Research report (Anno)

publity AG

publity AG focuses on green growth: 50% ESG-compliant buildings by 2030 - The interest rate turnaround is a challenging situation for real estate companies; Participation PREOS reports sharp decline in NAV

Target price: EUR 20.00
(previously: EUR 46.50)

Rating: HOLD

IMPORTANT NOTE:
Please note the disclaimer/risk warning
as well as the disclosure of possible conflicts of interest in accordance with § 85 WpHG and Art. 20 MAR from page 18

Note in accordance with MiFID II regulation for research "Minor non-monetary benefits": The research in question meets the requirements for classification as "Minor non-monetary benefits". For further information, please refer to the disclosure under "I. Research under MiFID II".

Date and time of completion of the study: 01.08.2023 (13:30) German: 29.07.2023 (15:00)
Date and time of the first disclosure of the study: 02.08.2023 (10:00) German: 31.07.2023 (11:00)
Validity of the target price: until max. 31.12.2024

GBC AG Investment Research

Rating: HOLD
Target price: €20.00
(previously: €46.50)

current price: €21.50
18.07.23 10:29 / Tradegate

Data overview:

ISIN: DE0006972508
WKN: 697250
Stock exchange symbol: PBY
Number of shares³: 14.88
Marketcap³: 299.02
EnterpriseValue³: 523.06
³ in million / in € million

Free float: 7.0%

Market segment:
Scale

Accounting:
HGB

Designated Sponsors:
mwb fairtrade Wertpapierhandelsbank AG

Financial year: 31.12.

Analysts:

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schaffer@gbc-ag.de

* Catalog of possible conflicts of interest on page 19

publity AG[*5a,11]

Company profile

Industry: Real estate

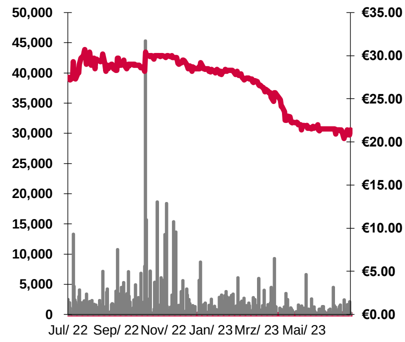
Focus: Asset management

Employees: 18.75 ⌀ as of 12/31/2022

Foundation: 1999

Headquarters: Frankfurt am Main

Management Board: Frank Schneider, Stephan Kunath



publity AG is a leading green asset manager specializing in office real estate in Germany. Their combination of extensive experience and a focus on sustainable, ESG-compliant properties as well as many years of real estate expertise gained from over 1,100 successful transactions sets publity apart from other companies. publity takes a holistic approach to the development and transformation of ESG-compliant properties. This takes into account environmental considerations, innovative design options for working environments and a high level of digitalization. The office properties managed by publity have received multiple high-profile international certifications for their ESG standards. publity is one of the most active players in the German office real estate market and benefits from a robust network and a high level of digitization of data on the German office real estate portfolio and individual properties.

P&L in € million \ FY-end	31.12.2022	31.12.2023e	31.12.2024e	31.12.2025e
Sales	4.68	11.50	15.0	20.10
EBITDA	-23.44	0.86	3.88	7.20
EBIT	-23.99	0.30	3.32	6.64
Net income	-192.54	0.28	2.39	4.71
Key figures				
Earnings per share	-12.94	0.02	0.16	0.32
Dividend per share	0.00	0.00	0.00	0.00
Key figures				
EV/Sales	111.68	45.48	34.87	26.02
EV/EBITDA	-22.31	609.54	134.91	72.64
EV/EBIT	-21.80	1720.69	157.67	78.83
KGV	-1.55	1083.54	125.35	63.52
KBV	0.80			

Financial Calendar
16.08.2023: Annual General Meeting
30.09.2023: Semiannual report 2023
27 - 29.11.2023 German Equity Forum

**last research from GBC:
Date: Publication / Target price in EUR / Rating
11/04/2022: RS / 46.50 EUR / BUY
** Research studies listed above can be viewed at www.gbc-ag.de or requested from GBC AG, Halderstr. 27, D86150 Augsburg, Germany.

EXECUTIVE SUMMARY

- In fiscal year 2022, publity AG recorded a significant decline in revenues of 83.7% to €4.68 million (PY: €28.75 million). This was due to various challenges, including the interest rate turnaround and the war in Ukraine. The lower number of transactions resulted in less income from finder fees and exit fees. In addition, the reversal of the GORE deal contributed to fees from the Luxembourg deal from the first half of 2022 not being settled. This resulted in lower revenue than originally expected.

- EBITDA decreased to €-23.44 million, compared to €14.6 million in the previous year. In addition to a significant decline in sales, other operating expenses increased by 62.4% to €25.82 million, mainly due to additional expenses of €14.4 million related to a failed deal with a Luxembourg investor.

- Originally, a net profit of €6 to €10 million was planned, yet the year ended with a high net loss of €192.54 million. This is mainly due to value adjustments on financial assets, in particular PREOS Global Office Real Estate & Technology AG, amounting to €171.38 million, which was characterized by strong price losses, resulting in a corresponding value adjustment. However, in the event of a possible increase in the share price of PREOS, there is the potential for appreciation.

- publity AG plans to position itself as a green asset manager by 2030 and to manage at least 50% ESG-compliant buildings. The company also plans to reduce its CO_2 footprint by 50% and become completely climate-neutral by 2030. A new "Green Advisory" business unit is planned to provide expertise on ESG-compliant building refurbishment.

- For 2023, we expect an increase in sales, despite adverse effects from the interest rate turnaround. We forecast sales of €11.5 million, followed by €15.0 million in 2024 and €20.1 million in 2025, respectively. The guidance calls for a break-even result after taxes, with a slightly positive EBIT. To counteract the current challenges, the company is implementing strict cost management. We expect EBIT of €0.3 million in 2023, followed by €3.32 million in 2024 and €6.64 million in 2025, respectively. We forecast net income at €0.28 million in 2023, €2.39 million in 2024 and €4.71 million in 2025, respectively.

