

Transcription
FY 2025 Earnings Call
March 19, 2026



Rene Hoffmann

Welcome everybody to our call! The speakers today are Luka Mucic, our CEO, and Philip Grosse, our CFO. They will briefly present the highlights and the main messages for today before we open up for Q&A where both will be very happy to take your questions.

By way of a heads-up – we will continue with our policy of two questions per analyst, please.

With that, over to you, Luka.

Luka Mucic

Thanks a lot, Rene. – Hello and welcome everybody! This is obviously my first earnings call as Vonovia’s CEO, and hence I am very pleased to connect with you today not only regarding our full-year numbers but also on how we look at the development of our business in the near and medium-term future.

If I may, I will get us started with a high-level view of the key messages and then hand over to Philip for a short recap of 2025.

A quick spoiler alert here: The results were very much in line with expectations, in some cases even slightly above.

This is actually one of my key initial observations: It is probably not really surprising, but seeing it from the inside, I am thoroughly impressed with the remarkable robustness and upward trajectory of the operating business and with the platform Vonovia has built to run that business.

Combined with the various non-rental activities that are all well underway we are happy to confirm the guidance for 2026 and the outlook for 2028.

Our ambition is to grow Adjusted EBT per share by a mid-single-digit percentage number per year over this period.

For the medium term, though, we are more ambitious, and I see considerable opportunities to propel Vonovia to the next level and generate accelerated growth towards the high single digits as we aim to further accelerate and expand our non-rental growth initiatives and productivity gains.

Transcription
FY 2025 Earnings Call
March 19, 2026



Much of this will be driven by three things:

- First, an AI-based, true end-to-end process redesign for better performance and higher efficiencies;
- Second, by leveraging our existing and largely digital interface to our customers for enhanced partner ecosystems to provide a wider range of services;
- Third, building a meaningful B2B business with our third-party management activities.

A key prerequisite to chart this path for higher growth is a more ambitious stance on leverage.

In addition to the organic deleveraging that is already underway we will now accelerate progress towards our new targets through a more proactive positioning towards disposals.

Another area of change is disclosure. We are now showing you bottom-line shareholder earnings after taxes and after minorities, and we are providing more color around our non-German exposure and development activities.

Speaking of disclosure – we have also simplified our dividend policy into a much more straightforward version where we pursue a progressive dividend policy that aims to pay out between 50 and 60% of Adjusted EBT.

For 2025 we will propose a dividend of €1.25 to this year's AGM.

With that, over to you, Philip, for our full-year 2025 results.

Philip Grosse

Thank you, Luka. – Welcome also from my side! We are very pleased with our performance last year. All our four segments showed meaningful growth for a total increase in Adjusted EBITDA of 6%.

The Rental segment was up 2.5% in spite of around 9,000 fewer units and slightly higher opex that was driven by inflation.

Organic rent growth was 4.1%, of which 2.6% were market-driven and 1.5% from investments.

Transcription
FY 2025 Earnings Call
March 19, 2026



Occupancy, as you would expect, remained high – almost 98% – and the same goes for our collection rate with almost 100%.

In Value-add we saw an increase of 17% to €198 million and that was largely attributable to an increasing contribution from our craftsmen organization based on efficiency and volume increases as well as the growing energy business.

If you adjust for the €58 million one-time effect from the coax lease agreement signed in 2024, the growth in this segment would have been even much higher.

In Recurring Sales we succeeded with our strategy of putting profitability first. While overall sales volumes were a bit below the prior year, we were able to realize much better fair-value step-ups of 32% and, with that, increased the EBITDA contribution by 44% to €83 million.

The EBITDA in our Development segment more than doubled to €75 million. As we have been reporting throughout last year, this was partly driven by land sales.

Impacted by higher financing expenses and the higher share count triggered by the scrip dividend we paid last year, the Adjusted EBT per share grew by 3.1% to €2.29.

Luka mentioned the new metric Adjusted Shareholder Earnings, so Adjusted EBT minus tax expenses and minorities. On a per-share basis that number came to €1.85 in 2025, up 3.6% compared to the prior year.

While minorities were 16% higher in 2025, taxes were 6% lower.

Our Operating Free Cash Flow was 3% below 2024 and that change is the result of higher cash payouts to minorities in context with the minority sale of Deutsche Wohnen for the domination agreement, an increase in capitalized maintenance and a positive but smaller net working capital change as we ramp up our efforts in Development to Sell as well as in Manage to Green.

I'll get to valuation on the next slide but the impact on EPRA NTA was that we have seen the first year-on-year per-share growth since 2022. With slightly above €46 per share the EPRA NTA was 2.3% higher than at the end of 2024.

And finally for this page, the three main debt KPIs: Net debt to EBITDA was 13.8 times, an improvement of 0.7 times compared to the pro forma 2024 numbers.

Transcription
FY 2025 Earnings Call
March 19, 2026



LTV was 45.4%, 40 basis points below the 2024 pro forma numbers. And ICR was 3.8x, 0.1 turn above 2024.

Moving to the next page: The full-year valuation resulted in a net value gain of 1.8% in 2025. That, first, is on a like-for-like basis and, second, without the rent growth bought by investments.

As expected, there was an acceleration in H2 with 1.1% after the 0.7% we had seen in the first half of last year. If you include investments, the full-year growth is even 3.1%.

