

# Schloss Wachenheim AG

Germany / Food &amp; beverages

Primary exchange: Frankfurt

Bloomberg: SWA GR

ISIN: DE0007229007

Q2 2016/17 results

**RATING****PRICE TARGET**

Return Potential

Risk Rating

**ADD****€18.60**

13.7%

Medium

## RAISING FORECASTS FOLLOWING STRONG CHRISTMAS QUARTER

Schloss Wachenheim (SWA) has reported strong results above our forecasts for its important Christmas quarter. Q2 16/17 sales came in at €100.8m (FBe €99.9m; Q2 15/16: €98.3m) while EBIT €13.0m (FBe €12.5m Q2 15/16: €11.2m) was 3.6% above our forecast and 15.9% above the prior year figure. Volume rose 1.2% to 74.6m bottles (Q2 15/16: 73.8m bottles). Company guidance for the full year remains for operating result and net profit before minorities at a stable level compared to 2015/16, even though H1 16/17 EBIT of €17.9m was 16.9% or €2.6m above the prior year figure of €15.3m. Management cautions that advertising spending in Germany is scheduled to rise in the second half and also that the next two quarters will see further declines in private label sales due to contract expiries. In addition the Polish cider market and the lower end of the French sparkling wine market, which have both grown briskly in recent years, are slowing. Against this, improvements in the product mix in Germany continue to have a substantial positive impact on profits, and the East Central Europe segment is benefiting from rising per capita wine consumption in Poland and a revitalised Romanian sparkling wine market. Investors should also bear in mind that Q3 15/16 EBIT was affected by €1.2m in exceptional costs in connection with the departure of a member of the management board and restructuring of the sales department. Having weighed up these factors, we are raising our previous 2016/17E EBIT forecast of €20.8m to €22.1m. We have also adjusted up our numbers for subsequent years and now see fair value for the SWA share at €18.60 (previously: €17.60). We maintain our Add recommendation.

**Better product mix within own brands helped German gross margin**  
 Volume in Germany fell 6.2% to 26.6m bottles (Q2 15/16: 28.4m bottles). A shift in the product mix from own label products to SWA's brands restricted the decline in sales to 5.2% to €30.7m (Q2 15/16: €32.3m). An improvement in the product mix within SWA's own brands helped raise the gross profit in Germany to €13.0m (Q2 15/16: €12.7m) despite lower volumes and sales. (p.t.o.)

### FINANCIAL HISTORY & PROJECTIONS

	2012/13	2013/14	2014/15	2015/16	2016/17E	2017/18E
Revenue (€m)	306.96	308.27	288.68	293.18	293.76	303.24
Y-o-y growth	4.6%	0.4%	-6.4%	1.6%	0.2%	3.2%
EBIT (€m)	20.91	21.46	20.72	20.33	22.05	23.63
EBIT margin	6.8%	7.0%	7.2%	6.9%	7.5%	7.8%
Net income (€m)	9.71	12.55	10.20	10.19	11.02	12.18
EPS (diluted) (€)	1.23	1.58	1.29	1.29	1.39	1.54
DPS (€)	0.30	0.34	0.40	0.43	0.47	0.51
FCF (€m)	-2.96	21.50	28.69	2.46	9.26	13.26
Net gearing	60.4%	44.7%	28.6%	29.5%	26.2%	21.4%
Liquid assets (€m)	3.65	2.92	4.00	3.14	2.94	3.03

### RISKS

Risks to our price target include, but are not limited to: intensification of price pressure in Germany; currency volatility on the group's East Central Europe markets.

### COMPANY PROFILE

Schloss Wachenheim AG is one of the world's largest producers of sparkling wine. The company is the number three producer in its home market of Germany (34% of 2015/16 group sales) and number one in France with a 40% market share. Some 34% of group sales are generated in Eastern Central Europe through the 61%-owned subsidiary, Ambra.

