% RoE	2,114
Cumulative Net Earnings '21-'23E ⁽⁶⁾	391
2020A Book Equity excl. Minorities & AT1	2,606
Implied Capital Distribution '21-'23E	883
Average Implied Pay-out Ratio	226%

Reaching 8% RoE on Aareal Bank Level⁽¹⁾ (€m)

8% RoE on a Aareal Bank Level (m. EUR)

Operating Income '23E ⁽⁴⁾	235
Net Income Post Minorities & AT1 '23E ⁽⁵⁾	139
Implied Book Equity '23E at 8% RoE	1,738
Cumulative Net Earnings '21-'23E ⁽⁶⁾	320
2020A Book Equity excl. Minorities & AT1	2,466
Implied Capital Distribution '21-'23E	1,048
Average Implied Pay-out Ratio	327%

By excluding €617m of equity unallocated or allocated to C/S Bank, Aareal Bank could achieve a 8% RoE in '23E after distributing ~€431m of capital in 21-23E



Sources: Company, Petrus Advisers, FactSet

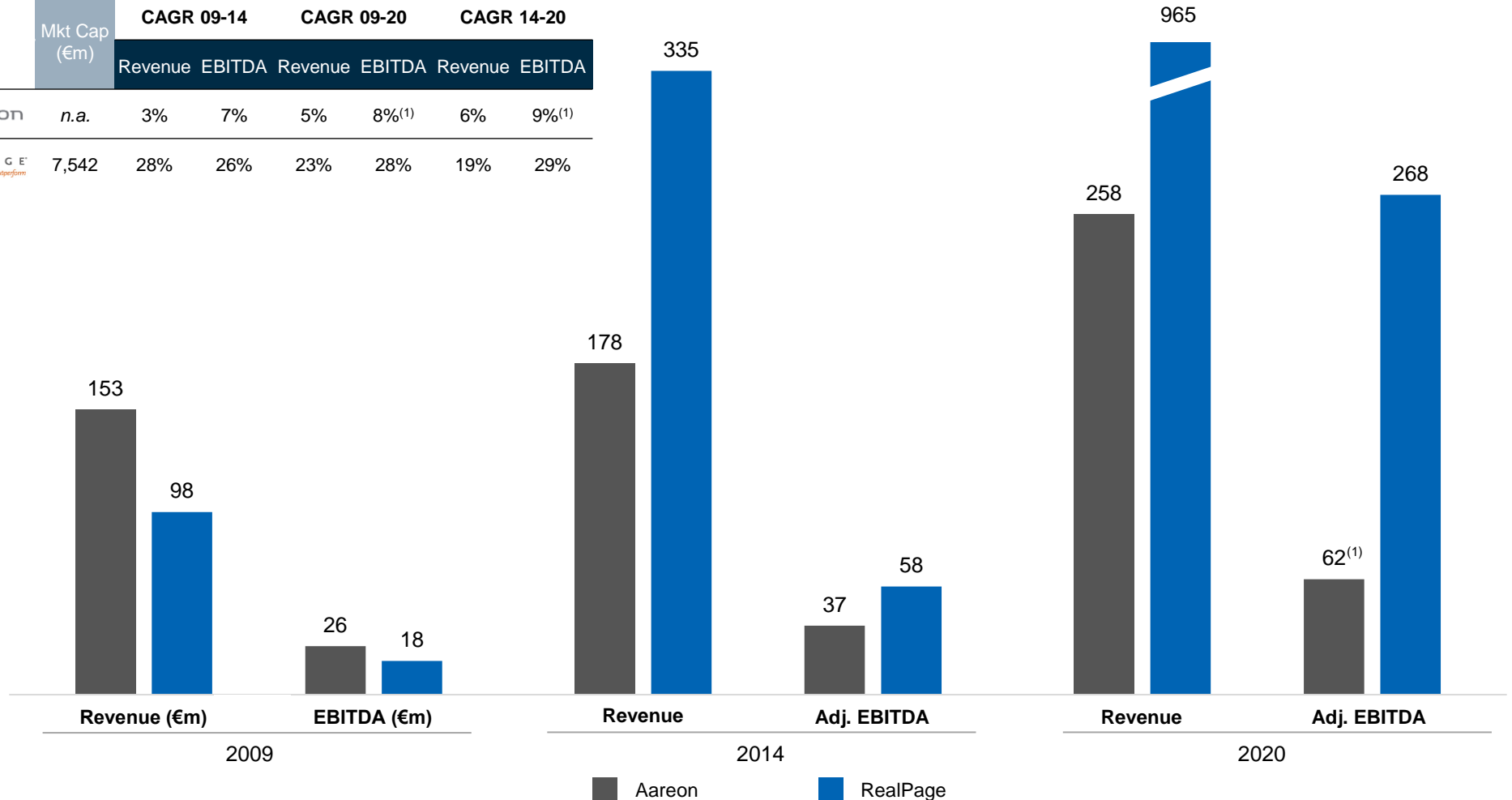
Notes: (1) Aareal Bank excluding Aareon; (2) Based on management guidance; (3) Assumes 33% tax rate, EUR 16m AT1 Interest and EUR 16m income attributable to minorities at Aareon; (4) Based on management guidance of group operating income and guided trajectory of Aareon; (5) Assumes 34% tax rate, EUR 16m AT1 Interest; (6) Based on Petrus estimates for '21-'22E and implied company's guidance for '23E.

