

Aroundtown SA

Germany / Real Estate
 Frankfurt Stock Exchange
 Bloomberg: AT1 GR
 ISIN: LU1673108939

Nine month
 results

RATING
PRICE TARGET

Return Potential
 Risk Rating

BUY
€ 3.30
 47.5%
 Medium

STAYING THE COURSE

Challenging market- alongside encouraging operational trends that characterised H1 held true in the July-to-September period. Q3 reporting was close to FBe with rental income and AEBITDA keeping pace with prior year comps, As anticipated, FFO 1 took a hit in Q3 (-10%) due to higher financing costs and perpetual note attribution, but AT brass confirmed their full year FFO 1 guide of €310m to €340m. Liquidity preservation remained in focus, and the company is intensifying talks with its banking network as lending processes are lengthening. Management sound confident in AT's ability to steer through the challenging market but remain cautious in predicting when financing conditions might improve. We remain Buy-rated on AT1 with a €3.3 TP (old: €3.5).

Bank lending getting trickier Not much has changed for AT over the past quarters. Operations continue to benefit from good LFL rental growth (+3.5%); disposals remain challenging but not impossible (€710m signed YTD); and the financing team is working hard to secure bank debt, build liquidity, and maintain good leverage KPIs. AT brass noted on the earnings call that banks are becoming more selective—particularly towards commercial landlords with increasingly stretched balance sheets. AT's cash and liquid assets together with expected disposal and vendor loan proceeds now tally €3.7bn and cover debt maturities to mid-2026. But larger debt maturities are lurking in H2/26 to YE28. AT has secured €1bn in bank debt YTD at a 1.4% margin over Euribor. Management mentioned that the landlord could technically fully swap out its unsecured debt with bank loans if necessary, and reiterated that an equity raise is not an attractive option at this juncture.

Other call takeaways AT had the entire portfolio assessed by external auditors in Q2. Higher discount and cap rates on the back of higher interest rates led to a decrease in property valuations of some €1.7bn. Now the landlord says it will repeat the exercise in Q4 to capture the most up-to-date market conditions for full year 2023 reporting. While not... (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2019	2020	2021	2022	2023E	2024E
Rental income (€m)	765.7	1,003.0	1,085.7	1,222.1	1,198.8	1,209.8
Y/Y growth	21.0%	31.0%	8.2%	12.6%	-1.9%	0.9%
Adj. EBITDA (€m)	772.7	944.1	974.9	1,002.3	1,008.3	1,050.4
Net income (€m)	1,709.1	906.4	1,078.1	-457.1	-2,051.5	210.7
EPRA NTA (€m)	10,522.8	11,186.9	11,564.0	10,122.3	7,904.4	7,552.2
EPRA NTAPS (€)	8.6	9.5	10.2	9.3	7.2	6.9
DPS (€)	0.14	0.22	0.23	0.00	0.22	0.23
FFO 1* (€m)	445.6	357.8	353.2	362.7	322.4	330.8
FFOPS 1* (€)	0.38	0.27	0.30	0.33	0.29	0.30
Liquid assets (€m)	3,074.7	3,287.1	3,276.6	2,756.2	3,031.0	2,116.7

RISKS

Risks include, but are not limited to, unfavourable interest rate developments, unfavourable macroeconomic developments, and the departure of key personnel.

COMPANY PROFILE

Aroundtown SA is a specialist real estate company focused on investing in and managing value-add properties primarily located in the German/ Netherlands real estate markets.

MARKET DATA

As of 01 Dec 2023

Closing Price	€ 2.24
Shares outstanding	1537.02m
Market Capitalisation	€ 3,438.31m
52-week Range	€ 0.90 / 2.99
Avg. Volume (12 Months)	9,360,663

Multiples	2022	2023E	2024E
P/FFO 1	6.8	7.6	7.4
P/NTA	0.2	0.3	0.3
FFO 1 Yield	14.6%	13.2%	13.5%
Div. Yield	0.0%	9.9%	10.1%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2023

Liquid Assets	€ 2,799.0m
Current Assets	€ 4,450.0m
EPRA NTA	€ 9,083.0m
Investment Property	€ 26,033.0m
Current Liabilities	€ 1,575.0m
Total Equity	€ 16,300.0m

SHAREHOLDERS

Treasury shares*	29.0%
Avisco Group / Vergepoint	15.0%
Free Float	56.0%

* 12% held through TLG Immo AG, voting rights suspended



. . . wanting to make a firm call on the downside risk, AT management hinted that we could see additional write-downs of 5% with the next assessment. We have now factored this into 2023 FBe.

