Projecting Financial Statements

THE P&L

NET OPERATING INCOME

Projecting the P&L

Net Operating Income

Alstria Model P&L – Projecting Net Operating Income (NOI)

- The next step is to project NOI – i.e. **Total Rental Income** – **Operating Expenses** = **NOI**
  - Note: NOI is analogous to Gross Profit in other industries
- We will use a projected **NOI Margin** as a driver for our **Operating Expenses**
- Again we will use temporary placeholders (best guesses) for **2011E and 2012E NOI Margins** and refine these assumptions later
- In this case our best guess is a further slight improvement in operating performance – a 0.5% margin increase over the next two years – following a strong 2.1% NOI Margin boost from 2009 to 2010

Projecting the P&L

Net Operating Income (cont'd)

Alstria Model P&L – Projecting Net Operating Income (NOI)

- Calculate the 2011E NOI Margin based on 2010A
- Alternatively hardcode your best-guess margin assumptions for 2011E and 2012E

Choosing Temporary NOI Margins

D9 | =C9+0.25%

	A	B	C	D	E
1					
2	Alstria Model Income Statement	2009A	2010A	2011E	2012E
3	Rental Income - Organic	102,510	89,094	90,876	94,733
4	*Organic rental growth*	*NM*	*-13.1%*	*2.0%*	*2.0%*
5	Rental Income - External	*NM*	*NM*	2,000	4,000
6	Total Rental Income	102,510	89,094	92,876	98,733
7	Operating Expenses	(10,433)	(7,250)		
8	NOI	92,077	81,844		
9	*NOI Margin*	*89.8%*	*91.9%*	*92.1%*	*92.4%*
10	Corporate Expense				
11	Other Expenses & Income,				
12	EBITDA				
13	*EBITDA Margin*				
14	D&A				
15	EBIT				
16	Cash Interest Expense, net				
17	PBT				
18	Cash Taxes			-	-

① Calculate **2011E NOI Margin**:

91.9% + 0.25% = 92.1%

⇔

C9 + 0.25% = D9

② Copy over 2011E (D9) to 2012E (E9)

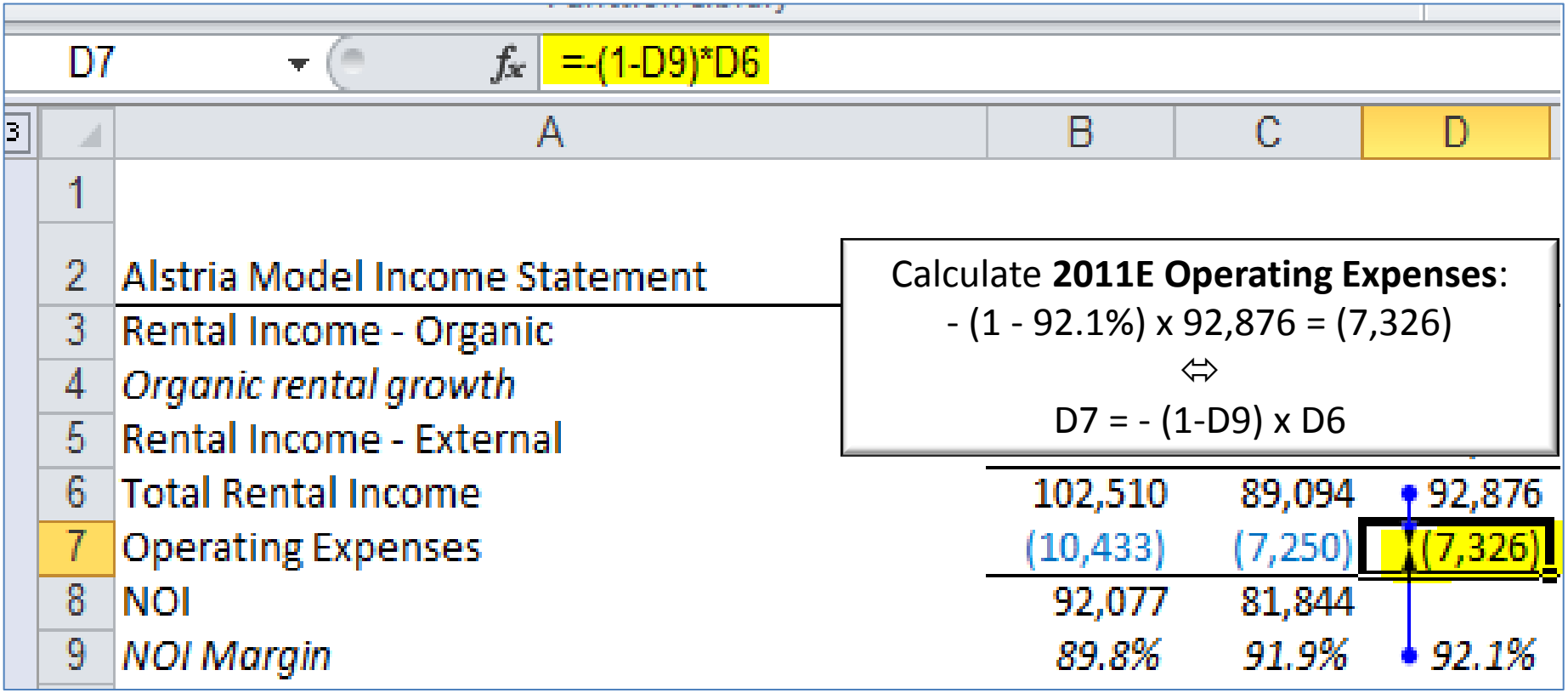
Projecting the P&L

Net Operating Income (cont'd)

Alstria Model P&L – Projecting Net Operating Income (NOI)

- Calculate Operating Expenses as a function of **Total Rental Income** and the **NOI Margin**