The chart on the lower left-hand side nicely captures the turnaround in values and the trajectory of an organic value growth that is largely driven by rental growth.

As of the end of 2025, our standing assets had an aggregate value of €80.7 billion, reflecting an in-place rent multiplier of 23.2 times or an initial gross yield of 4.3%.

Let's have briefly a look at the transaction market and valuation expectations for the running year.

First of all, the institutional transaction market saw a total deal volume of approximately €9 billion last year.

In terms of transaction activity and deal sizes, there were more transactions than in 2024, but the average deal size was smaller, though with an increased activity also from international investors.

For the running year 2026 residential is expected to remain the most attractive real estate asset class, and both Jones Lang Lasalle as well as CBRE anticipate a transaction volume of up to €10 billion, so a notch above what we have seen last year.

The average value growth is estimated to be between 2 to 4% by Jones Lang Lasalle and 2 to 3% by CBRE. That actually confirms our assumption that organic rent growth net of investments should largely translate into organic value growth.

Page 6 is a reminder of our EBITDA growth ambitions for 2026 and 2028 including the growing contribution from our non-rental activities.

After 13% in 2025 we expect at least 15% for this year and then 20 to 25% by 2028, so no change.

Transcription
FY 2025 Earnings Call
March 19, 2026



As growth in our Rental segment is ultimately capped at some 5% annually because of the tight regulation in our markets, it is crucial for us that we increasingly focus on growing our adjacent businesses.

Until 2028, we aim to deliver mid-single-digit Adjusted EBT growth on a per-share basis. For the medium-term then, supported by lower leverage and additional growth opportunities, our ambition is to grow Adjusted EBT at a high single-digit rate.

Moving to page 7. Luka already mentioned it at the beginning: We have revisited our dividend policy and simplified it for a much more straightforward version: We pursue a progressive dividend policy and aim for a payout ratio between 50 and 60% of Adjusted EBT.

I know that the scrip option has been a topic of quite some debates. But it served specific purposes in the past.

In the early years, we issued new shares for the scrip option at or even above NTA, and that was an accretive form of new equity to finance growth. In recent years, paying part of the dividend in scrip helped us mitigate the cash outflow at a time when cash management was actually THE priority.

Now that neither is the case, we do not intend to offer a scrip option unless our shares trade much closer to NTA. We define "closer" as a discount of no more than 10%.

Specifically for 2025, we will be proposing a cash dividend of €1.25, so 2.5% higher than last year, to this year's AGM, which by the way will be an in-person event in Bochum.

With that, Luka, back to you.

Luka Mucic

Thank you very much, Philip. – I look forward to hopefully seeing many of our investors in Bochum then for the AGM.

As I said in my introductory remarks, in order to chart a path to high single-digit earnings growth in the medium-term, we also need to take a more ambitious stance towards leverage.

Transcription
FY 2025 Earnings Call
March 19, 2026



Make no mistake – our rating outlook across the different rating agencies is stable, and our relevant KPIs are improving already today, as Philip has shared. So the current leverage works very well from a rating agency point of view.

But the fact of the matter is that we have to be mindful of the headwind from higher financing expenses. That is why we have defined tighter targets that we want to achieve by the end of 2028 for more balance sheet flexibility and bottom-line shareholder growth:

- Net debt to EBITDA multiple of less than 12 times;
- LTV of around 40%;
- and ICR comfortably above 3 times.

These more stringent leverage targets will help us to accelerate the organic deleveraging process that is already underway via EBITDA growth and organic value growth from rent growth.

In all of this, one thing is very important to me: All of our efforts to further reduce leverage will be measured against their medium and long-term impact on our business and our ability to create value for our shareholders.

Our deleveraging efforts will include a more active pursuit of disposal opportunities. In this context, all options are on the table, as we are also reviewing our minority positions in non-strategic participations both here in Germany as well as abroad.

The key message here is that our decisions will be guided by what is the most sustainable way to delever, not solely by what is the fastest solution. Why? Because we act from a position of strength in a much more conducive environment. This is not like the period between 2022 and 2024, where we operated under the adverse circumstances of sharply increasing rates and declining values.

And finally, in pursuing our new leverage targets we are in no way departing from our 2028 EBITDA objectives. We actually aim to deliver on our targets and still delever faster than initially anticipated.

With that, let me move on to page 9. Leverage is not the only area where we are changing course. We are committed to adequate, comprehensive, and transparent investor communication.

Transcription
FY 2025 Earnings Call
March 19, 2026



With that in mind, we have revisited our disclosure and made a few changes. The first and possibly most relevant one is the introduction of a bottom-line shareholder earnings metric that you can see on the right-hand side of page 9.

Because of the increased relevance of taxes and minorities we will now reconcile between Adjusted EBT and the new bottom-line metric Adjusted Shareholder Earnings. We provide this color for both reported numbers and guidance.

Please bear in mind that Adjusted EBT will remain the lead KPI to reflect our recurring earnings capacity but there will now be full transparency how much of that is attributable to shareholders.

Another change you will see is increased disclosure on our non-German exposure as well as on Development.

Given the relative significance of these parts of our business we agree with the market sentiment that both areas warrant more information so that investors get a better understanding of the dynamics and the value creation.

And finally, a few words on the guidance and outlook. Philip already covered some of this, but please let me add a bit of color.

