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MERLIN PROPERTIES

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EUROPEAN Investing Summit

October 2022

INVEXCEL

Independent Financial Advisory boutique based in Madrid (Spain)

Built on +30-year-old entrepreneur and Private Equity heritage

Advisors of institutional portfolios

Fundamental investing approach, based on proprietary research

Focused on European small and mid caps

Long only, no leverage

Skin in the game: family capital co-invested with our clients

THE IDEA

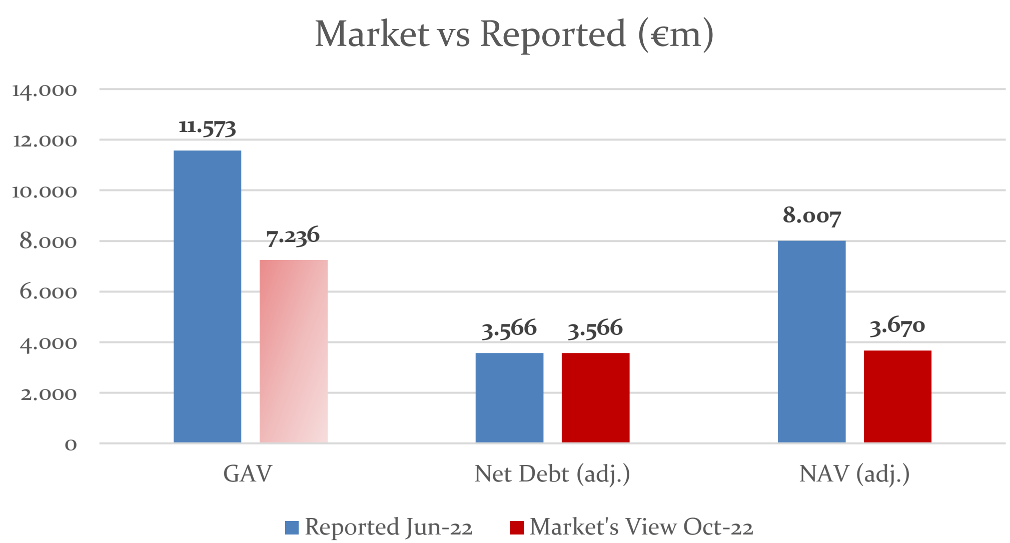
MERLIN PROPERTIES

Name	MERLIN PROPERTIES
Ticker	MRL
Sector	Real Estate
Sub-Sector	Diversified REITs
Country	Spain
Mark Cap (€m) – *Oct 7, 2022*	3,670
Price (€) – *Oct 7, 2022*	7,845

SHAREHOLDERS	
Banco Santander	24.26%
Manuel Lao	8.17%
Several funds	...
Ismael Clemente (CEO)	0.34%
Miguel Ollero (COO)	0.33%

Source: FacSet, Invexcel

THE IDEA



Mr Market

Spain, Real Estate
Diversified
Shopping centers
Lease Maturities

54% discount to NAV, implying 38% discount to GAV

Source: FacSet, Company reports, Invexcel

Company provided NAV based on JLL, CBRE, and Savills valuation reports as of 30/06/22

THE IDEA

MERLIN
PROPERTIES

The Company	Portfolio	Risks	Valuation
History Management	Offices Shopping Centers Logistics Data Centers	Vacancy Macro	>50% discount to NAV Attractive 2-digit leveraged yield

