

Valneva SE

France / Biotechnology
 Euronext Paris
 Bloomberg: VLA FP
 ISIN: FR0004056851

Update

RATING
BUY

PRICE TARGET
€ 8.90

Return Potential 56.5%
 Risk Rating High

LYME & CHIKUNGUNYA COMPETITION IS LIMITED – RALLY TO CONTINUE

Valneva's Q1 results were close to our expectations. Product sales nearly doubled to €32.1m driven by strongly recovering demand for the travel vaccines Ixiaro (Japanese encephalitis) and Dukoral (cholera, ETEC). The share price has risen over 30% since the numbers. We believe the rally has been driven primarily by the removal of much of the uncertainty surrounding the phase 3 trial of the Lyme disease vaccine candidate, VLA15, which we see as the most valuable asset in Valneva's portfolio. On 17 February, Valneva and Pfizer (with whom Valneva is collaborating on the development of VLA15) announced that half of the 6,000 participants had been removed from the trial because of good clinical practice violations at US trial sites run by a third party. The original plan was to submit marketing authorisation applications to the FDA and EMA in 2025 after two tick seasons (2023 and 2024). The loss of half the study participants two months before the start of the first of two tick seasons called this schedule into question. The February announcement also created concerns that Valneva would have to cover additional costs in connection with a possible extension of the trial. In the Q1 press release, management stated that the phase 3 trial will be extended into the 2025 tick season and that hence regulatory applications will take place in 2026. We already assumed this in our most recent note of 4 April. Pfizer will cover incremental study costs. Valneva's most valuable assets are the existing commercial vaccine business, which is expected to generate sales of USD150m or more this year, and the Lyme and chikungunya vaccine programmes. FDA approval of the chikungunya vaccine candidate, VLA1553, is expected at end August. Subject to approval, these two vaccine candidates will be clear leaders in global markets projected to generate annual revenue of USD1.0bn (by 2032) and USD500m (by 2030) respectively. Relative to these numbers, and given the limited competition (see page 3), we find Valneva's current EV of USD740m to be too low. The current cash position of €254m is sufficient to fund operations through at the least the end of 2024. We maintain our Buy recommendation and price target of €8.90. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2020	2021	2022	2023E	2024E	2025E
Revenue (€m)	110.32	348.09	361.30	148.00	222.99	320.30
Y-o-y growth	-12.6%	215.5%	3.8%	-59.0%	50.7%	43.6%
EBIT (€m)	-55.12	-61.39	-113.44	8.87	-45.03	10.92
EBIT margin	n.a.	n.a.	n.a.	6.0%	n.a.	3.4%
Net income (€m)	-64.39	-73.43	-143.28	-6.09	-53.95	5.37
EPS (diluted) (€)	-0.71	-0.75	-1.24	-0.04	-0.39	0.04
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	118.27	-16.27	-274.67	-129.28	-69.83	-5.45
Net gearing	-127.8%	-136.0%	-62.4%	1.7%	67.8%	96.3%
Liquid assets (€m)	204.44	346.69	289.43	159.65	79.99	35.22

RISKS

Risks include, but are not limited to development, partnering, regulatory, competition and retention of key personnel.

COMPANY PROFILE

Valneva is a specialty vaccine company which develops and commercialises prophylactic vaccines for infectious diseases with significant unmet medical need. Valneva has successfully commercialised two vaccines and has successfully advanced several vaccine candidates into and through the clinic, including candidates against Lyme disease, the chikungunya virus and COVID-19. Valneva is incorporated in France and had 719 employees at end December 2022.

MARKET DATA

As of 19 May 2023

Closing Price	€ 5.69
Shares outstanding	138.35m
Market Capitalisation	€ 786.64m
52-week Range	€ 4.21 / 14.23
Avg. Volume (12 Months)	496,229

Multiples	2022	2023E	2024E
P/E	n.a.	n.a.	n.a.
EV/Sales	1.9	4.6	3.1
EV/EBIT	n.a.	77.3	n.a.
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2023

Liquid Assets	€ 254.49m
Current Assets	€ 389.33m
Intangible Assets	€ 27.90m
Total Assets	€ 590.00m
Current Liabilities	€ 263.26m
Shareholders' Equity	€ 204.78m

SHAREHOLDERS

Groupe Grimaud La Corbière	9.9%
CDC	8.9%
Deep Track Capital	7.6%
Pfizer Inc.	6.9%
Free Float and other	66.7%



Figure 1: Q1/23 results versus our forecasts

Q1/23 (€m)	Total revenues	Product revenues	Other revenues	R&D expense	S,G&A expense	EBITDA	Cash
Q1/23A	33.5	32.1	1.4	14.1	19.0	-12.3	254.5
FBe	32.3	29.8	2.5	20.0	20.3	-19.7	261.0
Q1/23 reported vs. FB estimates (%)	3.7%	7.7%	-44.0%	-29.5%	-6.4%	n.a.	-2.5%
Q1/22A	21.8	16.2	5.7	20.7	7.8	-13.3	311.3
Q1/23A vs. Q1/22A	53.3%	98.6%	-75.4%	-31.8%	143.6%	n.a.	-18.2%

