

PSI AG

Germany / Software
 Primary exchange: Frankfurt
 Bloomberg: PSAN GR
 ISIN: DE000A0Z1JH9

2020 annual report

RATING	ADD
PRICE TARGET	€ 31.00
Return Potential	17.0%
Risk Rating	Medium

SET TO PROFIT FROM A GOLDEN DECADE FOR RENEWABLE ENERGY

2020 results were close to our forecasts showing a 3.3% decline in sales to €217.8m (FBe: €223.6m; 2019: €225.2m) and a 13.1% decline in EBIT to €14.9m (FBe: €15.4m; 2019: €17.2m). 2020 EBIT was higher than guidance given in March 2020, which was for a decline of up to 20%. The order intake fell 3% to €229m (2019: €236m), while the year-end order backlog was 4.9% higher at €149m (2019: €142m). The order intake fell last year because reduced activity in the gas grids and pipelines business and the automotive/industry and industrial logistics businesses outweighed increased orders for the electrical grids, metals and public transport businesses. Current year guidance for a relatively modest 5% increase in revenue and orders is conditioned by uncertainty as to the impact of the third wave of the pandemic. Management has indicated that growth will accelerate once the vaccine campaign is successful. The targeted rebound in EBIT to over €20m (16% above the 2019 level) is indicative of the effect of risk provisions on the 2020 numbers as well as the underlying improvement in profitability stemming from ongoing software platform harmonisation. Looking beyond covid-19, prospects are very favourable. PSI continues to benefit from the growing share of German electricity generation taken by renewable energy and gas. Management also aims to increase the share of export business (2020: 36%), particularly in the electrical grids business. Meanwhile, the Production Management segment offers participation in the world's leading metals production software business as well as Internet of Things exposure through the Automotive & Industry segment. The prospect of a renewable energy boom stretching into the 2030's as well as increased internationalisation of the business prompts us to raise our long term forecasts. We now model a 10-year sales CAGR for the period 2021-2030 of 8.2% (previously: 6.1%). Meanwhile, the EBIT margin should rise beyond 10% over the next few years as operating costs fall with the completion of software platform harmonisation. We have raised the price target from €26.00 to €31.00. Our recommendation remains at Add. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019	2020	2021E	2022E
Revenue (€m)	186.10	199.16	225.18	217.79	230.11	255.43
Y-o-y growth	5.2%	7.0%	13.1%	-3.3%	5.7%	11.0%
EBIT (€m)	13.37	15.45	17.20	14.95	21.02	24.54
EBIT margin	7.2%	7.8%	7.6%	6.9%	9.1%	9.6%
Net income (€m)	9.50	10.59	14.26	10.28	14.90	17.79
EPS (diluted) (€)	0.61	0.68	0.91	0.66	0.95	1.13
DPS (€)	0.23	0.25	0.05	0.30	0.35	0.45
FCF (€m)	-2.92	11.57	3.75	11.43	14.21	10.11
Net gearing	18.7%	9.8%	42.0%	40.7%	27.1%	20.7%
Liquid assets (€m)	38.13	44.58	38.66	40.48	57.53	63.86

RISKS

Risks include a further protracted delay in the German anti-SARS-CoV-2 vaccination programme.

COMPANY PROFILE

PSI makes software control systems, primarily for energy, utility companies and metals producers. Customers also include manufacturers and the operators of transportation networks. The company's control system products are widespread in its core German market.

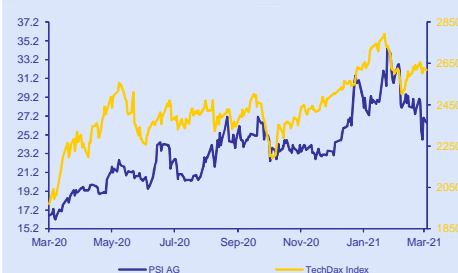
MARKET DATA

As of 29 Mar 2021

Closing Price	€ 26.50
Shares outstanding	15.70m
Market Capitalisation	€ 415.98m
52-week Range	€ 16.20 / 34.50
Avg. Volume (12 Months)	10,268

Multiples	2020	2021E	2022E
P/E	40.4	27.9	23.4
EV/Sales	2.1	2.0	1.8
EV/EBIT	30.2	21.4	18.4
Div. Yield	1.1%	1.3%	1.7%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2020

Liquid Assets	€ 40.48m
Current Assets	€ 134.62m
Intangible Assets	€ 70.20m
Total Assets	€ 259.40m
Current Liabilities	€ 72.08m
Shareholders' Equity	€ 100.32m

