

Transcript  
Q1 2025 Earnings Call  
May 7, 2025



## Rene Hoffmann

Welcome everybody to our Q1 2025 Earnings Call! Our speakers today are once again CEO Rolf Buch and CFO Philip Grosse. They will be happy to lead through today's presentation and then answer your questions as usual. – Over to you, Rolf.

## Rolf Buch

Thank you very much, Rene, and a good afternoon from my side as well! Let me start, as normal, with the highlights. In terms of an update on the market in Q1, it is safe to say that things are off to a good start. The positive momentum on the transaction market has carried over into the first quarter and was not impacted by the bund yield hike in early March. Transaction volume is much higher than in Q1 last year, as investors' appetite remains healthy. Uncertainty over tariffs and the wider economy appears to provide further support.

In this context and against the backdrop of positive operating fundamentals that are as strong as ever, we had a very good start into the new year. Rent growth was up 50 bps to 4.3%. Our three key financial figures Adjusted EBITDA, Adjusted EBT and Operating Free Cash Flow were all up double digit year-on-year. Our debt KPIs are moving in the right direction, as expected.

On page 4, we are talking about the transaction market. Basically all brokers published their data for Q1 in early April and the message is very similar. The transaction market in Q1 was strong with a 180% increase over Q1 2024. Demand from investors was high, remaining uncertainties are receding and a viable price structure has emerged as market yields have stabilized. This is the kind of development that we have anticipated and it should be overall very supportive for our H1 valuation.

With this, to Rene.

## Philip Grosse

Philip.

## Rolf Buch

Sorry.

## Philip Grosse

Thank you, Rolf. – On page 5, a very familiar overview of EBITDA, EBT and Operating Free Cash Flow. A couple of comments here: Adjusted EBITDA, as you can see, was up 15%, very much driven by a higher contribution of our three non-rental segments. On Rental, the EBITDA was flat because while we had very strong rent growth, as you have seen, we also had about 9,000 units less than in Q1 last year. Adjusted EBT also increased by 15% to almost €480 million. Operating Free Cash Flow grew by 43% to 718 million.

Here one word of caution: the dividend payments to Apollo – that is roughly €150 million – will be made only in Q2, so this needs to be taken into account when looking at the full-year estimate.

Now on the details for the segments. The rental KPIs are on the next page, page 6, the most uneventful part of our earnings update. Organic rent growth was 4.3% year-on-year in Q1 with a market rent growth contribution of 2.9%. Vacancy remains low and is only a feature of apartment modernization. Rent collection continues to run at a very high rate, close to 100%. Fluctuation hovers around 8% these days, a little lower for Q1.

So no surprises at all here. Adjusted EBITDA was flat in the end because the revenue loss – i.e. almost €20 million – from about 9,000 fewer units compared to Q1 last year largely absorbed the positive impact from our organic rent growth.

One word on the new government and their coalition agreement. Yes, they have agreed to extend the rental cap by four years instead of two as initially announced. But since we have conservatively assumed that the rent cap legislation will stay in place anyway, this has no impact whatsoever on our projections.

What is more important is the agreement of the new government to install a commission that will be tasked with reviewing rental regulation with a view towards enabling a more constructive approach that can be more supportive towards new construction. What is extremely encouraging in my view here is that this commission is expected to be staffed with representatives from landlord and tenant associations, so practitioners who understand where the problems lie, and who should be able to come up with a fair approach that can better achieve what everybody agrees is required, and that is just more new construction.

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Moving to page 7 for the Value-add segment. As you can see, both external and internal revenue was up from higher investment volumes and higher energy sales to our tenants. In terms of Adjusted EBITDA this translated into more than €38 million, which was more than three times the contribution of Q1 last year. And while an individual quarter can always be more volatile we are happy with the direction of travel towards our 2028 objective of seeing a 9 to 12% contribution by our Value-add segment to our Adjusted EBITDA Total.

Recurring Sales: Here, we sold 689 units in Q1. That is almost 70% more than in Q1 2024. Margins were also up, if only slightly, to 25%. So we are on a good track towards our medium-term ambition level of 30 to 35%. More recently, we already see a shift in the right direction.