Source: Valneva, First Berlin Equity Research estimates

Q1/23 revenues were close to our expectations. Sales of Ixiaro and Dukoral both more than quadrupled as the post-pandemic recovery in travel gathered pace. Third-party product sales fell 19.7% to €4.5m (Q1/22: €5.6m) due to supply constraints. Adjusted EBITDA was €7.4m above our forecast due mainly to lower R&D expense than we had projected. Our R&D forecast was based on Valneva's 2023 guidance which remains unchanged at €70m-€90m. Guidance for other P&L items (see figure 2) is also unchanged on the 2022 results report released in March.

Figure 2: Full year 2023 company guidance is unchanged

Total revenues and other income	€220m - €260m
Product sales (including marginal COVID-19 vaccine sales under the Bahrain supply agreement)	€130m - €150m
Other income	€90m - €110m
R&D	€70m -€90m

Source: Valneva

Our R&D forecast is unchanged at €80m and as figure 3 shows, there is little difference between the forecasts in our report of 4 April and our current study.

Figure 3: Changes to our forecasts

All figures in EUR '000	2023E			2024E			2025E		
	Old	New	% Δ	Old	New	% Δ	Old	New	% Δ
Product revenues	136,800	139,100	1.7%	215,105	213,825	-0.6%	312,172	310,854	-0.4%
of which:									
Ixiaro	59,727	67,127	12.4%	76,364	76,364	0.0%	79,091	79,091	0.0%
Dukoral	32,000	33,200	3.8%	35,200	36,520	3.8%	36,960	38,346	3.7%
VLA2001	3,800	0	-100.0%	0	0	-	0	0	-
Chikungunya	7,273	7,273	0.0%	68,182	68,182	0.0%	159,347	159,347	0.0%
Third party revenues	34,000	31,500	-7.4%	35,360	32,760	-7.4%	36,774	34,070	-7.4%
Other revenue	10,000	8,900	-11.0%	10,300	9,167	-11.0%	10,609	9,442	-11.0%
Total revenues	146,800	148,000	0.8%	225,405	222,992	-1.1%	322,781	320,296	-0.8%
Gross profit	71,666	69,887	-2.5%	124,964	124,880	-0.1%	195,390	195,309	0.0%
margin (%)	48.8%	47.2%	-	55.4%	56.0%	-	60.5%	61.0%	-
Sales & marketing	-42,205	-43,547	-	-56,187	-55,905	-	-68,678	-68,388	-
General & administrative	-39,000	-39,000	-	-40,000	-40,000	-	-42,000	-42,000	-
Research & development	-80,000	-80,000	-	-80,000	-80,000	-	-80,000	-80,000	-
Other income	99,500	101,526	2.0%	6,000	6,000	0.0%	6,000	6,000	0.0%
EBIT	9,961	8,865	-11.0%	-45,223	-45,026	-	10,712	10,921	2.0%
margin (%)	6.8%	6.0%	-	-20.1%	-20.2%	-	3.3%	3.4%	-
Net financial result	-14,952	-14,952	-	-8,927	-8,927	-	-4,959	-4,959	-
EBT	-4,991	-6,087	n.a.	-54,149	-53,952	n.a.	5,752	5,962	3.6%
Tax	-4	0	-	0	0	-	-575	-596	-
Net income	-4,995	-6,087	n.a.	-54,149	-53,952	n.a.	5,177	5,366	3.6%
EPS (in EUR)	-0.04	-0.04	n.a.	-0.39	-0.39	n.a.	0.04	0.04	3.6%
Adjusted EBITDA	28,269	27,173	-3.9%	-26,440	-26,243	n.a.	29,979	30,188	0.7%

Source: First Berlin Equity Research



Competition is limited in both chikungunya and Lyme disease On page 79 of its Form 20-F Valneva lists clinical-stage competitors to both its Lyme disease and chikungunya programmes. Of the eight chikungunya competitors identified, two of the programmes have been discontinued, one is still preclinical and one is an antiviral treatment. Another (Indian Immunologicals) has been in development for over 10 years, but the current development stage has not been made public. We view the only substantial competitive threat to Valneva's VLA1553 as being the Bavarian Nordic vaccine candidate. However, this vaccine is not expected to reach the market until 2025 compared with autumn this year for VLA1553. As for Lyme disease, we could find no other company with a Lyme disease vaccine candidate currently under clinical development. In April Moderna announced that it has started a Lyme disease vaccine programme. But this is still at the preclinical stage.