- **As part of our DCF valuation model, we have determined a target price of €20.00 (previously: €46.50). We have allocated the investments in affiliated companies and the loans to affiliated companies to net financial assets. This primarily includes the PREOS investment. The share price of PREOS as of December 30, 2022 was € 3.40 (Xetra), corresponding to a market capitalization of € 385.79 million. Given publity AG's 94.3% stake, this represents a value of €348.82 million on its balance sheet. Our revaluation is based on the latest ad-hoc news from PREOS, according to which devaluations have led to a reduction in equity to €204 million as of December 31, 2022 (December 31, 2021: €418.0 million). In accordance with a participation rate of 94.3%, a value of €192.37 million is attributable to publity AG, which is thus significantly lower than the value recognized in the balance sheet as of December 31, 2022. To determine the fair value of publity AG, we refer to net financial assets of €224.05 million (December 31, 2024), which corresponds to a fair value of €15.06 per share based on the number of shares in publity. Adding the value of the operating business on the basis of the DCF model, we have calculated an overall price target of €20.00 per share and, against the backdrop of the current share price, assign a Hold rating (previously: BUY).**

GBC AG
Investment Research

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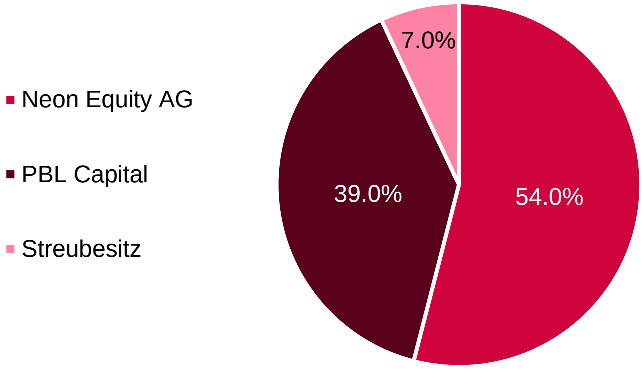
COMPANY

Shareholder structure

Shareholders	Share
Neon Equity AG	54.0%
PBL Capital	39.0%
Free float	7.0%

Sources: publity AG; GBC AG



Business activity

publity AG is a leading green asset manager specializing in office real estate in Germany. Their combination of extensive experience and focus on sustainable, ESG-compliant properties as well as many years of real estate expertise gained from over 1,100 successful transactions sets publity apart from other companies. publity takes a holistic approach to the development and transformation of ESG-compliant properties. This takes into account environmental considerations, innovative design options for working environments and a high level of digitalization. The office properties managed by publity have received multiple high-profile international certifications for their ESG standards. publity is one of the most active players in the German office real estate market and benefits from a robust network and a high level of digitization of data on the German office real estate portfolio and individual properties.

publity AG is an asset manager that generates revenues mainly through commissions from finding (finder's fee), managing (basic fee) and selling (exit fee) properties. In managing, the company concentrates on the so-called manage-to-core strategy, which focuses on improving the letting situation and increasing rental yields.

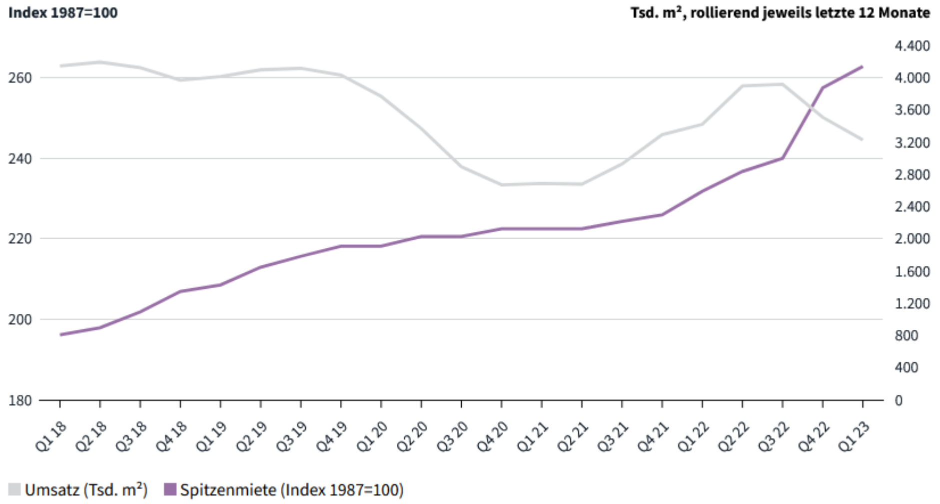
In order to successfully manage these tasks, publity AG uses its own research tool to track, maintain and analyze extensive information on around 9,500 relevant properties in Germany. Thanks to standardized and formalized processes, transactions can be carried out very quickly, which represents a decisive competitive advantage.

The company currently focuses in particular on commercial real estate in prime locations in the metropolitan areas of the top seven cities (with the exception of Berlin). publity's main customer is PREOS Global Office Real Estate & Technology AG, in which publity holds a 94.3% stake. PREOS is an active real estate investor whose management acts autonomously and largely independently of publity.

MARKET AND MARKET ENVIRONMENT

The office leasing market in the seven German real estate metropolises got off to a subdued start at the beginning of 2023, as there were hardly any leases for space in excess of 5,000 m². Overall, take-up of 607,000 m² was recorded, representing a decline of over 30% compared with the first quarter of 2022. Following surprisingly positive leasing volumes in 2022, this decline was expected in the first quarter and could be considered a temporary lull. Potential demand remains robust and companies are benefiting from a slightly improved economic situation. However, costs and uncertainties are weighing on corporate decision-making processes.

Sales development and prime rent index



Source: JLL

After an exceptionally strong 2022, the office leasing market lost momentum at the beginning of the year. Nevertheless, JLL sees sustained high demand and a well-filled pipeline in the medium term. The size of deals may be getting smaller, but quality, ESG criteria and a central location are playing an increasingly important role, which means that competition and rental price development remain dynamic. The various sectors are acting very differently in this regard.

Developments in the individual sectors must be viewed in a differentiated manner, as must the current economic and labor market situation. Increased energy and personnel costs do not affect all sectors equally. Not only companies but also the European Central Bank are concerned about additional wage costs due to persistently high core inflation and the associated risk of a wage-price spiral. Collective wage agreements with unions have resulted in wage increases of over 10% in some cases, and agreements have not yet been reached for all employees. It remains to be seen whether and to what extent this additional cost burden will be passed on to customers and suppliers.