The guidance on page 10 is very similar to what we showed you in November. We explicitly confirm the guidance for 2026 and the outlook 2028. So, we will pursue the tighter leverage targets AND deliver on our original objectives.

One line item is new, though, and this is Adjusted Shareholder Earnings, as covered before.

You may recall Philip's verbal guidance from the November call that we expect tax expenses of around 10% of Adjusted EBITDA Total and minorities of around 10% of Adjusted EBT.

We have now translated this into specific ranges to provide specific guidance for Adjusted Shareholder Earnings.

When you look at this metric, though, please bear in mind that this is exactly what it says: It is an earnings number; it is not a cashflow proxy as most of the cash we generate in our Recurring Sales and Development segments is not included here because we cannot mix up earnings and cash in our accounts.

Transcription
FY 2025 Earnings Call
March 19, 2026



The taxes on these sales, however, are included. That is why we also have the Operating Free Cash Flow which was €1.8 billion in 2025. For 2026, we expect a similar magnitude net of working capital changes. They are the only moving part here and will mainly depend on the volume of Manage to Green acquisitions in 2026.

Now, looking beyond 2026 we clearly expect Adjusted Shareholder Earnings to grow on a per-share basis, also because dividends to minorities will no longer move up. The actual magnitude of the growth will largely depend then on disposals as well as the decision and economics around the Apollo call options.

So, we do see potential for attractive growth in Adjusted Shareholder Earnings but it is more challenging to guide for a couple of years out and we may have a small lag compared to the Adjusted EBT growth in the near term.

Medium term, the combined effects from our strategic growth initiatives, the reduction in corporate income taxes and our accelerated deleveraging should pave the way for higher growth. We will assess this more precisely when we have progressed on the latter.

And with that, back to you, Rene, for Q&A.

Rene Hoffmann

Thank you, Luka. Thank you, Philip.

A quick reminder before we start the Q&A – let's please stick to the two questions policy. If it's okay for you and the questions are not immediately related, let's tackle them one by one. That'll make it a bit easier to respond.

With that, over to Sandra to open up the Q&A for us.

QUESTION AND ANSWER SESSION

Our first question comes from Charles Boissier from UBS. – Please go ahead.

Charles Boissier

Thank you for taking my questions and our best wishes in your new role! Two questions from my side.

First, on the 2026 guidance, you mentioned specifically on the new Adjusted Shareholder Earnings that it's an earnings metric and not cash flow. I just wanted to clarify my understanding.

When you mentioned that income taxes are for the core business, does that mean that you do include in the Adjusted Shareholder Earnings the proceeds from sales related to recurring disposals, but you do not include the taxes associated to them? If that's the case: What would be the tax impact from those sales?

Associated to it, as well on that metric - hopefully that's still only the first question: On the minorities position, did you think that it's an accounting metric there? And what would be there for the cash minorities for 2026?

Luka Mucic

I think that's one for Philip. But I would say on the first part, it's exactly the other way around. - Please go ahead, Philip.

Philip Grosse

Okay. - On the Operating Free Cash Flow, what you will see is the cash impact on the minority sale to Deutsche Wohnen which we have done in August last year; that is around €70 million. So, that is an uptick. Anything else will really depend on how many Deutsche Wohnen shareholders will opt for the guaranteed dividend versus exchanging their holding in Deutsche Wohnen shares.

But apart from that, those numbers are fairly stable on a cash metric vis-à-vis the respective minorities we've shown in the 2025 accounts.

On your first question on taxes: The Adjusted Shareholder Earnings include all taxes from our two disposal-related segments and that is Development to Sell and that is Recurring Sales. To be very clear: It's only the tax bit; it's not the capital

Transcription
FY 2025 Earnings Call
March 19, 2026



we are freeing up as a result of those disposals. That is only what you see in the Operating Free Cash Flow.

That's a very good example why you essentially cannot mix up in our more differentiated business model accounting metrics with cash metrics.

Charles Boissier

Okay, clear. – My second question is on the CEO compensation metrics. Given all the new metrics, dividend payouts change, deleveraging objective: Is it possible to ask you what are the short-term and long-term incentive metrics that make your compensation?

Luka Mucic

They are actually unchanged from what you see in the compensation report for the Executive Board also in 2025. So, there has been no model change here.

There is a qualifier in that compensation model for the exceedance of certain debt-related KPIs. We obviously are very certain, given our ambitions, that we will stay very well below those. Those might be in the future then subject to adjustment. But the core metrics themselves are absolutely unchanged. So, please look them up in the compensation reports. They will apply to me as well.

Charles Boissier

Yes, I know them. Thanks.

Operator

The next question comes from Bart Gysens from Morgan Stanley. - Please go ahead.

Bart Gysens

Hi! My first question is on deleveraging. When you say that you're going to take a more active or proactive pursuit of deleveraging: To what extent is that keeping net debt stable and letting the EBITDA and the portfolio valuation grow? Or are you actually pursuing to bring net debt down over the next three years? – That's the first question.

Luka Mucic

Let me perhaps start with LTV and then work my way over to net debt to EBITDA because, obviously, we are looking to trim down the absolute debt as well.

On the LTV basis, we are now, as you know, at 45.4%. We indeed believe, as Philip has shared before as well, that valuation will remain constructive. It has been so now since the second half of 2024 that we have seen improvements and we don't expect that this trend will stop. So, this will carry us a certain way.