As a reminder, going forward the Recurring Sales segment will include contributions from our manage-to-green strategy, where we buy stranded assets and then modernize and sell them.

Also here a word on the new government: As most of you know, 100 billion of the 500 billion infrastructure plan will go towards the climate transformation fund. And while it is not yet clear how that money will be allocated and how subsidies will work in the end, the fact that buildings are a major contributor towards CO<sub>2</sub> emissions suggests that an allocation towards the housing industry is very likely in the overall goal for Germany to reach its targets by 2045 to become climate-neutral.

Moving to page 9, on the Development segment. Here, with the recent CBRE and HIH deals plus some smaller disposals we have largely sold off our inventory and we are currently in the process of refilling the pipeline, as discussed previously.

The Q1 2025 disposals were to a large extent land sales that saw closing in the first quarter, and if I look at the remainder of the year the main contribution to the Development EBITDA will probably come from further disposals of land plots.

A key focus for our Development segment is the reduction of construction cost. The coalition agreement includes some promising initiatives to reduce cost which hopefully will give some tailwind, and we remain laser-focused on reducing the cost items that we can control. The lower the construction cost, the larger the addressable market for us for a product which is, as you know, desperately needed.

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So much for the segment results. Let's turn to page 10. When we speak about growth, the focus of investors has recently been on earnings growth only. And I don't blame them because we have just come out of more than two years of value declines. And during this period, many market participants seem to have forgotten that real estate generally delivers two types of equity returns. There is earnings growth, but there is also organic value growth when market yields stabilize and rent growth translates into asset value appreciation.

On page 10, we have broken down the individual components that influence total accounting or shareholder return. There are always two ways to look at it. There are the accounted and audited values, so NTA, and on this basis the estimated annual accounting return until 2028 is around 9%. Reality, however, is different, because an investor does not pay, at least for now, NTA for the shares but some 40% less. On this basis, the total annual shareholder return is estimated to be more in the region of 13%. In either case it seems to me a pretty solid equity return for a low-risk, BBB+ rated capital structure.

Moving to page 11: We have updated the numbers to reflect the latest data as per Q1. The message here remains very clear. The huge gap between the market reality and our rent levels safeguards a multi-year robust trajectory of rent growth. That is, as you know, 4% plus a year. The initial yield is what it is. But without taking into account the all but guaranteed rent increase from hereon, that yield is in my view pretty meaningless.

On page 12, our debt KPIs. As expected, LTV and Net debt to EBITDA are evolving into the right direction with a pro forma LTV of 45% and a Net debt to EBITDA of 14 times. Again here one word of caution on the LTV: this figure is before dividend payments.

ICR also remains in safe territory, currently at 3.7x. As we said at the full-year reporting, we will keep a strong focus on making sure that our debt KPIs are in line with the BBB+ rating criteria. But this is mostly an organic development now as values stabilize and then grow again, possibly already with the H1 valuation update, and as an increasing EBITDA supports the cash-flow-based debt KPIs.

Last on guidance: There is not much to say. We have left it unchanged at this point and will continue to monitor our progress as the year goes by. Q1 was, as you have seen, a very good start and makes us very confident about our near and medium-term goals.

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With that, back to you, Rolf.

### Rolf Buch

Thank you, Philip. – Before we go to the Q&A and probably the CEO change, let me repeat the main messages as I see them:

- Our operating business continues to run like a clockwork: Strong rental growth, no real vacancies and essentially full rent collection. So absolutely no surprises here.
- Market fundamentals remain increasingly favorable.
- There is no impact from the temporary bund yield hike.
- The transaction market is off to a good start into 2025.
- Investors' appetite is healthy.

This environment bodes well overall for the H1 2025 valuation. And the appetite for safe-haven assets with structural growth and stable cash flows in uncertain times appears to provide further support. As Philip said, we are confident about our 2025 guidance and our 2028 objectives.

Allow me to also say a few words on the CEO change at the end of the year 2025. I turned 60 a few weeks ago. Vonovia is at the beginning of a very long growth path. It's a cyclical business and we are probably at the beginning of an upwards trend.