VI Aareon Unbundling

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

	Mkt Cap (€m)	CAGR 09-14		CAGR 09-20		CAGR 14-20	
		Revenue	EBITDA	Revenue	EBITDA	Revenue	EBITDA
Aareon	n.a.	3%	7%	5%	8% ⁽¹⁾	6%	9% ⁽¹⁾
REALPAGE <small>Outperform</small>	7,542	28%	26%	23%	28%	19%	29%



Sources: FactSet (as of 21-Apr-2021, in EUR), company filings, broker research, Petrus Advisers estimates
 Notes: All amounts in m. EUR; (1) Adj. EBITDA 2020A.

Aareon's Strategic Direction Is Independent of the Situation at the Bank

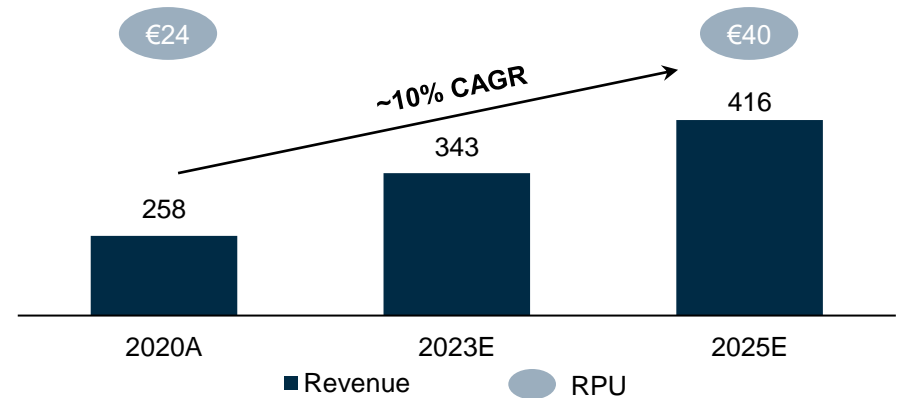
The banking unit of Aareal needs restructuring and can only inhibit Aareon's growth while disguising its fair value

Key Strategic Priorities

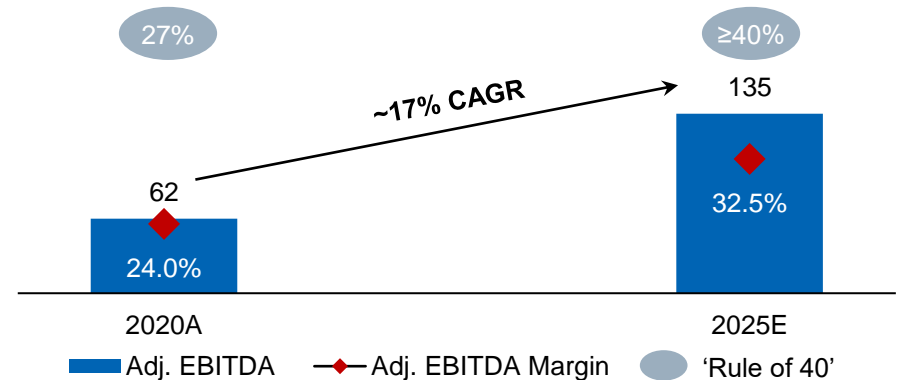
- Build on the strong market position in Germany and selected adjacent residential real estate markets across Europe
- Expand Digital Solutions portfolio with new products and solutions as well as implement new ERP product generations
- Implement Go-To market strategy and accelerate new customer wins while focusing on recurring SaaS revenue
- Accelerate revenue growth to ~10% CAGR through cross selling and upselling on existing customer base
- Grow RPU to €40 and increase add-on revenue penetration to 50% by 2025
- More than double organic EBITDA expansion to €135m by 2025 and execute on 'Rule of 40'
- Gain international scale through value accretive M&A with €250m negotiated financing