With the reasonable assumption that rent growth should carry through to valuation growth, you would probably arrive at an LTV of around 43. So, in order to reach the 40%, we need to do something on top and that is working on the portfolio and actual deleveraging through sales.

In that respect, we have a wide range of options that are all on the table, from accelerating our organic sales efforts in our privatization business through the sale of minority positions through our non-core portfolio, which is still quite significant with 2 billion in our books, also two additional core sales across the vast portfolio that we have there across three countries.

That will carry us to the 40. Then, if you make the math on a net debt to EBITDA basis and just apply the midpoint of our EBITDA guidance for 2028, this tells you already that, with that alone, we would be at the 12 times net debt to EBITDA corridor. With the additional color that I've given on the LTV, it obviously also tells you that, in actual fact, we will probably be quite a sizeable bit below that 12x mark.

So, the answer is clearly: We are going to work on the absolute debt levels as well because our aim is to make sure that we see the headwind from interests dissipating to make then room for the full growth potential of our underlying operating business.

Bart Gysens

Okay. Thank you. – Then my other question is on exactly the point you just mentioned: the 2028 outlook on 20 to 25% of between 3.2 and 3.5 billion that will be non-rental EBITDA.

If I take the midpoint of that 20 to 25 and the midpoint of the EBITDA, then we're looking at more than 750 million of non-rental EBITDA. Can you break that down?

You mention additional potential in digitalization and AI-based end-to-end process redesign, partner ecosystems and B2B business. I understand all the words separately, but together I'm not entirely sure what that means.

Can you help me understand what that is and actually how that would break down, that 750 million?

Luka Mucic

Yes, absolutely. First of all, it is what we have always defined as the opportunity, which means the growth that we expect in our Value-add segment, in our Recurring Sales segment and in our Development segment.

You have seen that, across all of those three, we have made significant progress in 2025 already. But in particular in the Value-add segment, a number of initiatives that we have only started to pilot in 2025 - such as, for example, our push for a higher share of operate energy related revenues, with the additional push towards photovoltaic and heat pump installations - are just now starting to scale up. In the next few years they will have a larger impact.

In the Recurring Sales segment, we would in the future then also see the revenues from our Manage to Green initiatives. We have now made two acquisitions in Manage to Green for a total of 110 million, close to 900 units. Once we have modernized them, we would look to recycle them, obviously, and sell them out. That's what would show up there as well, in addition to our normal privatization volumes.

But that is all considered already in the share that we have laid out where the Value-add segment should be 9 to 12% of that total contribution, the Recurring Sales 5 to 8, and then the Development segment 4 to 5.

These additional opportunities that I've laid out, I think, it's very important to understand where they would contribute.

On AI: The beauty is that, in our industry, AI can actually be a booster to both the top line as well as the bottom line through productivity. On the top line, I see great potential to speed up processes, for example, across the end-to-end process

lifecycles of our investment process that ultimately leads into modernization work, either at an individual apartment level or a building level.

By scheduling tasks, we can actually accelerate the cycle time there, which would lead to faster revenue. At the same time, we have big productivity opportunities.

So, this would be a combination of top line and opex impacts that would actually accrue mainly to the Rental segment. One.

Secondly, on the B2B business which would be the operation of third-party portfolios: That would then also show up in the Value-add segment and would obviously boost the growth even further.

So, if you ask me, Value-add will be a very sizeable business by 2028, boosted by those additional opportunities because we're just getting started with B2B now.

Bart Gysens

Great. Thank you very much.

Operator

The next question comes from Valerie Jacob from Bernstein. - Please go ahead.

Valerie Jacob

Hello, good afternoon! My first question is on your new metrics of Adjusted Shareholder Earnings. I was just wondering: If I look at what your peers are doing with this type of metric, usually depreciation is excluded. And you have decided to include it in this metric. I just wanted to understand what is the rationale and why you did that.

Also on this metric, I was curious why you do not base the dividend distribution on this metric and why you keep it on the EBT?

Philip Grosse

Valerie, I think it's kind of a similar answer to the first question on Adjusted EBT. It's an accounting metric for a more differentiated business model we have. Part of our business model is also in the energy business, here predominantly in photovoltaic business. And that is causing the depreciation.

Transcription
FY 2025 Earnings Call
March 19, 2026



You don't have depreciation if you are real estate only. That's kind of the trigger why we have decided to deduct depreciation because over time, in essence, that is something we need to earn because then replacement investments are necessary.

Valerie Jacob

Okay. And on the distribution?

Philip Grosse

On the distribution: Again, you have accounting-wise the minority share on the accounted profit, which is included in the minorities. Cash-wise - and that is true for, in particular, the Apollo joint ventures we did in 2023 - that distribution may differ. And that is what you see in the Operating Free Cash Flow.

But again: Cash flow is different to accounting metrics, which is why it is important to look at both.

Luka Mucic

It's also, if I may add, a matter of simplicity at the end of the day. We had a dividend policy before which was based on Adjusted EBT, too, but then added a quite complex cash-based consideration to it.

We think that a combination of the clear statement that the dividend will be increasing progressively, given that we have also a mid single-digit growth ambition for Adjusted EBT, and that we provide a range is giving much more clarity. In that respect, we are essentially not really departing from what we have done in the past, we are just simplifying it.