On the other hand, employees and thus also consumers are benefiting from wage increases, which was already reflected in improved business climate in March. The business climate index continued to rise despite the recent banking quake, especially with positive expectations for the next six months. The foundations for moderate optimism in the office market are therefore in place. Better business prospects appear to be offsetting higher costs and possibly more restrictive bank lending. Overall, JLL expects leasing volumes in 2023 to be up to 10% lower than in the previous year. Nevertheless, at 3.1 million m², this would still be a solid result, falling short of the previous year's level and the average of the last ten strong years by only around 10%.

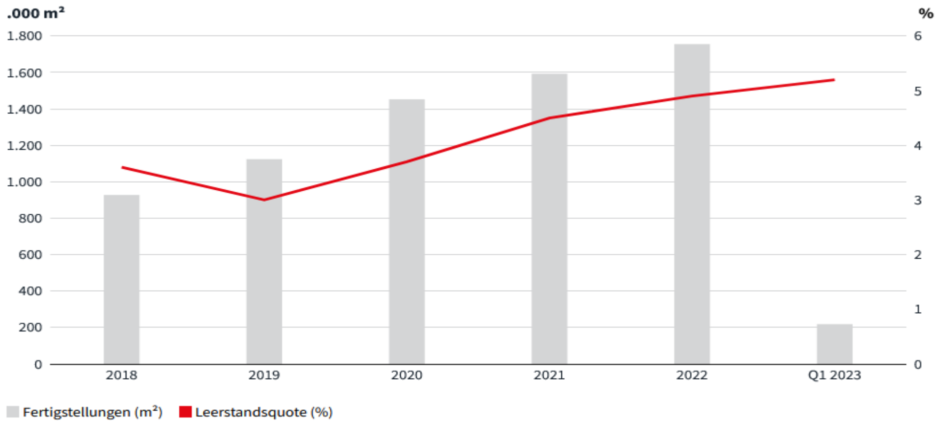
Take-up in the first quarter is weakening due to a lack of major deals. Development in German real estate strongholds is mixed. Although no city was able to avoid a decline, it was more moderate in Düsseldorf (20%) and Berlin (22%) than in Stuttgart (-53%) or Munich (-39%).

Particularly conspicuous is the lack of large-volume deals over 5,000 m² from January to March. This is clearly evident in Munich, where only two major deals were recorded and the average per letting is just 753 m². Nevertheless, there are still major leases in the pipeline which could be implemented in the course of the year and thus have an impact on sales. In particular, JLL sees good marketing opportunities for larger spaces with new space concepts. The prospects for another strong year are positive, as the inquiry situation is as strong as it was last at the beginning of 2020. However, the question remains as to how much of this can actually be realized.

The effects of the corona pandemic have not yet been fully overcome, and many companies are repositioning themselves or questioning their workplace concepts. The pressure for change in the office segment remains high and often requires fundamental realignments in order for companies to survive in the labor market in the coming years. There is demand for sustainable properties with clear ESG criteria and modern, technically high-quality fit-out concepts. This will continue to shape demand this year, with high-end A-space accounting for nearly 70% of sales in the first quarter. The credo is: it does not necessarily have to be larger spaces than before, but better and therefore more expensive spaces. According to a survey by JLL, well over 60% of companies are pursuing a hybrid space strategy between office and home office. Offices, especially in central locations, remain part of this strategy.

In terms of tenant clientele, it is apparent that the globally weakening tech sector has also become more cautious about the German office market. Both expansion plans and the current stock of space are affected. Price sensitivity has increased and more sublease space is being offered from this sector. By contrast, management consultants and tax and law firms are continuing to grow and there is still a willingness to pay for high-quality space in a central location.

Completions and vacancy rate



Source: JLL

CORPORATE DEVELOPMENT

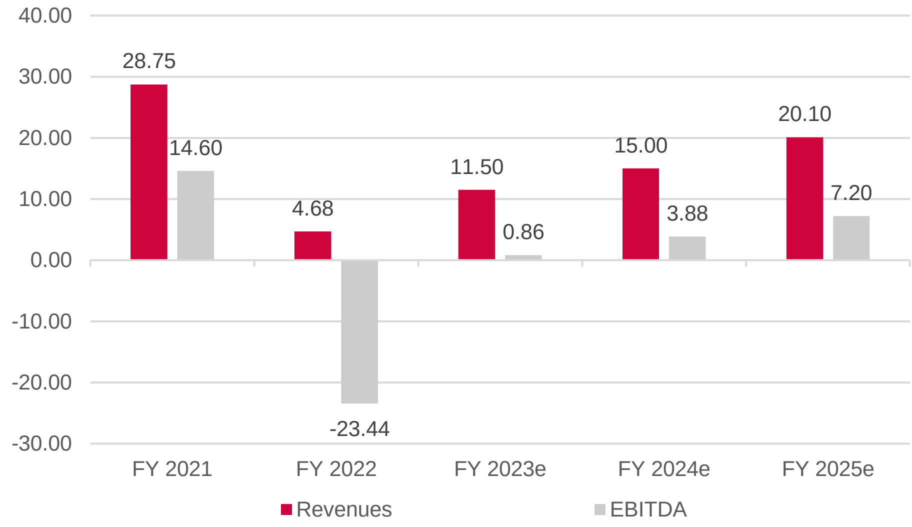
Key figures at a glance

(in € million)	FY 2021	FY 2022	FY 2023e	FY 2024e	FY 2025e
Revenues	**28.75**	**4.68**	**11.50**	**15.00**	**20.10**
Other operating income	4.00	0.15	0.00	0.00	0.00
Cost of materials	-0.87	-0.99	-1.00	-1.30	-1.75
Gross profit	31.88	3.84	10.50	13.70	18.35
Personnel expenses	-1.38	-1.46	-1.53	-1.61	-1.69
Other operating expenses	-15.90	-25.82	-8.11	-8.21	-9.46
EBITDA	**14.60**	**-23.44**	**0.86**	**3.88**	**7.20**
Depreciation	-0.45	-0.55	-0.55	-0.56	-0.57
EBIT	**14.15**	**-23.99**	**0.30**	**3.32**	**6.64**
Income from investments	0.00	0.00	0.00	0.00	0.00
Income from profit and loss transfer agree-	0.31	0.04	0.00	0.00	0.00
Income from other securities and loans held as financial assets	7.13	6.26	6.20	6.20	6.20
Other interest and similar income	0.03	0.10	0.00	0.00	0.00
Write-downs of financial assets	-27.47	-171.38	0.00	0.00	0.00
Interest and similar expenses	-4.84	-5.15	-6.11	-6.11	-6.11
Earnings before taxes	**-10.68**	**-194.12**	**0.39**	**3.41**	**6.73**
Taxes on income and earnings	-4.73	1.58	-0.12	-1.02	-2.02
Other taxes	-0.01	0.00	0.00	0.00	0.00
Net income	**-15.43**	**-192.54**	**0.28**	**2.39**	**4.71**