SHAREHOLDERS

InvAG für langfristige Investoren TGV	20.7%
Innogy SE	17.8%
Management and employees	15.0%
Harvinder Singh	8.1%
Free float and other	38.4%

Figure 1: FY/20 results versus our forecasts

€ 000s	FY 20A	FY 20E	Δ FY 20A vs. FY 20E	FY 19A	Δ FY 20A vs. FY 19A
External sales	217,795	223,607	-2.6%	225,180	-3.3%
<i>by division:</i>					
Energy Management	120,002	121,501	-1.2%	115,755	3.7%
Production Management	97,793	102,106	-4.2%	109,425	-10.6%
EBIT	14,948	15,374	-2.8%	17,205	-13.1%
margin	6.9%	6.9%	-	7.6%	-
<i>by division:</i>					
Energy Management	6,023	6,775	-11.1%	7,199	-16.3%
margin	4.9%	5.4%	-	6.1%	-
Production Management	11,776	10,611	11.0%	11,763	0.1%
margin	10.6%	9.2%	-	9.9%	-
Reconciliation	-2,851	-2,012	n.a.	-1,757	n.a.
EPS (€)	0.66	0.67	-1.5%	0.91	-27.5%

Source: PSI AG; First Berlin Equity Research estimates

Reduced business with energy exporting countries squeezed Energy Management margins

Sales at the Energy Management segment (energy grids, energy trading, public transport) climbed 3.7% to €120.0m (2019: €115.8m) while EBIT came in at €6.0m (2019: €7.2m) equivalent to a margin of 4.9% (2019: 6.1%). Ongoing climate-protection investments boosted orders at both the electrical networks and public transport businesses but the gas grids and pipelines business suffered from reduced demand from energy exporting countries such as Russia, the Gulf States and Malaysia due to low commodity prices. Overseas oil & gas business generates above average margins and so the decline in revenue from these markets, as well as associated risk provisioning squeezed margins.

Q4/20 EBIT at Production Management up over 20%

Sales at the Production Management segment (metals production, industry, logistics) declined 10.6% to €97.8m (2019: €109.4m) while EBIT was flat at €11.8m. Here too, risk provisioning burdened the result. However, EBIT was particularly strong in the fourth quarter at €5.6m (Q4/19: €4.7m). Sales at PSI Metals fell, but substantial new orders from North America pushed the business' order intake ahead. The automotive and industry business recorded lower order intake and sales, but activity has been rising since the final months of last year. The business was supported by new orders from electric vehicle producers, automotive parts suppliers and caravan manufacturers. The logistics business' sales fell overall as business with industrial customers shrank, but sales in Poland and Russia were boosted by booming local e-commerce markets.

Net operating cashflow doubled due to reduced working capital requirement

Cashflow from operations before investment in working capital fell 3.5% to €25.3m (2019: €26.2m). Stagnant sales meant that working capital consumed €0.5m in 2020 whereas in 2019 it consumed €13.8m. In consequence net operating cash flow jumped 99% to €24.8m (2019: €12.5m). Cash flow from investing activities amounted to €-13.4m (2019: €-8.7m). The 2020 number included €8.3m for the acquisition of the Swiss-based NEPLAN AG in October. NEPLAN's software is used for the planning, analysis, simulation, technical and commercial optimisation of energy grid expansions for electrical networks and also for the cross-linked areas of gas, water and district heating. NEPLAN's software is deployed by over 500 customers in 110 countries. In 2019 the company generated sales of €3.8m. In Q2/20 PSI also acquired the Potsdam-based Prognos Energy GmbH, which specialises in forecasting energy feed-in from wind energy and photovoltaic installations based on meteorological data. However, the purchase price was very low at €11,000 because the company was under financial pressure. 2019 acquisitions included the BTC Smart-Grid division for €3.5m. Dividend payments fell to €0.8m (2019: €3.9m) in connection with the reduction in the 2019 dividend to €0.05 (2018: €0.25).

Repayments of leasing liabilities consumed €5.6m (2019: €4.8m). The 2020 cash position was €40.5m (2019: €38.7m). Year-end net debt including pension liabilities and leasing liabilities was €40.8m equivalent to net gearing of 40.7% (2019: net debt including pension liabilities and leasing liabilities of €39.7m equivalent to net gearing of 42.0%).