Calculating Operating Expenses



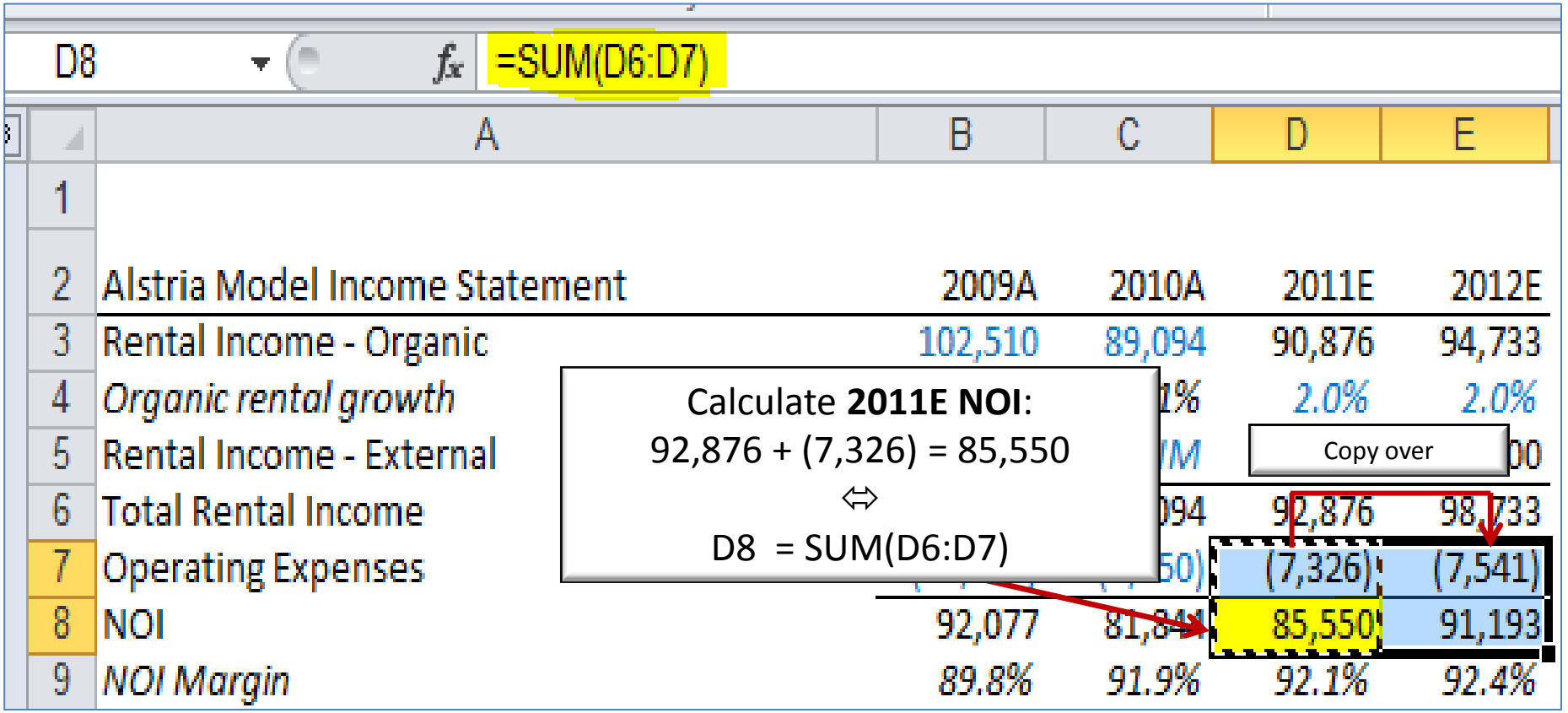
Projecting the P&L

Net Operating Income (cont'd)

Alstria Model P&L – Projecting Net Operating Income (NOI)

- NOI is calculated as Total Rental Income less Operating Expenses

Calculating NOI



EBITDA

Projecting the P&L

EBITDA & EBITDA Margin

Alstria Model P&L – Projecting EBITDA

- We now project the remaining operating items to derive **EBITDA** (one of the most important proxies for operating cash-flow) and the **EBITDA Margin**
  a) **Corporate Expense**: We choose a placeholder value in line with the 2010A actual level, given that the item has stayed almost flat between 2009 and 2010. We will double-check & refine this assumption later
  b) **Other Expenses & Income, net**: We choose a temporary placeholder of **ZERO** here. Typically, this item would contain any income not immediately related to core operations, but deemed **cash & recurring**. It is therefore often difficult (or immaterial) to project this item, so we assume a zero value unless management specifically guides us otherwise