### MARKET DATA

As of 27 Feb 2017

Closing Price	€ 16.36
Shares outstanding	7.92m
Market Capitalisation	€ 129.53m
52-week Range	€ 13.24 / 16.64
Avg. Volume (12 Months)	2,646

Multiples	2015/16	2016/17E	2017/18E
P/E	12.6	11.7	10.6
EV/Sales	0.6	0.6	0.6
EV/EBIT	9.0	8.3	7.7
Div. Yield	2.6%	2.8%	3.1%

### STOCK OVERVIEW



### COMPANY DATA

As of 31 Dec 2016

Liquid Assets	€ 1.94m
Current Assets	€ 172.15m
Intangible Assets	€ 78.37m
Total Assets	€ 329.75m
Current Liabilities	€ 116.50m
Shareholders' Equity	€ 179.60m

### SHAREHOLDERS

Günther Reh AG	70.1%
Free float	29.9%



EBIT jumped to €3.6m (Q2 15/16: €1.9m) due to lower freight costs, advertising spending, and reduced expenditure on building maintenance and renovation. Last year's number was also negatively impacted by unscheduled depreciation of €0.2m on old equipment in connection with the installation of a new bottling plant at the Trier site.

**Figure 1: Q2 2016/17 results versus our forecasts**

	Q2 16/17A	Q2 16/17E	Δ vs. Q2 16/17E	Q2 15/16A	Δ vs. Q2 15/16A
<b>Sales</b>	<b>100.8</b>	<b>99.9</b>	<b>0.9%</b>	<b>98.3</b>	<b>2.5%</b>
by region					
Germany	30.7	30.8	-0.5%	32.3	-5.2%
France	29.3	28.9	1.5%	28.1	4.5%
East Central Europe	42.3	41.8	1.1%	39.5	7.2%
Eliminations	-1.5	-1.6		-1.6	
<b>EBIT</b>	<b>13.0</b>	<b>12.5</b>	<b>3.6%</b>	<b>11.2</b>	<b>15.9%</b>
<b>margin (%)</b>	<b>12.8%</b>	<b>12.5%</b>		<b>11.4%</b>	
by region					
Germany	3.6	2.8	29.6%	1.9	88.1%
<b>margin (%)</b>	<b>11.8%</b>	<b>9.1%</b>		<b>6.0%</b>	
France	1.0	1.6	-37.5%	1.6	-39.0%
<b>margin (%)</b>	<b>3.4%</b>	<b>5.5%</b>		<b>5.8%</b>	
East Central Europe	8.2	8.0	2.9%	7.5	9.9%
<b>margin (%)</b>	<b>19.5%</b>	<b>19.1%</b>		<b>19.0%</b>	
Eliminations	0.1	0.1		0.1	
<b>Net profit</b>	<b>6.5</b>	<b>6.3</b>	<b>3.6%</b>	<b>5.5</b>	<b>17.8%</b>
<b>EPS (€)</b>	<b>0.82</b>	<b>0.79</b>	<b>3.6%</b>	<b>0.69</b>	<b>0.0%</b>

Source: SWA; First Berlin Equity Research estimates

#### **Special offers on main brands boosted volume but lowered gross profit in France**

The number of bottles sold in France climbed 6.3% to 21.0m (Q2 15/16: 19.8m bottles) helped by special offer campaigns on the three major brands: Charles Volner, Muscador and Opera. Sales climbed 4.5% to €29.3m (Q2 15/16: €28.1m) but changes in the product mix caused the gross profit to retreat by €0.4m to €10.8m (Q2 15/16: €11.2m). Higher advertising expenditure meant that the decline in EBIT was slightly larger at €0.6m to €1.0m (Q2 15/16: €1.6m).

**Particularly strong performance in East Central Europe** Volume climbed 5.0% to 28.6m bottles (Q2 15/16: 27.3m bottles) while sales climbed 7.2% to €42.3m (Q2 15/16: €39.5m). Sales grew faster than volume because of a shift in the product mix towards wine in Poland and towards sparkling wine in Romania. Poland has great potential as a wine market. Annual per capita consumption of wine is only 3-4 litres compared with over 20 litres for Germany. The East Central Europe segment's most successful new product launch of recent years, the cider drink Cydr Lubelski, remains the market leader in its category. However, sales volume is suffering from a general slowdown in the Polish cider market. Segment gross profit climbed €1.2m to €18.9m (Q2 15/16: €17.7m) equivalent to a margin of 44.6% (Q2 15/16: 44.8%). EBIT was €0.7m higher at €8.2m (Q2 15/16: €7.5m). Lower advertising expenditure meant that the EBIT margin widened to 19.5% (Q2 15/16: 19.0%).