Figure 4: Chikungunya and Lyme disease competitors

Chikungunya competitors	Comments
Barath Biotech	Vaccine - phase 2/3 study scheduled to complete in December 2023
Bavarian Nordic	Vaccine - phase 3 study completed April 2023. Commercial launch expected 2025
DRDE - Defence & R&D Establishment (India)	Antiviral - already available
Indian Immunologicals	Vaccine - development stage unknown
Inovio	Vaccine - programme not shown in current pipeline
Moderna	Vaccine - programme discontinued late 2021
NIAID - National Institute of Allergy and Infectious Diseases (US)	Bavarian Nordic's vaccine is licensed from NIAID
UAB - University of Alabama	Antiviral - programme is still preclinical

Lyme disease competitors	Comments
Euroimmun	Diagnostic product only
Inovio	No programme shown in current pipeline
Mass Biologics	Antibody - phase 1 study completed
Takeda	No programme shown in current pipeline
Tarsus Pharmaceuticals	Lotilaner - topline phase 2a study results due H2/23

Source: Valneva, First Berlin Equity Research, companies

Buy recommendation maintained at unchanged price target of €8.90 In both the Lyme disease and chikungunya vaccine spaces, Valneva's vaccine candidates are further advanced than those of prospective competitors. Furthermore, as we have shown above, competition is limited. On this basis, subject to approval, we expect both VLA15 and VLA1553 to assume clear leadership positions on markets respectively generating global revenue of USD1.0bn (by 2032) and USD500m (by 2030). Pfizer will pay Valneva tiered royalties ranging from 14% to 22% on VLA15 sales, while we expect Valneva to generate a margin on VLA1553 sales after cost of goods and marketing expenses of 45%. Relative to these numbers and also taking into account the USD150m or more of sales expected from the existing vaccine business this year, we find the current enterprise valuation of USD740m too low. We maintain our Buy recommendation and price target of €8.90 (equivalent to an enterprise valuation of USD1.2bn). Our full valuation model is shown overleaf.

**Figure 5: Valuation model**

Compound	Project ¹⁾	Present Value	Market Size 2030	Market Share 2030	Sales 2030	PACME Margin ²⁾	Discount Factor	Time to Market
Ixiaro	Japanese Encephalitis	€400.7M	€102.3M	90.0%	€92.1M	40%	9.5%	-
Dukoral	Cholera & ETEC	€157.9M	€177.8M	25.0%	€44.5M	30%	9.5%	-
VLA15	Lyme Disease	€752.0M	€909.1M	70.0%	€636.4M	18%	9.5%	4Years
VLA 1553	Chikungunya virus	€718.9M	€463.0M	58.9%	€272.7M	45%	9.5%	1 Year
EB66 cell line	Technology Platform	€11.9M			€19.7M	15%	9.5%	-
PACME PV		€2,041.3M						
Costs PV³⁾		€1,160.3M						
NPV		€881.0M						
PV grants, collabs., 3rd party distrib.		€248.1M						
Net cash		€101.8M						
Fair Value		€1,230.8M						
Proforma share count (fully diluted)		138,347K						
Price Target		€8.90						

1) A project typically refers to a specific indication or, where necessary or relevant, a combination between indication and geographic market

2) PACME (Profit After Costs and Marketing Expenses) reflects the company's profit share on future revenues.

This share may be derived in the form of royalties (outsourced marketing/manufacturing) or operating EBITDA margin (in-house model), or some mix of both (depending on the specific parameters of partnership agreements)

3) Includes company-level R&D, G&A, Financing Costs and CapEx; COGS and S&M are factored into the PACME margin for each project