A spin-off of Aareon to Aareal shareholders would be the best solution to enable full focus on the respective strategic and execution challenges

2025E Revenue Target (€m)



2025E Adj. EBITDA Target (€m)



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⁾

(EURm)	Aareon Valuation			
	Advent Valuation ⁽²⁾	Implied Thoma Bravo / RealPage EV/Sales ⁽⁴⁾	Implied Thoma Bravo / RealPage EV/EBITDA ⁽⁴⁾	Petrus Mid-Point Valuation ⁽⁵⁾
Aareon Equity Value (100%)	860	2,192	1,881	1,550
Implied Aareon Equity Value p.s. (Pro-rata, €)	10.1	25.6	22.0	18.1
x Sales 2020A	3.6x	8.8x	7.6x	6.3x
x EBITDA 2020A	15.2x	36.6x	31.6x	26.3x

Implied Aareal Bank Equity Value ⁽³⁾	766	-166	52	283
Implied Aareal Bank Equity Value p.s. (€)	12.80	-2.77	0.86	4.74

Implied Aareal Bank Multiples

P/E 2021E ⁽⁶⁾	10.7x	-2.3x	0.7x	4.0x
P/E 2022E ⁽⁶⁾	6.4x	-1.4x	0.4x	2.4x
P/B (Dec-2020A)	0.31x	-0.07x	0.02x	0.11x

Implied Share Price

Implied Aareal Share Price (€)

Aareal Bank P/B	Aareon Valuation			
	Advent Valuation ⁽²⁾	Implied Thoma Bravo / RealPage EV/Sales ⁽⁴⁾	Implied Thoma Bravo / RealPage EV/EBITDA ⁽⁴⁾	Petrus Mid-Point Valuation ⁽⁵⁾
0.00x	10.1	25.6	22.0	18.1
0.25x	20.4	35.9	32.3	28.4
0.50x	30.7	46.3	42.6	38.7
0.75x	41.0	56.6	52.9	49.1
1.00x	51.3	66.9	63.2	59.4

Implied % Upside / (Downside) vs. Spot

Aareal Bank P/B	Aareon Valuation			
	Advent Valuation ⁽²⁾	Implied Thoma Bravo / RealPage EV/Sales ⁽⁴⁾	Implied Thoma Bravo / RealPage EV/EBITDA ⁽⁴⁾	Petrus Mid-Point Valuation ⁽⁵⁾
0.00x	-56%	12%	-4%	-21%
0.25x	-11%	57%	41%	24%
0.50x	34%	102%	86%	70%
0.75x	79%	147%	132%	115%
1.00x	124%	193%	177%	160%

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 Euro 1,368 million Market Capitalization as of 21 April 2021 as per FactSet; (4) Adjusted 2020A as per FactSet; (5) Please refer to appendix for further details (pg. 27); (6) Based on Petrus estimates (Net Income of €72m in 2021E and €120m in 2022E).

VII

Proposed Supervisory Board Replacements

New, Unbiased and Competent Candidates to Revive Aareal...