**Tight working capital control reflected in positive cash flow metrics** Operating cash flow rose to €4.5m in Q2 16/17 (Q2 15/16: €1.0m) largely because investment in working capital fell to €6.6m (Q2 15/16: €9.7m). Free cash flow improved even more strongly to €2.4m (Q2 15/16: €-4.2m) because of lower cash outflow from investing at €2.1m (Q2 15/16: €5.2m). Dividend payments to SWA and minority shareholders amounted to €4.8m (Q2 15/16: €4.5m) At the end of December, net debt including pension liabilities at €54.4m (net gearing of 30.3%) was €2.3m above the end September level of €52.1m but well down on the prior year figure of €60.8m (net gearing of 35.5%).



**Maintaining Add recommendation but raising price target to €18.60 (previously: €17.60)** We have revised up our forecasts (see table 2 below) for the Germany and East Central Europe segments for the full year 2016/17E and subsequent years following their stronger than expected performance in Q2 16/17. Upward revisions to our numbers for these two segments outweigh downward revisions for the France segment. Our EBIT forecasts for 2016/17E and 2017/18E move up by 6.2% and 10.0% respectively. We have adjusted our valuation model to take account of these changes and now see fair value for the SWA share at €18.60 (previously: €17.60). We maintain our Add recommendation.

**Figure 2: Changes to our forecasts**

All figures in €m	2016/17E			2017/18E		
	old	new	% change	old	new	% change
<b>Sales</b>	<b>298.25</b>	<b>293.76</b>	<b>-1.5%</b>	<b>306.69</b>	<b>303.24</b>	<b>-1.1%</b>
by region:						
Germany	101.32	95.58	-5.7%	102.34	96.54	-5.7%
France	99.71	97.75	-2.0%	103.20	101.17	-2.0%
East Central Europe	101.72	105.02	3.2%	105.79	110.27	4.2%
Eliminations	-4.50	-4.60		-4.63	-4.74	
<b>EBIT</b>	<b>20.77</b>	<b>22.05</b>	<b>6.2%</b>	<b>21.48</b>	<b>23.63</b>	<b>10.0%</b>
Margin	7.0%	7.5%	-	7.0%	7.8%	-
by region:						
Germany	2.53	3.78	49.3%	2.56	3.86	51.0%
margin (%)	2.5%	4.0%		2.5%	4.0%	
France	9.87	8.44	-14.5%	10.22	9.61	-5.9%
margin (%)	9.9%	8.6%		9.9%	9.5%	
East Central Europe	8.14	9.62	18.1%	8.46	9.92	17.3%
margin (%)	8.0%	9.2%		8.0%	9.0%	
Eliminations	0.23	0.22		0.24	0.23	
<b>Net profit after minorities</b>	<b>10.89</b>	<b>11.02</b>	<b>1.2%</b>	<b>11.32</b>	<b>12.18</b>	<b>7.6%</b>
<b>EPS €</b>	<b>1.38</b>	<b>1.39</b>	<b>1.2%</b>	<b>1.43</b>	<b>1.54</b>	<b>7.6%</b>

Source: SWA; First Berlin Equity Research estimates

## DCF MODEL \*

All figures in T EUR	FY 16/17E	FY 17/18E	FY 18/19E	FY 19/20E	FY 20/21E	FY 21/22E	FY 22/23E	FY 23/24E	FY 24/25E	FY 25/26E
Net sales	293,757	303,237	313,102	322,231	331,678	340,903	349,865	357,197	364,705	372,395
NOPLAT	15,879	17,014	17,648	18,232	17,707	18,277	18,139	18,562	18,995	19,439
+ depreciation & amortisation	-7,138	-7,369	-7,608	-7,830	-8,060	-8,284	-8,502	-8,680	-8,862	-9,049
Net operating cash flow	23,017	24,383	25,256	26,063	25,767	26,561	26,641	27,242	27,857	28,488
- total investments (CAPEX and WC)	-13,077	-10,612	-12,359	-11,376	-11,694	-11,856	-11,498	-11,621	-11,172	-10,760
Capital expenditures	-13,024	-7,969	-9,608	-8,830	-9,060	-9,284	-10,502	-10,680	-9,862	-10,549
Working capital	-53	-2,643	-2,751	-2,545	-2,634	-2,572	-996	-941	-1,309	-211
Free cash flows (FCF)	9,940	13,771	12,897	14,687	14,073	14,705	15,143	15,621	16,685	17,728
PV of FCF's	9,675	12,365	10,682	11,221	9,918	9,560	9,081	8,641	8,514	8,345