Renewable energy boom should continue into the 2030's Germany will phase out nuclear energy (8 GW) by 2022 and coal power (43 GW) by 2038 at the latest. Intermediate targets for coal are a reduction to 30 GW by 2022 and 17 GW by 2030. The loss of fossil base-load power capacity will increase the pressure to install more green power plants. In June 2020, the German federal government passed its national hydrogen strategy. It predicts domestic hydrogen demand of 90-110 TWh by 2030 (currently: approx. 55 TWh). From an ecological point of view, hydrogen production only makes sense through electrolysis using green electricity sources. If this future demand were only covered by domestic wind power on land, assuming 3,000 full load hours, this would correspond to an additional wind power capacity of approx. 30-37 GW. Investment in smart grids to accommodate the increasing proportion of electricity generated through renewable energy and gas is driving a boom at PSI's Energy Management business, which we expect to continue into the 2030's.

We expect the US market to be a key focus of PSI's export drive Under President Biden, the USA has rejoined the Paris Agreement on Climate Change. The new administration is making the expansion of renewable energy one of its priorities. PSI's management aims to increase the share of export business (2020: 36%), particularly in the electrical grids business. We expect the opportunity represented by the US market to be a key focus of these efforts.

Price target raised from €26.00 to €31.00. Add recommendation maintained The impact of the third wave of the pandemic causes us to reduce our near-term forecasts (see figure 2 below). However, the prospect of a renewable energy boom stretching into the 2030's, as well as increased internationalisation of the business, prompts us to raise our long term projections. We now model a 10-year sales CAGR for the period 2021-2030 of 8.2% (previously: 6.1%). We also expect the EBIT margin to rise beyond 10% over the next few years as operating costs fall with the completion of software platform harmonisation. We have raised the price target from €26.00 to €31.00. The recommendation remains at Add.

Figure 2: Changes to our forecasts

€m	2021E			2022E		
	New	Old	Δ %	New	Old	Δ %
External sales	230.1	249.2	-7.7%	255.4	270.5	-5.6%
by division:						
Energy Man.	126.3	134.9	-6.4%	140.2	147.0	-4.6%
Production Man.	103.8	114.4	-9.2%	115.3	123.5	-6.7%
Total EBIT	21.0	21.2	-0.9%	24.5	26.1	-6.0%
margin (%)	9.1%	8.5%	-	9.6%	9.7%	-
by division:						
Energy Man.	10.3	10.4	-0.5%	12.2	14.3	-14.7%
margin (%)	8.0%	7.5%	-	8.5%	9.5%	-
Production Man.	13.4	13.6	-1.3%	15.5	15.3	1.6%
margin (%)	11.5%	10.6%	-	12.0%	11.0%	-
Reconciliation	-2.8	-2.8	n.a.	-3.2	-3.4	n.a.
EPS (€)	0.95	0.96	-1.0%	1.13	1.22	-7.0%

Source: PSI AG; First Berlin Equity Research estimates



VALUATION MODEL

€000s	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Net sales	230,115	255,427	277,512	304,648	331,154	358,621	387,000	416,272
NOPLAT	15,237	18,206	20,281	23,315	26,551	29,403	31,696	34,050
+ Depreciation and amortisation	12,716	14,115	15,335	16,835	18,300	19,817	21,386	23,003
= net operating cash flow	27,953	32,321	35,616	40,150	44,850	49,221	53,082	57,054
- total investments (Capex and WC)	-13,086	-21,463	-22,321	-25,449	-26,714	-28,537	-30,395	-32,295
Capital expenditure	-13,868	-18,791	-20,017	-22,588	-23,919	-25,641	-27,402	-29,209
working capital	782	-2,672	-2,303	-2,861	-2,795	-2,897	-2,993	-3,087
= Free cash flow (FCF)	14,867	10,858	13,295	14,700	18,136	20,683	22,687	24,758
PV of FCF's	14,067	9,544	10,856	11,151	12,780	13,540	13,797	13,987

€000s	
PVs of FCFs explicit period (2021-35)*	201,558
PVs of FCFs in terminal period	325,775
Enterprise Value (EV)	527,332
Net cash/(net debt)	-40,797
Shareholder value	486,535

Value per share (€)	31.00
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WACC	7.65%
Cost of equity	9.5%
Pre-tax cost of debt	3.0%
Normal tax rate	30.0%
After-tax cost of debt	2.1%
Share of equity	75.0%
Share of debt	25.0%
Terminal growth	2.5%

Sensitivity analysis

		Terminal growth rate (%)						Fair value per share
WACC	4.65%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%
	61.50	68.09	77.18	90.49	111.90	152.00	254.18	
	45.43	48.73	52.93	58.47	66.10	77.29	95.27	
	35.28	37.11	39.35	42.12	45.65	50.30	56.72	
	28.35	29.45	30.74	31.00	34.16	36.49	39.45	
	23.36	24.05	24.85	25.77	26.85	28.15	29.73	
	19.63	20.08	20.59	21.17	21.83	22.61	23.52	
	10.65%	16.75	17.05	17.39	17.77	18.19	18.68	19.24
	11.65%	14.48	14.69	14.91	15.17	15.45	15.77	16.12