Valerie Jacob

Thank you. - My second question is on your B2B business. You've been talking about developing this business for quite a while and you still haven't made any announcements. So, I was just wondering if you could share why it's taking some time and when you think we can expect some announcement on this business.

Luka Mucic

Thanks for the question. First of all, we are in the B2B business already. We have actually a business of more than 70,000 units that we are already providing property management services to. We also have a range of customers, both in the real estate industry and beyond, for our facility management services. So, it's not that we're starting from a clean sheet of paper here.

There are two different models under the B2B notion. One is what I would call à la carte, which is a kind of more operational services, like property management, like facility management, that we provide to individual customers. That is a business where we have a vast market out there, where we have actually incremental discussions all the time.

We are actually quite close to signing up additional customers on that one. But as it is more operational in nature, I'm not sure whether we would make a big announcement about adding more customers in this space.

The other one is really what I would call the full menu option, where we would work with institutional investors to partner up and team up to service their acquired portfolios holistically across investment management, asset management, property management and then additional value-added services. These are very strategic transactions. By definition, therefore, they are complex and will take more time. But obviously, the contribution from them can be much more meaningful.

In this respect, we are also in active conversations. But as always, I would prefer to talk about them once we have concluded them. I'm confident that we will have more to talk about in this respect as we progress through the year.

By the way, this B2B business is also very helpful for us in the context of our plans to potentially dispose of additional portfolios because in all of those areas where we were already the operator for those portfolios, it's quite an obvious consideration for any acquirer to continue to benefit from the scale that we can offer in our platform and continue to operate those units which obviously would provide us then, despite the fact that we would go for a disposal, with continued EBITDA contributions through the B2B notion.

Valerie Jacob

Thank you very much.

Operator

The next question comes from Thomas Rothäusler from Deutsche Bank. - Please go ahead.

Thomas Rothäusler

Hi! Welcome on board, Luka! I've got two questions.

The first one is on the earnings growth outlook. You target accelerated earnings growth from 2028 onwards despite actually more disposals for deleveraging. I'm just wondering, what are the key drivers here you assume?

Luka Mucic

Thanks a lot for the question. We are talking about the medium term post our 2028 ambition, obviously. There are a couple of levers in this respect, first of all the ones that we have already talked about.

All of the continued strong contributions from our non-rental areas will certainly continue. We will add to this growing stream of B2B revenues, plus the additional opportunities that we see from a productivity perspective through new technologies. That obviously goes without saying.

Second, we obviously expect that through the deleveraging that we provide, we will see the headwind from the interest costs coming down. Plus, as we refinance our debt, we bring down the gap between historic interest levels that define our current debt stack and the one that we will see a couple of years from now. So, this will not be a big headwind anymore.

Therefore, the way to think about the overarching growth profile is: We will have a rock-solid core rental business with extreme stickiness and 5% growth on the top line, as we have guided for.

You add to that a much stronger growth across the non-rental initiatives; you add the additional boost from technology and B2B and you see the headwind dissipating and that in aggregate obviously will make room for that higher growth.

Thomas Rothäusler

Okay. Thank you. – One follow-up on disposals: What will be the focus of disposals? And at what terms are you willing to dispose assets?

Luka Mucic

As I said before, really everything is on the table. So, what is on display? One, we see scope to accelerate our organic privatization business. Last year, we have sold 2,333 units. We see no reason why this should not move up quite a bit. I think 3,000 to 3,500 should be readily possible, perhaps even a notch more than that.

We have been mentioning non-strategic equity participations, minority positions that we hold domestically and abroad. These sum up to roughly half a billion euros. To give you one example: We are a small minority stakeholder in Vesteda, the Dutch entity that is currently going through its redemption process; we are participating in that. That alone is a value of around €200 million.

In addition to that, we have our non-core portfolio with 2 billion 300 million each in commercial as well as in nursing assets, and the rest in non-core residential assets. We will certainly look at accelerating the sale of those. As these are for the most part higher yielding ones, it should be actually quite plausible to assume that we can sell them off quite well.

Then, we have our large core portfolio across three countries - Sweden, Austria, Germany - where we really want to leave all of our options on the table and see how demand is shaping up and what is of main interest in all of this.

You have asked about our positioning towards those. I think it's a combination. We will be disciplined, for sure. We will be guided by how we drive for most sustainable value creation. That means, of course, that we want to realize proper values for any transactions. But we will also be pragmatic, like, for example, in the non-core area where already in the past we have been, I would say, properly positioned between being stringent and flexible where necessary.

With all of that, plus the fact that the transaction market, as Philip has said, is in a more constructive shape, I would say, than a couple of years ago and the fact that in aggregate we are probably talking about a maximum of a mid single-digit billion amount of transactions, we should really be able to do this the right way and with the right value creation.

Don't forget that, in the last few years, under much less conducive conditions, the company was quite successful with selling an even higher amount of assets. So, we are confident that we can repeat it and drive for appropriate values to be realized.

Thomas Rothäusler

Okay. Thank you.

Operator

The next question comes from Véronique Meertens from Van Lanschot Kempen. - Please go ahead.

Véronique Meertens

Good afternoon all! Thank you for the presentation and taking my questions.

My first question is a follow-up on the deleveraging and the disposals. I was just curious: Obviously, a lot is happening in the market, in the world over the last two weeks. Especially since yesterday, we are now looking at potential rate hikes.