THE COMPANY

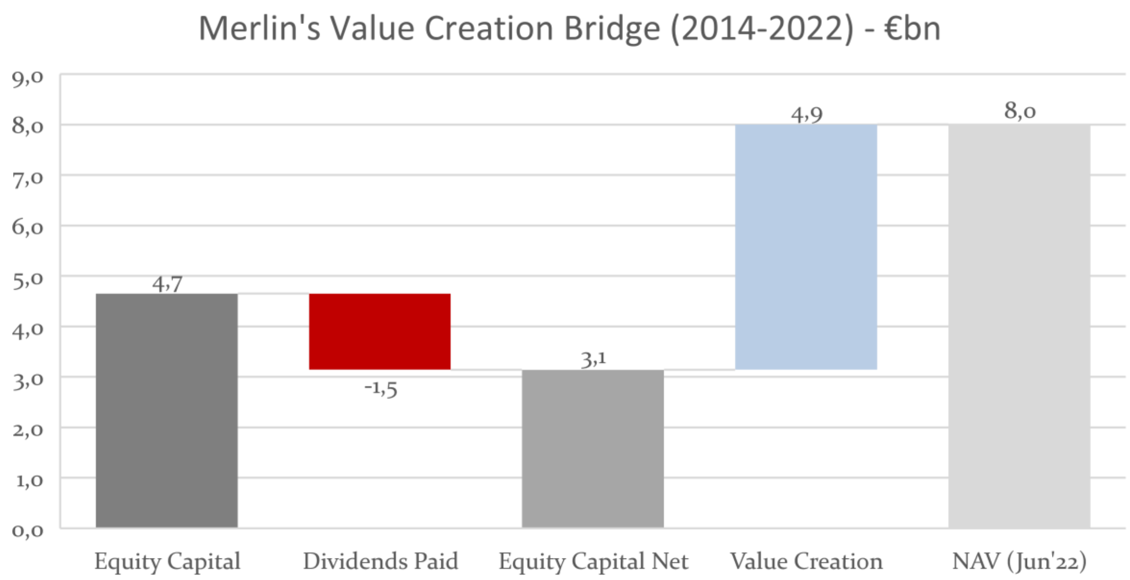
History & Management

THE COMPANY - HISTORY

2014	Acquisition of banking branches (BBVA) IPO
2015-2016	Corporate acquisitions: Testa & Metrovacesa Started acquisition of Logistics land plots Sale of non-core assets initiated
2017	Organic growth plans: refurbishment & development
2019	Minority stake in Madrid's DCN project
2021	Data Centers project launched
2022	Sale of BBVA branches portfolio

Born from the Retail Estate Bubble Ashes

Do Merlin Managers Create Value?



30% of equity provided already returned to shareholders
+100% value creation

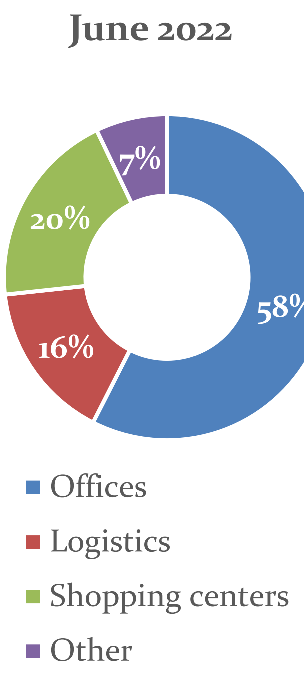
Talented Team at the Helm

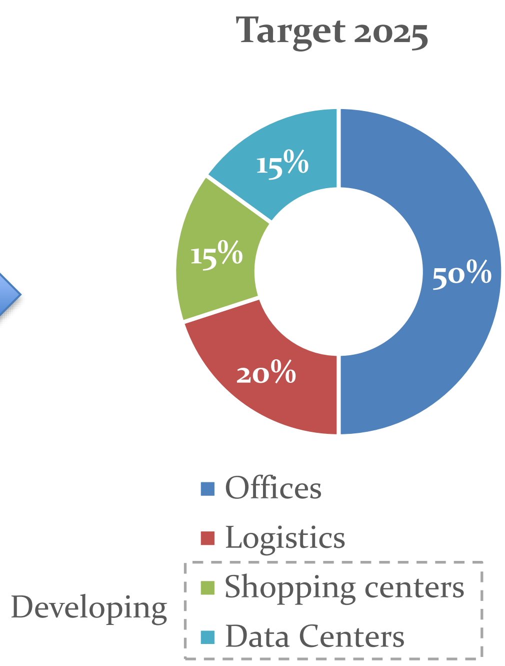
Source: FacSet, Company data, Invexcel

PORTFOLIO

Exposure To Quality

PORTFOLIO





Still Evolving

Source: Company data

PORTFOLIO - OFFICES

1.3m sqm Office Portfolio (58% of GAV)

	Prime+CBD	NBA	Periphery	Total
Madrid	21%	44%	9%	**73%**
Barcelona	10%	4%	2%	**16%**
Lisbon	8%	1%	-	**9%**
Other	-	-	1%	**1%**
Total	**39%**	**49%**	**12%**	**100%**

Why Madrid?

