SYMMETRY INVEST A/S

CATELLA AB

DATE	31/10/2022
TARGET:	120 SEK
Price:	37,1 SEK
UPSIDE:	224 %

SYMMETRY INVEST A/S
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Leading property management firm

Ticker	CAT-B
ISIN	SE0000188518

Currency	SEK
Target	120
Latest	37,1
Shares outstanding (mil.)	90
Market cap (mil. SEK)	3.339

- Catella has traded down together with the Swedish property sector mainly due to concerns around Swedish property valuations and the negative press coverage on SBB

- We think Catella is the baby thrown out with the bathwater here. Catella is not a Swedish property owner. It's mainly an asset light manager of property funds like the real estate arm of Blackstone and with most properties located outside of Sweden.

- Catella have recently excited several own balance sheet investments far above book value. With a high and growing cash balance they are in an excellent position to take advantage of any further market weakness in the property market.

- Catella funds have an excellent track record of delivering good performance to fund investors, those attracting more funds and growing AUM at a fast pace while receiving good performance fees.

- Catella was up to 2021 a complicated story with an in-house macro hedge fund, a mutual fund business and a bank. These other verticals have now been closed or sold leaving Catella as a 100 % property focused company.

- A highly conservative accounting practice for valuing both own properties and property funds leaves Catella with high implied upside on current book values even in a more severe downturn in the property market. We share our deep dive into these funds in the report.

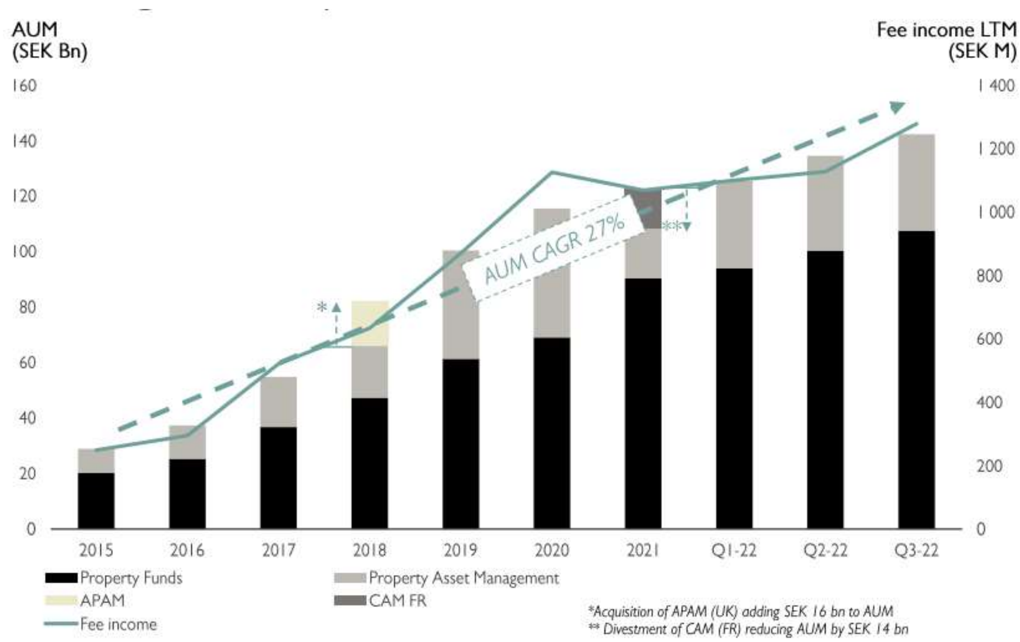
- We believe Catella is trading below its liquidation value based on conservative calculations for embedded performance fees. This should give high downside protection in the stock.

- The new management team have created excellent results since stepping in and have been a net buyer of the stock over the last few years.

- With 3 strong business units, a great balance sheet, growing asset light cash income streams and a depressed valuation we think Catella shares are set to appreciate meaningfully from current levels as one of our highest risk/reward ideas.

We think Catella has been unfairly punished during the recent market selloff in Swedish property stocks. Catella have a differentiated business model compared to property owners and is sitting on a strong balance sheet, giving them ample opportunities to take advantage of the recent market weakness.

We have been following Catella for a long time and have recently done a deep dive into Catellas funds and their property projects. While we think Catella is cheap on recent reported numbers, we think there are several hidden drivers that can push the stock price significantly higher.



[1]

Catella have a history of strong (albeit volatile) shareholder returns. Over the last 7 years Catella have compounded AUM at 27 % per year. This have led to increased fees and scaling margins. Yet investors are today able to buy this growing cash flow stream at a single digit multiple (we think 1-4x EV/EBIT).

Our research indicates that Catella have high visibility into future unrealised and unregonized performance fees in their funds. This will secure strong performance fees over the coming years even in a weak property market.

We think Catella sits on valuable building rights in prime locations in Germany that are kept on the balance sheet at cost, despite a soaring property market in Germany for several years.

Catella have recently exited several larger mandates and sold own properties at a high IRR – perfect timing as the balance sheet now has a high net cash position at just the right time for a weak propety market.

Market Cap	3.339
Net cash	-350
Principal Investments fair value	-2.250
Enterprise value	739
Investment management ebit	500
EV EBIT	**1,5**

[1] Catella Q3 2022 investor presentation

Content

History:

Catella have a long and complicated history with ownership of a macro hedge fund, a bank, mutual funds etc. Over the last few years this have been simplified and Catella is now a pure play property company.

When we speak to investors who follows the company from a distance it becomes clear that there is still confusion about what they do and their position in the market. 2022 is the first full year with a business fully focused on the property verticals and we believe there is still an overhang and misunderstanding around the old business segment that Catella have now divested. At the same time the big Kaktus project (to be sold in Q4) is making the consolidated balance sheet messy. This should be cleaned up in the 2022 annual report.

Cristoffer Abramson was appointed CEO in Feb 2021 after he joined as CFO in October 2020. He has made several difficult decisions together with the rest of the management team in closing and selling non-core divisions and businesses to make Catella a fully property focused company.

Catella have been a long-term player in the market in Sweden and are maybe best known and visible in the corporate finance vertical and previously for the mutual funds, while the property focus has been increased since 2015.

Up until as late as 2018 the best performing segment of Catella was the Equity, Hedge and Fixed Income funds business which were active in both traditional mutual funds and what they called systematic funds that were a macro fund based on systematic trading strategies. As late as 2018 this segment made an operating profit of 323 Msek (10 % of current market cap).

The systematic hedge funds used economic theory and statistical trading strategies and performed very well for several years with strong returns and AUM growth. However, from 2019 and onwards the strategies in the funds did not work well in more volatile market environments leading to losses with declining AUM and negative operating leverage. Catella tried hard to turn it around but to no avail. With poor results and too little AUM to operate at critical mass, they made a strategic review to try and sell the business. But in the end, they decided to take the hard decision to cease operation in Apr 2021 with total write-downs and other wind down costs of around 100 Msek. We believe it was a very difficult decision to take considering how successful the business was just a few years ago, but it was the right decision, and we give credit to management teams who can make hard but difficult decisions and cut losses early.

In June 2020 Catella entered into an agreement to sell 70% of the mutual fund business to Athanase with an option to sell the remaining 30% which was then later also divested in 2022. This brought in around 200 Msek and was the final step, making Catella fully focused on the property vertical

Catella also previously operated a bank in Luxembourg which didn't perform well and tied up significant amounts of regulatory cash. Catella decided to wind down the business and return the bank license. This process took several years but was finally finished in Q4 2021.

One can always argue the process could have been handled differently and higher sales prices could have been achieved, however most importantly the wind-down has freed up management resources to focus on their highly lucrative business within the property verticals. This also makes it a cleaner investment case for investors.

Structural position in Property market:

Catella describes themselves as an alternative asset manager and leading investment partner in European property markets. They are active within 3 segments across European countries with strong positions and reach in Germany, U.K, Nordics, Benelux and France

Investment Management - real estate fund products and regional asset management services, with offices in 20 cities across Europe

Principal Investments – Investments with partners in real estate projects and project management of real estate developments, established in 13 countries

Corporate Finance - Advisor within real estate related corporate finance and debt advisory services with activities in Sweden, Denmark, Finland, France and Spain

Strong synergies

Catella is a long-term active player in real estate investment and fund management, with strong reach and synergies between business segments.

The most important segment is the Investment management segment, which is separated into property funds (roughly 75% of AUM) and asset management mandates (25 % of AUM).

With a reach across the market and segments the business divisions are highly synergetic. Corporate finance can identify trends and investment opportunities for Investment management and Principal investments. They have an early look into a lot of real estate deals and can use this knowledge to help the funds buy and sell properties as well as deliver deals to Catella directly. When there are transactions in the funds and in principal investments, corporate finance can be advising the deals enabling Catella to earn fees and be present in a larger part of the value chain.