The strategy we have to develop with the wider management team has the potential to drive Vonovia into a new dimension. The new CEO, I think, should have the chance to shape the path from the beginning.

My situation back in 2013 was the same: Deutsche Annington at this time had just finished rent refinancing and I had the pleasure to go in a long-term positive development. I think Luka deserves the same.

But there is also another new argument: We have a completely new government elected yesterday. There is a new Minister of Construction and even all the State Secretaries in the Ministry of Construction are changing. So it's a completely new team. We have learned in the last year how important it is to build a long-term

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trustful relationship. This takes time. That's why I think it is best that the new CEO starts now to build a trustful relationship with the new government, especially for the housing sector.

As you say "after the coalition agreement is before the next coalition agreement", it takes time and we have to prepare for the coalition agreement in 2029.

And there is a third argument: The last AGM under my original contract would have been in 2027 and would have coincided with the end of the term of the Supervisory Board Chair. Leaving the CEO succession unresolved until then would constitute poor governance and put undue pressure on the potential next Chair and the succession process.

I am convinced that we have found the ideal candidate. Luka's capital market experience is better for you to judge. What I can judge is that Luka is a great personality. I personally would like to work together with him, but I am sure that he is a good fit to the remaining Vonovia management team and the full Vonovia team. He is a great character.

As you know, I consider our business a B2C-driven, subscription-based business. And the closest industry you can see to German housing is actually the telco industry, as we have discussed several times. Obviously, working for Vodafone in a very prominent position is probably the best fit you can imagine. But also the Second Vonovia will have a very strong B2B element. Luka's experience in SAP which is a pure B2B company is very helpful and will help him to support the Vonovia team to develop the Second Vonovia. By the way, all our processes are based on SAP. So a fundamental understanding of digitalization and processes is definitely helpful to do this job.

I wish him all the best of luck. I am highly committed to support the transaction. I will do everything I can. I know that it is your company. But for me, it sometimes feels like my own little baby. So I am happy to give this baby to Luka to grow it to a bigger child.

But this is not the end. We still have a lot to do in 2025. My Board Members told me that this is not the time to relax. It's the time to use the speed now. That's why I will even work harder than the years before to deliver as much as we can until the end of 2025.

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Just a remark: Before this Call, I was in the canteen down there and I met a few people. They told me: Rolf, we know now that we will have no summer holidays because you will do everything to keep us busy until the end of 2025.

So, don't be nervous. This company will deliver very gratefully until the end of 2025 and, of course, afterwards.

With this, back to Rene.

### Rene Hoffmann

Thank you very much, Rolf. Thank you very much, Philip. – Before we go to the Q&A, a quick reminder: We will stick to our two-question policy. So I kindly ask that you bear that in mind and respect this request.

With that, we are very much looking forward to your questions.

I give it back to Yusuf to open up the Q&A, please.

## QUESTION AND ANSWER SESSION

### Operator

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

### Thomas Neuhold

Thanks a lot for the presentation and thanks a lot for taking my questions. My two questions would be firstly on the new government policy to reduce construction costs and increase production speed.

What do you think is a realistic time frame before we get a change here? And how much do you think can construction costs realistically come down?

### Rolf Buch

I will give you the second answer afterwards.

I think they will speed up now. It's in the coalition agreement. It's now our job. We have to put pressure that it will happen as fast as possible. So, I'm very optimistic. It's the first time that there really is a breakthrough.

But it's also on our side. We have to use the new freedom to design buildings in a different way. So also we are working hard on this while we speak. So, I'm optimistic that we will bring down the cost very soon. You probably will see the first buildings starting construction in the serial construction over the summer this year.

### Thomas Neuhold

Thank you. And my second question is: You acquired roughly 1,100 units from Quarterback in Q1. Can you provide more details on this transaction? What was the rationale for this?

### Philip Grosse

The answer is yes. But what we have essentially done is an asset debt swap. We have granted shareholder loans to Quarterback which we decided last year to restructure and we essentially wiped out all shareholder loans. And in return, we

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received a portfolio of assets, predominantly in Dresden and Leipzig - point 1 -, and point 2: also a land bank essentially across Germany, but with a focus on bigger metropolitan areas.