Revenues	28.75	4.68	11.50	15.00	20.10
EBITDA	14.60	-23.44	0.86	3.88	7.20
EBITDA margin	*50.8%*	*-500.5%*	*7.5%*	*25.8%*	*35.8%*
EBIT	14.15	-23.99	0.30	3.32	6.64
EBIT margin	*49.2%*	*-512.2%*	*2.6%*	*22.1%*	*33.0%*
Net result	-15.43	-192.54	0.28	2.39	4.71
Net margin	*-53.7%*	*-4110.9%*	*2.4%*	*15.9%*	*23.4%*

Sources: GBC AG, publity AG

Development of sales and EBITDA (in € million)



Source: GBC AG

Business performance in FY 20 22

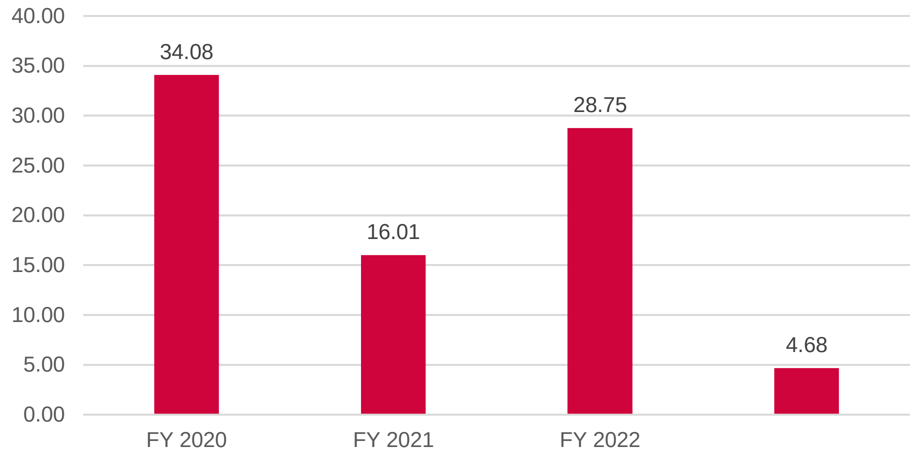
Income statement (in € million)	FY 2020	FY 2021	FY 2022
Revenues	16.01	28.75	4.68
EBITDA	6.02	14.60	-23.44
EBITDA margin	*37.6%*	*50.8%*	*-500.5%*
EBIT	5.87	14.15	-23.99
EBIT margin	*36.7%*	*49.2%*	*-512.2%*
Net income	12.07	-15.43	-192.54
EPS in €	0.81	-1.04	-12.94

Sources: publity AG, GBC AG

Sales development

In the financial year 2022, publity AG recorded a significant year-on-year decline in revenues due to various challenges, including the interest rate turnaround and the war against Ukraine. Revenues fell by 83.7% to €4.68 million (PY: €28.75 million), despite the original plan to generate revenues above the previous year's level.

Development of sales (in € million)



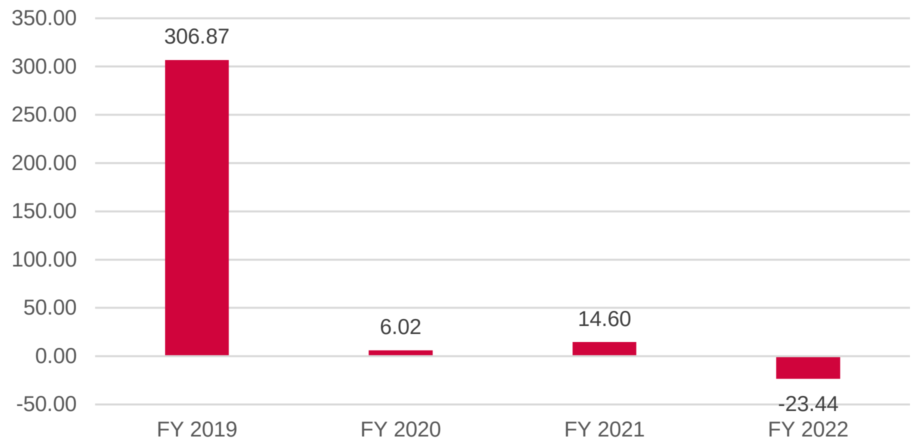
Sources: publity AG, GBC AG

This significant reduction in sales is attributable to lower variable revenues from their asset management business. This business is primarily based on revenues from affiliated companies (in particular PREOS Global Office Real Estate & Technology AG) and revenues from the management of real estate portfolios for institutional investors. Revenues include the finder's fee on purchase, ongoing management fees and a profit-sharing fee (exit fee) on resale. As there were fewer transactions in the past fiscal year 2022, fewer finders' fees or exit fees were collected. Due to the reversal of the GORE deal, matters from the first half of 2022 were also not settled. The failed deal resulted in special costs due to consulting fees, due diligence costs and lost investments in preparations for integration. As a result, revenues in fiscal year 2022 were lower than originally communicated in the first half of 2022 (€9.95 million).

Earnings development

EBITDA fell to €-23.44 million in 2022, compared with €14.6 million in the previous year. On the cost side, other operating expenses increased by 62.4% to €25.82 million (previous year: €15.9 million). This development is primarily attributable to expenses unrelated to the accounting period in the amount of € 14.4 million, which are related in particular to the deal with the Luxembourg investor that did not materialize.