The company have also communicated that they see good synergies between principal investments and Investment management, where Catella could potentially sell own projects into the property funds increasing the deal pipeline and AUM for the funds. This would always be done at arm lengths and only if it's done at favourable terms for all partners involved. To date no such transactions have been taking place. We believe this is due to the fact that there has been very strong interest for the projects sold to date from outside investors such as Allianz and the company will of course always sell to the highest bidder to achieve maximum IRR. However, we believe deals are likely to happen in the future and when Catella underwrite and calculate IRR on new deals in Principal investments they could be communicating with Investment management how much they would be willing to pay for a specific deal and this could act as a floor if external parties are not willing to pay a higher price.

Management and ownership

Catella is controlled by Johan Claesson's family company Claesson & Anderzén who controls 49,4%. Claesson have a lifetime experience of more than 50 years of investing in the property sector and hold very large property holdings in their family company. Claesson previously acted as CEO in Catella before handing over to Christofer Abramson. We believe he is still very much involved and interested in the business and helps the company with his vast network in the real estate sector and he is still chairman. Although there are some crossownerships and co-investments in partner companies and projects, we see no conflict of interest and hold the highest regards for the majority shareholders and management and believe they are trustworthy

The management are highly incentivized with Abramson sitting on 2 million share options with another 1 million distributed among management with a strike price of 35,20 SEK from 2024 onwards. (Source 2021 Annual report)

Ownership structure:

Among other shareholders its worth mentioning the high performing and respected hedge fund Alcur and the property magnet Rutger Arnhult. Symmetry Invest is currently the 4th largest (not disclosed below as it sits in a custodian account).

Owner	Capital	Votes
Claesson & Anderzén	49,4%	48,8%
Alcur Fonder	8,1%	7,2%
M2 Asset Management AB (Rutger Arnhult)	4,5%	4,5%
Avanza Pension	3,0%	2,7%
Nordea Fonder	2,3%	2,0%
Nordnet Pension Insurance	2,1%	1,9%
Strawberry Capital AS (Petter Stordalen)	1,7%	2,1%
Swedbank Insurance	1,3%	1,1%
Thomas Andersson Borstam	1,1%	1,0%
Familjen Hedberg	1,1%	1,0%
Other	25,5%	27,5%

Recent insider transactions:

It is not only Symmetry that thinks Catella is currently undervalued. Insiders have been buying the stock as well over the last few years with the last 23 transactions being buy transactions.
Insiders have bought stock as high as 43 SEK per share over the last few years. The fact that it's now possible to buy the stock cheaper is a bargain we have been taking advantage off recently.

Reported	Company	Owner	Type	Δ Shares	Price	Transaction
2022-08-22	Catella	Michel Fischier	Förvärv	1000	37,05	2022-08-22
2022-08-22	Catella	Christoffer Abramson	Förvärv	4000	36,99	2022-08-22
2022-06-30	Catella	Christoffer Abramson	Förvärv	2000	31,65	2022-06-30
2022-06-16	Catella	Mathias De Maré	Förvärv	1000	33,85	2022-06-16
2022-06-16	Catella	Mathias De Maré	Förvärv	1000	33,70	2022-06-16
2022-06-16	Catella	Christoffer Abramson	Förvärv	2000	34,50	2022-06-16
2022-06-15	Catella	Michel Fischier	Förvärv	2000	36,11	2022-06-15
2022-06-14	Catella	Christoffer Abramson	Förvärv	1000	36,70	2022-06-14
2022-06-10	Catella	Christoffer Abramson	Förvärv	1000	37,75	2022-06-10
2022-05-06	Catella	Christoffer Abramson	Förvärv	3000	39,71	2022-05-06
2022-03-24	Catella	Michel Fischier	Förvärv	2000	43,97	2022-03-24
2022-03-24	Catella	Christoffer Abramson	Förvärv	2000	43,90	2022-03-24
2022-03-24	Catella	Mattias Brodin	Förvärv	5000	43,95	2022-03-24
2022-03-23	Catella	Mathias De Maré	Förvärv	2000	43,50	2022-03-23
2022-01-17	Catella	Joachim Gahm	Förvärv	4000	43,26	2022-01-14
2022-01-11	Catella	Tobias Alsborger	Förvärv	16000	43,99	2022-01-11
2021-11-17	Catella	Michel Fischier	Förvärv	259	43,90	2021-11-17
2021-11-17	Catella	Michel Fischier	Förvärv	330	43,45	2021-11-17
2021-11-17	Catella	Michel Fischier	Förvärv	1124	43,85	2021-11-17
2021-11-17	Catella	Michel Fischier	Förvärv	353	43,95	2021-11-17
2021-11-17	Catella	Michel Fischier	Förvärv	434	43,45	2021-11-17
2021-06-30	Catella	Christoffer Abramson	Förvärv	5000	28,35	2021-06-30
2021-05-12	Catella	Tobias Alsborger	Förvärv	12000	29,59	2021-05-11

Corporate finance (CF):

Corporate finance is the smallest segment, but its profitable and has strong synergies with the Investment management and principal investments segments, as the corporate finance department hear and advice on deals in the market and can spot potential deals and see early trends and opportunities. When transactions are made in IM or principal investments, corporate finance can also earn transaction and advisory fees Catella would otherwise have to pay to external parties. Corporate finance recently advised in the selling of the Infrahubs projects in Norrköping, Ljungby and Örebro and we expect this trend to continue with increasing synergies going forward.

In a volatile property market price expectations between buyers and sellers are sometimes difficult and leads to less transactions in the short term, but are likely only pushed forward until the market conditions settle down and buyers and sellers' expectations are realigned.

Focus on core markets:

Earlier this year Catella took the decision to exit Germany and the Baltics as they didn't believe they could reach enough scale to be profitable with current market conditions and will instead now focus on the core markets where they already hold strong market leading positions which are France, Sweden, Denmark and Spain.

"Following Friday's press release on Catella winding down its German Corporate Finance operations, Catella today announces the decision to exit its Corporate Finance operations in the Baltics."[2]

Both decisions were based on a strategic review of the Corporate Finance business area with the aim of identifying markets where Catella Corporate Finance has a strong market position or an opportunity to reach a solid and profitable position.

"As with our German Corporate Finance operations, we have concluded that we will not be able to reach the strong market position that is necessary to be successful in the Baltics. Exiting the German and Baltic Corporate Finance markets means that we can now wholeheartedly focus on growth and expansion of our remaining five strong markets and our pan-European offering in Debt Advisory. Corporate Finance is at the heart of Catella, and we are excited about our future growth in our core markets. It is never an easy decision to wind down an operation and I extend my best wishes to the Baltics team going forward."

New focus areas:

Core focus will be with real estate related corporate finance and they also see increased potential in debt advisory as tighter credit markets makes refinancing more challenging. While still an early and developing niche for them it's something that has been growing steadily. With current interest fluctuations and some indebted companies running into problems debt advisory could be a bigger opportunity going forward.

[2] Catella press release

Principal Investments (PI):

Unlike pure play property developers, the business model for Catella PI differs slightly as they co-invest with partners in real estate projects and project management of real estate developments. Catella contract the projects with building companies. This does not tie up as much capital and is often shorter duration as Catella don't necessarily need to be involved in the projects from start to finish with their own balance sheet. The reason they co-invest is to show investment partners they are in the same boat and are committed to the projects. Some external funding partners mandate Catella to take small co-investments in asset management projects. On top of the capital investment Catella brings to the table, they also get paid from the partners for "doing the work". As an example, getting the building permits and construction plans for the various stages of the development, and often finding long term tenants before they start building, significantly de-risking the investment and making IRR calculations more predictable. As Catella does a lot of the "value-add" they construct the partnerships so that Catella only commits a small part of the capital but get a much higher share of the profits.

Catella have communicated a goal to have around 1,5bn SEK invested and continuously turned over and reinvested with an IRR target of +20%, which would mean a yearly EBIT of +300m SEK. That IRR target may sound ambitious to some people. However, from the 4 projects delivered and sold to date they have achieved a weighted average IRR above 50%.

At the end of Q3 they had 1,4bn SEK invested, but several projects to be harvested soon

The company admits it will be harder to find attractive deals and an IRR of +20% going forward although they still think it's possible. We believe the market has not yet put value on this segment and largely value the projects at book-value which we believe is far too conservative. If they can realise a few more projects like for example the upcoming sale of the Kaktus towers in Copenhagen we believe this might change the perception and it will be harder for the market to ignore the value creation.

As Catella runs with a net cash balance sheet themselves and the projects mostly rely on external partners to commit financing, Catella is never a forced buyer/seller in these projects and therefore have a flexible timeline. With low equity capital invested in the projects, Catella can be patient on timing and those optimise for IRR rather than short term profits.

Since inception the principal investment have so far only sold 4 projects of significance but achieved much higher IRR than the target of 20%. Below are some company comments on previously sold projects. They describe 2022 as a harvesting year with several larger upcoming projects nearing completion in Q3 and Q4.