### Thomas Neuhold

Thank you. Lastly a personal message to Rolf: All the best to you! I was surprised that you leave now already. It's always a pleasure to work with you. All the best!

### Rene Hoffmann

Thank you, Thomas.

### Rolf Buch

Thank you.

### Operator

The next question comes from Thomas Rothäusler, Deutsche Bank.

### Thomas Rothäusler

I have two questions, actually. On the long-term growth plan, maybe you could provide some update here. I'm just wondering if you would consider any adjustments given the volatile market environment. Here specifically on the Development segment: What's your outlook here? And do you see any pickup of demand?

### Rolf Buch

I think we have given you the long-term perspective. We have confirmed that we stick with our 2028 objective. I can tell you that all these ten parameters are running as planned and according to what we assume.

I think you also see in the presentation that we are going in the right direction. So, it's not where we have to be in 2028, but I think it's going in the right direction.

Especially for the Development, I think the key parameter to get this on track and to deliver also the size is to reduce the price of the construction because with 5,000, we have a very small market. With €3,500 per square meter, there is

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actually an unlimited market for new buildings, which means actually a good potential to build a lot and to sell a lot.

That's why I think this is a key factor. And as I told you before, with the Gebäudetyp E and with the new regulation, this is helpful.

Again, in summer, we will probably construct the first buildings which are coming from a factory. There you will see that we are coming close to the price target. That's why we are optimistic that the Development business will pick up.

One word again: Anyhow, somebody in Germany has to build these houses. And I think it is a clear understanding of the new government that this has to happen. That's why I consider also this commission very positive, because it's the first time that the politicians let professional people like tenant associations and landlord associations to develop a concept where we are restructuring the rental regulation that it fits the purpose.

And the purpose is that everybody needs to have a chance to get an apartment in the big cities. And the purpose is that the rent regulations allow landlords to invest, actually allow you to give us money to invest. That's why I think the new government is well aware that they have to deliver a situation where the returns are what they need to be.

So, I'm very optimistic at the moment about this.

### Thomas Rothäusler

Okay. Thank you. - A second question is on property values. I mean, you sound rather upbeat on investment markets and also referred to good support for property valuations. I am just wondering what's your base case scenario for this year. Is it stable yields? I think you mentioned that on the financial slide. Philip, I think you even said you expect higher values.

Just to get a bit more color here.

### Philip Grosse

Thomas, you know that we are not providing specific guidance on valuation, but let me say that much: We've seen a very constructive transaction market in Q1

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and that continues. Obviously, being in in early May, we have good visibility on what has happened so far.

The next revaluation of our entire portfolio is due with H1 and I clearly expect that we will see a positive valuation result.

### Thomas Rothäusler

Okay. Thank you.

### Operator

The next question comes from Jonathan Kownator, Goldman Sachs. - Please go ahead.

### Jonathan Kownator

Good afternoon! I just wanted to go back to the sort of growth outlook on page 10, just to try and understand how it has been designed.

So you start – if we focus on the “based on NTA” part – with 6% on the Adjusted EBITDA Rental. Then you say 5.5% on organic value growth from rent growth. Can you just highlight what is that number exactly? Is that a returns number? Is it the increase in sort of EBITDA that you expect from Rental going forward, which is a bit higher than your guidance? – A bit more color on those numbers would be helpful, please.

### Philip Grosse

If you look at the Adjusted EBITDA Rental, it's essentially that 4% rental growth over the next couple of years until 2028, and that in relation to the NTA or market cap and that translated into an annual growth number.

The same logic applies to organic value growth. So essentially what we have done here is assuming stable yields, and using that assumption, you capitalize your rental growth and you deduct the CapEx. That gives you that number.

And that goes on for the non-rental, which I think we have also guided. So it should be no bigger surprise in that non-rental is moving towards those €700 million.

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Interest cost is the refinancing of what is coming due. Our assumption here is 4% of refinancing cost. By way of update: Currently, for unsecured we are pretty much at that 4%. For secured, we are a bit lower than that. So for 2025, we are even running a bit ahead of schedule because here we have assumed 4.3% in our budgeting, which is good.