Meanwhile, the hotel portfolio continues to rebound, and rent collections are expected to return to pre-pandemic levels in 2024. Hotel rental income will also get a boost from several hotels set to re-open once refurbishments are wrapped up.

Office uptake remains well below prior year levels, and market watcher JLL is calling for a 27% Y/Y decline for 2023. However, office new-build has slowed at an even higher pace (roughly -50%); vacancies remain at healthy levels; and workspace rents are climbing with CPI indexation tailwinds.

Worker office attendance in AT's core markets (DE and NL) is much better than the North American and UK markets, which are also oversupplied. German office attendance is at 3.2 days per week vs 1.5 in the US and the UK, and we look for these trends to persist (see note of 4 September 2023).

Finally, resi remains characterised by low supply vs high demand, and merely 250k new flats are expected to hit the market this year vs Germany's target of 500k to 600k. Compounding the issue, the high rate environment and tight supply also mean that tenants are far more reluctant to move out of their flats.

Q3 REPORTING HIGHLIGHTS

Net rental income like-for-like (LFL) was +3.5%—in-place rent +4.2%; occupancy minus 0.7%—at the end of the period. The office segment led LFL performance at +4.8% followed by resi at 2.7%. Office continued to benefit in Q3 from CPI indexation as well as step rent adjustments, whereas the residential supply and demand imbalance pushed vacancies to another record low (3.6%) and provides good operational tailwinds.

Table 1: Third quarter results vs FBe and prior year comp

All figures in EURm	Q3/23	Q3/23E	variance	Q3/22	variance	9M/23	9M/22	variance
Net rental income	299	296	1%	304	-2%	895	917	-2%
AEBITDA before JV contribution	237	235	1%	232	2%	705	718	-2%
Margin	79%	79%	-	76%	-	79%	78%	-
AEBITDA	251	249	1%	248	1%	748	758	-1%
FFO 1 before JV contribution	75	74	1%	92	-18%	250	304	-18%
Margin	25%	25%	-	30%	-	28%	33%	-
FFO 1	80	79	2%	89	-10%	255	275	-7%
FFOPS 1 (€)	0.07	0.07	2%	0.08	-9%	0.23	0.25	-7%

Source: First Berlin Equity Research; Aroundtown

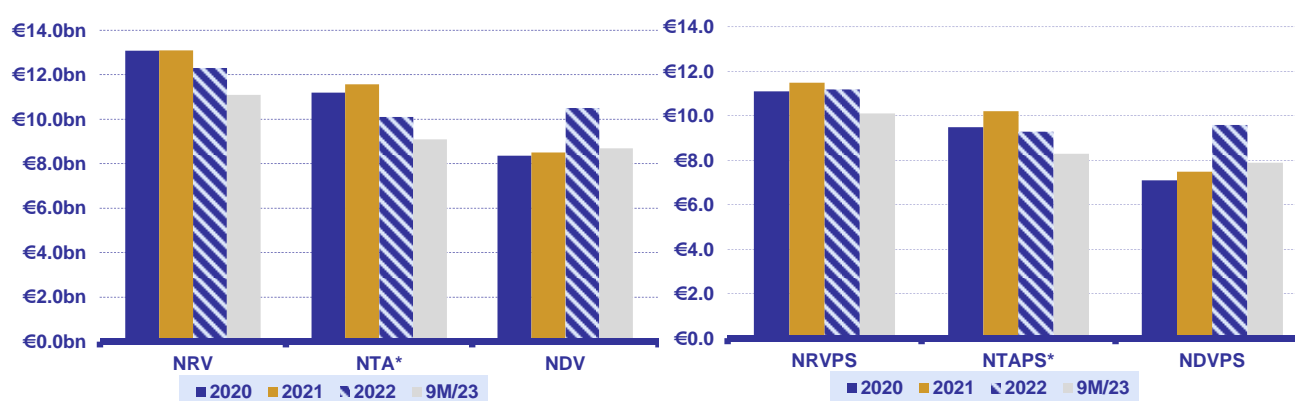
Third quarter KPI's as expected AT has sold some €2.3bn in properties since the start of 2022, which offset the good LFL performance in 9M/23. The net effects led to a 2% decline in Q3 rental income (NRI), while, AEBITDA was also steady on the prior year (+2%). As expected, bottom line FFO 1 was down 10% Y/Y. The latter is occasioned by the higher financing costs and perpetual note attributions after management decided not to call the latest notes (overleaf).