Sold projects:

Project	Sold	EBIT Msek	IRR
Grand Central, Dusseldorf	Q4 2019	229	N/A
Moussey logistics	Q4 2021	5	> 70%
Norrköping	Q1 2022	132	73%
Ljungby & Örebro	Q2 2022	100	58%
Total		466	weighted avg >50%

[3]

[3] Symmetry figure.

Grand Central Dusseldorf, Germany Sold in 2019

”Grand Central Residential property development project totalling EUR 540 M located adjacent to the Central Station in Düsseldorf. The project consists of 1,000 apartments over a total of 40,000 m2. The project started in 2015 and Catella has held planning approval to construct buildings on the land from the outset. As of October 2019, Catella has entered an agreement relating to the divestment of the project that will have a positive effect on profit after tax of some SEK 155 M in the third quarter 2020. The total effect of the transaction after tax amounts to approximately SEK 170 million, of which SEK 15 million was reported during the fourth quarter of 2019.”

Moussey logistics, France sold 2021

“We completed a logistics property in France in the quarter (Moussey II), generating profit of SEK 5 M. In the fourth quarter, full profit recognition is expected to contribute to IRR of over 70 percent and a multiple on equity of approximately 1.7x for the project. This is well above Catella's target of average IRR of 20 percent in the business area.”

Logistic Property in Norrköping, Sweden sold in 2022

”In March, the first sale of a development project from the partly owned Infrahubs was completed. There was great interest in the property, which confirms our solid business model of developing a portfolio of modern and sustainable logistics properties with long leases. The sale generated a total profit of SEK 102 M, with an additional SEK 30 M to be recognized when the installation of what will be the largest rooftop photovoltaic cell facility in the Nordics is completed.”

Logistic properties in Ljungby and Örebro, Sweden sold in 2022

”Two additional successful sales in the property portfolio reducing Catella’s risk exposure in development projects. During the second quarter, two further sales of development projects were agreed in the partly owned Infrahubs. Interest in the logistics properties was strong and resulted in profit of nearly SEK 100 M, corresponding to an IRR of 58 percent.”[4]

Below we show the current value in Catellas book (cost valuation) and our bear and base case scenarios:

	Book value	Bear	Base
Kaktus	423	623	923
German projects	170	270	370
Logistics Europe	132	150	200
Infrahubs	365	400	500
Other	199	207	257
Total sale value	1289	1650	2250
Per share	14,6	18,7	25,5

[5]

It is worth noting that our projections are for Catellas share of the projects and the potential upside Catella would receive as they don’t have full ownership of all projects.

[4] Catella sale comments
[5] Book value from Catella report – bear and base case Symmetry projections

Current projects:

Catella have 11 ongoing projects and a further pipeline of early-stage investments. We have done some rough estimates for the upcoming projects in 2022 based on recent peer transactions in the market.

Strong returns to date and solid progress in ongoing projects

11 ongoing projects after Q3

Sweden (Infrahubs)
- *Logistics, Vaggeryd*
- *Logistics, Jönköping*

Denmark (Direct Investment)
- *Residential, "Kaktus", Copenhagen*

Germany (Catella Project Capital)
- *Residential, "Seestadt MG+", Düsseldorf*
- *Residential, "Düssel-Terrassen", Düsseldorf*
- *Office, "Königsallee", Düsseldorf*

France (Catella Logistic Europe)
- *Logistics, Mer*
- *Logistics, Metz*

Spain (Catella Logistic Europe)
- *Logistics, Barcelona*

United Kingdom (Catella APAM)
- *Mixed use, "The Maltings", Salisbury*
- *Retail, Mander Centre*

Invested equity, project IRR, and targets

	Current status	Long term Target
Catella invested equity (SEK Bn)	1.3	1.5
Project IRR	>50% *(weighted average to date)*	20%

Income statement*

SEK M	Q3 2022	Q3 2021	LTM Q3 2022	LTM Q3 2021
Total revenue	74	8	586	18
Expenses	-86	-1	-240	-14
Deducted result from non-controlling operations	-8	0	-170	0
Operating profit/loss	-20	7	176	4
Operating margin, %	*Neg*	*81*	*30*	*23*
*No. of employees**	*37*	*0*	*37*	*0*

**Catella Project Management and Catella Logistics Europe became a part of Principal Investments beginning of 2022*

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Project overview

Investments	Country	Type	Project start	Estimated completion	Catella ownership, %	Total investment (SEK M)	Catella total investment (SEK M)
Seestadt MG+	DE	Residential	Q1 2019	2030+ (First site Q4-22)	45	704	52
Düssel-Terrassen	DE	Residential	Q4 2018	2030+	45	155	28
Königsallee 106	DE	Office	Q2 2021	2025	23	886	90
Catella Project Capital						1 745	170
Roye Logistique	FR	Logistics	Q2 2019	Completed	100	313	16
Mer Logistique	FR	Logistics	Q1 2020	Q4 2022	100	336	48
Metz-Eurolog	FR	Logistics	Q3 2020	2024	100	4	4
Barcelona Logistics	ES	Logistics	Q4 2020	2023	100	64	64
Catella Logistics Europe						717	132
Vaggeryd	SE	Logistics	Q3 2021	Completed	50	303	278
Jönköping	SE	Logistics	Q2 2022	Q2 2023	40	155	36
Other	SE	Logistics			40	87	50
Infrahubs						545	365
Kaktus	DK	Residential	Q2 2017	Q3 2022	93	1 491	423
Salisbury	UK	Mixed	Q4 2021	n/a	88	220	73
Mander Centre	UK	Retail	Q1 2021	n/a	100	98	98
Direct investments						1 809	594
Co-investments							28
Total						*4 816*	*1 289*

KEY TAKE-AWAYS

- 11 ongoing projects across Europe and an additional four in pre-development stage
- Kaktus (Residential, DK) nearing completion. All apartments fully let and tenants have moved in. Continued advanced discussions with tenants of commercial areas and exit process underway
- Current market uncertainties slowing down transaction market and postponing sales

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[6] Catella Q3 2022 investor presentation
[7] Catella Q3 2022 investor presentation

One of the projects we have been following closely and recently visited in Copenhagen is the large residential project Kaktus Towers where Catella owns 93% and which is nearing completing and is in an ongoing sales process. Based on peer transactions for similar projects in Copenhagen, we believe its likely Catella can realise sizable profits and unlock significant cash on the balance sheet. The 495 apartments are fully rented out, while the commercial properties on the lower floors are being customized for tenants. https://kaktus-towers.dk/main/apartments/list

A peer property was recently sold in Örestad in Copenhagen for around 60 000 DKK per square meter. Using the same sqm price on Kaktus would assume a sale price of around 2,2bn SEK and possible profit before tax in the range of 600-800 Msek depending on the final development and transaction costs. We choose a slightly more conservative estimate of 500m SEK in our base case given the uncertainty and difficulty to measure peer properties against each other. In our bear case we assume a 200 million profit.

https://ejendomswatch.dk/Ejendomsnyt/Investorer/article14462062.ece?utm_campaign=EjendomsWatch&utm_content=2022-10-05&utm_medium=email&utm_source=ejendomswatch

Management said on the Q3 2022 conference call that interest was high and they expected a sale following signing the commercial lease agreements;

> *"Really close to signing long term leases in commercial part" – "will make it easier to get full value for property. More to come shortly".*[8]

Among the other projects in the portfolio, we find the large multistage German projects in Seestadt and Düssel-Terrassen particularly interesting as they are very large and are estimated to be built and sold in stages until 2030. The first stage in Seestadt is less than 10% of the total project and is estimated to be completed in Q4 this year and if they were to realize a good return on the project, it will be a very good reference object to value the rest of their project pipeline in the Dusseldorf area with potential profits many years ahead. The project is currently being rented and sold upfront and can be followed on their project website :

https://gpl34i.a1.flatyfind.com/?utm_source=Website&utm_medium=Website&utm_campaign=rent&utm_content=B%C3%B6cker

Management commented in the Q3 conference call:

> *"Seestadt stage one is near completion around year end. Letting is going great with rent levels currently surprising us to the upside"*

Seestadt stage 1 is projected to be sold in early 2023. While we only include a 100 million SEK profit in our liquidation scenario and 200 million SEK for all the German assets in our base case, we think there could be huge upside. If Seestadt stage one is indeed sold for a 50-100 million SEK profit what would that imply for the remaining 90 % of the project?

The investments in Infrahubs logistic properties have already generated significant profits with high IRR above 50% and there are many more ongoing and upcoming projects in the pipeline with Vaggeryd next to be divested in the end of 2022. On Vaggeryd Catella management said the following on their Q3 2022 conference call:

> *"Vaggeryd already have offers back and forth. First class logistic asset. No reason to sell unless offer is good enough. Have good offers already, that we hope will get better".*

[8] Q3 2022 conference call

[9]

With the recent acquisition of WPP in Poland, Catella view it as a strong potential growth market both in the Investment management business and for Principal investment

[9] Andreas doing due diligence on the ground of the Kaktus tower in Copenhagen

Valuable building rights:

We mentioned hidden assets in the form of undervaluation in the public funds and we think its similar dynamics in the project portfolio. Many property developers and property companies sit on large leveraged balance sheet risks after writing up their land and properties aggressively over the years. Catella instead seem to realise profits when they sell projects or properties as they use much more conservative cost accounting.