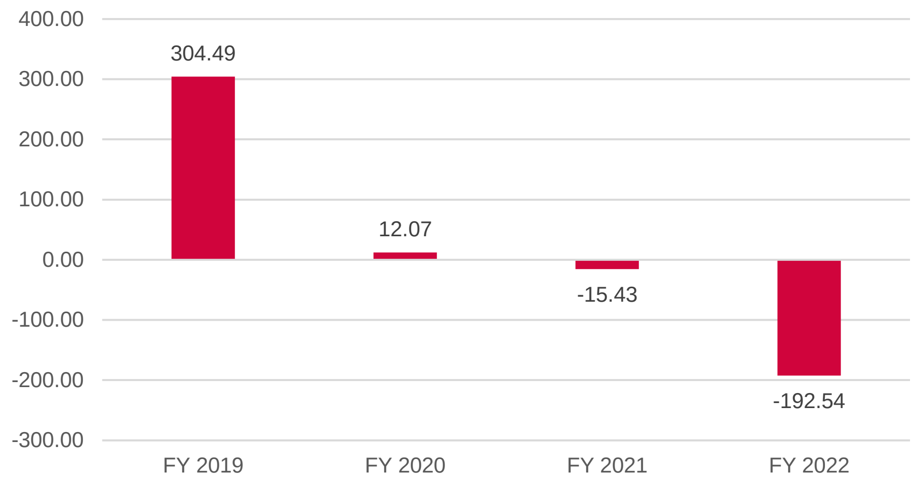
Development of EBITDA (in € million)



Sources: publity AG, GBC AG

The company had originally planned a net profit of €6 to €10 million for the financial year 2022. In fact, the year ended with a significant net loss of €192.54 million (PY: €15.43 million), which is mainly attributable to impairment losses of €171.38 million on the carrying amounts of investments in financial assets. The value adjustment can be attributed to the current state of the market for real estate companies. The valuation was based on the significantly lower stock market price of PREOS. At the same time, this approach opens up the potential for appreciation should the share price rise.

Development of net profit (in € million)



Sources: publity AG, GBC AG

Balance sheet and financial situation as of Dec. 31, 2022

in € million	31.12.2019	31.12.2020	31.12.2021	31.12.2022
Equity	568.01	580.16	564.73	372.19
EC ratio (in %)	90.6%	88.2%	85.6%	76.4%
Operating fixed assets	0.35	1.52	1.27	0.76
Working capital	8.80	3.83	0.55	-0.19
Net financial assets	568.99	585.10	566.79	377.87

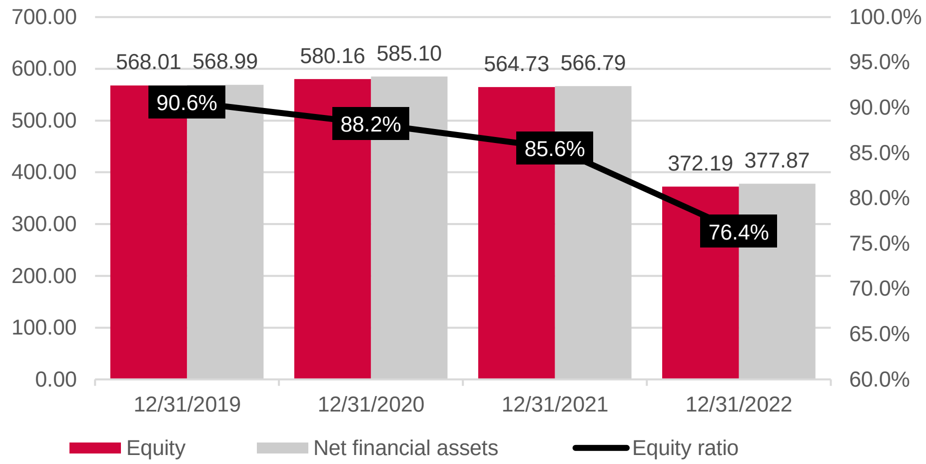
Sources: publity AG; GBC AG

publity's balance sheet is typical for investment companies. It is characterized by a high level of financial assets, with the shares in PREOS accounting for the majority. Although the investment ratio is 94.3%, the shares in this subsidiary are not fully consolidated but recognized as financial assets.

Due to the lack of consolidation, the liabilities of the GORE and PREOS real estate companies are also not fully consolidated. As a result, publity AG generally has an above-average equity ratio. The fluctuations in absolute equity usually result from the operating business development and the write-ups or write-downs of financial assets.

As of December 31, 2022, equity decreased significantly by 34.1% to €372.19 million (December 31, 2021: €564.73 million). This development resulted from the net loss for the year of €192.54 million (PY: €15.43 million). This led to a decline in the equity ratio to 76.4% (Dec. 31, 2021: 85.6%). Despite these changes, the company's balance sheet structure remains solid.

Development of equity (in € million), net financial assets (in € million) and equity ratio (in %)



Sources: publity AG; GBC AG

The balance sheet assets of publity AG are mainly characterized by shares in affiliated companies and amount to €366.94 million (31.12.2021: €528.22 million). This corresponds to 75.3% (Dec. 31, 2021: 80.0%) of total assets. This primarily includes the real estate acquired via subsidiaries. In addition, publity AG holds bonds issued by PREOS Global Office Real Estate & Technology AG with a value of €83.98 million (Dec. 31, 2021: €97.7 million). Current financial assets are included in net financial assets, which amount to €377.87 million (Dec. 31, 2021: €566.79 million).
The largest debt item is a bond with a value of €97.76 million (Dec. 31, 2021: €77.77 million), which corresponds to 20.1% of total assets (Dec. 31, 2021: 11.8%). The bond was increased by a further €20 million by the major shareholder Neon Equity AG. The bond matures in 2027 and its terms were adjusted at the end of 2022. Among other things,

the maturity of the bonds was extended to December 19, 2027 (originally June 19, 2023), the interest rate was increased from 5.5% to 6.25% as of June 19, 2023, and an option for early redemption was introduced. Currently, the bond is trading at 51.0% (Tradegate 12.07.23; 10:57 a.m.). The extension of the publity bond is subject to a challenge by bondholders. An originally planned further bond of €100 million was not issued due to the weak market environment.