All figures in thousands	
PV of FCFs in explicit period (2016/17-2029/30)	124,989
PV of FCFs in terminal period	91,126
Enterprise value (EV)	216,115
+ Net cash / - net debt	-54,384
+ Investments / minority interests	-14,376
Shareholder value	147,355

Fair value per share in EUR	18.61
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WACC	8.4%
Cost of equity	10.2%
Pre-tax cost of debt	4.5%
Tax rate	30.0%
After-tax cost of debt	3.2%
Share of equity capital	70.0%
Share of debt capital	30.0%
Fair value per share in EUR	18.61

WACC

	Terminal growth rate						
	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
6.4%	26.94	27.91	29.06	30.49	32.27	34.58	37.68
6.9%	24.03	24.74	25.59	26.61	27.87	29.44	31.48
7.4%	21.54	22.08	22.71	23.45	24.35	25.45	26.84
7.9%	19.40	19.80	20.28	20.83	21.48	22.26	23.23
8.4%	17.53	17.84	18.20	18.61	19.08	19.65	20.34
8.9%	15.89	16.13	16.40	16.70	17.06	17.47	17.96
9.4%	14.44	14.62	14.83	15.06	15.32	15.62	15.98
9.9%	13.15	13.29	13.44	13.61	13.81	14.03	14.29

\* the explicit period of our model runs until 2029/30E but for reasons of space we only show forecasts out to 2025/26E



## INCOME STATEMENT

All figures in T€	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17E	FY 17/18E
<b>Revenues</b>	<b>306,962</b>	<b>308,275</b>	<b>288,684</b>	<b>293,175</b>	<b>293,757</b>	<b>303,237</b>
Change in inventories	9,165	-8,503	1,320	-3,678	0	0
Cost of materials	-196,501	-177,338	-167,567	-167,105	-171,848	-178,000
<b>Gross Profit</b>	<b>119,626</b>	<b>122,434</b>	<b>122,437</b>	<b>122,392</b>	<b>121,909</b>	<b>125,237</b>
Other operating income	6,322	5,176	6,260	4,872	4,882	5,039
Personnel expenses	-39,568	-39,988	-41,363	-43,326	-44,050	-45,150
Depreciation	-7,983	-7,646	-7,857	-7,665	-7,138	-7,369
Other operating expenses	-57,484	-58,517	-58,760	-55,944	-53,549	-54,126
<b>Operating Income (EBIT)</b>	<b>20,913</b>	<b>21,459</b>	<b>20,717</b>	<b>20,329</b>	<b>22,054</b>	<b>23,631</b>
Associates	-480	131	451	78	-102	0
Net interest income	-3,366	-3,559	-1,994	-964	-1,103	-992
<b>Pretax profit (EBT)</b>	<b>17,067</b>	<b>18,031</b>	<b>19,174</b>	<b>19,443</b>	<b>20,849</b>	<b>22,639</b>
Taxes	-5,056	-1,638	-5,332	-5,897	-5,838	-6,339
Net profit before minorities	12,011	16,393	13,842	13,546	15,011	16,300
Minorities	-2,302	-3,842	-3,646	-3,361	-3,994	-4,122
<b>Net attributable profit</b>	<b>9,709</b>	<b>12,551</b>	<b>10,196</b>	<b>10,185</b>	<b>11,018</b>	<b>12,178</b>
<b>EPS (€)</b>	<b>1.23</b>	<b>1.58</b>	<b>1.29</b>	<b>1.29</b>	<b>1.39</b>	<b>1.54</b>
<b>EBITDA</b>	<b>28,896</b>	<b>29,105</b>	<b>28,574</b>	<b>27,994</b>	<b>29,192</b>	<b>31,000</b>
<b>Ratios</b>						
Gross margin	39.0%	39.7%	42.4%	41.7%	41.5%	41.3%
EBIT margin on revenues	6.8%	7.0%	7.2%	6.9%	7.5%	7.8%
EBITDA margin on revenues	9.4%	9.4%	9.9%	9.5%	9.9%	10.2%
Net margin on revenues	3.9%	5.3%	4.8%	4.6%	5.1%	5.4%
Tax rate	29.6%	9.1%	27.8%	30.3%	28.0%	28.0%
<b>Expenses as % of revenues</b>						
Personnel costs	-12.9%	-13.0%	-14.3%	-14.8%	-15.0%	-14.9%
Depreciation	-2.6%	-2.5%	-2.7%	-2.6%	-2.4%	-2.4%
Other operating expenses	-18.7%	-19.0%	-20.4%	-19.1%	-18.2%	-17.8%
<b>Y-Y Growth</b>						
Revenues	4.6%	0.4%	-6.4%	1.6%	0.2%	3.2%
Operating income	5.0%	2.6%	-3.5%	-1.9%	8.5%	7.2%
Net profit before minorities	12.3%	36.5%	-15.6%	-2.1%	10.8%	-100.0%