Taxes, I think, we have discussed in a bit more detail last time, where we have been guiding towards cash taxes for our core business just inside 10% of Total EBITDA.

And if I come to the last item, minorities and other: Minorities, as you know, is the roughly €150 million for the JVs we did three years ago with Apollo. On top, we have some RETT blocker structures, €50 million. Subject to closing and the registration of the domination and transfer agreement, there is that disposal to Apollo with another €70 million. All of that adds up to the minorities.

What comes on top in the "other" is stuff like consolidation effects, is depreciation, a couple of one-offs. This is kind of a brief description of the various constituencies of that accounting or shareholder return, whatever way you look at it.

### Jonathan Kownator

Okay, quite helpful. Thank you. - I obviously notice that you are increasing CapEx quite substantially. Is Q1 reflective of the run rate you're going to get? You're slightly above the sort of run rate in terms of growth, at 50% increase in CapEx. Are you going to keep increasing? Are you going to maintain that in that speed roughly?

What kind of works are you doing essentially, and when do you expect them essentially to feed into the organic growth phase?

### Philip Grosse

In terms of CapEx, for now no change in guidance. I do expect €1.2 billion.

Equally, how that translates into organic rent growth, I think we are on a good path, as you can see in Q1 numbers. But around 4%, probably more chances to the upside than to the downside, is still the right number.

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But you equally know that the rental growth we are capturing this year is very much because of investments we have done last year in terms of the non-investment rental growth. So the increase in CapEx will only translate into organic rent growth roughly a year later.

### Jonathan Kownator

Okay. Sorry, just one follow-up in terms of investments: Maintenance also went up. Can you give perhaps a bit of comment on whether this is a one-off or a more recurring level that you want to achieve? – Thank you.

### Philip Grosse

Q1 is certainly not the kind of increase I expect for the entire year. Here, you should simply not compare quarter by quarter. We will see a slight increase vis-à-vis last year, but not the kind of 9% we have seen in Q1.

### Jonathan Kownator

Okay. Very clear. Thank you.

### Operator

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

### Pierre-Emmanuel Clouard

Good afternoon! Thank you for taking my questions. The first one is on the Development activity. Can you remind us what is the gross margin, excluding the land plot that you sold in Q1 or that you finalized in Q1?

And just to be sure, was the sale of this land already included in the guidance given at the beginning of the year?

### Philip Grosse

Basically, the disposal of the land plot was accounting for 85% of the profitability in Q1. So don't look at the gross margin. It's meaningless essentially, because it's really distorted by what I consider kind of a one-off.

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And your second question: This forms part of a deal which we have signed last year, which has only seen closing this year and, as such, was visible and embedded in our guidance.

**Pierre-Emmanuel Clouard**

Okay, understood. And the second one is a follow-up on that. You mentioned, Philip, that you are expecting to realize further disposals of land plots in 2025. Can you quantify this level or not?

Another way to put the question is: What figure is included in the guidance of 2025?

**Philip Grosse**

We are not guiding by segments. But let me say that much: There is a bit more to come, than what you've seen in Q1.

**Pierre-Emmanuel Clouard**

Okay, all right. Thank you.

**Operator**

The next question comes from Paul May, Barclays.

**Paul May**

Hi guys, a couple of questions from me and apologies for the background noise. I am in an airport at the moment.

Could you let us know what the level of cash flow is within the Value-add business? The actual cash inflow into Vonovia, is this just the external revenue less operating costs? If you could provide a figure for that, that would be great. I'm just trying to understand, as this segment grows, how much of it is actual cash flow, because I think you do include it fully in your Operating Free Cash Flow. So I am just trying to understand that.

I'll ask the second question afterwards; it's probably easier.

## Philip Grosse

On Value-add, Paul, I'm not quite sure I understand fully your question because the investment really does not form part of that. If at all, cash flow relevant is the profitability less the profitability which is consolidated out because it's essentially internal profitability which you only see in the EBITDA, but not in the EBT.

So, if you look at the consolidation line, this is essentially the internal profitability of our Value-add organization. In other words, EBT minus consolidation effect is the net cash effect of the Value-add segment.