The three proposed candidates meet the profile requirements of a Supervisory Board that is fit for the challenges that lie ahead for the bank

	Mr Theodor Heinz Laber	Ms Marion Khüny	Mr Thomas Christian Hürlimann
Age	<ul style="list-style-type: none"> 67 	<ul style="list-style-type: none"> 51 	<ul style="list-style-type: none"> 58
Previous / Other Relevant Roles	<ul style="list-style-type: none"> Since 2019: Chairman, BVV (pension scheme for bank employees with €30bn AuM); Member of the Board of Trustees, Hypo-Kulturstiftung 2018-19: Co-Head of the German branch, UBIS (IT and back-office company of UniCredit) 2006-17: Member of the Management Board, UniCredit Bank AG (Munich) 	<ul style="list-style-type: none"> Since 2017: Supervisory Board Member, Erste Group Bank AG and KA Finanz 2015-16: Divisional Board Member, Commerzbank AG (Frankfurt) 2008-14: Head of Division, Unicredit Bank AG/Unicredit Group, (Munich/Milan) 	<ul style="list-style-type: none"> Since 2017: Member of the Board of Directors, Hiscox LTD (Bermuda) and Hiscox SA (Luxembourg) 2003-17: CEO Global Corporate, COO Global Corporate and Global Head of Group Reinsurance, Zurich Insurance Group 2001-03: Global Head of Insurance at Fox-Pitt Kelton, Swiss Re
Experience / Strengths	<ul style="list-style-type: none"> Extensive experience in HR, operational improvement and integration / merger projects Relevant expertise in IT management / digitization Broad Management Board experience Has managed real estate finance transactions 	<ul style="list-style-type: none"> Broad experience across the banking industry in commercial banking, investment banking, treasury management Relevant expertise in portfolio and risk management Extensive experience in people development and board governance 	<ul style="list-style-type: none"> Broad global leadership experience in banking, reinsurance and primary insurance Relevant expertise in digital transformation, software as well as risk and regulation Broad FinTech knowledge through advising a wide range of FinTech and InsurTech companies worldwide
Relevance to Aareal's Needs	<ul style="list-style-type: none"> HR expert Remuneration control, efficiency, management board composition 	<ul style="list-style-type: none"> Portfolio management / risk SPF strategy, efficiency, management board composition 	<ul style="list-style-type: none"> Risk / regulatory, software, strategy, M&A Aareon strategy and unbundling, efficiency, management board composition, SPF strategy

...And End the Paralysis of the Current Supervisory Board

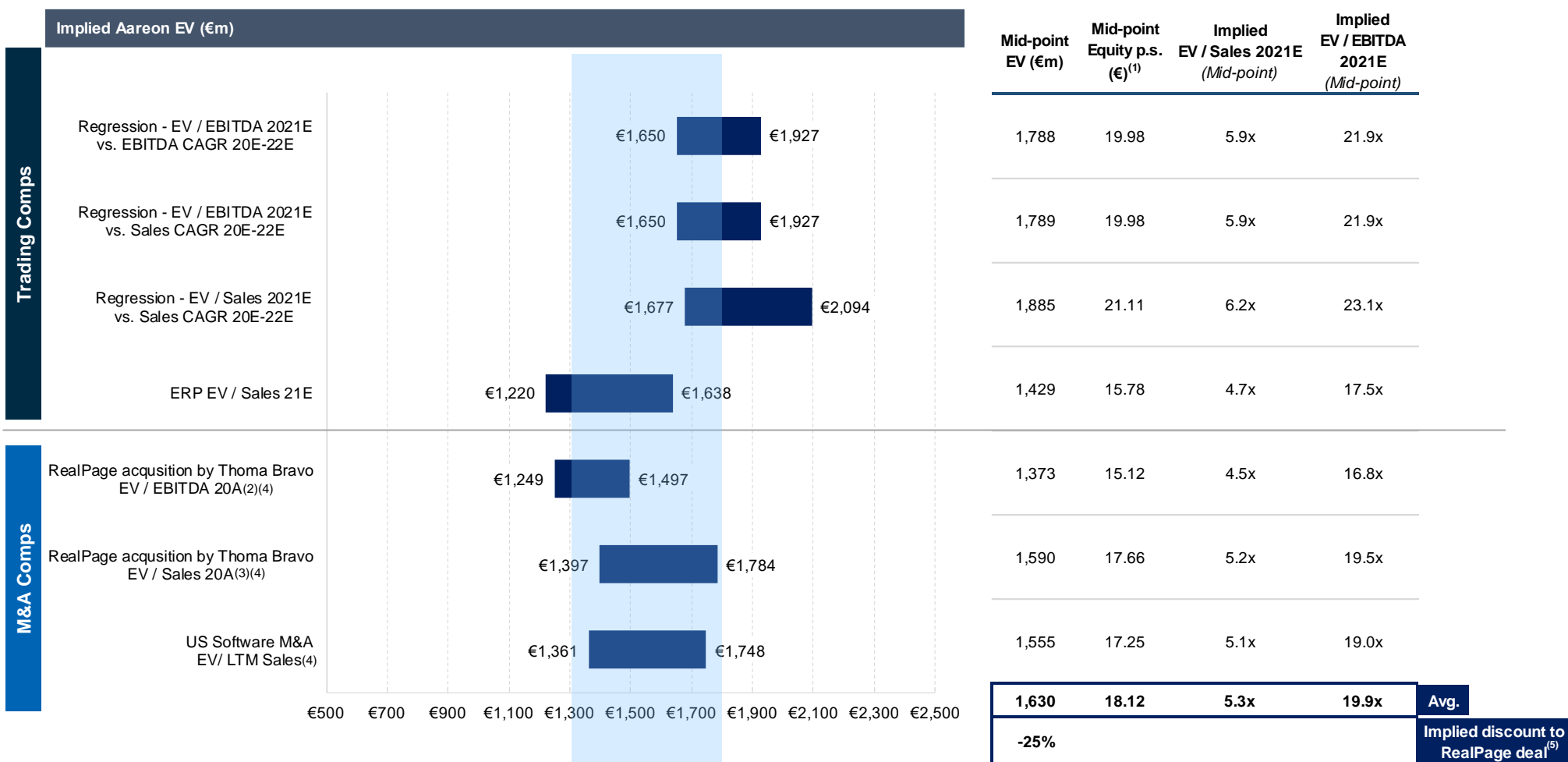
- Under Ms Korsch’s leadership, the Supervisory Board does not appear to be willing to execute the changes required to ensure a sustainable future for the bank
- Ms Korsch, Mr von Dryander and Mr Voigtländer are members of the Remuneration Control Committee and have also failed to stop the remuneration scandal at Aareal