I'm just curious how this is changing your view because I also just heard you mention that you still expect a similar trend in terms of value gains.

So, I'm just wondering if this has changed anything in the last two weeks, with your stance towards staying so pretty disciplined in terms of disposals.

Philip Grosse

Véronique, I think, things have not really changed. The real estate market is not functioning on a daily basis. Due diligence terms take some time. And if I purely look at the refinancing environment, yes, we've seen an impact of roughly 30 basis points increase in financing terms as a result of the crisis in the Middle East. I think we have to wait and see how that develops.

For now, no change. For now, no change in discussions we are having on the investor side. But stating the obvious: We are looking at the developments in the Middle East and, I think, as a principal matter we are well advised to drive our capital structure a bit more to the conservative side, as explained.

Véronique Meertens

Okay. Thank you. – Secondly on the new metric, Adjusted Shareholder Earnings. I was wondering if you could elaborate: Have you thought about actually going to FFO 1 and FFO 2 to make it a bit more comparable to peers where you still can show an FFO 2, obviously the other two business lines?

What was the reason to actually come up with the Adjusted Shareholder Earnings?

Philip Grosse

Again, we have to differentiate between accounting and cash returns. When you have a business which is not only about the rental business, but which has in particular also a development business and a privatization business, the FFO metric is simply not the right metric to look at.

We have been discussing before in the privatization context that one element is the profit you make post tax. The other element is what capital you free up. The same applies to the Development segment. That's why we have to differentiate between the two.

If you look at our Operating Free Cash Flow, all ingredients are there that you can actually see what cash flow our business is producing.

Véronique Meertens

I appreciate that. But there are peers of you that also have a development segment or a recurring sales segment. That should then encounter the same problem.

Philip Grosse

That might be the case. If at all, it's one and at a very low bit, as I understand the numbers.

But again, you have to account for the cash flow the business is producing. The FFO concept is simply not doing the trick.

If you go through the various metrics, you see that one by one. On top, we are guiding on the Operating Free Cash Flow. So, you actually know what to expect for the running year, net of changes in working capital, as Luka explained. That's what I can say about it.

Véronique Meertens

Okay. That's clear. Thank you.

Operator

The next question comes from Pierre-Emmanuel Clouard from Jefferies. - Please go ahead.

Pierre-Emmanuel Clouard

Good afternoon and thank you for taking my questions. My first one is actually on your disposal plan strategy.

You want to review your non-strategic participations in Germany and abroad. But would you contemplate a full or partial exit from Sweden to accelerate deleveraging?

If you could also remind us of your main minority positions in non-strategic participations outside Germany, it would be helpful.

Luka Mucic

On that last one very quickly: It's really mainly the Vesteda participation. The rest are German participations for the most part, for the practical purposes. So, that's this piece.

On Sweden: When I said everything is on the table, that includes Sweden. Absolutely.

But a few statements on Sweden perhaps: First of all, it's really a fine business. I would not be surprised if it was attracting attention and interest. Per Ekelund, our CEO there, is doing a terrific job. You have seen now from the additional disclosure that also the operating metrics are actually in quite good health.

But it's not a small business. It's a large business, with 7 billion value attached to it. So it would be a large chunk for anyone to acquire completely. That may be different if only a partial transaction might be at stake. Again, we will consider all options.

But I want to make it also very clear that there are alternatives for Sweden I find very interesting, too. In particular, Sweden could be, similarly to our German platform, a very good platform on which we can expand third-party B2B services for other players in the market. This is certainly an ambition that we would also look into, either with the scope of a disposal or without, because, as I explained before, you could very well in the context of also partial disposals think about continuing to provide B2B services.

Pierre-Emmanuel Clouard

Okay, interesting. Maybe a quick follow-up on that: Would you contemplate a potential spin-off of Sweden to maybe let other shareholders enter and grow the platform outside Vonovia?

Luka Mucic

Well, look, this is all highly speculative. As we said, we are extremely open and we will look at all possible options.

But let me come back to the trade-off discussion here. A couple of years ago, we were all going after speed and transaction certainty. But as a result of that, there were also some transactions closed that were highly complex and, at the same time, in the long run also are costing a bit more over time.

As we have now the time and as we can really look at the full scale of opportunities and options, we want to make sure to also give due consideration to simplicity in going after the deleveraging and sustainability of value creation. So we will always properly weigh this against the different options that we have.

But nothing is off the table in this respect. And it would not be wise to do so at the beginning of the journey.

Pierre-Emmanuel Clouard

Okay, understood. – My second question is on your capital allocation, actually, as you are trading at a material discount to your NAV. Would you contemplate any share buyback or is the 40% target first and then you could consider a share buyback?

Philip Grosse

Deleveraging comes first. That is our target. And a debt-financed share buyback is currently not on the cards.

Luka Mucic

Also from my perspective: I'm certainly not having a religious stance either for or against share buybacks. In my last two roles at other companies, I've done sizeable share buybacks. They are a useful instrument in the toolbox if you have excess cash available, and that is clearly not the case at the moment.

So, let us first progress on what drives the most value for our stakeholders, which I would argue is the deleveraging.

Pierre-Emmanuel Clouard

Okay, that's clear. Thank you very much.

Operator

The next question comes from Marc Mozzi from Bank of America. – Please go ahead.