Market fundamentals:

- Positive population dynamics
- Regional GDP 1.6x Spain's (10y avg to 2019)
- Average income per capita (€35.9k) above Spain's (€26.4k) and UE's (€31.2k)
- 14.5m sqm office market, o/w 6m sqm central locations. Old estate, only c.10% is "Grade A"

Hidden value:

- Testa and Metrovacesa portfolios acquired at c.€3,400 sqm (current estimated market value >€6,000 sqm)

Focus on Madrid

Source: Datosmacro.com, INE, CBRE, Savills, Company data, Invexcel

Central Business District (CBD) & New Business Area (NBA)

PORTFOLIO - OFFICES

How 2022 compares to 2007?

Prime rents have not recovered last peak's levels

	2022	2007
Prime €/sqm/month	35	43

Price (sqm): €10k-€12k vs. c.€14k in 2007

Far less supply

	2022	2007
New Supply (k sqm)	450	>1,000

	2020-2021	2014-2019	2004-2007
Investment (€bn)	1.0	2.0	2.5

€3.1bn in 2007

[Together with QE] Leading to yield compression

	2022	2007
Prime yield	3.3%	4.0%

Tighter Supply-Demand Dynamics

Source: CBRE, Savills, Company data, Invexcel

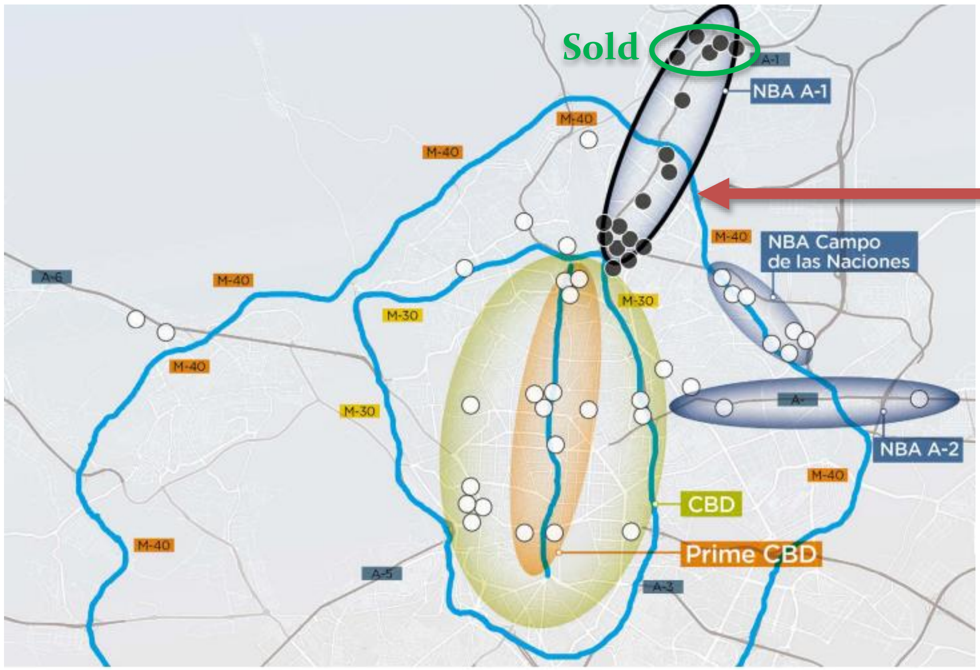
But Work Has Completely Changed… right?