From what we understand Catella have a mixture of land, building rights and options in their projects which is valued very conservatively on their balance sheet. For example, in their German projects with the inbuilt optionality dynamic they can choose when they want to invest depending on market conditions without having to pay for new land etc in the future. We believe this optionality carry significant value which is however hidden and not taken up to the full extent on their balance sheet.

We will see the first realised profits from the Seestadt project soon. For these German projects Catella have been getting permits, zoning, area certification, planning, projecting etc. done and own the land rights to build. In dense areas this is an insane optionality as Catella can decide when to contract with a construction company to build the different phases and when to lease/sell the projects.

Platform value:

We have valued PI at our estimated current market value for existing projects in a bear and base case scenario. While not included in our valuation we think there is ongoing platform value here that is worth a lot of money.

As Catella works with capital partners and only invest a small amount of money but gets a high share of the profits they can consistently earn high IRR on their projects. They have shown this so far with their +50 % IRR realisations and their 20 % IRR guidance. If Catella can consistently deploy money at +20 % IRR the valuation of Principal Investments should be considerably higher than just the fair value of current projects that we use in our model.

From the Q3 2022 conference call:

> *"We have entered new pan-European asset management mandates, where they target specific areas together with strong capital partners, where Catella can co-invest"*
>
> *"Our strong balance sheet allows us to review and invest opportunistic in new co-investment mandates where we have interest from several capital partners".*
>
> *"Across certain European markets there as a lot of distressed developers especially on residential market – where we think there could be a lot of opportunities to step in – a lot of these would require a lot of capital – which means we partner up with capital partners".*
>
> *"When you invest our own and other people's money you have to play on your strengths. I don't want to sound arrogant, but this type of things is not for amateurs – we have the platforms".* [10]

[10] Catella Q3 2022 conference call

Property Investment Management (PIM):

In our opinion PIM is the gem within Catella. It’s an asset that is significantly undervalued by the market as it sits within the Catella structure. But as Catella has winded down the non-property businesses this gem is now starting to shine and move to the spotlight.

History of growing AUM:

Catella has a strong history with an AUM CAGR of 27% since 2015. Alternative asset management is an attractive and growing industry with clear scale benefits driving consolidation, and we believe they can be a strong player in the field going forward. It’s important to remember AUM growth comes from not only inflows but also revaluation of properties and from M&A and Catella have done some smaller M&A deals of platforms in the past like APAM in the U.K and WPP in Poland. We believe they will be more active in M&A of platforms in different countries going forward as they sit on a strong balance sheet and multiples of private players are coming down. Considering inflows, revaluations and M&A together with the strong historic performance we believe it’s reasonable to believe Catella can grow the AUM with a CAGR of 10-20% for the next decade even in a more challenging market situation. With more reach and as a larger company Catella also becomes more relevant and a respected player and can reach for bigger mandates as you need to reach a certain size before larger institutional players might consider investing.

> *“Inflows are actually increasing into complex specialized value-added creative strategies”*
>
> *“We for the first time start to see larger mandates from Scandinavian institutions, as we have now reached a size where this makes sense for them”.*[11]

[12]

[11] Q3 2022 investor call

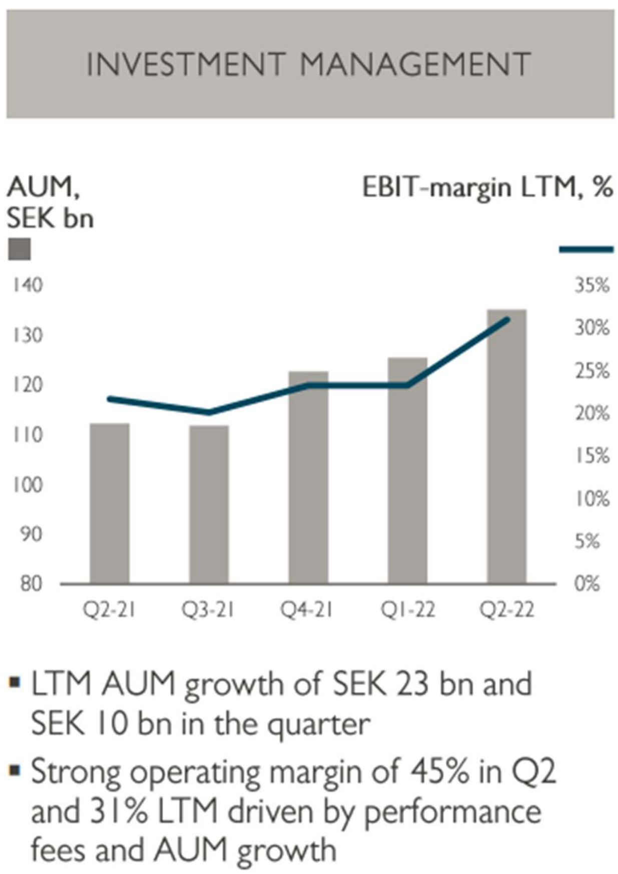
[12] Q2 presentation Patrizia AG

Scaling margins:

We believe Catellas platform in IM is largely scalable, and they have improved EBIT margins the last 4 years with increased AUM. Although part of it is due to very strong performance fees in a strong property market, fixed fees also compound with growing AUM, and even without performance fees Catella would show strong profitability. It's also worth mentioning that a big part of variable fees is not only performance fees but also transactions fees. While also volatile, management argue this is a recurring part of the business as they constantly do portfolio optimizations. Competitors like Patrizia AG in Germany have consistently showed that it is possible to achieve EBIT margins above 30% with enough scale and we also believe margins will fluctuate less in the future with an increased number of funds and AUM. In an inflationary environment and with low leverage ratios in the underlying funds we also argue it's a very good inflation hedge as AUM growth and property prices are likely to benefit from high inflation with higher fixed fees and performance fees while costs don't increase to the same extent.

Who is becoming squeezed in this market? Funds and companies that have used excessive and short duration debt and aggressive writeups of properties.

Catella funds is the opposite with only conservative revaluations year to year and really low debt levels.



[13]

[13] Catella Q2 2022 presentation

As can be seen on the previous side, LTM margins in investment management have now reached +30 % on an EBIT level. It is worth noting that performance fees are mostly earned in Q2 each year. As such it's better to look at EBIT margins in PIM on a 12-month rolling basis.

FEE INCOME SPLIT

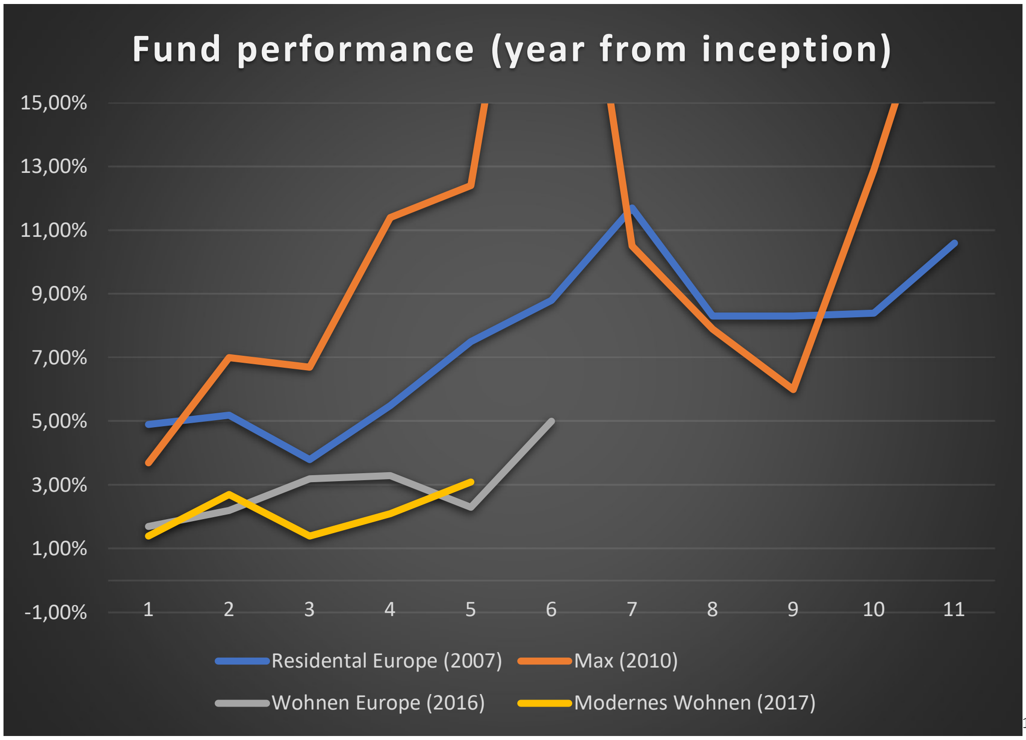
	Q3 2022	Q3 2021	Change, %
LTM fixed fees	SEK 770 M	SEK 649 M	19 %
LTM variable fees	SEK 509 M	SEK 317 M	60 %

The fees it split around 60 % fixed fees and 40 % variable fees even if that moves around depending on the level of performance fees. This secures a high level of growing recurring revenue streams. And as we mentioned before, some of the variable fees are transaction fees and other consulting fees not related to performance. And as we will walk through later in this report, the visibility into future performance fees is really high.