Liabilities to banks remain at €4.24 million (Dec. 31, 2021: €4.24 million) and cash and cash equivalents amount to €0.54 million (Dec. 31, 2021: €2.16 million). Management considers the liquidity situation to be secure.

The Management Board of publity AG has also decided to propose to the Annual General Meeting, which will be held on August 16, 2023, a capital increase from company funds. The proposal is to increase the share capital from EUR 14,876,456.00 by EUR 1,859,557.00 to EUR 16,736,013.00 by converting a partial amount of EUR 1,859,557.00 from the capital reserve. The capital increase is to be effected by issuing 1,859,557 new no-par value shares with a pro rata amount of EUR 1.00 each. The new shares are to be issued to the shareholders as bonus shares at a ratio of 8:1, i.e. one new no-par value share for every eight existing no-par value shares. The new shares will grant an entitlement to profit participation from January 1, 2023.

Due to the lack of a published cash flow statement, we are unable to perform a comprehensive liquidity analysis.

Current development of PREOS Global Office Real Estate & Technology AG

PREOS Global Office Real Estate & Technology AG (PREOS) has published the key data of its HGB accounting for the financial year 2022. The results show that extensive adjustments to the valuations for Alpha Investor GmbH and the investment in GORE German Office Real Estate AG (GORE) are necessary, totaling around €211 million. The write-downs at Alpha Investor GmbH are mainly attributable to the weak state of the German real estate market and the corresponding corrections to the appraisal values for individual properties. The value adjustments at the investment in GORE result from a non-cash capital increase at the company that was not carried out and relates to the non-completed deal with the Luxembourg investor. This unrealized capital increase resulted in the necessary adjustments to the valuations for the investment.

As a result of these adjustments, the Executive Board of PREOS expects a net loss of approximately €214 million for the financial year 2022. The balance sheet equity of the AG is expected to be reduced from €418.0 million at December 31, 2021 to €204 million at December 31, 2022, corresponding to an equity ratio of approximately 43%.

The share price of PREOS as of December 30, 2022 was €3.40 (Xetra), which corresponds to a market capitalization of €385.79 million. Given publity AG's 94.3% stake, this represents a value of €348.82 million on its balance sheet. Our revaluation is based on the recently communicated equity of €204 million. In line with the 94.3% equity interest, this represents a value of €192.37 million. We therefore forecast a decrease in net financial assets by the amount representing the difference between €348.82 million and €192.37 million, i.e. by €156.45 million.

FORECAST AND EVALUATION

Income statement (in € million)	FY 2022	FY 2023e	FY 2024e	FY 2025e
Revenues	4.68	11.50	15.00	20.10
EBITDA	-23.44	0.86	3.88	7.20
EBITDA margin	*-500.5%*	*7.5%*	*25.8%*	*35.8%*
EBIT	-23.99	0.30	3.32	6.64
EBIT margin	*-512.2%*	*2.6%*	*22.1%*	*33.0%*
Net income	-192.54	0.28	2.39	4.71
EPS in €	-12.94	0.02	0.16	0.32

Source: GBC AG

Sales forecast

publity AG has focused its growth strategy on increasingly positioning itself as a green asset manager. Its goal is to manage at least 50% ESG-compliant buildings by 2030 and to increase this to 100% in the long term. The firm already manages its clients' green buildings as an asset manager, with multiple international certifications for high ESG standards. The ESG strategy for commercial real estate includes environmental-protection measures such as charging stations for electric cars, low-emission heating and cooling systems, the use of renewable energies, and water and waste reduction measures. publity also plans to reduce its CO_2 footprint internally by 50% and aims to become completely climate-neutral by 2030. A key advantage for the company is that the PREOS portfolio already includes a high number of younger properties. This enables easier and more cost-effective implementation of many ESG criteria.

Publity plans to expand its business segment to include "Green Advisory" in the future and to pass on its expertise to customers with regard to the ESG-compliant refurbishment of existing properties. It is planned to offer an advisory service for other property owners or managers to make their properties ESG-compliant. However, the question remains as to how quickly these concepts can be implemented. Older properties in particular may incur significant costs if all ESG initiatives are to be realized.

The turnaround in interest rates has pushed many non-performing loans (NPLs) departments in banks to their capacity limits. In this context, it could well be that publity AG will be presented with interesting opportunities in this segment again in the near future. If attractive offers materialize, publity could consider stepping up its exposure in this area again. This would mean a return to an active focus on this business segment.

Recent economic developments have had a significant impact on the real estate market. A change in interest rate policy has led to a multiplicative increase in debt service, which translates into a 20% to 40% devaluation of all income properties. This depreciation takes place regardless of the actual quality of the properties. The financial impact of an interest rate increase from 1% to 4%, together with an increased risk premium, is much more severe than for comparable interest rate changes in the past.

Energy transition poses a further challenge and forces new investment calculations when re-letting or selling. These additional costs reduce the value of older properties for potential buyers.

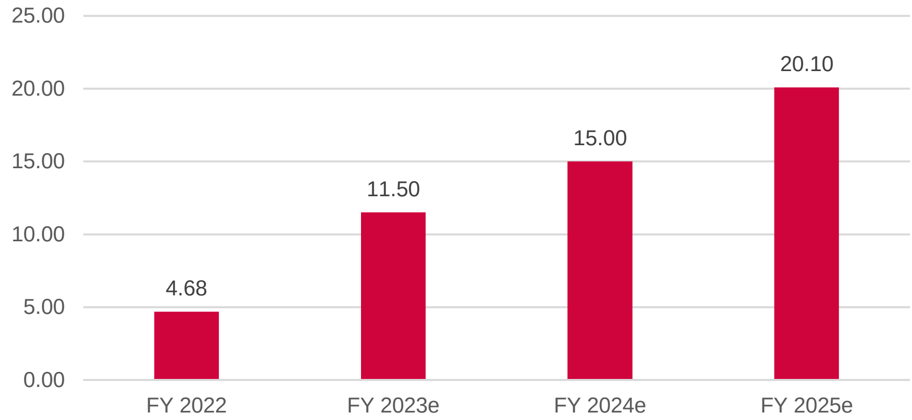
Inflation also has a significant impact, as it causes the ongoing costs of real estate management to jump. While revenues can at best be offset by adjusting rents in line with inflation, this increase also places a burden on tenants and makes it more difficult to pass on costs. In addition, inflation changes the cash flow and earnings situation of all market participants.