On a nine month basis, headline KPIs performed on par with Q3 figures, although FFO 1 took a smaller hit (-7%) during the January-to-September period, owing to the timing of the perpetual note resets and rise in financing costs. FFO 2 tallied €327m in 9M vs €564m in the prior year period. AT has signed ~€710m YTD at a slight discount to BV. About half of the open deals were closed post-reporting while the remainder should close in the coming months.

Portfolio value steady at €2,521 / m² (Q2/23: €2,518/ m²) Q3 in-place rent stood at €10.7 / m² vs €10.6 / m² at the end of Q2 and €10.3/ m² at YE22, while the portfolio vacancy rate was 7.9% vs 7.6% at the end of 2022. Annualised net rent tallied €1,155m at the end of the reporting period compared to €1,151m at YE22.

Figure 1: EPRA BPR reporting



*Reclassified in Dec. 2022 to exclude real estate transfer tax (RETT)

Source: First Berlin Equity Research; Aroundtown

NTAPS declined Q/Q to €8.3 (YE22: €9.3) on the impact of the negative revaluations on the €-1.4bn net income recorded in the January-to-September period. As noted, the landlord plans to revalue the entire portfolio again for FY23 reporting.

Table 2: Financial highlights

All figures in EURm	9M/23	2022	variance
Cash and liquid assets*	2,799	2,719	3%
Investment property	26,033	27,981	-7%
Total assets	34,943	37,347	-6%
Total financial debt*	14,105	14,806	-5%
Total equity	16,300	17,823	-9%
Equity ratio	47%	48%	-
EPRA NTA	9,083	10,135	-10%
Unencumbered asset ratio	75%	82%	-
Loan-to-Value (LTV)	41%	40%	-

* inc. those under held for sale

Source: First Berlin Equity Research; Aroundtown



Given still unfavourable refinancing terms, we now factor a reset of the 17 January 2024 perpetual notes into our model. The full effect of the reset will be a nearly €12m increase in coupon payments on an annualised basis. The next potential reset is looming in June 2024, but we will wait until closer to the date before adjusting our model if needed.

Table 3: Perpetual note overview

Currency	Outstanding Volume (m)	Current Coupon (%)	Reset Rate (%)	First Call Date
EUR (AT)	400	2.125	2.000 + 5Y mid-Sw ap	17-Jan-2024
GBP (AT)	400	3.000	4.377 + 5Y mid-Sw ap	25-Jun-2024
EUR (AT)	500	2.875	3.460 + 5Y mid-Sw ap	12-Jan-2025
EUR (AT)	600	3.375	3.980 + 5Y mid-Sw ap	23-Sep-2024
EUR (AT)	600	1.625	2.419 + 5Y mid-Sw ap	15-Jul-2026
EUR (GCP)	350	5.901	2.682 + 5Y mid-Sw ap	24-Oct-2028
EUR (GCP)	700	1.500	2.184 + 5Y mid-Sw ap	09-Jun-2026

Source: First Berlin Equity Research; Aroundtown

Table 4: Confirmed guidance

	Unit	2023 Guidance	FBe 2023	2022A
FFO 1	€m	310 -340	322	363
FFOPS 1	€	0.28 -0.31	0.29	0.33

Source: First Berlin Equity Research; Aroundtown

Table 5: Changes to FBe and TP

	old	new	revision	upside	dividend yield	total upside
Target price (€)	3.5	3.3	-6%	48%	10%	57%
	2023E			2024E		
in €m	Old	New	variance	Old	New	variance
Net rent (NRI)	1,201	1,199	-0.2%	1,212	1,210	-0.2%
AEBITDA	1,014	1,008	-0.6%	1,049	1,050	0.1%
margin	84%	84%	-	87%	87%	-
FFO 1	329	322	-2.0%	347	331	-4.5%
Margin	27%	27%	-	29%	27%	-
FFOPS 1 (€)	0.29	0.29	-2.0%	0.28	0.30	-4.5%

Source: First Berlin Equity Research estimates

Confirming Buy rating Aroundtown confirmed 2023 guidance (table 4). We have adjusted our forecasts to reflect the 9M/23 performance and also baked the aforementioned January note reset into 2024 FBe accounting for the decline of our FFO1 target. The net impact of these changes points to a €3.3 TP (old: €3.5).