*for layout purposes the model shows numbers only to 2028 but runs until 2035



INCOME STATEMENT

All figures in €'000	2017	2018	2019	2020	2021E	2022E
Revenues	186,096	199,156	225,180	217,795	230,115	255,427
Cost of materials	-27,228	-28,919	-32,259	-29,734	-31,065	-33,206
Gross profit	158,868	170,237	192,921	188,061	199,049	222,222
Total personnel costs	-112,343	-121,279	-137,795	-141,377	-149,374	-161,000
Net other operating costs	-28,809	-28,897	-27,089	-19,516	-15,942	-22,571
Depreciation & amortisation	-4,351	-4,611	-10,832	-12,220	-12,716	-14,115
EBIT	13,365	15,450	17,205	14,948	21,017	24,536
Net interest	-983	-1,061	-1,053	-1,586	-906	-1,005
Associates	142	134	288	300	315	331
Pretax profit	12,524	14,523	16,440	13,662	20,426	23,862
Income taxes	-3,027	-3,938	-2,178	-3,382	-5,530	-6,071
Net income / loss	9,497	10,585	14,262	10,280	14,895	17,791
EPS (€)	0.61	0.68	0.91	0.66	0.95	1.13
EBITDA	17,716	20,061	28,037	27,168	33,733	38,651
Ratios						
Gross margin	85.4%	85.5%	85.7%	86.3%	86.5%	87.0%
EBIT margin	7.2%	7.8%	7.6%	6.9%	9.1%	9.6%
EBITDA margin	9.5%	10.1%	12.5%	12.5%	14.7%	15.1%
Net income margin	5.1%	5.3%	6.3%	4.7%	6.5%	7.0%
Tax rate	24.2%	27.1%	13.2%	24.8%	27.1%	25.4%
Expenses as % of output						
Personnel	-60.4%	-60.9%	-61.2%	-64.9%	-64.9%	-63.0%
Net other operating income/expenses	-15.5%	-14.5%	-12.0%	-9.0%	-6.9%	-8.8%
Depreciation & amortisation	-2.3%	-2.3%	-4.8%	-5.6%	-5.5%	-5.5%
Y-o-y growth						
Total revenues	5.2%	7.0%	13.1%	-3.3%	5.7%	11.0%
EBIT	12.9%	15.6%	11.4%	-13.1%	40.6%	16.7%
Net income / loss	11.1%	11.5%	34.7%	-27.9%	44.9%	19.4%



BALANCE SHEET

All figures in €'000	2017	2018	2019	2020	2021E	2022E
Assets						
Current assets, total	116,463	127,787	136,310	134,624	157,398	174,712
Cash and cash equivalents	38,132	44,579	38,656	40,482	57,529	63,857
Trade accounts and notes receivables	31,611	34,407	38,455	29,209	39,120	43,423
Inventories	7,823	8,712	10,612	8,661	10,815	12,005
Receivables relating to long term contracts	33,118	34,367	40,725	47,705	41,421	45,977
Other current assets	5,779	5,722	7,862	8,567	8,514	9,451
Non-current assets, total	77,547	80,884	112,527	124,775	127,102	133,876
Property, plant and equipment	12,531	13,592	37,039	38,928	40,270	43,423
Goodwill	48,289	49,417	54,892	60,804	60,804	60,804
Other intangible assets	8,200	9,468	9,531	9,395	9,205	10,728
Associates	150	440	440	440	755	1,086
Deferred tax assets	8,377	7,967	10,625	15,208	16,068	17,836
Other non-current assets	0	0	0	0	0	0
Total assets	194,010	208,671	248,837	259,399	284,500	308,588
Shareholders' equity & debt						
Current liabilities, total	59,679	65,960	74,706	72,079	78,572	87,215
Interest bearing debt	2,622	1,795	1,112	65	0	0
Leasing liabilities	0	0	5,606	5,498	5,753	6,386
Trade accounts payable	14,564	16,440	17,454	17,977	18,994	21,083
Liabilities relating to long term contracts	13,287	16,531	17,212	13,930	17,259	19,157
Provisions	0	0	0	0	0	0
Other current liabilities	29,206	31,194	33,322	34,609	36,567	40,589
Non-current liabilities, total	54,034	56,081	79,592	86,997	90,320	92,195
Interest bearing debt	0	0	0	168	6,124	4,689
Leasing liabilities	0	0	16,917	19,132	20,250	22,478
Pension provisions	50,540	51,284	54,737	56,416	56,698	56,982
Deferred tax liabilities	3,494	4,797	6,328	8,726	4,487	4,981
Other liabilities	0	0	1,610	2,555	2,761	3,065
Consolidated equity	80,297	86,630	94,539	100,323	115,608	129,179
Shareholders' equity	80,297	86,630	94,539	100,323	115,608	129,179
Minorities	0	0	0	0	0	0
Total consolidated equity and debt	194,010	208,671	248,837	259,399	284,500	308,588
Ratios						
Current ratio (x)	1.95	1.94	1.82	1.87	2.00	2.00
Quick ratio (x)	1.82	1.81	1.68	1.75	1.87	1.87
Equity ratio	41.4%	41.5%	38.0%	38.7%	40.6%	41.9%
Net gearing	18.7%	9.8%	42.0%	40.7%	27.1%	20.7%
Equity per share	5.12	5.52	6.02	6.39	7.36	8.23
Interest coverage ratio (x)	13.60	14.56	16.34	9.42	23.19	24.41
Capital employed (CE)	89,815	95,229	114,693	137,688	144,012	151,380
Return on capital employed (ROCE)	10.4%	11.4%	10.5%	7.6%	10.6%	12.0%