Strong fund performance:

Catella currently have around 30 different open-ended funds with different strategies and risk profiles. They have shown strong performance over the years and especially some of the larger public funds like Catella European Residential and Catella Wohnen Europa have shown strong AUM growth based on both inflows and performance. It's worth mentioning that the funds run with relatively low leverage compared to other property players with a normal leverage ratio in the public funds around 20-80 split between debt and equity. A lot of other public property companies and funds use 80-20 split on debt and equity. This means that returns are less volatile in turbulent markets and inflation and rising interest rates should not have as much impact as for more levered real estate companies.

Catella funds have generally performed well as they mature. It is worth remembering that the investor base in these funds are mostly institutional investors that wants low risk exposure to real estate and that the funds only deploy modest amounts of leverage. These returns are with that in mind really good and is the reason why Catella attracts a lot of new AUM to their funds.



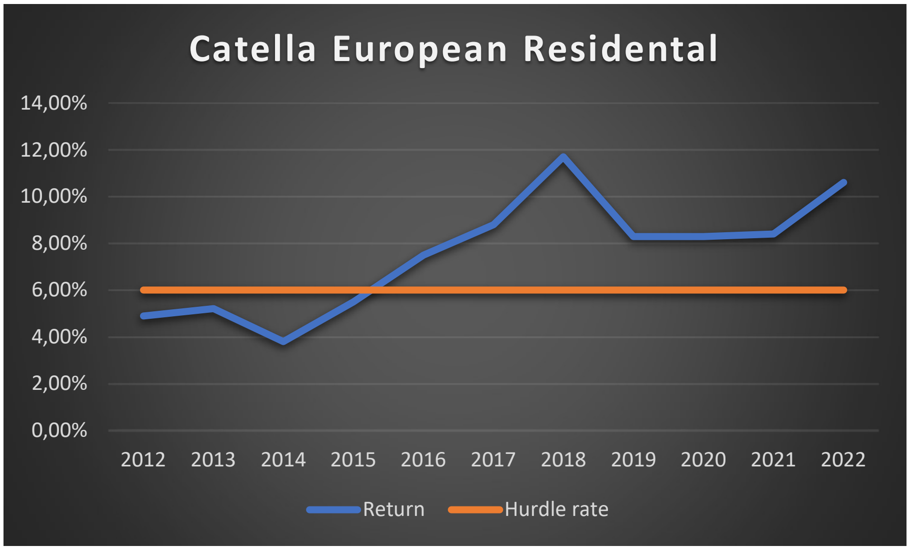
[14]

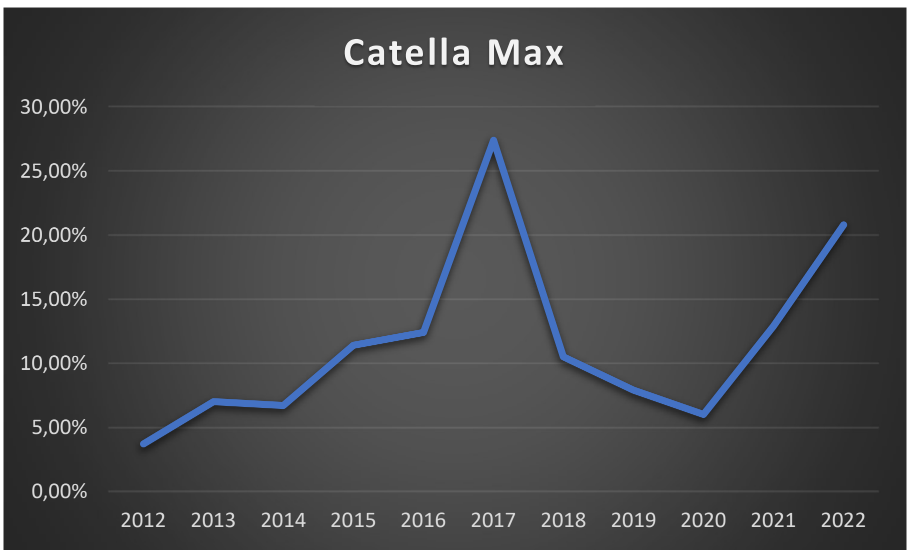
The graph above is also another prove that Catella runs more conservative property accounting withing the funds. Despite a booming property market, the last 5 years, some of the never funds have not seen big revaluations of the portfolios. Instead Catella works with the property, optimize them for better yields, reletting for better tenants and adjust then rent upwards in line with inflation. As the funds then mature and AUM growth slows the returns are earned from revaluations and or sale of properties.

This is also a major factor for future performance fees as Catella still have a lot of new funds that is still not yet mature enough to earn performance fees but will in the future.

[14] Data is from public fund documents – x axis shows years from inception and Y axis the performance in year 1 – year 2 etc.

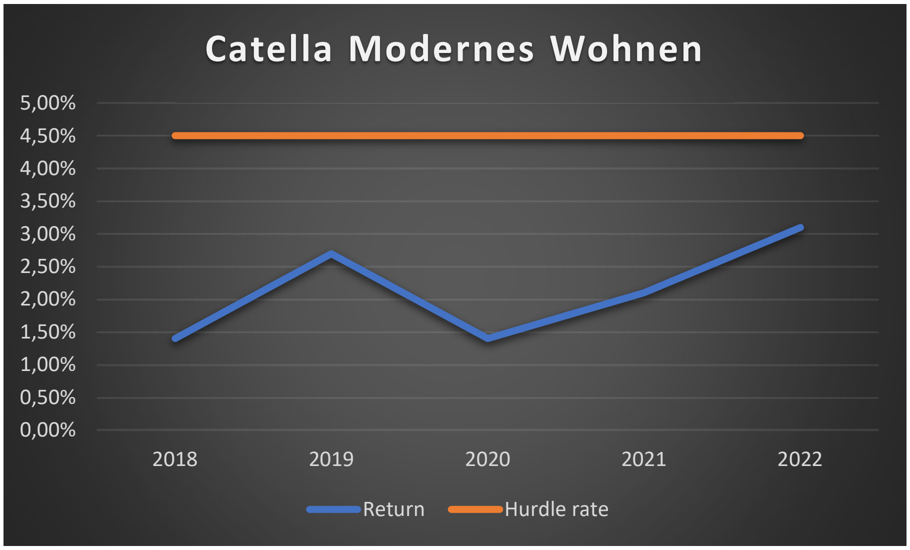
The 2 oldest public funds for Catella are Catella Europe Residential (from 2007) and Catella Max (from 2010). Max have been a stellar performer but unfortunately have no performance fees in the fee structure.

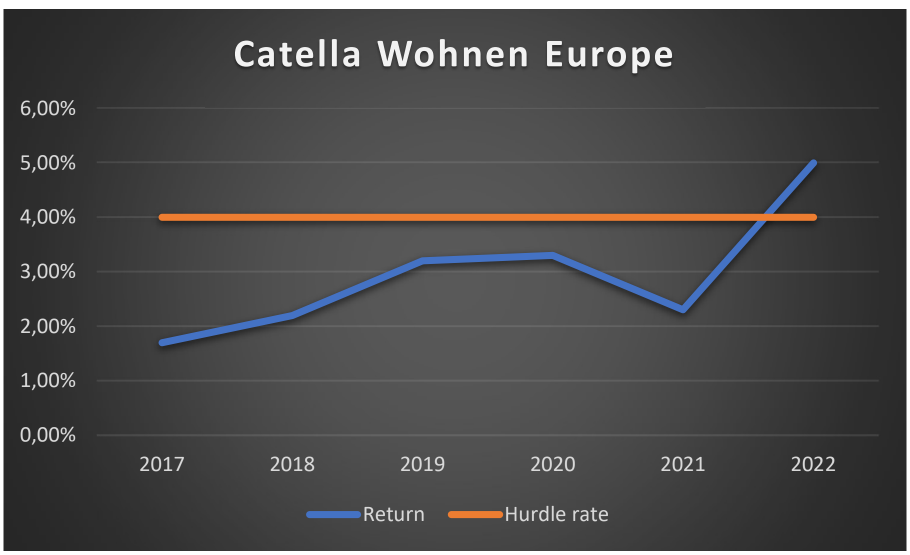




Catella Residental Europe is also the biggest contributor to performance fees as it now consistently earns returns above the hurdle rate. A lot of the properties they own have been held for many years and only slowly been revalued upwards in a huge property boom. We those expects good performance fees to continue here.