DISCOUNTED DIVIDEND MODEL

	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	TV
FFOPS 1 (€)	0.29	0.30	0.32	0.25	0.22	0.25	0.25	0.29	0.29
Payout ratio	75%	75%	75%	75%	75%	75%	75%	75%	75%
Dividend (DPS) (€)	0.22	0.23	0.24	0.19	0.16	0.19	0.19	0.21	0.22
Y/Y	n.a.	3%	6%	-22%	-14%	15%	2%	13%	n.a.
NPV (€)	0.22	0.21	0.21	0.15	0.12	0.13	0.13	0.13	1.97
Terminal growth rate	1.0%								
Discount rate	7.0%								
NPV of dividends (€)	1.3								
NPV of TV (€)	2.0								
Fair value per share €	3.3								

		Terminal growth						
		-0.5%	0.0%	0.5%	1.0%	1.5%	2.0%	2.5%
Discount rate	5.8%	3.3	3.5	3.7	3.9	4.2	4.5	5.0
	6.2%	3.2	3.3	3.5	3.7	3.9	4.2	4.5
	6.6%	3.0	3.1	3.3	3.5	3.7	3.9	4.2
	7.0%	2.9	3.0	3.1	3.3	3.4	3.7	3.9
	7.4%	2.8	2.9	3.0	3.1	3.3	3.4	3.6
	7.8%	2.6	2.7	2.8	2.9	3.1	3.2	3.4
	8.2%	2.5	2.6	2.7	2.8	2.9	3.1	3.2

		Cost of Debt						
		2.50%	2.75%	3.00%	3.25%	3.75%	4.25%	4.8%
Discount rate	5.8%	3.9	3.9	3.9	3.9	3.9	3.9	3.9
	6.2%	3.7	3.7	3.7	3.7	3.7	3.7	3.7
	6.6%	3.5	3.5	3.5	3.5	3.5	3.5	3.5
	7.0%	3.3	3.3	3.3	3.3	3.3	3.3	3.3
	7.4%	3.1	3.1	3.1	3.1	3.1	3.1	3.1
	7.8%	2.9	2.9	2.9	2.9	2.9	2.9	2.9
	8.2%	2.8	2.8	2.8	2.8	2.8	2.8	2.8



INCOME STATEMENT

All figures in EURm	2019	2020	2021	2022	2023E	2024E
Net rent	766	1,003	1,086	1,222	1,199	1,210
Operating and other income	129	177	238	388	406	425
Rental and operating income (RI)	895	1,180	1,323	1,610	1,605	1,635
Capital gains, property revaluations & other	1,218	769	810	-497	-3,009	-455
Result from equity-accounted investees	299	196	193	6	6	6
Property OpEx	-228	-443	-533	-695	-659	-628
Other income	0	0	0	0	0	0
Administration & other OpEx	-27	-51	-57	-63	-60	-60
Operating income (EBIT)	2,156	1,652	1,737	361	-2,117	499
Net financial result	-142	-201	-180	-185	-225	-235
Other financial expenses	46	-168	-162	-194	91	0
Impairment of goodwill	0	0	0	-404	-117	0
Pre-tax income (EBT)	2,060	1,283	1,394	-422	-2,369	263
Tax expense	-71	-89	-100	-117	-119	-121
Deferred tax	-280	-287	-216	82	436	68
Tax result	-351	-377	-316	-35	317	-53
Comprehensive net income	1,709	906	1,078	-457	-2,051	211
Minority interests	343	165	330	83	-243	86
Perpetual notes	58	90	106	118	154	193
Net income to owners	1,308	652	642	-658	-1,963	-69
Basic EPS (€)	1.12	0.50	0.55	-0.59	-1.80	-0.06
AEBITDA	773	944	975	1,002	1,008	1,050
Ratios						
AEBITDA before JV contributions (NRI)	83.7%	77.5%	80.2%	77.2%	77.7%	80.2%
FFO 1 margin (NRI)	58.2%	35.7%	32.5%	29.7%	26.9%	27.3%
Expenses as % of revenues						
Property OpEx	25.5%	37.5%	40.3%	43.2%	41.1%	38.4%
Administration & other OpEx	3.1%	4.3%	4.3%	3.9%	3.8%	3.6%
Y/Y Growth						
Net rent	21.0%	31.0%	8.2%	12.6%	-1.9%	0.9%
Operating income	-6.0%	-23.4%	5.1%	-79.2%	n.m.	n.m.
Adjusted EBITDA	27.5%	22.2%	3.3%	2.8%	0.6%	4.2%
Net income/ loss	-19.3%	-50.2%	-1.5%	n.m.	n.m.	n.m.
Funds from Operations (FFO)						
AEBITDA before JV contribution	641	777	871	944	932	970
Finance expense	-142	-201	-180	-185	-225	-235
Tax expense	-71	-89	-100	-117	-119	-121
Minority adjustment	-17	-36	-82	-136	-126	-129
Other adjustments	3	9	7	5	5	5
Perpetual attribution	-58	-90	-106	-118	-154	-193
FFO 1 before JV contribution	357	371	409	392	312	297
JV FFO 1 contributions	89	107	69	46	43	44
Extraordinary provision for uncollected rents	0	-120	-125	-75	-33	-10
FFO 1	446	358	353	363	322	331