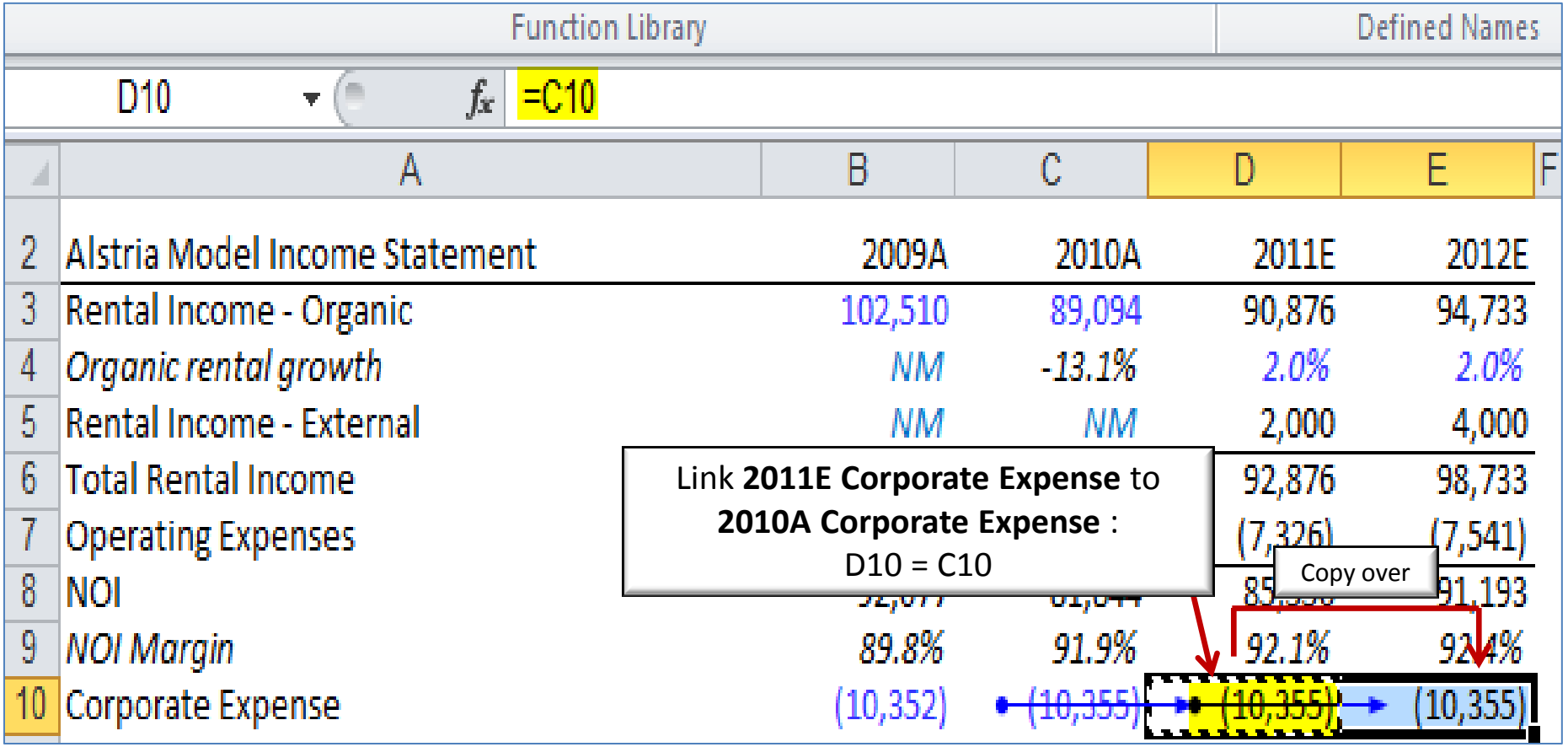
Projecting the P&L

EBITDA & EBITDA Margin

Alstria Model P&L – Projecting EBITDA

- Keep **Corporate Expense** flat at 2010A level

Projecting Corporate Expense



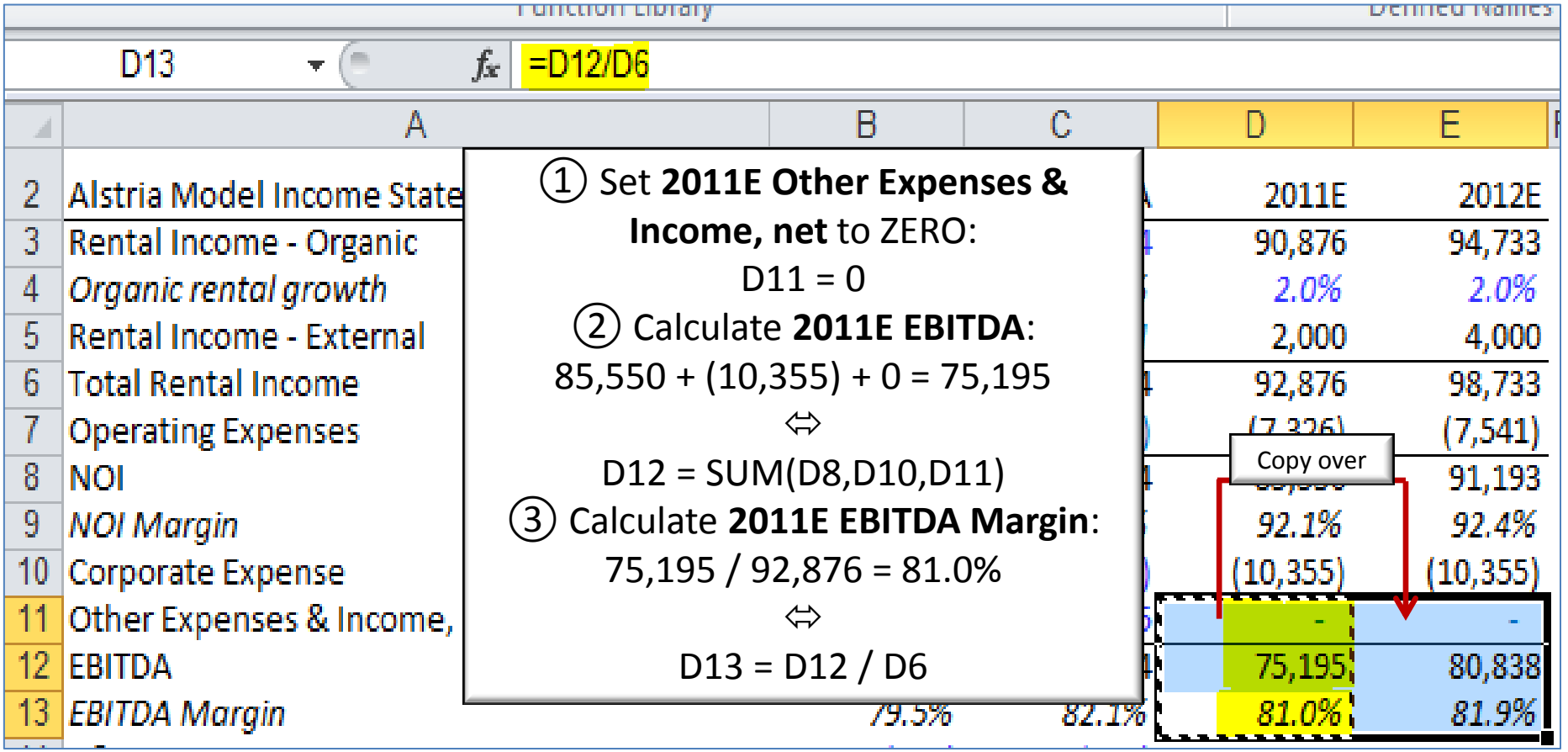
Projecting the P&L

EBITDA & EBITDA Margin (cont'd)

Alstria Model P&L – Projecting EBITDA

- We set **Other Expenses & Income** to ZERO and calculate **EBITDA** & **EBITDA Margin**

Projecting the Remaining Operating Items



EBIT & PBT

Projecting the P&L

Interest Expense & D&A

Alstria Model P&L – Projecting EBIT & Profit Before Tax

- Following the operating section of our P&L, we next choose temp placeholders for **Interest Expense** and **D&A**
- **Interest Expense** and **D&A** projections require projected balances of key **Balance Sheet** items which we will only complete later: **Net Debt** and **Property, Plant and Equipment (PP&E)**
- We therefore hardcode our “best guesses” for these values for now
- We highlight these items in yellow, to remind ourselves that we need to properly project them at a later time
- We can then calculate & copy across formulas for **EBIT** and **PBT**