Marc Mozzi

Thank you very much. – My question is around trying to square a circle around the fact that previously you had mid single-digit earnings growth, no disposals. And now you have the same growth target and about 4 to 6 billion of disposables implicitly guided. Can you help me to bridge that gap and tell me which area of the business is going to grow faster now than was previously targeted?

Luka Mucic

Let me give it a try. If I'm not succeeding, Philip can add to it.

But it's at the EBT level where we have guided for mid single-digit growth. First of all, a straightforward statement: If we dispose of core property units - let's carve out the minority stakes for the time being -, then, yes, of course, we would lose rental income and hence some EBITDA, but we would gain almost the same

amount in terms of interest gains under reasonable assumptions for the interest rates development. And so, at the EBT level, it would be fairly a wash. That's the first one.

On the EBITDA side, as I tried to explain, as we are losing EBITDA when we sell off properties, we might not lose all of it because a good portion might come back through us continuing to operate these premises under our B2B notion.

Second, I think you are seeing already today on our trajectory that we are on a very good path. Our guidance for EBITDA in 2026 is at the midpoint at 3 billion, so 200 million up from last year. If you just simply extrapolate this, it obviously gets you into a very, very comfortable zone on the 2028 ambition and, hence, the subtraction of some EBITDA from disposals is still manageable within that context.

And third, within the ramp-up of our non-rental businesses, as I said at the beginning, too, there are ones that today are not really contributing yet to the trajectory because they have just been piloted or were in PoC mode in 2025, but they are ramping up now, such as, for example, our additional energy installations, and they will contribute more in the years to come.

So, all of that in combination will make sure that we arrive at the targets.

Marc Mozzi

Okay. I would love to say I understand, but actually I'm not sure I get that clear. And it looks like your share price is in the same position that I am.

My second question is: What sort of debt product would you like to issue to face your upcoming refinancing, which is around 4 to 5 billion every year?

Philip Grosse

First of all, this year it's 2.7 still remaining because we have retired some of the refinancing we did in November last year.

The mix, Marc, is as usual. We will predominantly look at the corporate bond market – and that across currency to diversify our risk profile.

I think I've made also clear that I see potential for some additional convertible product, which is a pure debt product, to be again very clear on that point, and

Transcription
FY 2025 Earnings Call
March 19, 2026



also accounted 100% as debt in our statements. And here I do see market capacity between 10 to 15% of market cap in that product.

Marc Mozzi

Thank you very much.

Operator

The next question comes from Paul May from Barclays. – Please go ahead.

Paul May

Hi, guys! Two separate questions from me. Now you're kindly showing the shareholder earnings, which obviously show the dilutive impact of actions that previous management had taken in terms of selling assets and the 20% below your management KPIs, and even lower on a cash basis – we can debate that as to what should or shouldn't be included.

On the cash side, I just wonder, Luka, coming in as an outsider, why do you feel that the significant misalignment between management KPIs and shareholder income or earnings is appropriate?

Earlier you mentioned that Vonovia successfully sold assets in the past, but as you've shown today, those were quite detrimental to shareholder earnings. I just wonder, does that mean moving forward that because the KPIs are different, you're willing to do things that are good for management KPIs, but not good for shareholder KPIs? I just wondered how you are thinking about that in the disposals moving forward and how you think about that misalignment.

Luka Mucic

First of all: I'm sorry to say, but I think the majority of the disposals that the company did in the past few years were not detrimental to shareholder earnings. They were straightforward in that sense.

You probably refer to the structured transactions that were different in nature. But at the time, to be fair, I think they were the best path forward for the company to raise equity where otherwise a straight raise should have been far more expensive and far more dilutive to shareholders.

Transcription
FY 2025 Earnings Call
March 19, 2026



Now we are in a different situation. We have different tools and a wider range of opportunities at our disposal. Hence, we will obviously prioritize also for simplicity. But I just wanted to make clear that this is the case.

On the metrics: To be quite honest, I've been having discussions, even before my onboarding here with Vonovia, with some of the key shareholders of the company, as well as some analysts, to get a sense of what are the topics that are burning. And clearly, deleveraging came out as the number one topic and we're addressing it today.

There was the notion, for sure, that disclosure metrics and the change a couple of years ago was not necessarily liked by everyone. But there was also the notion that completely changing upside down again the set of metrics would also not be the right path forward.

So, what I believe is important is that we provide transparency on the items that really matter, and that is the true bottom-line contribution that we have laid out today, reconciling back from EBT to the impact of taxes and minorities. You have that transparency now, and over the next few years, we will work hard to make sure that this metric is growing, as we have discussed before, and is moving into the right direction.

Paul May

Okay, just following on from that: The EBT is going up and the shareholder earnings are going down year on year. I just wonder why that misalignment isn't an issue for you, and why you think that the previous actions have been good for shareholders versus management KPIs. I'm struggling to understand.

Luka Mucic

Again, just very briefly and then we can take it perhaps offline in a separate conversation. – We believe that the metric will grow in the future, for a variety of reasons, as we discussed before, and hence that alignment in the future should certainly be given.

Paul May

Okay. Perfect. Thank you. – Then just a second question. I just wondered: When were your budgets last updated in terms of the guidance? Obviously, there's been

Transcription
FY 2025 Earnings Call
March 19, 2026



a significant move in underlying rates and in margins post the Middle East conflict flaring up. I appreciate that may not continue, but expectations are now for some rate increases and changes there.