BALANCE SHEET

All figures in EURm	2019	2020	2021	2022	2023E	2024E
Assets						
Current assets, total	3,743	4,781	5,529	4,856	4,812	3,281
Cash and cash equivalents	2,192	2,692	2,873	2,305	2,576	1,657
Short-term investments	878	454	376	313	313	313
Receivables	454	617	1,219	1,168	1,143	1,165
Other current assets	5	141	28	138	142	146
Assets held for sale	214	877	1,033	931	638	0
Non-current assets, total	21,702	26,241	33,854	32,492	29,471	29,968
Property, plant & equipment	20	877	1,849	1,508	1,395	1,400
Investment properties	18,127	21,172	29,116	27,981	24,958	25,540
Equity accounted investees	2,506	3,177	1,223	1,292	1,298	1,200
Other LT assets	1,049	1,014	1,667	1,711	1,820	1,828
Total assets	25,445	31,022	39,383	37,347	34,283	33,250
Shareholders' equity & debt						
Current liabilities, total	857	1,074	1,607	1,289	1,272	1,285
Short-term debt	246	181	544	123	23	23
Accounts payable	343	435	621	666	729	722
Provisions & other current liabilities	268	458	442	500	520	541
Long-term liabilities, total	11,209	14,364	18,620	18,235	17,357	16,489
Long-term debt	9,759	11,680	15,026	14,573	14,099	13,265
Deferred tax liabilities	1,107	2,026	2,766	2,662	2,226	2,158
Other LT liabilities	342	659	828	999	1,032	1,066
Minority interests	1,309	2,025	3,875	3,503	3,261	3,347
Shareholders' equity	12,070	13,558	15,281	14,320	12,393	12,128
Total consolidated equity and debt	25,445	31,022	39,383	37,347	34,283	33,250
Ratios						
ICR (x)	4.8	4.3	4.9	4.9	4.1	4.1
Net debt / adj. EBITDA (x)	10.9	11.1	14.2	12.8	12.1	11.5
Equity ratio	52.6%	50.2%	48.6%	47.7%	45.7%	46.5%
Financial leverage	57.9%	63.4%	80.8%	84.4%	91.1%	92.1%
EPRA NTA	10,523	11,187	11,564	10,122	7,904	7,552
EPRA NTAPS (€)	8.6	9.5	10.2	9.3	7.2	6.9
Net debt	6,985	8,598	12,344	12,087	11,291	11,171
Return on equity (ROE)	14.2%	6.7%	7.1%	-3.2%	-16.6%	1.7%
Loan-to-value (LTV)	34%	34%	39%	40%	42%	42%