## BALANCE SHEET

All figures in T€	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17E	FY 17/18E
<b>Assets</b>						
<b>Current assets, total</b>	<b>169,940</b>	<b>162,655</b>	<b>153,779</b>	<b>150,179</b>	<b>150,157</b>	<b>155,002</b>
Cash and cash equivalents	3,647	2,921	3,995	3,142	2,938	3,032
Other receivables and short-term assets	11,985	8,131	5,277	5,973	5,875	6,065
Trade accounts and notes receivables	52,224	60,314	54,379	54,784	54,893	56,664
Inventories	102,084	91,289	90,128	86,280	86,451	89,241
<b>Non-Current Assets, total</b>	<b>148,852</b>	<b>149,030</b>	<b>146,963</b>	<b>151,237</b>	<b>157,455</b>	<b>158,084</b>
Property, plant and equipment	58,230	58,911	59,148	64,447	69,400	70,000
Goodwill + intangible assets	79,073	78,893	79,041	78,508	79,441	79,441
<i>of which:</i>						
Goodwill	5,339	5,393	5,690	5,541	5,541	5,541
Rights on brands, licenses	73,734	73,500	73,351	72,967	73,900	73,900
Other financial assets	10,735	10,528	8,186	7,733	7,733	7,733
Deferred taxes + prepaid expenses	814	698	588	549	881	910
<b>Total Assets</b>	<b>318,792</b>	<b>311,685</b>	<b>300,742</b>	<b>301,416</b>	<b>307,612</b>	<b>313,086</b>
<b>Shareholders' equity &amp; debt</b>						
<b>Current Liabilities, total</b>	<b>128,523</b>	<b>118,631</b>	<b>108,708</b>	<b>95,236</b>	<b>93,196</b>	<b>91,742</b>
Current provisions	3,619	3,324	3,219	3,415	3,073	3,141
Short-term financial debt	54,529	46,304	33,164	27,198	25,371	21,761
Trade payables	39,175	37,115	37,173	35,248	35,318	36,458
Prepayments, deferred charges & other liabilities	31,200	31,888	35,152	29,375	29,433	30,383
<b>Long term liabilities, total</b>	<b>45,176</b>	<b>34,318</b>	<b>25,841</b>	<b>34,159</b>	<b>32,007</b>	<b>29,162</b>
Long-term financial debt	34,254	24,854	15,253	23,607	22,022	18,888
Pension accruals and similar liabilities	2,556	2,796	3,077	3,155	3,344	3,545
Other long-term debt	1,529	2,247	2,177	557	558	576
Deferred taxes	6,837	4,421	5,334	6,840	6,083	6,153
<b>Shareholders' equity</b>	<b>119,534</b>	<b>130,589</b>	<b>137,525</b>	<b>143,173</b>	<b>149,568</b>	<b>155,218</b>
Minority interests	25,559	28,147	28,668	28,848	32,842	36,964
<b>Total shareholders' equity &amp; debt</b>	<b>318,792</b>	<b>311,685</b>	<b>300,742</b>	<b>301,416</b>	<b>307,612</b>	<b>313,086</b>
<b>Ratios</b>						
Current ratio (x)	1.32	1.37	1.41	1.58	1.61	1.69
Quick ratio (x)	0.53	0.60	0.59	0.67	0.68	0.72
Financial leverage (including pension liabilities)	60.4%	44.7%	28.6%	29.5%	26.2%	21.4%
Book value per share (€)	15.09	16.49	17.36	18.08	18.88	19.60
Net debt (including pension liabilities)	87,692	71,033	47,499	50,818	47,800	41,161
Return on equity (ROE)	6.9%	8.3%	6.3%	6.0%	6.2%	6.5%