Some of their never fastest growing funds are still at an early stage in their maturity cycles. These funds have only recently started to contribute with small performance fees.





This is another factor that is normally overlooked on Catella. They have been growing AUM so fast (+25 % CAGR) for the last 5-10 years that the AUM in the never funds is still not mature enough to pay performance fees. As all these new initiatives moves into maturity and start to perform above the hurdle rates, we should see an overall acceleration of performance fees to Catella.

High future demand for Property funds:

Increased life expectancy puts pressure on the conventional pension system and increases demand for alternative assets with stable but good yields. Real estate also serves as a good inflation hedge in volatile markets where both bond yields have been under pressure the last years and the equity markets have been too volatile for conservative investors like pension funds and family offices. The AUM is largely sticky and based on long term allocation plans and mandates. Even if inflows to property funds might slow down somewhat in a weaker market, it's unlikely it would lead to sudden sharp outflows of AUM. Also, because the mandates are often with fixed terms and lockups, It's likely that existing players will have strong AUM growth from increased demand and industry consolidation where we expect Catella to play an active part.

Their Germany based Peer Patrizia surveyed their own investors and commented on this in their Q2 report:

> *"64% of PATRIZIAs clients plan to increase their investment allocation to infrastructure and 60% plan to increase their investment allocation to real assets" (Patrizia Q2 2022 presentation)*
>
> *"Clients structurally reduce number of investment managers and seek reliable partners with broad product offering, excellent international service levels and cutting edge technology" (Patrizia Q2 2022 presentation)*

As recent as a few weeks ago Catella announced that BNP Paribas together with German institutional investors have committed 200 million EUR in additional money to one of Catellas funds.

Catella Residential Investment Management + Følg •••
2.534 følgere
6d •

BNP Paribas REIM and German Institutional Investors commit EUR 200 million to Catella European Residential III Fund

BNP Paribas REIM and a number of German Institutional Investors, mainly pension funds, have committed €200 million to the latest closing of the Catella European Residential III Fund, one of Europe's largest cross-border residential investment vehicles, taking its total capital raised to more than EUR 1.2 billion.

CER III is managed by Berlin-based Catella Residential Investment Management (CRIM) and has a diversified portfolio of investments encompassing around 30 residential properties in seven countries across Europe. CER III, as an Article 9 impact fund, integrates in its mandate the significant reduction of greenhouse gas emissions from its properties and also the incorporation of sustainable societal objectives in its investments. On Governance, a penalty clause included in CER III's management agreement means CRIM will donate part of its recurring management fee to a relevant impact-related United Nations charity should the manager fail to meet the financial, environmental, or societal objectives set for the fund.

Catella also often comments in their reports how much they have in "committed but not called capital" ie. Capital where the investors have already signed up but where Catella has not yet invested it and those does not count in AUM yet.

Looking ahead – continued strong investor interest to selected fund products and over SEK 10 bn of unlevered committed capital end of Q2 [15]

But one should also be realistic going forward. Catella will not grow AUM at +25 % for the next 5 years (despite growing 28 % YTD in FY22). But we do think Catella should be able to grow 10-20 % per year and as we only pay an EV/EBIT multiple of 1-4x currently that is not at all accounted for.

Hidden value in embedded performance fees:

We believe there are many hidden values in Catella and one is in the embedded performance fees. From comments made on conference calls and from our conversation with management we believe the properties in the funds are likely on average significantly undervalued. During a booming property market like we have had the last 10 years, with rising property prices Catella have likely not written up the properties in the funds to their fair valuation immediately. German accounting (BaFin rules) requires the funds to only do limited markups. This was rules put in place after the great financial crisis where some funds blew up. We did a more extensive digging into performance numbers in the funds and with recent transactions we see support for this thesis. If we take one of Catellas largest public funds, Catella European Residential (CER) as an example, they start earning performance fees after 6%. Since many of the older "Brown" properties are now sold and being reinvested into "Green" Properties we believe this will both contribute to strong performance fees and transactions fees with good visibility the coming years as they report monthly on the public funds.

Below is the fee structure for the largest public fund CER:

fee structure

Entry fee3	up to 5%
exit fee	up to 3% (currently 0%)
administration fee	up to 0.75% pa (currently 0.75% pa) the average net asset value
purchase fee	up to 1.5% (basis: purchase price)
sales fee	up to 1.5% (basis: sales price)
construction/remodeling costs	up to 1.5% (basis: construction costs incl. Additional construction costs according to DIN 276)
performance fee	25% of the amount by which a fund return (BVI) of 6% exceeded sustainably becomes; at most up to 5% of the average fund assets in the accounting period
Depositary Fee	no more than 0.025% (currently 0.021% pa) of the average net asset value, at least EUR 45,000 pa
Total Expense Ratio4	0.63% pa (basis: average fund assets)

[15] Catella Q2 2022 presentation

What is often overlooked by some investors is the purchase/sale/construction fees that Catella earns of 1,5 % per transaction. One could argue this gives Catella an incentive to flip properties too often, but that has not been the case in the past based on the number of transaction and judged on the good performance.

Catella recently signed a huge deal to sell a part of their older "brown properties" in two of their larger funds:

2022-09-06 13:40 CET, Europe, Germany | Press release

Catella European Residential and Catella Wohnen Europa sell German-Dutch real estate portfolio

Berlin-based Catella Residential Investment Management GmbH (CRIM) and Munich-headquartered AIFM platform Catella Real Estate AG (CREAG) have sold a German-Dutch residential real estate portfolio to ZBI Group. The portfolio was sold on behalf of the Catella European Residential and Catella Wohnen Europa funds.

The portfolio comprises 26 properties in Germany and eight in the Netherland offering some 4,000 apartments with a total rental area of around 256,000 m².

Michael Keune, Managing Director at CRIM, commented: "*We are pleased to have successfully completed this disposal with the ZBI Group which is in line with the CER and CWE funds' strategy to streamline their respective portfolios.*" [16]

This is a huge transaction. If Catella indeed will earn 1,5 % sale fee on these asset sales and purchases fees when the capital is redeployed it could lead to a lot of transactions fees in the coming quarter (the sale is set to close in Q4 2022). As the properties is also likely sold above book value (see highlight below) this will also help performance in the funds and those contribute to 2023 performance fees.

> *"34 assets, more than 4.000 residential units was sold – it's the second largest cross-border transaction in residential this year. – We want to recycle investors assets to even more forward looking and sustainable assets – there are buyers* **that value them even higher** *than we do".*

Jesper Henriksson (Redeye analyst) in a recent write-up believe the assets in the funds might be significantly undervalued[17]

> *"Without going into detail in our calculations, we have identified some transactions in Catella European Residential to valuations between 25% and 50% above book value. While we don't think the whole asset base is undervalued by this much, we think this illustrates that the reported value of Catella's property" funds is indeed undervalued. Our assessment is that real asset value is about 15-25% above the reported value"*

[16] Catella press release
[17] 220822-catella-q222-update1.pdf

This was also further discussed on the Q2 conference call. We think these comments again further supports our thesis here.

> *”On behalf of our fund investors, we are currently reviewing sales of certain fund assets during 2022. The ambition of any disposals at the moment is really to enable a reallocation of capital to even more sustainability profile investments and rebalance the portfolio a little bit.”*[18]

Jesper Henrikson (Analyst)

> *”Okay. Good. And then regarding the underlying portfolio in Investment Management and its valuation, especially in the property funds. What I'm wondering is regarding the potential cushion in the valuation. So basically, since you don't value the properties from a certain yield, but rather the revaluation first becomes substantial when you divest the assets. So, if you could just talk about this and how big that valuation cushion might be?*[19]

Christoffer Abramson (CEO)

> *Yes. I think, as you know, we don't provide a forecast. And I think it would be -- it wouldn't be prudent for us to suggest that the valuation rules that are in force for portfolio valued are wrong. But what we see is that, as you know, in an upturn, cash flow valuations are a bit slow moving. And having looked at the last 2 quarters of executed sales, clearly, they've delivered a significant upside compared to the portfolio value -- the book value.*
>
> *That has, however, changed the valuation in some of the funds because the valuators have to take into consideration recent sales. So, we see an uptick. But clearly, we consider this as the first movements of recognizing what we think is a substantial buffer in our portfolio, which would be great as the market turns, and it's going to be even better if the market continues where it's going. But I don't want to put a number around it, Jesper, as you know, but I think recent performance and recent sales have changed the valuation somewhat. It shows that we do have underlying values in a lot of our portfolios that would be realized if we sold today.” (Catella Q2 conference call)*[20]

Some of the public funds also referred to recent transactions in their reports:

> *“Sold Danish property portfolio of 107 apartments for 69m 21% above book value, acquired in 2010-2012 originally bought for 37m”*
>
> *Sold Polish residential complex purchased in 2018 for 37,6m bought at 24,6*
>
> *Sold for properties in Erlangen and Mannheim for 93m, originally purchased for 28,6m and book value of 61”* [21] *(ie. A sale 52 % above bookvalue)*

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[18] Cristoffer Abrahamson Catella Q2 conference call)
[19] Q2 conference call Q&A session
[20] Q2 conference call Q&A session
[21] CER 2021 annual report

We also looked at all the recent reports and presentations from Catella where they mentioned exits and other mandates especially around their asset management business. These includes successful exits and variable fees as well.