On Operating Free Cash Flow: I am not quite sure I fully understand your question. Let me repeat my word of caution on the Operating Free Cash Flow that this has not yet seen the cash out for the two joint ventures with Apollo which we entered in 2023. As we have been guiding before, that's €140, 150 million cash out. That is still to come.

For the roughly €40, 50 million of minority we have elsewhere – all of these are RETT blockers – it is equally still to come. So, in total, we kind of fall short a quarter of €200 million which, if you would have a linear development, you would have expected in Q1.

## Paul May

Perfect. Thank you. And then the second one is just on the CEO succession. It's probably very difficult to answer, but do you envisage any change in strategy or view on capital structure from Luka coming in? Obviously, he is coming from a sector that tends to have very, very low Net debt to EBITDA versus coming into a sector that has very high Net debt to EBITDA. I just wondered if you had any thoughts on his thought process there.

Would he be presenting or will he be available at the Capital Markets Day for analysts and investors to discuss with him, or is he not going to be available on that date?

## Rolf Buch

My understanding is that he still has a job to do at Vodafone until the end of the year. So it doesn't make sense to bring him there. So the change will be in the end of the year. I think then you can discuss with him.

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To be very clear: The strategy is developed not only by the CEO, but was developed really with the wider management team. It's backed by the full management team. And that's why I would consider the strategic approach of this company very stable.

### Paul May

Excellent. Thank you very much.

### Operator

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

### Bart Gysens

Hi! My question is on slide 6 of your presentation where you show what you report as organic rental growth. And that has multiple components. I think most of us have been expecting the modernization and new construction part of that to start increasing and, clearly, that that will at some point. But we've mainly seen an increase in the Mietspiegel, the actual organic part of your organic rental growth. So, the Mietspiegel uplift has gone from low 2 a year ago to, at the end of last year, 2.8. Now it's gone even higher, at 2.9.

Can you give us a bit more color on how far or how high you think that can go? Maybe provide some color on how much of your portfolio is now already above or below the Mietspiegel where Mietspiegel are coming out, and therefore where you think that 2.9 can go to over the next year or two. That would be great. - Thank you.

### Rolf Buch

I think we will answer together, Philip and I. Just to say: It should not be so much of a surprise. We always said that the Mietspiegel will reflect the inflation we have seen in the past, now, in the upcoming years. So, that's why it should not be an effect.

We still have told you that the Kappungsgrenzeneffekt, where actually there's rent on the apartments which we cannot put on the tenant, but it will come by time, is, of course, also helping here. But keep in mind that this factor is even going up and not going down. So we still are building a bigger cushion there.

So, yes, but I think it should not be a surprise that rental growth from organic rental growth should go up, because this is what we said and which is the logic if you look backward on the six years of the Mietspiegel.

### Philip Grosse

To add, Bart: I don't expect the non-investment driven growth to go beyond the 2.9%.

That is not an exact mathematic exercise now, but in principle, we have 50% of our stock, of our apartments, which are already above the local comparable rent and, as such, not eligible for these increases, according to the Mietspiegel.

Second, most of our apartments are in markets which are considered tight and where you cannot increase rents over a three-year time period by more than 15%. And that means per year max. 5%. If you apply that to 50% of our portfolio, the maximum number should be around 2.5%. There's always a bit up and down because, as I said, it's no pure mathematics. It depends on where you see rental increases and some other factors. But again, don't expect that number to increase.

And let me just repeat on the investment-driven part: We ramp up our investments. But the impact of that will only come with a year's delay. For Development, by the way, it's even longer.

### Bart Gysens

But just to follow up on that: You made it very clear that you said, well, if we get a Mietspiegel uplift on half of our portfolio only and it's about 5% spread over two years, that's about 2.5%. Am I right in saying then that's the level where you should settle towards longer term? Or do you also have some churn and therefore capturing reversion and that's basically the difference between the 2.5 and the 2.9, and therefore it could stay at that high too? Or should we expect that to go back down to about 2.5%?

### Rolf Buch

Bart, you are right with the reletting, and this depends on the churn. It depends also on which apartment is actually changing.