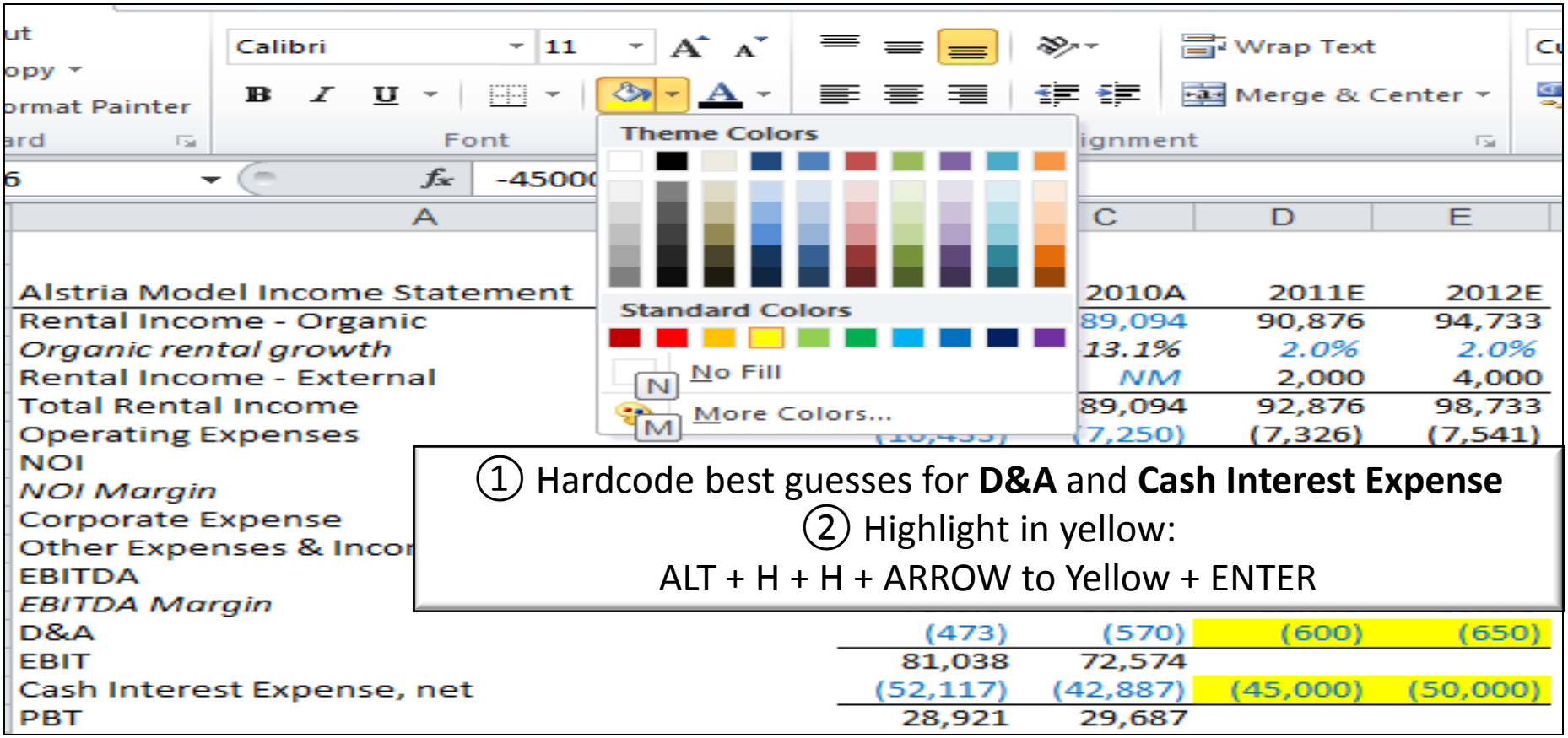
Projecting the P&L

EBIT & Profit Before Tax (cont'd)

Alstria Model P&L – Projecting EBIT & Profit Before Tax

- D&A and Cash Interest Expense are hardcoded as temporary placeholders until we have projected the necessary B/S items

Hardcode and Highlight Interest Expense and D&A



Alstria Model Income Statement	2010A	2011E	2012E
Rental Income - Organic	89,094	90,876	94,733
Organic rental growth	*13.1%*	*2.0%*	*2.0%*
Rental Income - External	*NM*	2,000	4,000
Total Rental Income	89,094	92,876	98,733
Operating Expenses	(7,250)	(7,326)	(7,541)
NOI			
NOI Margin			
Corporate Expense			
Other Expenses & Incor			
EBITDA			
EBITDA Margin			
D&A	(473)	(570)	(600) (650)
EBIT	81,038	72,574	
Cash Interest Expense, net	(52,117)	(42,887)	(45,000) (50,000)
PBT	28,921	29,687	

① Hardcode best guesses for **D&A** and **Cash Interest Expense**

② Highlight in yellow:

ALT + H + H + ARROW to Yellow + ENTER

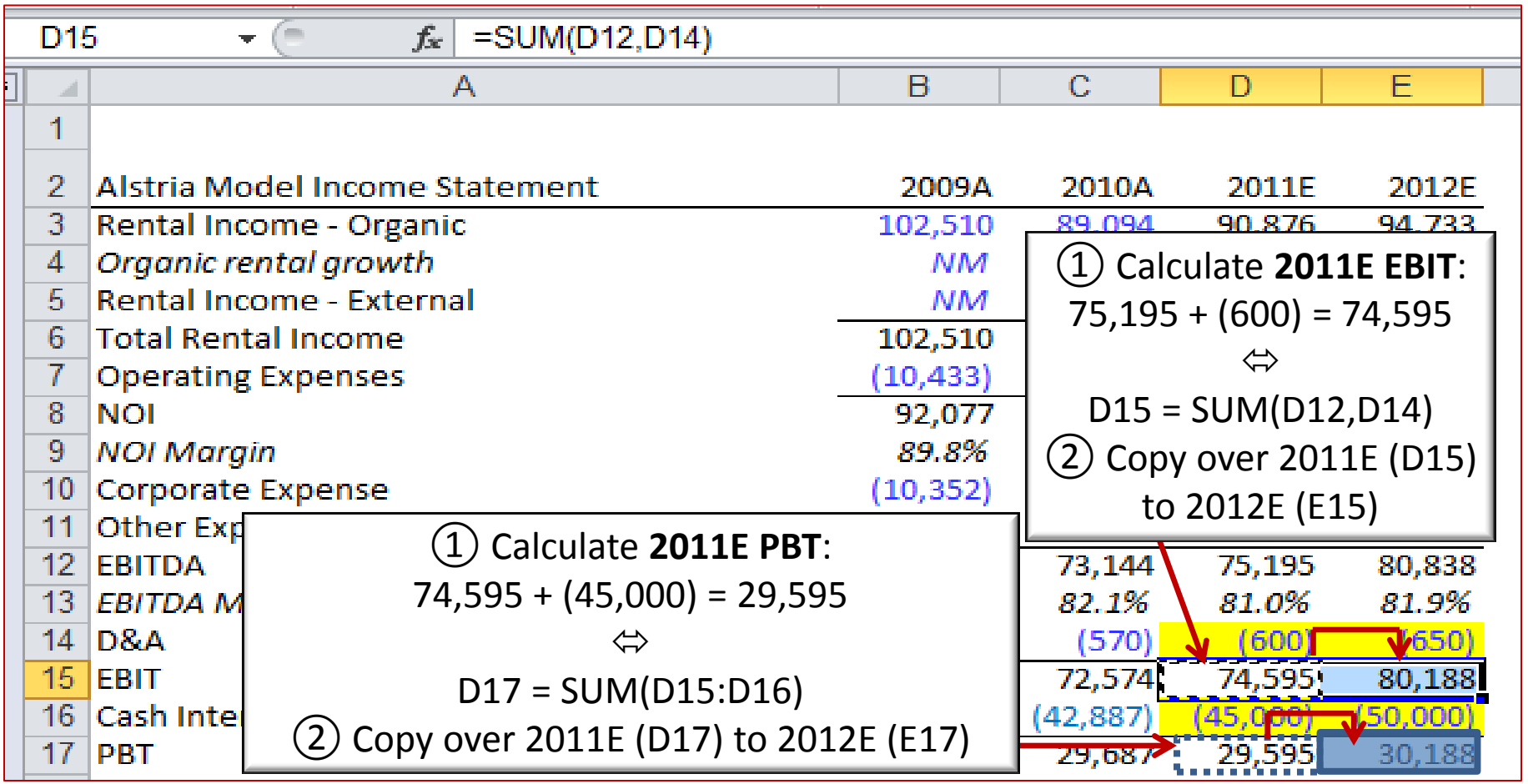
Projecting the P&L

EBIT & Profit Before Tax (cont'd)