The general market sentiment has deteriorated drastically, which is reflected in an investment decline of 80%. Buyers are increasingly acting opportunistically and often have inflated price expectations.

The economic climate is also having an impact on tenants. Vacancies are increasing and it is more difficult to push through higher rents. The optimism of brokers is essentially limited to new, high-quality space that is suitable for the so-called New Work movement and can cut tenants' space requirements in half.

In terms of visible consequences, the interest rate turnaround and the development of yields lead to a revaluation that does not affect liquidity for the time being. However, liquidity effects arise as secondary consequences of a valuation correction. In the short term, the capital market was not yet ready for a digitization of real estate portfolios. The valuation and liquidity risks of the interest rate turnaround make a short-term introduction of real estate tokens rather unlikely. ESG requirements lead to asset devaluation in the portfolio. This lowers exit opportunities or requires liquidity-related investments.

Sales development in (in € million)



Source: GBC AG

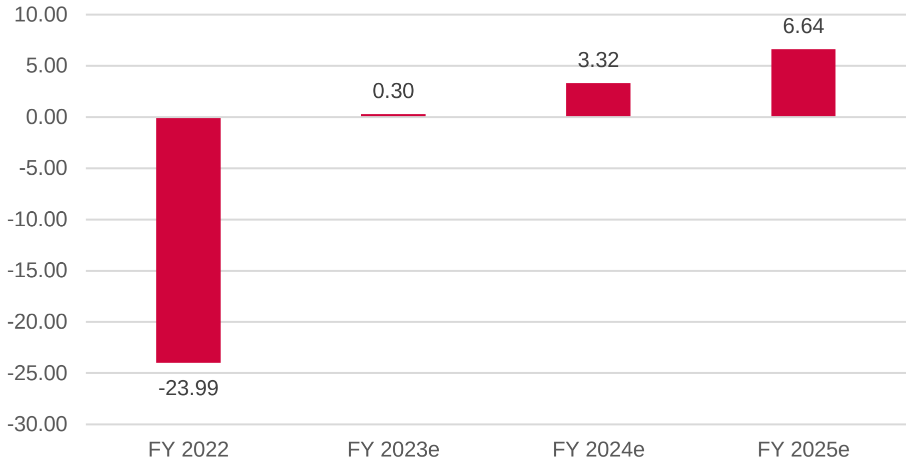
We expect to see an increase in real estate transactions in FY 2023 compared to FY 2022. However, the market is currently severely impacted due to the turnaround in interest rates. We forecast revenues of €11.5 million in the current fiscal year 2023, followed by €15.0 million in 2024 and €20.1 million in 2025.

Although we anticipate a medium-term recovery of the real estate market, our forecasts in this study are at a lower level than in our previous research report due to the current market situation. Thus, we had previously forecast sales revenues of € 25.52 million for 2023.

Earnings forecast

In accordance with the company's guidance for fiscal 2023, the Executive Board expects earnings after taxes to break even and slightly positive EBIT to be achieved. Furthermore, the Executive Board is confident that the company will continue to be able to meet its payment obligations in full and on time. Furthermore, the company responded with strict cost management to meet the current challenges.

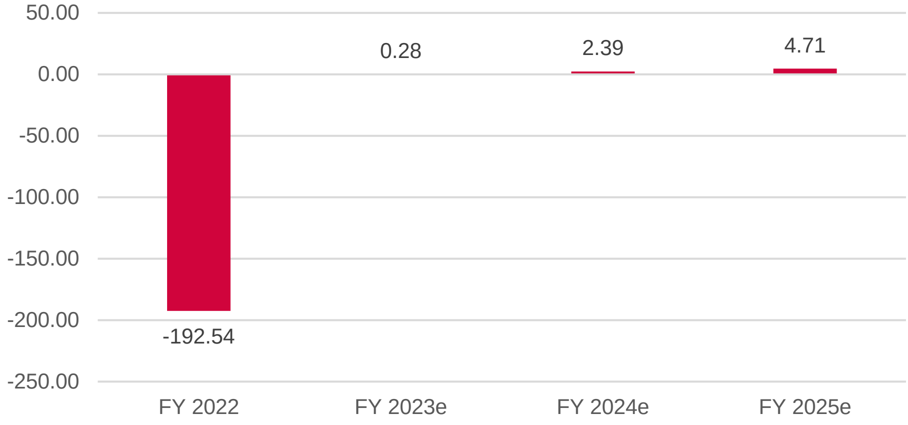
Development of EBIT (in € million)



Source: GBC AG

We believe that the guidance is currently readily achievable. For the current fiscal year 2023, we expect EBIT of €0.3 million, followed by €3.32 million in 2024 and €6.64 million in 2025.

Development of net profit (in € million)



Source: GBC AG

Overall, we expect net income of €0.28 million in the current fiscal year 2023 and €2.39 million in 2024 and €4.71 million in 2025.

Evaluation

Model assumptions

We valued publity AG using a three-stage DCF model. Starting with the concrete estimates for the years 2023 - 2025 in phase 1, the forecast is made from 2026 to 2030 in the second phase by applying value drivers. We expect sales to increase by 10.0% (previously: 5.0%). We have assumed a target EBITDA margin of 35.8% (previously: 50.0%). We have included a tax rate of 30.0% in phase 2. In the third phase, a residual value is also determined after the end of the forecast horizon using the perpetual annuity. In the terminal value, we assume a growth rate of 3.0% (previously: 2.0%).

Although we anticipate a medium-term recovery in the real estate market, our forecasts in this report are at a lower level than in our previous research report due to the current market situation.

Determination of the cost of capital

The weighted average cost of capital (WACC) of publity AG is calculated from the cost of equity and the cost of debt. To determine the cost of equity, the fair market premium, the company-specific beta and the risk-free interest rate must be determined.

The risk-free interest rate is derived from current yield curves for risk-free bonds in accordance with the recommendations of the Fachausschuss für Unternehmensbewertungen und Betriebswirtschaft (FAUB) of the IDW. This is based on the zero bond interest rates published by the Deutsche Bundesbank using the Svensson method.

The currently used value of the risk-free interest rate is 2.0% (previously: 1.5%).