	Ms Marija Korsch	Mr Christof von Dryander	Mr Dietrich Voigtländer
Age	▪ 72	▪ 67	▪ 62
First Appointment	▪ 2012, 2 nd term	▪ 2020, 1 st term	▪ 2015, 2 nd term
Committees	<ul style="list-style-type: none"> ▪ Executive and Nomination Committee (Chairwoman) ▪ Remuneration Control Committee (Chairwoman) ▪ Technology and Innovation Committee ▪ Audit Committee ▪ Risk Committee 	<ul style="list-style-type: none"> ▪ Remuneration Control Committee (Deputy Chairman) ▪ Executive and Nomination Committee ▪ Audit Committee 	<ul style="list-style-type: none"> ▪ Technology and Innovation Committee (Chairman) ▪ Audit Committee (Deputy Chairman) ▪ Remuneration Control Committee
Petrus’ Assessment	<ul style="list-style-type: none"> ✗ Lacks relevant industry experience (commercial real estate lending, SaaS software) ✗ Has continuously backed management’s self-enrichment approach ✗ As Chairwoman of the Remuneration Control Committee, has failed to stop the remuneration scandal at Aareal 	<ul style="list-style-type: none"> ✗ As Deputy Chairman of the Remuneration Control Committee, has favoured inappropriately high compensation and failed to stop the remuneration scandal at Aareal 	<ul style="list-style-type: none"> ✗ As the Chairman of the Technology and Innovation Committee, has continuously failed to exploit Aareon’s growth and profit potential ✗ Instead, expensive Private Equity capital had to be brought on board to do this job

Appendix

All Relevant Valuation Metrics / Approaches Confirm Vast Upside

A going concern valuation of Aareon in the €1.3bn-1.8bn Enterprise Value range seems realistic



Note: Regression analysis based on a range of trading peers including: AppFolio, CoStar Group, Black Knight, Angi Inc. Class A, CoreLogic, CompuGroup Medical, RIB Software, AVEVA Group, Intuit, Autodesk, SS&C Technologies Holdings, Cornerstone OnDemand, BlackLine, Alarm com Holdings, Oracle, SAP, Sage Group. 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 Aareon shareholders; (2) Based on ~31.6x EBITDA 2020A; (3) Based on ~8.8x sales 2020A; (4) Conservatively based on ~30% discount to M&A multiples; (5) Based on average of EV / Sales and EV / Adj. EBITDA multiples.

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