Alstria Model P&L – Projecting EBIT & Profit Before Tax

- Calculate **EBIT** and **PBT** based on temporary placeholders

Calculating EBIT and PBT



JV INCOME & NON-OPERATING ITEMS

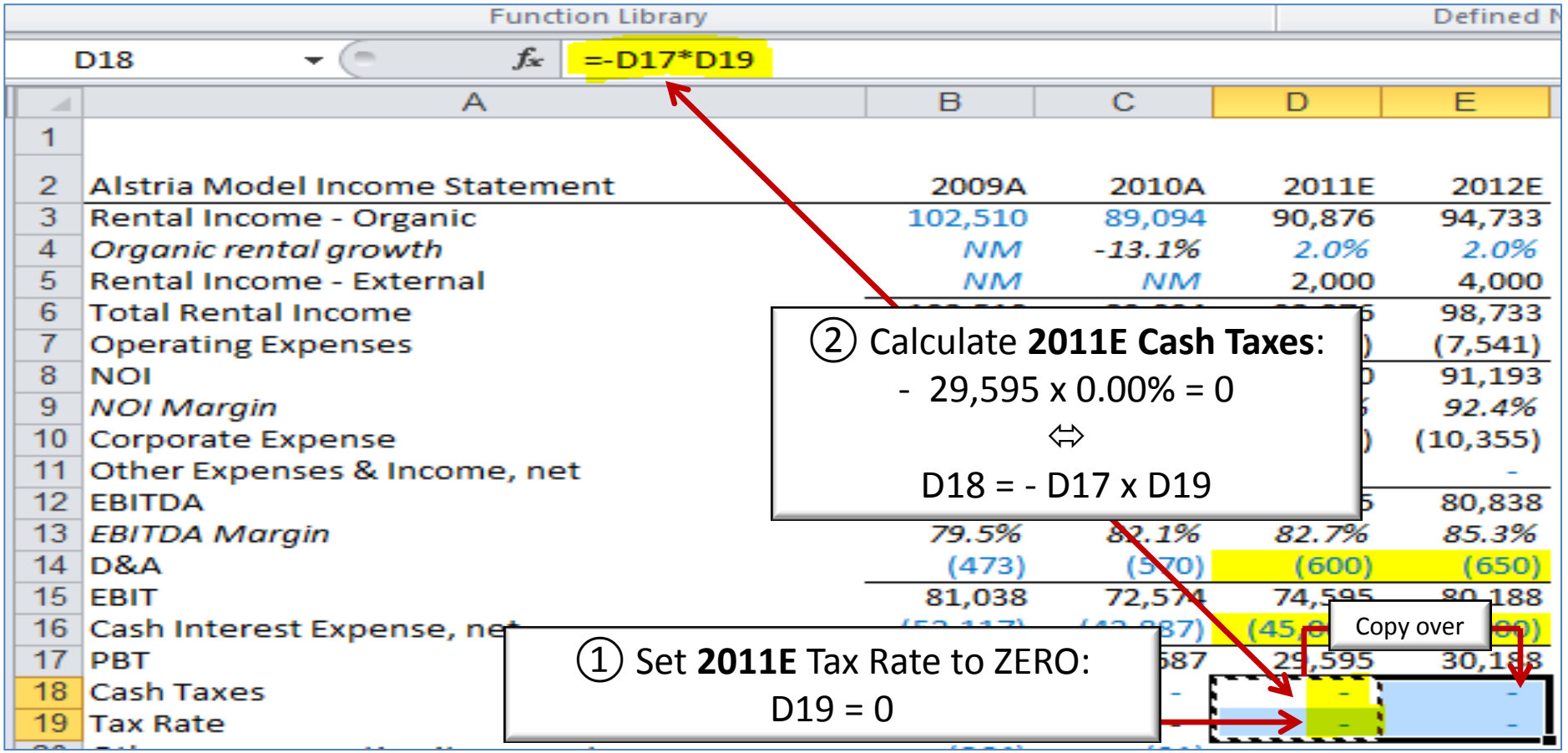
Projecting the P&L

Non-Operating Items

Alstria Model P&L – Projecting Cash Taxes

- We now calculate **Cash Taxes** and **PBT** based on a ZERO **Tax Rate** for Alstria

Tax Rate and Cash Taxes



	A	B	C	D	E
1					
2	Alstria Model Income Statement	2009A	2010A	2011E	2012E
3	Rental Income - Organic	102,510	89,094	90,876	94,733
4	*Organic rental growth*	*NM*	*-13.1%*	*2.0%*	*2.0%*
5	Rental Income - External	*NM*	*NM*	2,000	4,000
6	Total Rental Income				98,733
7	Operating Expenses				(7,541)
8	NOI				91,193
9	*NOI Margin*				*92.4%*
10	Corporate Expense				(10,355)
11	Other Expenses & Income, net				-
12	EBITDA				80,838
13	*EBITDA Margin*	*79.5%*	*82.1%*	*82.7%*	*85.3%*
14	D&A	(473)	(570)	(600)	(650)
15	EBIT	81,038	72,574	74,595	80,188
16	Cash Interest Expense, net			(45,6	00)
17	PBT		587	29,595	30,188
18	Cash Taxes			-	-
19	Tax Rate			-	-

Projecting the P&L

JV Income & the Equity Method

- JV Income is typically one of the more complex items from a financial modeling standpoint. It sometimes requires significant analytical effort to understand and model JVs, even when they have only a minor impact on a company's operations
- JV accounting becomes relevant when a property or project **is owned less than 50%** (but above 20%) and another party owns the remaining majority stake. Alstria has two such 49%-owned JVs
- **The equity method** is used for these JVs, meaning that Alstria **doesn't separately report each line item** from rental income through net income. Instead, **only the JVs' final Net Income is reported**, rolling up the entire JV-P&Ls into one line item
- To model JV income **we therefore need a model-in-a-model** where rent, expenses and all relevant items are projected at the project level, to finally derive Alstria's 49% share of JV FFO
- The annual report, presentation & conference call contains key data on JVs

Projecting the P&L

JV Income (cont'd)

Alstria Model P&L – Projecting JV Income

- We set up a model section for JV Investments and Income where we can project FFO at the JV Level using an abbreviated JV-P&L, shortcutting some of the detail used in the full Model P&L

Setting up the JV-P&L

	A	B
71	**JV Investments and Income**	2009A
72	JV Rental Income (pro-rata)	*NM*
73	JV EBITDA Margin	*NM*
74	JV EBITDA	*NM*
75	JV Interest Expense (pro-rata)	*NM*
76	JV Cash Taxes (pro-rata)	*NM*
77	JV FFO	*NM*
78		
79	JV Debt (pro-rata)	*NM*
80	JV Interest Rate	*NM*

Set up abbreviated JV-P&L

Projecting the P&L

JV Income (cont'd)