Shorter Commuting Time	Work From Home Costs to Employer
Lower Wages Driving Demand	Crowded Office Space

Madrid is Not London

PORTFOLIO - OFFICES

The Present



Occupancy rates:

	Office	Jun'22
Madrid		87.9%
Barcelona		94.1%
Lisbon		99.6%
Overal		**90.4%**

Positive developments lately, but it will take time

Good Asset Location

Source: Company data

PORTFOLIO - OFFICES

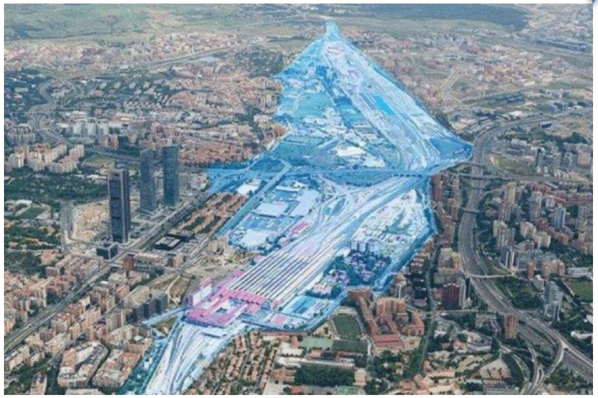
The Future

Refurbishment Projects

Asset Rotation

Green Field: DCN

Plaza Pablo Ruiz Picasso
(prime CBD)
37,000 sqm
Delivery: 4Q'2022
GRI (est.): €13m (€30/sqm/month)
YoC (Est.): 9.2%



New prime district
Total leasable area: 1.2m sqm
Delivery (Est.): 2027-2040
Merlin's stake: 14.46%
Total Cost (Est.): €800m (4,600€/sqm)
YoC (Est.): 7.25% (c.28 €/sqm/month)

Promising Prospects

Source: Iberian Property, Company data, Invexcel

Gross Rental Income (GRI)

PORTFOLIO – SHOPPING CENTERS

530k sqm Shopping Centers Portfolio (20% of GAV)

	Urban	Dominant	Secondary	Total
Spain	44%	32%	13%	**89%**
Portugal	-	11%	-	**11%**
Total	**44%**	**43%**	**13%**	**100%**

Pre-COVID levels recovered:

Occupancy: 94.3%
Footfall 90% vs 2019
OCR stable at 12.5% level
(with sales & rents back to 2019)

Mind the differences:

Iberian market not as crowded as US, UK
Different habits
Brick & Mortar proving some resilience

The Ugly Duckling

Source: Company data

Occupancy Cost Ratio (OCR)

PORTFOLIO - LOGISTICS

2.8m sqm Managed Logistics Portfolio o/w 2.4m sqm Owned (16% of GAV)

	Madrid	Barcelona	Other Spain	Lisbon	Total
In operation	30%	31%	12%	2%	**74%**
WIP	15%	-	4%	6%	**26%**
Total	**45%**	**31%**	**16%**	**8%**	**100%**
Fully Owned	***52%***	***20%***	***19%***	***9%***	***100%***

Merlin fully owned:

Leased Space: 1.4m sqm
Occupancy: 99.2%

WIP: 0.7m sqm

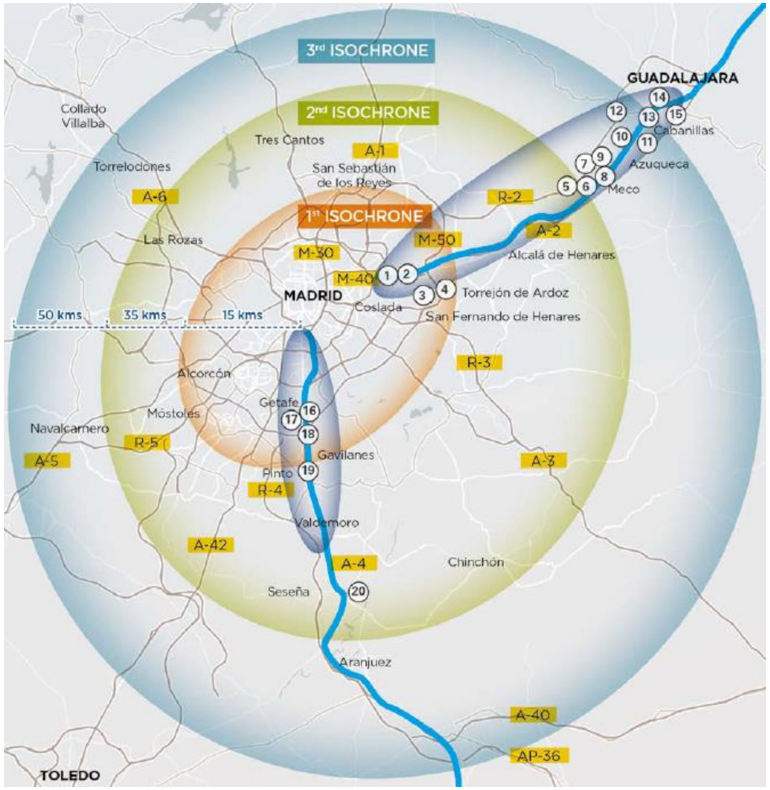
ZAL Port:

Space: 0,7m sqm (48.5% owned)
Occupancy: 100%

The White Swan

PORTFOLIO - LOGISTICS

Madrid



Barcelona

Unparalleled Locations

Source: Company data

PORTFOLIO - LOGISTICS

There's Room for Growth in the Iberian Market

WIP
Leasable area: 133k sqm
89% pre-let (Oct'22)

+

Land Plots
Leasable area: 589m sqm
Cost: 120€-130€ sqm
Market Value: 180€-220€ sqm

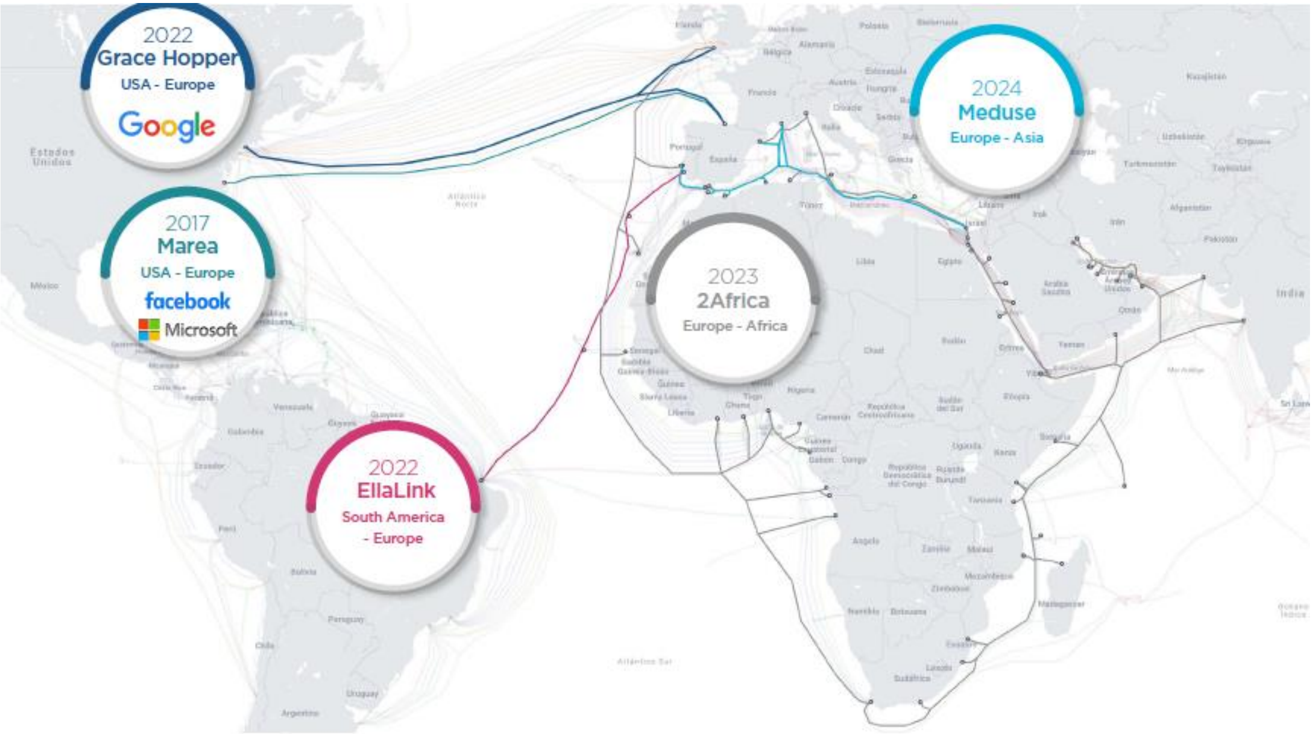
Development plans through 2026
Pending CAPEX: c.€300m
Incremental GRI (2027): €35m
YoC: 7.8%