I think, as Philip has said, the 2.5 is fine. It can be a little bit higher. I think it should not be a surprise that at the moment it is a little bit higher. But in the end, it's just a question of timing because the higher Mietspiegel, because of the Kap-pungsgrenzeneffekt, will stay on the apartment. This gives just a timing effect.

### Bart Gysens

Thank you very much.

### Operator

The next question comes from John Wang, Van Lanschot Kempen. - Please go ahead.

### John Wang

Hi, good afternoon! Thank you for taking my questions. On these stranded assets, you're now moving to reporting it in the Recurring Sales segment. Does this imply that you're already seeing opportunities to capitalize on it via disposals?

As a follow-up, do you also see a 30 to 35% margin on these disposals?

### Rolf Buch

First of all, we are not giving you an exact margin number. But we see a lot of buildings coming to the market. Not everything is relevant for us because we are very selective on locations. But the mechanics is relatively simple. There is a multiple difference between renovated and non-renovated apartments. There is also the uplift in rent which comes on top, which is €2 or 3, mainly €3. So, there are these two effects and this actually translates to a margin.

I can confirm you that we see a lot of potential which can be acquired. But of course, we are very selective because of locations and we are not in a hurry.

### John Wang

Just to follow up: Does that mean that the 2,500 to 3,000 historical run rate is perhaps a bit too low if you consider also these - -

### Rolf Buch

Don't mix it! The 2,500 and 3,000 we will do with the existing stock has nothing to do with the buildings which we are renovating. This comes on top. So the guidance is up to 3,500 by just using apartments from the condo portfolio.

### John Wang

Okay, clear. Thank you.

### Operator

The next question comes from Andres Toome, Green Street. - Please go ahead.

### Andres Toome

Hi, good afternoon! The first question is on the capital allocation pathway. Of course, there's a lot of attention on these side businesses, but it seems like a lot of them come with a pretty low valuation multiple as well. I'm just wondering, is there anything else that could be potentially more attractive in terms of valuation potential that you're thinking about bolting on or scaling up in the future?

### Philip Grosse

I mean, in terms of capital allocation, first and foremost, it's capital we allocate to our investment program with expected IRRs of 10%, which is financed from Operating Free Cash Flow. And that is what enables us to deliver that 4% plus growth in markets where we clearly have visibility which can absorb that growth.

If I got your question right, the notion of no yielding assets is kind of right if you look at static yields, but in combination with our investment program, organically funded, the long-term growth trajectory we see of ten years plus, which can absorb that kind of rental growth, market-driven plus through investment, is basically driving the investment case and the yields/organic value growth going forward.

### Andres Toome

That's on the investment program. But my question is more on different side businesses. A lot of it is sort of development-related as well, which ultimately is a low-

multiple business. But it seems to be getting a lot of attention now, with the focus on developing out these side businesses.

So my question is more about: Is there anything else in the mix of different side businesses that you have that would warrant or could get a better valuation, basically, as a standalone business and would help Vonovia's valuation in the future as well? Anything that could be bolted on or scaled up within, I guess.

### Philip Grosse

I am still not sure I fully get your question. I mean, what we're essentially driving is our service business, so everything outside Rental, which is Value-add, which is our privatization business, which is our Development business, which will contribute by 2028 more than 20% of Total EBITDA and, if you look at the constituencies, most of them are less capital-intensive.

More precisely on the Development business, just to make sure, this is for me always a recycling of inventories in our Development-to-sell business, which is the only one which is relevant towards EBITDA, which means, yes, we have initial capital tied in that business. We develop, but then we sell, and we use that money to fund new developments. By that, we control the capital intensity, if you will. Our target here is to make gross margins of at least 15%, again, for a business or a product which is desperately needed, where many firms are actually struggling to fund the development. And we are developing into a market where I do expect very little competing supply. This is, for me, attractive business which is kind of outside your notion on valuation because that clearly depends on what prices people are willing to pay. And if I look at that for new build in metropolitan areas, which by definition come at market rents, the gross yields people are accepting these days are hovering around 4%. This is just where the market is.

I am not sure I fully answered your question, whether I got it right, but hopefully that provides a bit of background.