Alstria Model P&L – Projecting JV Income

1. **JV Debt** – Annual report *(pg. 42)* **Interests in Joint Ventures** shows Alstria's share of **non-current liabilities** at the JV level is €34.4m . We assume this is interest-bearing debt
2. **JV Interest Rate** – We use Alstria's **average cost of debt** of 4.3% *(annual pg.15)* as a "best guess" for the interest rate at the JV level, suggesting annual interest of ca. €1.5m - i.e. €34.5m x 4.3%

Setting up the JV-P&L

26			
72	**JV Investments and Income**		2010A
73	JV Rental Income (pro-rata)		NM
74	JV EBITDA Margin		NM
75	JV EBITDA		NM
76	JV Interest Expense (pro-rata)		NM
77	JV Cash Taxes (pro-rata)	NM	NM
78	JV FFO	NM	NM
79			
80	JV Debt (pro-rata)	NM	34,515
81	JV Interest Rate	NM	4.30%

Input **2010A JV Debt** & **JV Interest Rate**:
C79 = 34,515
C80 = 4.30%

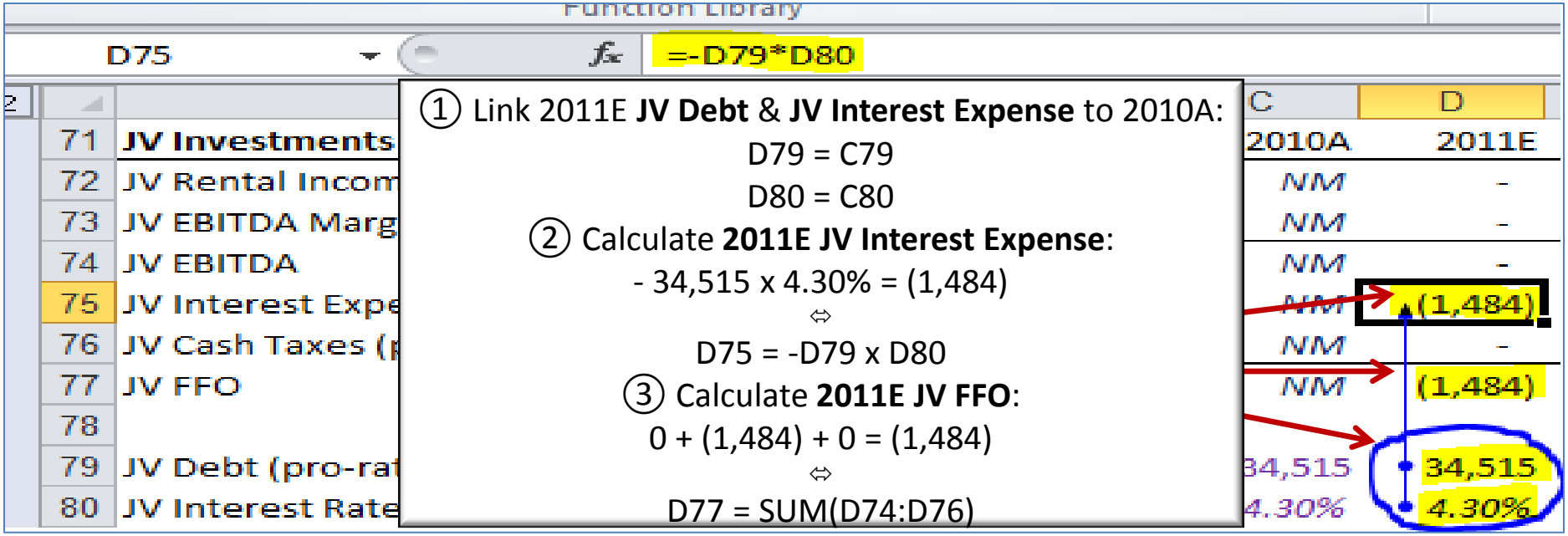
Projecting the P&L

JV Income (cont'd)

Alstria Model P&L – Projecting JV Income

- We zero out **2011E JV Rent** and **JV EBITDA Margin** as "the refurbishment…is scheduled to be completed…by the end of 2011" (*annual report pg. 9*), suggesting that cash-recurring income begins only as of 2012.
- Despite absence of rental income in 2011E, **JV Interest Expense** is expected to accrue as a function of the **2011E JV Debt**
- We keep flat the **JV Interest Rate** & **JV Debt** balances, as a simplifying assumption

Calculating JV Interest



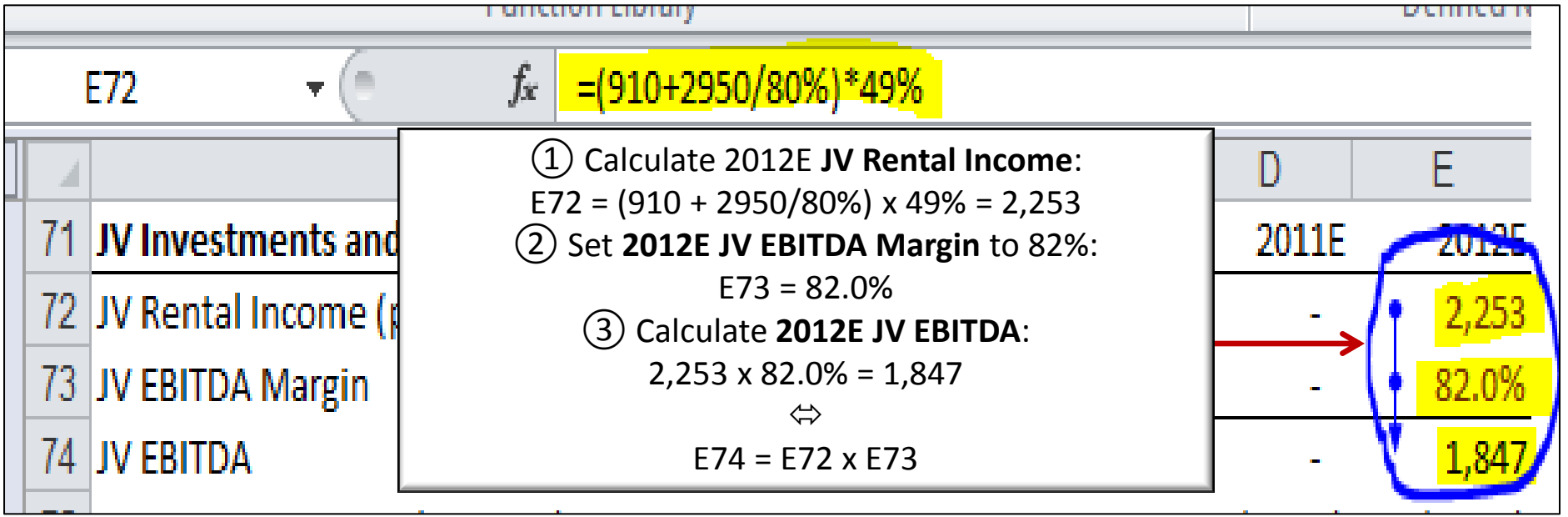
Projecting the P&L

JV Income (cont'd)

Alstria Model P&L – Projecting JV Income

- In 2012E, after completion of the *Alte Post* refurbishment, we begin projecting **JV Rental Income.** Importantly, these are pro-rata amounts as Alstria owns only 49% of the JVs
- From the Investor Presentation we learn that contracts for €910k in office rents + €2,950k in retail rents have been agreed to date, with 20% of retail areas still under offer.
- From this we can estimate ca. €4.5m in rents income when *Alte Post* is fully rented, i.e. €2.2m for Alstria's 49% stake
- An 82% **EBITDA Margin** estimate (like Alstria's main business), suggests **EBITDA** of €1.8m.