Value Uncovering

Source: Company data

PORTFOLIO – DATA CENTERS

Under Development



A Matter of Geography

Source: Company data

PORTFOLIO – DATA CENTERS

Small, Fragmented Supply

Current market size	Announced Projects	WIP
c.90 MW	c.300 MW	c.100 MW

70MW 2022-2026
(option for >150MW)
Partnership with US operator "Endeavour"
CAPEX: c.€600m
(land cost €c.75m)
Average contract term: 45y
(First break 15y)
Incremental GRI: €75m
YoC: 11.2%

Demand > Supply

RISKS

Macro Headwinds Meet a Challenging Maturity Profile

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RISKS

Maturity Concentration

(Vacancy)

Macro

(Unemployment, Lower Consumption, Rates)

Not an Easy Hand to Play

RISKS – MATURITY CONCENTRATION

		Lease Maturities					Renewal Rate
	WAULT	H2'2022	2023	2024	2025	>2026	
Offices	3.5 y	3%	24%	18%	14%	41%	>80%
Logistics	3.3 y	4%	23%	16%	13%	43%	>90%
Shopping Centers	2.2 y	5%	40%	18%	17%	19%	>75%
Total Portfolio	**3.2 y**	**4%**	**27%**	**17%**	**14%**	**38%**	**>80%**

Spain's base lease contract length:
Office 3 + 2 yrs
Shopping Centers 2 + 1 yrs
Logistics 3 + 2 yrs

Affected by COVID related commercial policy:
Rents relief for contract extensions now expiring

Positive renewal experience

Heavy Concentration in 2023

RISKS – MATURITY CONCENTRATION

If the Going Gets Tough…

Scenarios	Offices	Logistics	Shopping Centers
Occupancy	84% (-6p.p)	96% (-4p.p)	81% (-13p.p)
Strengths	- Location - Supply dynamics - Tenant profile - Released spread cushion	- Superb locations - Demand remains above supply	- Location - Leverage over tenants (COVID support) - Tenant profile