We set the historical market premium of 5.5% as a reasonable expectation of a market premium. This is supported by historical analyses of stock market returns. The market premium reflects the percentage by which the stock market is expected to yield better than low-risk government bonds.

According to the GBC estimation method, a beta of 1.86 is currently determined.

Using the assumptions made, we calculate a cost of equity of 12.2% (previously: 11.7%) (beta multiplied by risk premium plus risk-free interest rate). As we assume a sustainable weighting of 90% for the cost of equity, the weighted average cost of capital (WACC) is 11.6% (previously: 11.1%).

Valuation result

As part of our DCF valuation model, we have determined a target price of €20.00 (previously: €46.50).

We have allocated the investments in affiliated companies and the loans to affiliated companies to net financial assets. This primarily includes the PREOS investment. The share price of PREOS as of December 30, 2022 was €3.40 (Xetra), which corresponds to a market capitalization of €385.79 million. Given publity AG's 94.3% stake, this represents a value of €348.82 million on its balance sheet. Our revaluation is based on the latest ad-hoc news from PREOS, according to which devaluations have led to a reduction in equity to €204 million as of December 31, 2022 (December 31, 2021: €418 million). In accordance with the participation rate of 94.3%, a value of € 192.37 million is attributable to publity AG, which is thus significantly lower than the value recognized in the balance sheet as of December 31, 2022. To determine the fair value of publity AG, we refer to net financial assets of €224.05 million (December 31, 2024), which corresponds to a fair value of €15.06 per share based on the number of shares in publity. Adding the value of the operating business on the basis of the DCF model, we have calculated an overall price target of €20.00 per share and, against the backdrop of the current share price, assign a Hold rating (previously: BUY).

DCF model

publity AG - Discounted cash flow (DCF) analysis

Value drivers of the DCF model after the estimate phase:

consistency - phase	
Sales growth	10.0%
EBITDA margin	35.8%
AFA to operating fixed assets	15.0%
Working capital to sales	5.0%

final - phase	
Perpetual sales growth	3.0%
Perpetual EBITA margin	35.3%
Effective tax rate in terminal value	30.0%

three-stage DCF - model:

Phase	**estimate**		**consistency**						**final**
in EUR million	FY 23e	FY 24e	FY 25e	FY 26e	FY 27e	FY 28e	FY 29e	FY 30e	Final value
Sales (US)	11.50	15.00	20.10	22.11	24.32	26.75	29.43	32.37	
US Change	145.5%	30.4%	34.0%	10.0%	10.0%	10.0%	10.0%	10.0%	3.0%
US to operating fixed assets	15.01	19.32	24.54	25.59	26.68	27.82	29.00	30.24	
EBITDA	0.86	3.88	7.20	7.92	8.71	9.58	10.54	11.60	
EBITDA margin	7.5%	25.8%	35.8%	35.8%	35.8%	35.8%	35.8%	35.8%	
EBITA	0.30	3.32	6.64	7.80	8.58	9.45	10.40	11.44	
EBITA margin	2.6%	22.1%	33.0%	35.3%	35.3%	35.3%	35.3%	35.3%	35.3%
Taxes on EBITA	-0.09	-1.00	-1.99	-2.34	-2.57	-2.83	-3.12	-3.43	
to EBITA	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
EBI (NOPLAT)	0.21	2.32	4.64	5.46	6.01	6.61	7.28	8.01	
Return on investment	37.5%	370.5%	707.1%	738.1%	305.0%	310.8%	316.5%	322.2%	306.8%
Working capital (WC)	-0.14	-0.12	-0.08	1.11	1.22	1.34	1.47	1.62	
WC to turnover	-1.2%	-0.8%	-0.4%	5.0%	5.0%	5.0%	5.0%	5.0%	
Investments in WC	-0.05	-0.02	-0.04	-1.19	-0.11	-0.12	-0.13	-0.15	
Operating assets (OAV)	0.77	0.78	0.82	0.86	0.91	0.96	1.01	1.07	
AFA on OAV	-0.55	-0.56	-0.57	-0.12	-0.13	-0.14	-0.14	-0.15	
AFA to OAV	72.3%	72.1%	69.0%	15.0%	15.0%	15.0%	15.0%	15.0%	
Investments in OAV	-0.56	-0.57	-0.61	-0.17	-0.18	-0.19	-0.20	-0.21	
Invested capital	0.63	0.66	0.74	1.97	2.13	2.30	2.49	2.69	
EBITDA	0.86	3.88	7.20	7.92	8.71	9.58	10.54	11.60	
Taxes on EBITA	-0.09	-1.00	-1.99	-2.34	-2.57	-2.83	-3.12	-3.43	
Total investments	-0.61	-0.59	-0.65	-1.35	-0.29	-0.31	-0.33	-0.36	
Investments in OAV	-0.56	-0.57	-0.61	-0.17	-0.18	-0.19	-0.20	-0.21	
Investments in WC	-0.05	-0.02	-0.04	-1.19	-0.11	-0.12	-0.13	-0.15	
Investments in goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free cash flows	0.15	2.29	4.56	4.23	5.85	6.44	7.09	7.81	95.39

Value of operating business (reporting date)	67.92	73.48
Present value of explicit FCFs	23.57	24.01
Present value of the continuing value	44.34	49.47
Net debt	-221.66	-224.05
Value of equity	289.58	297.52
Minority interests in profits	0.00	0.00
Value of share capital	289.58	297.52
Shares outstanding in million	14.88	14.88
Fair value of the share in EUR	19.47	**20.00**

Cost of Capital Determination:

Risk-free return	2.0%
Market risk premium	5.5%
Beta	1.86
Cost of equity	12.2%
Target weighting	90.0%
Cost of debt	6.3%
Target weighting	10.0%
Tax shield	8.5%
WACC	**11.6%**

Return on investment	**WACC**				
	11.0%	**11.3%**	**11.6%**	**11.9%**	**12.2%**
306.3%	20.36	20.17	19.99	19.83	19.68
306.6%	20.36	20.17	20.00	19.83	19.68
306.8%	20.37	20.18	**20.00**	19.84	19.68
307.1%	20.37	20.18	20.00	19.84	19.69
307.3%	20.37	20.18	20.01	19.84	19.69

APPENDIX

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