Projecting 2012E JV EBITDA



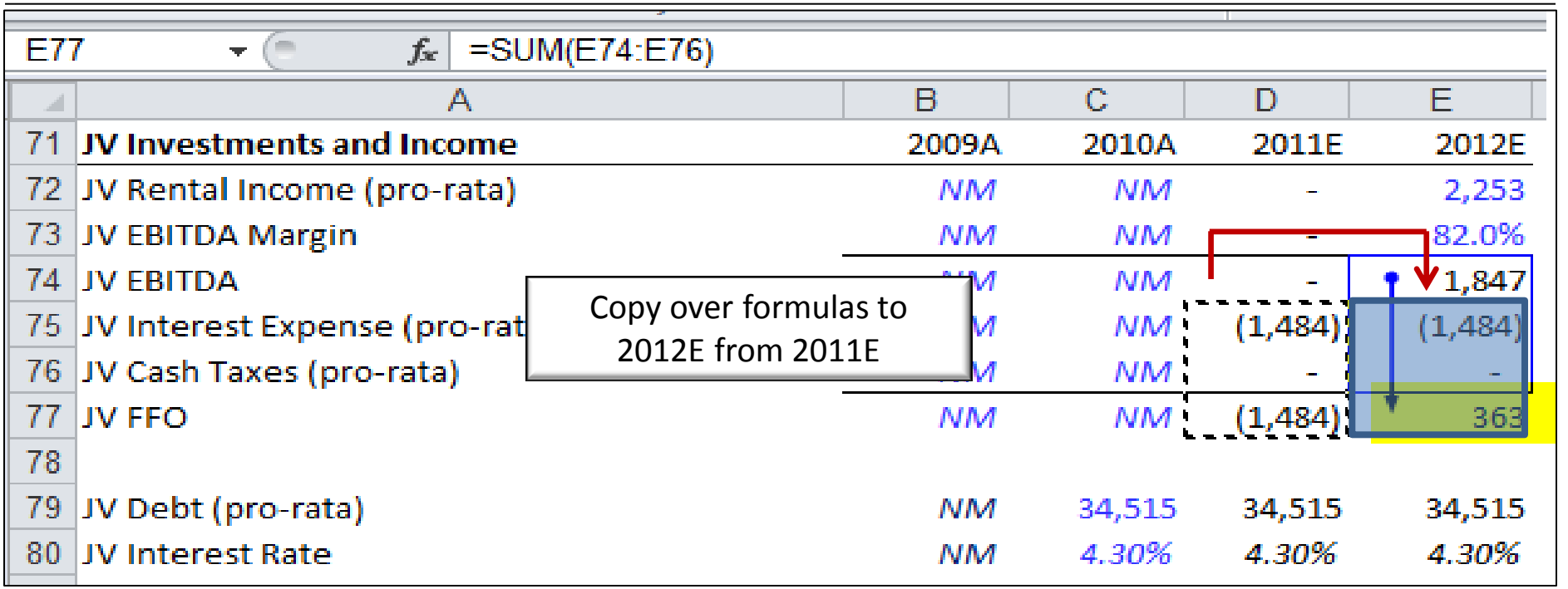
Projecting the P&L

JV Income (cont'd)

Alstria Model P&L – Projecting JV Income

- Deducting **JV Interest Expense** of €1.5m & assuming ZERO **Cash Taxes** results in **JV FFO** of €363k
- Note: We are combining both JVs – the *Alte Post* and the *Kaiserglerie* JVs – into one JV-P&L, while assuming that the *Kaisergalerie* will not contribute anything to **JV Rents** in 2011E/2012E.

Projecting 2012E JV FFO



	A	B	C	D	E
71	**JV Investments and Income**	2009A	2010A	2011E	2012E
72	JV Rental Income (pro-rata)	*NM*	*NM*	-	2,253
73	JV EBITDA Margin	*NM*	*NM*	-	82.0%
74	JV EBITDA	*NM*	*NM*	-	1,847
75	JV Interest Expense (pro-rat	*NM*	*NM*	(1,484)	(1,484)
76	JV Cash Taxes (pro-rata)	*NM*	*NM*	-	-
77	JV FFO	*NM*	*NM*	(1,484)	363
78					
79	JV Debt (pro-rata)	*NM*	34,515	34,515	34,515
80	JV Interest Rate	*NM*	*4.30%*	*4.30%*	*4.30%*

FFO & FFO PER SHARE

Projecting the P&L

Projecting FFO

Alstria Model P&L – Projecting FFO

- Link **JV Income & Other** on the Model P&L to **JV FFO** just calculated

Link JV Income & Other to JV FFO

D20 =D77

	A	B	C	D	E
10	Corporate Expense	(10,352)	(10,355)	(10,355)	(10,355)
11	Other Expenses & Income, net	(214)	1,655	-	-
12	EBITDA	81,511	73,144	75,195	80,838
13	*EBITDA Margin*	*79.5%*	*82.1%*	*82.7%*	*85.3%*
14	D&A	(473)	(570)	(600)	(650)
15	EBIT	81,038	72,574	74,595	80,188
16	Cash Interest			(45,000)	(50,000)
17	PBT			29,595	30,188
18	Cash Taxes			-	-
19	Tax Rate			-	-
20	JV Income &			(1,484)	363
21	Add back: D&				
22	FFO	29,130	30,226		
23	Shares Outstanding (average)	56,833	57,525		
24	FFO per Share	€0.51	€0.53		
25					
71	**JV Investments and Income**	2009A	2010A	2011E	2012E
72	JV Rental Income (pro-rata)	*NM*	*NM*	-	2,253
73	JV EBITDA Margin	*NM*	*NM*	-	82.0%
74	JV EBITDA	*NM*	*NM*	-	1,847
75	JV Interest Expense (pro-rata)	*NM*	*NM*	(1,484)	(1,484)
76	JV Cash Taxes (pro-rata)	*NM*	*NM*	-	-
77	JV FFO	*NM*	*NM*	(1,484)	363

① Link **2011E JV Income & Other** to **2011E JV FFO**:
D20 = D77
② Copy over 2011E (D20) to 2012E (E20)

Projecting the P&L

Projecting FFO (cont'd)

Alstria Model P&L – Projecting FFO

- Link **Add back: D&A** to <u>negative</u> **D&A**, to add back the non-cash expense previously subtracted