## CASH FLOW STATEMENT

All figures in T€	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17E	FY 17/18E
<b>Net profit before minorities</b>	<b>12,011</b>	<b>16,393</b>	<b>13,842</b>	<b>13,546</b>	<b>15,011</b>	<b>16,300</b>
Depreciation and amortisation	7,983	7,646	7,857	7,665	7,138	7,369
Change in working capital	-18,579	5,991	12,267	-5,295	-53	-2,643
Other	1,045	-1,634	-619	78	189	201
<b>Operating cash flow</b>	<b>2,460</b>	<b>28,396</b>	<b>33,347</b>	<b>15,606</b>	<b>22,286</b>	<b>21,226</b>
CAPEX	-5,781	-7,383	-8,849	-14,050	-13,024	-7,969
Fixed asset sales	360	484	4,194	904	0	0
<b>Investing cash flow</b>	<b>-5,421</b>	<b>-6,899</b>	<b>-4,655</b>	<b>-13,146</b>	<b>-13,024</b>	<b>-7,969</b>
<b>Free cash flow</b>	<b>-2,961</b>	<b>21,497</b>	<b>28,692</b>	<b>2,460</b>	<b>9,262</b>	<b>13,258</b>
Change in financial liabilities	8,735	-17,625	-22,741	2,388	-3,412	-6,745
Dividends to shareholders	-1,822	-2,376	-2,693	-3,168	-3,406	-3,684
Dividends to subsidiaries of minorities	-1,978	-2,120	-2,227	-2,753	-2,649	-2,734
Other	0	0	0	127	0	0
<b>Financing cash flow</b>	<b>4,935</b>	<b>-22,121</b>	<b>-27,661</b>	<b>-3,406</b>	<b>-9,466</b>	<b>-13,163</b>
Change in cash	1,974	-624	1,031	-946	-204	95
Consolidation; exchange rate effects	102	-102	43	93	0	0
<b>Liquid funds, start of the year</b>	<b>1,571</b>	<b>3,647</b>	<b>2,921</b>	<b>3,995</b>	<b>3,142</b>	<b>2,938</b>
<b>Liquid funds, end of the year</b>	<b>3,647</b>	<b>2,921</b>	<b>3,995</b>	<b>3,142</b>	<b>2,938</b>	<b>3,032</b>
<b>Free cash flow per share (€)</b>	<b>-0.37</b>	<b>2.71</b>	<b>3.62</b>	<b>0.31</b>	<b>1.17</b>	<b>1.67</b>
<hr/>						
<b>Y-Y growth</b>						
Operating cash flow	-66.9%	1054.3%	17.4%	-53.2%	42.8%	-4.8%
Free cash flow	n.a.	n.a.	33.5%	-91.4%	276.5%	43.1%
Financial cash flow	58.9%	n.a.	n.a.	n.a.	n.a.	n.a.

**FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY**

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	19 July 2007	€10.00	Hold	€10.75
2...30	↓	↓	↓	↓
31	17 May 2016	€13.87	Buy	€17.60
32	27 September 2016	€15.09	Add	€17.60
33	15 November 2016	€15.54	Add	€17.60
34	Today	€16.36	Add	€18.60

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

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**SUPERVISORY AUTHORITY:** Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Lurgiallee 12, 60439 Frankfurt

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