CASH FLOW STATEMENT

All figures in €'000	2017	2018	2019	2020	2021E	2022E
Pretax result	12,524	14,523	16,440	13,662	20,426	23,862
Depreciation and amortisation	4,351	4,611	10,832	12,220	12,716	14,115
Other	-1,098	-94	-1,030	-558	-5,845	-6,402
Operating cash flow	15,777	19,040	26,242	25,324	27,296	31,575
Investment in working capital	-14,609	-51	-13,764	-492	782	-2,672
Net operating cash flow	1,168	18,989	12,478	24,832	28,078	28,903
Cashflow from investing	-4,089	-7,424	-8,729	-13,403	-13,868	-18,791
Free cash flow	-2,921	11,565	3,749	11,429	14,210	10,112
Dividend paid	-3,439	-3,596	-3,919	-784	-4,709	-5,494
Share buy back	-297	-422	-275	-9	0	0
New share capital	0	0	0	0	0	0
Debt financing	2,622	-827	-683	-1,057	6,173	-1,151
Lease liabilities	0	0	-4,759	-5,560	1,373	2,860
Other	0	0	-544	-491	0	0
Cash flow from financing	-1,114	-4,845	-10,180	-7,901	2,836	-3,784
Other	-841	-273	508	-1,702	0	0
Change in cash	-4,876	6,447	-5,923	1,826	17,047	6,328
Cash, start of the year	43,008	38,132	44,579	38,656	40,482	57,529
Cash, end of the year	38,132	44,579	38,656	40,482	57,529	63,857
Free cash flow per share in €	-0.19	0.74	0.24	0.73	0.91	0.64
Y-o-y growth						
Operating cash flow	5%	21%	38%	-3%	8%	16%
Net operating cash flow	-91%	1526%	-34%	99%	13%	3%
Free cash flow	n.m.	n.m.	-68%	205%	24%	-29%

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INFORMATION PURSUANT TO SECTION 64 OF THE GERMAN SECURITIES TRADING ACT [WPHG], DIRECTIVE 2014/65/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 15 MAY 2014 ON MARKETS IN FINANCIAL INSTRUMENTS AND AMENDING DIRECTIVE 2002/92/EC AND DIRECTIVE 2011/61/EU, ACCOMPANIED BY THE MARKETS IN FINANCIAL INSTRUMENTS REGULATION (MIFIR, REG. EU NO. 600/2014).

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PRICE TARGET DATES

Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

AGREEMENT WITH THE ANALYSED COMPANY AND MAINTENANCE OF OBJECTIVITY

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.

RISK ASSESSMENT

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	15 July 2003	€4.96	Market Perform	€5.00
2...66	↓	↓	↓	↓
67	2 April 2019	€17.00	Add	€19.00
68	2 May 2019	€18.45	Add	€19.00
69	6 November 2019	€19.10	Add	€22.40
70	6 April 2020	€16.50	Buy	€21.20
71	2 November 2020	€23.80	Add	€26.00
75	Today	€26.50	Add	€31.00

INVESTMENT HORIZON

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

UPDATES

At the time of publication of this financial analysis it is not certain whether, when and on what occasion an update will be provided. In general First Berlin strives to review the financial analysis for its topicality and, if required, to update it in a very timely manner in connection with the reporting obligations of the analysed company or on the occasion of ad hoc notifications.

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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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