Add back D&A

D21 =-D14

	A	B	C	D	E
1					
2	Alstria Model Income Statement	2009A	2010A	2011E	2012E
3	Rental Income - Organic	102,510	89,094	90,876	94,733
4	*Organic rental growth*	*NM*	*-13.1%*	*2.0%*	*2.0%*
5	Rental Income - External	*NM*	*NM*	2,000	4,000
6	Total Rental Income	102,510	89,094	92,876	98,733
7	Operating Expenses	33)	(7,250)	(7,326)	(7,541)
8	NOI	077	81,844	85,550	91,193
9	*NOI Margin*	3%	*91.9%*	*92.1%*	*92.4%*
10	Corporate Expense	52)	(10,355)	(10,355)	(10,355)
11	Other Expenses & In	14)	1,655	-	-
12	EBITDA	511	73,144	75,195	80,838
13	*EBITDA Margin*	5%	*82.1%*	*82.7%*	*85.3%*
14	D&A	73)	(570)	(600)	(650)
15	EBIT	81,038	72,574	74,595	80,188
16	Cash Interest Expense, net	(52,117)	(42,887)	(45,000)	(50,000)
17	PBT	28,921	29,687	29,595	30,188
18	Cash Taxes	-	-	-	-
19	Tax Rate	-	-	-	-
20	JV Income & Other	(264)	(31)	(1,484)	363
21	Add back: D&A	473	570	600	650

① Link **2011E Add back: D&A** to *negative* **D&A** :
D21 = - D14
② Copy over 2011E (D21) to 2012E (E21)

Projecting the P&L

Projecting FFO (cont'd)

Alstria Model P&L – Projecting FFO per Share

- Calculate **FFO** based on **PBT**, **JV Income & Other** and the other non-operating items

Calculate FFO

D22 =SUM(D17,D18,D20,D21)

	A	B	C	D	E
1					
2	Alstria Model Income Statement	2009A	2010A	2011E	2012E
3	Rental Income - Organic	102,510	89,094	90,876	94,733
4	*Organic rental growth*	*NM*	*-13.1%*	*2.0%*	*2.0%*
5	Rental Income - External	*NM*	*NM*	2,000	4,000
6	Total Rental Income	102,510	89,094	92,876	98,733
7	Operating Expenses	(10,433)	(7,250)	(7,326)	(7,541)
8	NOI		44	85,550	91,193
9	*NOI Margin*		%	*92.1%*	*92.4%*
10	Corporate Expense		5)	(10,355)	(10,355)
11	Other Expenses & Inc		55	-	-
12	EBITDA		44	75,195	80,838
13	*EBITDA Margin*		%	*82.7%*	*85.3%*
14	D&A		0)	(600)	(650)
15	EBIT		74	74,595	80,188
16	Cash Interest Expense, net		7)	(45,000)	(50,000)
17	PBT	28,921	29,687	29,595	30,188
18	Cash Taxes	-	-	-	-
19	Tax Rate	-	-	-	-
20	JV Income & Other	(264)	(31)	(1,484)	363
21	Add back: D&A	473	570	600	650
22	FFO	29,130	30,226	28,711	31,201

① Calculate **2011E FFO**:

29,595 + 0 + (1,484) + 600 = 28,711

⇔

D22 = SUM(D17,D18,D20,D21)

② Copy over 2011E (D22) to 2012E (E22)

Projecting the P&L

FFO per Share

Alstria Model P&L – Projecting FFO per Share

- Calculate **FFO per Share** keeping 2011E and 2012E **Shares Outstanding** flat at the 2010A level. For purposes of our model, we keep the share number static, assuming no equity issuance or dilution from options. We will revisit this assumption at a later stage

Shares Outstanding and FFO per Share

D24 =D22/D23

	A	B	C	D	E
1					
2	Alstria Model Income Statement	2009A	2010A	2011E	2012E
3	Rental Income - Organic	102,510	89,094	90,876	94,733
4	*Organic rental growth*				
5	Rental Income - External				
6	Total Rental Income				
7	Operating Expenses				
8	NOI				
9	*NOI Margin*				
10	Corporate Expense				
11	Other Expenses & Income, net				
12	EBITDA				
13	*EBITDA Margin*				
14	D&A				
15	EBIT				
16	Cash Interest Expense, net				
17	PBT				
18	Cash Taxes	-	-	-	-
19	Tax Rate	-	-	-	-
20	JV Income & Other	(264)	(31)	(1,484)	363
21	Add back: D&A	473	570	600	650
22	FFO	29,130	30,226	28,711	31,201
23	Shares Outstanding (average)	56,833	57,525	57,525	57,525
24	FFO per Share	€0.51	€0.53	€0.50	€0.54

① Link **2011E Shares Outstanding** to 2010A:
D23 = C23
② Calculate **FFO per Share**:
28,711 / 57,525 = €0.50
⇔
D24 = D22 / D23
③ Copy over 2011E formulas to 2012E

Projecting the P&L

Complete P&L as Described

*Open **FFO w Placeholders** file to complete highlighted cells in red and blue*

Alstria Model Income Statement	2009A	2010A	2011E	2012E
Rental Income - Organic	102,510	89,094	90,876	94,733
Organic rental growth	*NM*	*-13.1%*	*2.0%*	*2.0%*
Rental Income - External	*NM*	*NM*	2,000	4,000
Total Rental Income	102,510	89,094	92,876	98,733
Operating Expenses	(10,433)	(7,250)		
NOI	92,077	81,844		
NOI Margin	*89.8%*	*91.9%*	*92.1%*	*92.4%*
Corporate Expense	(10,352)	(10,355)	(10,355)	(10,355)
Other Expenses & Income, net	(214)	1,655	-	-
EBITDA	81,511	73,144		
EBITDA Margin	*79.5%*	*82.1%*		
D&A	(473)	(570)	(600)	(650)
EBIT	81,038	72,574	(600)	(650)
Cash Interest Expense, net	(52,117)	(42,887)	(45,000)	(50,000)
PBT	28,921	29,687	(45,600)	(50,650)
Cash Taxes	-	-		
Tax Rate	-	-	25.0%	25.0%
JV Income & Other	(264)	(31)	-	1,847
Add back: D&A	473	570		
FFO	29,130	30,226	(45,600)	(48,803)
Shares Outstanding (average)	56,833	57,525	57,525	57,525
FFO per Share	€0.51	€0.53		

JV Investments and Income	2009A	2010A	2011E	2012E
JV Rental Income (pro-rata)	*NM*	*NM*	-	2,253
JV EBITDA Margin	*NM*	*NM*	-	82.0%
JV EBITDA	*NM*	*NM*	-	1,847
JV Interest Expense (pro-rata)	*NM*	*NM*		
JV Cash Taxes (pro-rata)	*NM*	*NM*	-	-
JV FFO	*NM*	*NM*	-	1,847
JV Debt (pro-rata)	*NM*		-	-
JV Interest Rate	*NM*		*0.00%*	*0.00%*

*** Unhide "FFO w Placeholders - Complete" to compare your results by pressing: ALT + H + O + U + H + Enter*