Rents in Spain are linked to inflation → Less inflation for more years

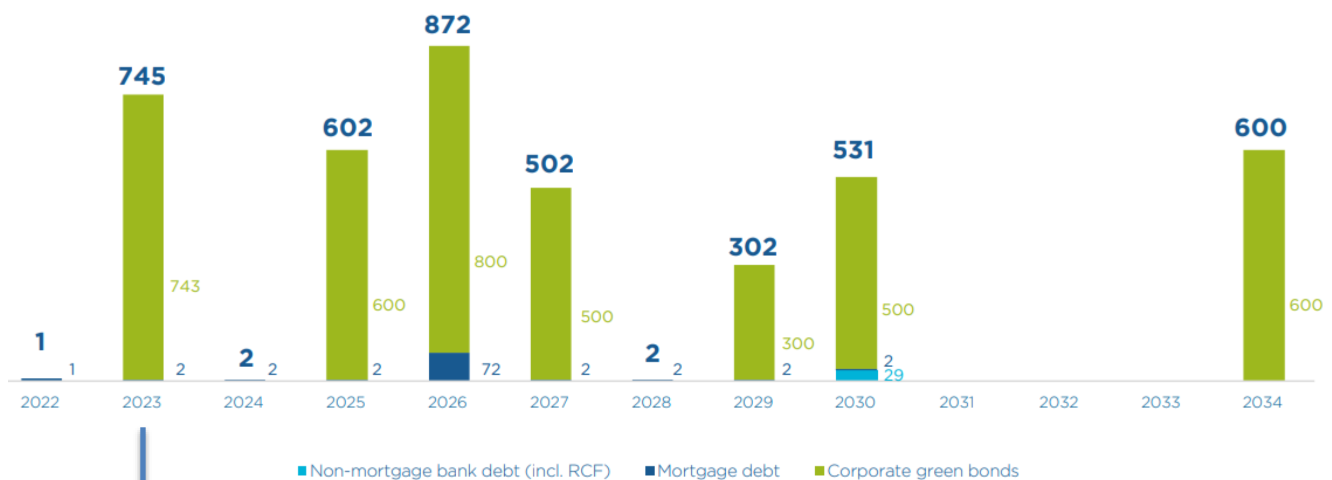
Rents from developments above €120m by 2027 (c.30% 2022E rents)

Some Cards to Play

RISKS

Liability Side Has Been Well Managed

LTV	Avg. Cost of debt	Fixed rate	Avg. Maturity
30%	1.94%	99.6%	5.4y



Liquidity c.€1.4bn, o/w Cash on Hand c.€600m

Prepared to Stand Up

Source: Company data, Invexcel

VALUATION

Heavily Discounted

VALUATION

Madrid's Office Market as We Speak

Based on:

- Market's implicit GAV discount of -38%,

- And the following price assumption (€/sqm):

	Price Assumption	Market Transactions
Lisbon	4,500	>6,000
Barcelona NBA & Prime	4,500	>4,000 & >6,000
Madrid Periphery & Other	1,000	> 1,500
Madrid NBA	3,000	>4,000

Merlin's **prime office assets** in Madrid **trade at €3.000 sqm**

Private market transactions range **€10,000-€12,000 sqm**

Public Market ≠ Private Market

Source: CBRE, Savills, FactSet, Company data, Invexcel

VALUATION

Discount to NAV

€m	Today	Disc.	Adjusted
GAV	**11,573**	-20%	**9,242**
Net Debt	3,566		3,566
NAV	**8,007**	-29%	**5,676**
# Shares	468.2		468.2
NAV per share (€)	**17.1**		**12.1**
Share Price (€)	**7.8**		**7.8**
MoS	**54%**		**35%**
Upside potential	*118%*		*55%*

Key assumptions:

- GAV adjustments:
  - Offices -20%
  - Shopping Centers -30%
  - Logistics -10%
  - Other -20%
  - Minority stakes -15%
- No value creation from Logistics, Data Centers and Office projects under development (> €120m in rents through 2027, c.30% of today's)
- No value for inflation linked contracts
- No benefit from asset rotation
- Net Debt flat

Attractive Discount

VALUATION

Gross Rent Yield

€m	2022 Adj.	2027 Est.
Equity Capital – Market Value	3,670	3,670
Net Debt	3,566	3,896
Invested Capital	7,236	7,566
GRI (Est.)	340	460
Gross yield – Unleveraged	4.7%	6.1%
Gross yield – Leveraged	9.3%	12.5%

Key assumptions:

- Base annual Gross Rents after Incentives (GRI) ex. BBVA c.€340m. Further €120m rents by 2027
- €950m CAPEX through 2027, no further equity capital needs, new projects LTV 35%
- Occupancy will be defended mid-term, but not improved
- No value for inflation linked contracts
- No benefit from asset rotation

Attractive Yields

We Agree on a Discount for Geography, Shopping Centers, Rent Maturity Profile and Potential Yield Expansion…

…But Disagree on the Size

SUMMARY

Asset Quality

Locations

Growth Prospects

Strong Balance Sheet

Talented Team

Attractive Valuation

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