### Rolf Buch

To add one thing: What we also have in the strategy is the Second Vonovia, which is actually a pure assets and property management, a service business. So it comes with a long stability of cash flow because you are normally signing long-term contracts, but it comes actually with nearly no investment. That's why the

yield is very difficult to calculate or it would be misleading because there's actually no investment. So, this is just contribution.

### Andres Toome

Thank you. - My second question would be just on the new CEO coming in. I guess you've had both discussions maybe with the Board. What's the intention here? What sort of innovation can the new CEO bring with his skill set into Vonovia?

### Rolf Buch

As I mentioned, of course, it's probably also not my role, but I can explain you just what I think is very helpful. To run Vonovia, I'm a strong believer that you need to understand B2C business because it's a subscription-based, long-term business. And this was the whole story. And being actually working in a very prominent role for Vodafone, it's probably the closest industry you can compare the telco industry to our industry. So I think there he has a fundamental understanding how business-to-consumer business is working.

And with his SAP experience, he also definitely has a full understanding of processes, which is a very important element of the story, because we think that we have the best platform.

The second element which I mentioned is that, for the Second Vonovia, we need to have B2B capabilities and knowledge because there you are signing with people who own or who want to own big portfolios, but get them managed by Vonovia. And this is a pure B2B business. And for this, I think, his experience from SAP, which is a pure B2B company, is very helpful. And this is something which I think Vonovia has to learn also in the future because this is a B2C company today. So that's why I think he can be very helpful.

And on top of it, I think, coming from the industry he's coming from, digitalization, he will drive the digitalization efforts, AI efforts which we have here in the company further.

I don't know if I answered your question properly, but this is my view on what capabilities he will bring to the table.

## Andres Toome

Thank you. That's helpful. That's it for me.

## Operator

The next question comes from Simon Stippig, Warburg Research. - Please go ahead.

## Simon Stippig

Hi, team! The first question would be in regard to the dividend. Is it fair to assume that future dividends will be stable or increasing? Why I'm asking that is: For example, there's a variation in your free liquidity available for distribution in the future if I assume 2024 averages fall out on 2027.

And secondly, it would be in regard to capital allocation. On page 10, you showed quite attractive returns on market cap. So that poses the question to me: Wouldn't it be rational, actually, to invest in your own shares? - Thank you.

## Philip Grosse

Simon, on the question of dividend: It's 50% of EBT. In terms of EBT, we have been guiding towards a growing EBT in the kind of mid-single-digit area over the next couple of years, based on our strategic program.

A second constituency of dividend is excess liquidity. And here you can assume, with the ramp up of our investments, which is one driver also towards profitability, I wouldn't count on excess liquidity being distributable. So that's on your first question.

On share buyback: Look, in principle, you are right. Our stock is trading at a heavy discount. And if you look at the return parameters, investment in our share would be a very profitable investment.

Having said that, what is lagging is the funding of that. And I still feel that our capital structure is going in the right direction, but it's, however, not where I want to have it. What we first need to see is that our capital structure provides the headroom for that kind of additional investment because assuming additional debt

to finance a share buyback is probably not the right way to put it in the current market.

### Simon Stippig

Okay, thank you. One follow-up maybe in that regard: Your capital structure, what KPI would you look at? Probably, I assume LTV. What LTV level you would then consider as sustainable for you to potentially start looking at your own shares to buy back?

### Philip Grosse

It's not one, it's all three. It's LTV, Net debt to EBITDA and ICR. My clear expectation is that we will see organic value growth. So LTV, by capitalizing the rental growth in asset depreciation, should move towards the lower end of our guided range. Net debt to EBITDA, with the various initiatives we put forward, if we deliver on that, should move towards 10, 11x. So what is basically keeping us disciplined going forward is going to be the ICR.

### Simon Stippig

Okay, great. Thank you.

### Operator

Ladies and gentlemen, that was the last question. I would now like to turn the conference back over to Rene for closing remarks.

### Rene Hoffmann

Thank you, Yusuf, and thanks everybody for joining this Q1 Call. We hope to see you over the next days and weeks as we hit the road.

As always: If you have any questions, you know where to find us with that.

With that, have a great day! Stay safe, happy and healthy and see you next time. Bye-bye!

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Q1 2025 Earnings Call  
May 7, 2025



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