CASH FLOW STATEMENT

All figures in EURm	2019	2020	2021	2022	2023E	2024E
Net income	1,709	906	1,078	-457	-2,051	211
Depreciation & amortisation	2	4	16	21	16	16
Capital gains, property revaluations & other	-1,218	-769	-810	497	3,009	455
Profit share from equity accounted investees	-299	-196	-193	-6	-6	-6
Goodwill impairment	0	0	0	404	117	0
Shared based payment in a subsidiary	5	3	6	5	0	0
Net finance expenses	96	369	343	379	135	235
Tax result	351	377	316	35	-317	53
Operating cash flow	646	694	755	879	902	963
Changes in working capital	-34	-36	-57	-27	71	-37
Provisions for other liabilities	-3	-3	-4	-2	27	28
Dividend received	61	43	24	35	0	104
Tax paid	-57	-83	-93	-97	-119	-121
Net operating cash flow	614	616	626	788	880	937
CapEx/ intangibles	-3	-36	23	-26	-21	-21
Disposal / investment in investment properties, net	-2,311	1,427	1,179	556	285	-399
Acquisition / disposals of subsidiaries	0	0	0	0	0	0
Proceeds from investments in financial assets	-576	-377	-124	-121	22	23
Cash flow from investing	-2,890	1,014	1,078	409	286	-397
Debt financing, net	2,148	-493	-1,320	-629	-574	-834
Equity financing, net	596	0	0	0	0	0
Payments for own shares	0	-1,001	-444	-255	0	0
Share buy-back in a subsidiary	0	0	-270	0	0	0
Dividends paid	-209	-22	-252	-169	0	-236
Other financing activities	854	94	-120	-506	-96	-154
Net paid financing expenses	-161	-212	-201	-204	-225	-235
Cash flow from financing	3,228	-1,634	-2,607	-1,764	-896	-1,458
Net cash flows	952	-5	-903	-567	271	-919
Assets held for sale - cash	-4	-3	-2	-6	0	0
Fx effects	1	-1	16	5	0	0
Cash & equivalents from TLG	0	509	1070	0	0	0
Cash, start of the year	1,243	2,192	2,692	2,873	2,305	2,576
Cash, end of the year	2,192	2,692	2,873	2,305	2,576	1,657
FFO 1 before JV contribution	357	371	409	392	312	297
FFO 1	446	358	353	363	322	331
FFOPS 1 (€)	0.38	0.27	0.30	0.33	0.29	0.30

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Anschrift:

First Berlin Equity Research GmbH
Friedrichstr. 34
10117 Berlin
Germany

Vertreten durch den Geschäftsführer: Martin Bailey

Telefon: +49 (0) 30-80 93 9 680

Fax: +49 (0) 30-80 93 9 687

E-Mail: info@firstberlin.com

Amtsgericht Berlin Charlottenburg HR B 103329 B

UST-Id.: 251601797

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First Berlin Equity Research GmbH

Authored by: Ellis Acklin, Senior Analyst

All publications of the last 12 months were authored by Ellis Acklin.

Company responsible for preparation: First Berlin Equity Research GmbH, Friedrichstraße 69, 10117 Berlin

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Person responsible for forwarding or distributing this financial analysis: Martin Bailey

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The present financial analysis is based on the author's own knowledge and research. The author prepared this study without any direct or indirect influence exerted on the part of the analysed company. Parts of the financial analysis were possibly provided to the analysed company prior to publication in order to avoid inaccuracies in the representation of facts. However, no substantial changes were made at the request of the analysed company following any such provision.

ASSET VALUATION SYSTEM

First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

ASSET RECOMMENDATION

The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy ¹	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

¹ The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

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The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	29 September 2015	€3.40	Buy	€5.70
2...50	↓	↓	↓	↓
51	31 March 2022	€5.27	Buy	€8.30
52	31 May 2022	€4.40	Buy	€7.40
53	26 August 2022	€2.99	Buy	€7.30
54	2 November 2022	€2.02	Buy	€5.10
55	7 December 2022	€2.32	Buy	€4.60
56	5 April 2023	€1.25	Buy	€3.50
57	2 June 2023	€0.96	Buy	€3.50
58	4 September 2023	€1.51	Buy	€3.50
59	Today	€2.24	Buy	€3.30

INVESTMENT HORIZON

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Legally required information regarding

- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

can be accessed through the following internet link: <https://firstberlin.com/disclaimer-english-link/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Marie-Curie-Straße 24-28, 60439 Frankfurt am Main

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