I think, Philip, you mentioned that all-in financing cost is only up 30 basis points since the start of the conflict. I just wonder how you can reconcile that with the roughly 50 basis points move in swaps and margins that have also moved out by 10 to 20 basis points, if not potentially more. I'm just trying to understand how that relates back to 30 and when the budgets were updated.

I think LEG last updated in October when swap rates were at 2.25, and they're now 2.8. So I am just wondering if timing is also an issue that we should be considering.

Philip Grosse

We do the budgeting certainly in acknowledgement of spot rates. But we also run some sensitivities and we have some safety buffer in terms of the interest rates we assume.

The 4.3% you are currently talking about, for ten years, or the 4% we are talking about for eight years, is very much in line with what we have been budgeting.

Paul May

Okay. So, you had some wiggle room, as you say, within the guidance already.

Philip Grosse

Yes, we had.

Paul May

Perfect. Thank you.

Operator

The next question comes from Thomas Neuhold from Kepler Cheuvreux. – Please go ahead.

Thomas Neuhold

Good afternoon! Thank you for the presentation and taking my questions. I have a couple of questions on the Development business.

Firstly, I was wondering where you currently stand at reaching the €3,600 construction cost target for some of your new projects.

And secondly, I was wondering: The current projects you have in the pipeline for the build to sell business, are they mainly geared to retail or institutional investors?

Then I was also wondering: You still have quite a large land bank, and in the past you were mentioning that you're considering some disposals here. Can you please provide us an update where you stand here?

Luka Mucic

Let me quickly start on the development cost, and then for the rest I will hand over to Philip.

On the development cost, we're actually making very good progress on the new projects that we are starting. The 3,600 is actually a standard that we can reach. We could actually go even below that. But that then depends really on the acceptance also of municipalities of all of the new possibilities and our ability to really go ahead with our base buildings that we have constructed.

But it helps, obviously, that we have a growing share of serial building partners, not only Gropyus but also others. And the more we can bring them to bear, the more solid this gets. Obviously, we're still working down a legacy list of projects where this is not the case, but on the new stuff, this is actually working quite well.

Philip Grosse

Disposals are geared to retail. It's the market which works much better and where we can get better gross margins. And yes, we are still looking to free up capital in the development space. That is part of our deleveraging exercise, if you will.

Thomas Neuhold

Okay. Thank you.

Operator

The next question comes from Aaron Guy from Citi. – Please go ahead.

Aaron Guy

Hi there! Thanks for taking the question. I just want to revisit the guidance for 2026 Adjusted Shareholder Earnings. You're including the tax increases, presumably, from higher recurring sales. But from what you said earlier, you're not including the cash flow or the profits offsetting that. Is that 2026 guidance therefore not somewhat overly conservative?

Philip Grosse

Again, it's not a cash flow metric. Accounting-wise, I cannot account for the freeing up of capital in an earnings metric because it's not an earning. It's a cash flow.

And yes, you're right, the higher tax is a result of higher disposals, so a kind of the success we are projecting. The freeing up of capital is what you see in the Operating Free Cash Flow.

Aaron Guy

Understood. – And just secondly, on the longer term capital allocation. You mentioned earlier that the combination of asset sales, probably support from the market as well might see your leverage metrics drop below the guidance level.

How do you see the business? Your predecessor saw it more as a pan-European residential company. Do you see it that way when you think about five-year capital allocation decisions? Shareholder value has been destroyed in the past not on asset sales, but actually on asset and business acquisitions.

So, would you look to then take that leverage and give it back to shareholders? What sort of return criteria would you look to do if you got into a situation where leverage was below those metrics and you had capacity to invest?

Luka Mucic

Look, first of all, M&A and/or planting the flag of Vonovia into additional countries is not a self-serving purpose. It has to create value for our shareholders. The

Transcription
FY 2025 Earnings Call
March 19, 2026



appetite for doing so at the current cost of capital, where our shares are trading—and our priorities, and the great opportunities that we see within our parameters to grow through additional non-rental services, through the rock-solid rental business that we have there, through additional opportunities in productivity increases, our B2B business are absolutely significant and we will stay focused on that.

So M&A or geographic expansion through M&A is not in our cards. What might be different is the opportunity to serve investors in their properties with our B2B platform, which may also extend above and beyond the three countries in which we do business today. That's a credible scenario, and we have some opportunities that we're working on where this might be the case, but that's what we're focused on.

Hence, once we reach our leverage levels, we would look at staying there and not creeping up again through adventures on the M&A front.

Aaron Guy

Understood. Thank you.

Operator

Ladies and gentlemen, this concludes today's Question and Answer Session. I would now like to turn the conference back over to Rene for any closing remarks.

Rene Hoffmann

Thank you, Sandra, and thanks everybody for dialing in and joining this call.

As always, if you have any questions or follow-up, you know where to find me and you know where to find the team. So, feel free to ask.

Luka, Philip and I will be on the road quite a bit now and we are looking forward to connecting with you in the days and weeks ahead.

That concludes today's call. As always, stay safe, happy and healthy. Bye for now!

Luka Mucic

Thank you. Bye-bye!

Transcription
FY 2025 Earnings Call
March 19, 2026



Philip Grosse

Thank you.

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