- Increase in variable revenues by SEK 118 M due to CER, CWE and CDR funds' performance fees [22]

- YTD outflows related to discontinued low margin asset management mandates and successful exit sales [23]

- In APAM (UK) two larger mandates were sold leading to outflows of SEK 1,3 bn but contributed by SEK 10 M in variable revenues [24]

"Successful exists from long-term asset mandates that generated performance fees". [25]

It is worth noting that many of the asset management mandates (ie. not the property funds) is structured intentionally as shorter duration mandates with most of the fees earned as exit fees. These are mandates where Catella (or a partner) identifies an asset that could be a new development or a "fix-up" or distressed sale etc. The partner then commits all the capital to buy the asset while Catella delivers its knowledge and work on the project. Normally when the property is then built or fixed, the properties are sold to an external party at a nice profit where Catella gets a profit share. The beauty of this model is that Catella don't deliver capital but still share in the profits. Partners are consistently delivering these types of projects to Catella because they have a track record of delivering good returns, ie. a pure win-win model.

[22] Q2 2022 report
[23] Q4 2021 report
[24] Q3 2021 report
[25] Q3 2022 conference call

While these comments from management and analysts etc. confirmed our opinion that fund assets are undervalued, we also wanted to research it directly based on the public property fund reports. Our research was done by taking all the monthly reports from all the public funds and then calculate the correlation between assets sales and monthly return figures. While there was a lot of interesting insights from this, we will share the most important one here:
We think our results are quite interesting and heavily supports our thesis:

Catella European Residental	jul 2021	aug 2021	sep 2021	okt 2021	nov 2021	dec 2021	jan 2022	feb 2022	mar 2022	apr 2022	maj 2022	jun 2022	jul 2022	aug 2022	sep 2022
Performance current month	0,30%	1%	1,30%	0,50%	0,70%	0,70%	0,50%	0,70%	1,20%	1,70%	0,90%	2,10%	0,70%	0,90%	1,00%
number of objects	69	65	65	65	68	68	68	68	68	65	65	63	63	63	63

Catella Max	jul 2021	aug 2021	sep 2021	okt 2021	nov 2021	dec 2021	jan 2022	feb 2022	mar 2022	apr 2022	maj 2022	jun 2022	jul 2022	aug 2022	sep 2022
Performance current month	1,60%	2,30%	1,10%	1%	0,90%	0,80%	3,70%	1,70%	1,30%	0,70%	2,30%	2,30%	0,80%	1,70%	0,70%
number of objects	14	14	14	14	14	14	13	13	13	13	13	13	13	13	13

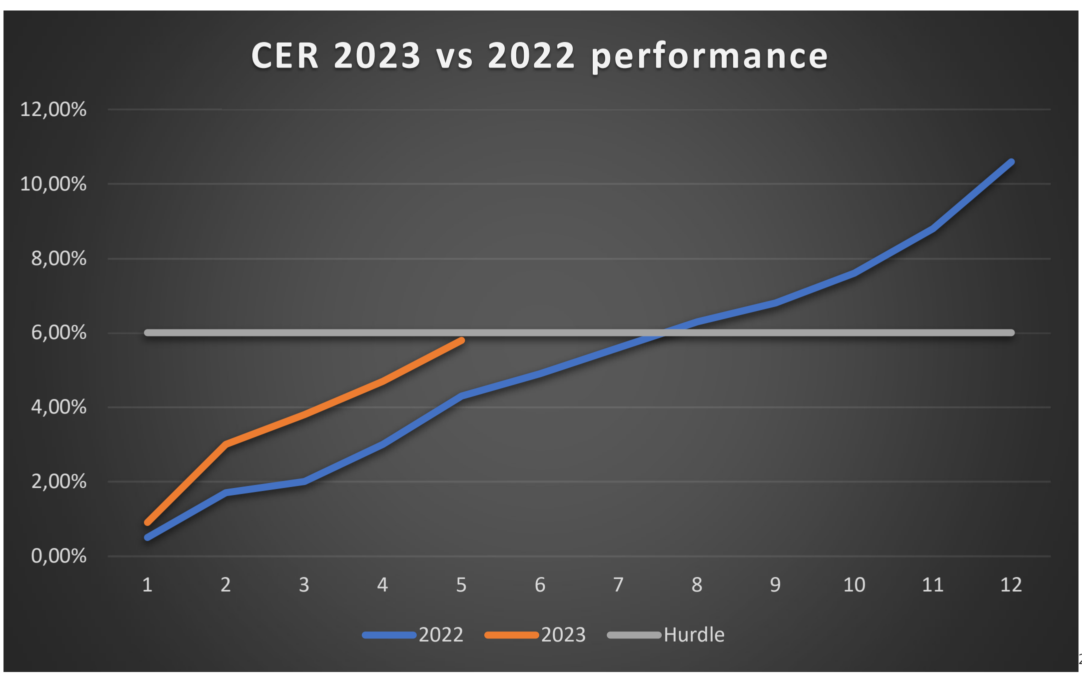
While Catella runs several public funds only 2 of them have divested assets over the last 24 months. And these are also the most mature funds Catella has.

As we have marked with yellow the best monthly returns were also directly correlated with months where properties were divested/sold.

This supports our thesis that the properties are held at low valuations as they are consistently sold above book value. If we "revert" the calculation here it seems that sales of around 4 % of the assets in the funds delivers and excess return of 1 % in the month they are sold. Just extrapolating this would indicate that a sale of 100 % of the assets would deliver a 25 % return. This again supports our view that properties are probably held on the book at somewhere between 20-30 % below market values.

Current performance

While there has been written a lot about the death of the property market so far in 2022 this is not something we have seen in the monthly return numbers so far from Catella:

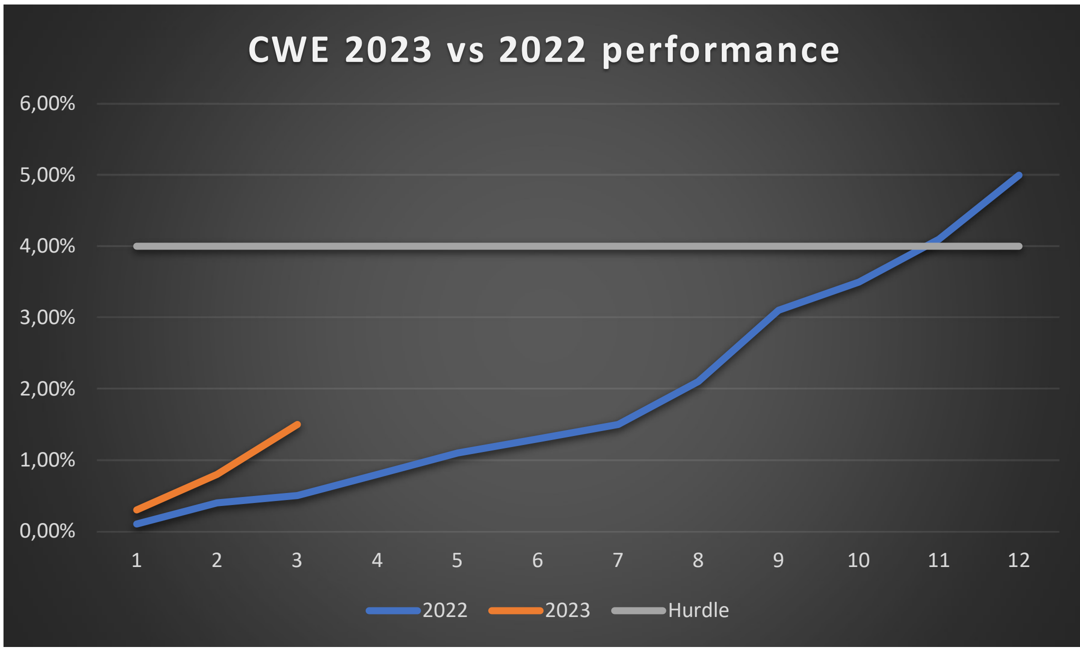


[26]

[26] Public funds data monthly returns accumulated. 2022 year end at April 2022 and 2023 year start 1/5 2022

Some investors have pointed to the variable fees earned by Catella in FY22 as unsustainable and predicted a big drop in EBIT in the future years as a result. We disagree. First of all, the AUM growth (around 28 % YTD in FY22) in itself supports higher fixed fees. But so far, the returns have not only matched last year but actually been ahead.

If this trend is to continue Catella could see even higher performance fees in % based on a 15-20 % higher AUM base in FY23.



[27]

While future performance fees will always be hard to predict, we think there is so much cushion in Catellas books that we comfortably can underwrite an EBIT of minimum 500 million SEK in FY23 as a floor from which to grow from.

And as we wrote before bigger portfolio turnover in the future will crystalize this performance fees.

[27] Public fund data. Financial year 2022 ends June 2022 and financial year 2023 starts 1/7 2023.

Consolidated view:

In a turbulent macroenvironment with rapidly increasing inflation, interest rates and high uncertainty hurting consumers the market have aggressively sold down property related stocks.

The main concern with real estate in the current market is the combination of potentially inflated property prices and low yields together with too much leverage and cheap financing the last couple of years. Now when the cycle reverses with higher interest rates the market worries that yields might be under pressure leading to lower property values. This happens at the same time as financing costs come up with stretched loan to value ratios and lower credit ratings with a devastating negative cycle for overleveraged companies.

Although we understand the market concern (and generally agree with it un a top-down basis), it’s anyone’s guess how severe the impact will be on the sector.

Our believe is that Catella has sold down together with the industry despite being somehow insulated from it.

Catella use very little leverage in the funds, often around 20-25 % and the funds run with 93-97 % occupancy rates mostly in residential areas. We see no refinancing risks or debt risk at all.

As we described earlier the company historically have been very conservative when it comes to valuation both in the funds and principal investments (own balance sheet), often realising large gains above book value when properties have been sold. Our view is on average the properties in the funds and in the projects are undervalued and this undervaluation could also be viewed as a cushion if we were to see higher yield requirements and lower property prices going forward.

Within the public funds, a large portion of the fees Catella earns are fixed and not dependent on property prices and revaluations. The company have also reached a critical stage where costs are covered by fixed fees in a scalable business model and therefore, they would do ok and make decent profits even without performance fees for a longer period. Higher inflation is not necessarily a bad thing either, especially for unlevered properties, as they can push through significant rent increases. Catella currently sits on a large cash balance at a company level and have unlevered but not yet deployed capital to draw from in the public funds and can act opportunistically if opportunities arrive when other participants might be forced sellers

We track monthly performance of the public funds and it gives good visibility into performance fees and AUM for the upcoming years. We believe significant performance fees will be unlocked the coming years as Catella recycle and sell “brown” properties and reinvest into “Green” assets. Also, the company argues one should look at transactional fees in the funds as a normal recurring business although it will always be volatile.

There are certain seasonality and lumpiness to the business. In Investment management performances fees are generally paid out in Q2, in corporate finance the strongest quarters are in Q2 and Q4, and in principal investments projects are sold and initiated and some years like 2022 will be harvesting years as the company describes it and other years will be investment years. This will lead to fluctuations in the earnings which is something investors worry about. However, we argue one should not be afraid of these effects but instead try to dig in deeper and understand it and try to calculate what normalised earnings might look like over an investment cycle. Also, we believe with more scale, more funds, more projects and higher share of fixed fees vs performance fees it will even out more and be less volatile in the future

Valuation

We think there are different approaches to value Catella and neither are perfect but it's important to understand the earnings components. One could either use SOTP, multiple valuations, DCF models etc.

We use to different ones. We do a "liquidation analysis" to track the potential downside in the investment. Ie. we analyse what would the company be worth dead rather than alive.

Then we do a fair value multiple analysis on the 3 different segment to reach a fair value in our base case.

Investment management

We view it as the most valuable segment with relatively sticky, predictable and growing AUM and revenues. This comes from both fixed fees and performance fees and Catella have shown scaling margins with AUM growth CAGR around 25% since 2015. One can also compare multiples here against other listed alternative managers like Patrizia AG or KKR etc. who has shown slower growth. We think a fair multiple for the segment is 16-18x EBIT considering the growth and scalability and quality of their operations. FY22 EBIT will probably be in the range around (440-460 as they have reached 348 after Q3) We think 2023 EBIT will be at least 500 million SEK as they will start the year with around 20 % more AUM and the funds are already performing ahead of last year in most cases, those should support higher variable fees as well.

Principal Investment

We think this is the hardest segment to value and where the view differs the most in the market. Catella have communicated the way investors should look at it is they aim to have around 1,5bn SEK invested in ongoing projects which are then recycled, and they target an IRR of minimum 20% which would mean a yearly EBIT of 300Msek. It's an ambitious target going forward in an environment when new built projects are harder to underwrite. However, they have achieved +50% IRR on already divested projects and have a great pipeline in good locations, valuable building rights and don't have to grow at all costs. They can be pickier about new projects and IRR requirement since they only target investment volumes of 1,5bn and don't need to grow at all costs compared to some pure property developers. Other investors are likely being overly conservative and value current projects at book value or below. Given the strong track record and quality of the project pipeline we think it's reasonable to assume yearly profits 300MSEK from the segment on a normalized basis, but results will be lumpy from year to year and between projects. One could then compare this multiple to pure play property developers and use an EBIT multiple of 6-8x. We value principal investments with our fair value of only existing projects at 2.250 million SEK or a 7x multiple of their annual 300 million SEK target.

Corporate Finance

Here we assume flat to slow growth and stable earnings over time of around 50 MSEK. They have closed operations in Germany and the Baltics which should improve profitability as they continue to hold strong market leading positions in their remaining markets. Short term the results could be on the weaker side as the transaction market has slowed down given the uncertainty and turbulent macro environment. As this segment is slow growth and slightly volatile, we think a fairly low multiple is warranted of around 7x EBIT.

Bear case:

In the bear case we try to calculate the real downside if things were to go wrong here. What's the liquidation value. We value corporate finance at 0 here and basically assume they can't find a buyer for the segment despite delivering a yearly profit of 50 million SEK.

For principal investments we try to estimate a selling price for the assets should they be sold at the market today but fairly quickly instead of as in our base case at the right time and price.

For investment management we again assume they don't sell the platform (even through these are highly valuable for other alternative managers that wants to move into real estate management). Instead, we assume they just shut down all their funds and mandates and collect unrealized performance fees.

As we have written on extensively, we think current market multiples (even in this market environment) are 20-40 % above current book value on most Catella funds (mature large AUM funds). As not all funds are that mature and some funds also don't have a performance fee, we use a 10 % accretion across the entire book as a case. With a 20 % performance fee (again some funds and mandates are higher) we calculate that conservatively Catella could earn 2 % of AUM in hidden performance fees should they close down all funds and mandates.

Based on our year end AUM target of around 150 billion SEK that 2 % in hidden performance fee is 3 billion SEK pre-tax. We assume a 2 billion profit after tax and minorities here. We have shown a matrix model below to illustrate what the embedded performance fee could looks like in various scenarios.

		Book value discount to market value				
		5%	10%	15%	20%	25%
Average perf. fee	10%	0,8	1,5	2,3	3,0	3,8
	15%	1,1	2,3	3,4	4,5	5,6
	20%	1,5	3,0	4,5	6,0	7,5
	25%	1,9	3,8	5,6	7,5	9,4
	30%	2,3	4,5	6,8	9,0	11,3 [28]

It is worth mentioning that there are some contractual agreements (profit share) with employees and also some minority interest so not all of that would flow to Catella. But it's more to get a rough estimate and we think we is conservative at using 10 % discount in the first place.

Also considering that the current market cap is only around 3 billion SEK and enterprise value around 1,0-1,5 billion SEK.

	Bear Case
Net cash Q3 2022	350
PIM performance fees	2.000
Corporate finance	0
Principal investments	1.650
Total liquidation value	4.000
Per share	45,2 [29]

We think even in a liquidation value (not considering selling CF or PIM platforms) Catella is worth around 45 SEK per share or a +20 % upside to the current share price.

[28] Symmetry Invest
[29] Symmetry Invest

EV/EBIT:

We still think the best way to value Catella is with an EV/EBIT multiple. We those value principal investments at our fair market value and corporate finance at 7x EBIT and PIM at 17x EBIT. We subtract other (corporate + minorities) at 12x.

	EBIT	Multiple	Value	Per share
Net cash Q3			350	4,0
Principal investments			2.250	25,4
Corporate finance	50	7	350	4,0
Property management	500	17	8.500	96,0
Other	-70	12	-840	-9,5
	480		**10.610**	**120**

First sound checking our 2.250 valuation for principal investment the current book value is 1.450 and we can easily find that profit. The ongoing +300 million SEK EBIT target the company is also only 7x our 2.250 valaution.

We think Catella is currently worth 120 SEK per share. A significant 224 % upside to the current share price of 37 SEK. We think this huge difference between the fair value and the stock price has come because of rapid shareholder creation being created while the stock has tanked with the market.

We at Symmetry are value investors. When we see such a high upside with extremely low downside, we load up the boat and become a large and supportive shareholder.