Source: First Berlin Equity Research estimates



INCOME STATEMENT

All figures in EUR '000	2020	2021	2022	2023E	2024E	2025E
Product sales	65,938	62,984	114,797	139,100	213,825	310,854
Other income	44,383	285,101	246,506	8,900	9,167	9,442
Total revenues	110,321	348,086	361,303	148,000	222,992	320,296
Cost of materials/goods sold	-54,302	-187,920	-324,441	-78,113	-98,113	-124,987
Gross Profit	56,019	160,166	36,862	69,887	124,880	195,309
Sales & marketing	-18,264	-23,643	-23,509	-43,547	-55,905	-68,388
General & administrative	-27,539	-47,606	-34,073	-39,000	-40,000	-42,000
Research & development	-84,454	-173,283	-104,922	-80,000	-80,000	-80,000
Other operating items, net	19,117	22,976	12,199	101,526	6,000	6,000
Operating income (EBIT)	-55,120	-61,390	-113,443	8,865	-45,026	10,921
Net financial result	-10,222	-16,715	-18,794	-14,952	-8,927	-4,959
Foreign exchange gains/(loss)	173	8,130	-12,587	0	0	0
Associates	-133	-5	9	0	0	0
Pre-tax income (EBT)	-65,302	-69,979	-144,815	-6,087	-53,952	5,962
Income taxes	909	-3,446	1,536	0	0	-596
Net income / loss	-64,393	-73,425	-143,279	-6,087	-53,952	5,366
EPS	-0.71	-0.75	-1.24	-0.04	-0.39	0.04
Adjusted EBITDA	-45,200	-47,100	-69,200	27,173	-26,243	30,188
Ratios as % of total revenues						
Gross margin	50.8%	46.0%	10.2%	47.2%	56.0%	61.0%
EBITDA margin	-41.0%	-13.5%	-19.2%	18.4%	-11.8%	9.4%
EBIT margin	-50.0%	-17.6%	-31.4%	6.0%	-20.2%	3.4%
Net margin	n.a.	n.a.	n.a.	n.a.	n.a.	1.7%
Expenses as % of total revenues						
Sales & marketing	-16.6%	-6.8%	-6.5%	-29.4%	-25.1%	-21.4%
General & administrative	-25.0%	-13.7%	-9.4%	-26.4%	-17.9%	-13.1%
Research & development	-76.6%	-49.8%	-29.0%	-54.1%	-35.9%	-25.0%
Y-Y Growth						
Product sales	-49.1%	-4.5%	82.3%	21.2%	53.7%	45.4%
Total revenues	-12.6%	215.5%	3.8%	-59.0%	50.7%	43.6%
Operating income (EBIT)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net income / loss	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.



BALANCE SHEET

All figures in EUR '000	2020	2021	2022	2023E	2024E	2025E
Assets						
Current Assets, Total	308,427	585,832	424,659	257,016	229,667	252,821
Cash and cash equivalents	204,435	346,686	289,430	159,646	79,989	35,222
Receivables	19,232	44,013	23,912	34,775	53,456	77,714
Inventories	26,933	124,098	35,104	34,775	53,456	77,714
Other current assets	57,827	71,035	76,213	27,820	42,765	62,171
Non-Current Assets, Total	140,737	231,520	196,685	218,328	259,004	310,634
Property, plant & equipment	34,778	125,545	112,435	119,855	127,342	134,910
Right of use assets	43,374	48,285	41,603	50,411	77,491	112,655
Intangibles	35,409	32,700	28,711	25,733	22,874	20,129
Equity-accounted investees	2,130	2,126	0	0	0	0
Other assets	19,476	19,282	8,299	16,692	25,659	37,303
Deferred tax assets	5,570	3,582	5,637	5,637	5,637	5,637
Total Assets	449,164	817,352	621,344	475,344	488,670	563,454
Shareholders' Equity & Debt						
Current Liabilities, Total	175,870	368,979	277,392	149,470	237,587	318,872
Short-term debt	6,988	7,107	11,580	21,351	50,842	47,385
Accounts payable	36,212	68,119	41,491	34,775	53,456	77,714
Other current liabilities and provisions	13,010	53,658	36,780	34,775	53,456	77,714
Current finance lease liabilities	2,696	3,135	25,411	30,791	47,332	68,809
Tax and employee-related liabilities	13,164	17,249	15,738	20,865	32,074	46,628
Current tax liability	0	83	532	278	428	622
Contract liabilities and refund liabilities	103,800	219,628	145,860	6,635	0	0
Longterm Liabilities, Total	195,872	277,792	124,155	112,144	91,284	79,398
Long term debt	46,375	50,726	87,227	76,951	37,630	1,766
Non-current finance lease liabilities	49,392	53,687	28,163	34,125	52,458	76,261
Other liabilities	2,900	8,378	1,436	394	544	738
Contract liabilities and refund liabilities	97,205	163,711	6,635	0	0	0
Shareholders Equity	77,422	170,581	219,797	213,731	159,799	165,184
Total Consolidated Equity and Debt	449,164	817,352	621,344	475,344	488,670	563,454
Ratios						
Current ratio (x)	1.75	1.59	1.53	1.72	0.97	0.79
Quick ratio (x)	1.60	1.25	1.40	1.49	0.74	0.55
Net gearing	-127.8%	-136.0%	-62.4%	1.7%	67.8%	96.3%
Book value per share (€)	0.85	1.88	2.42	2.35	1.76	1.82
Equity ratio	17.2%	20.9%	35.4%	45.0%	32.7%	29.3%



CASH FLOW STATEMENT

All figures in EUR '000	2020	2021	2022	2023E	2024E	2025E
Net income / loss	-64,393	-73,425	-143,279	-6,087	-53,952	5,366
Depreciation and amortization	7,328	11,497	17,880	18,308	18,782	19,267
Impairment	0	0	0	0	0	0
Share-based payments	0	0	0	0	0	0
Tax provision	0	0	0	0	0	0
Adjustments for non-cash transactions	37,941	56,476	44,070	18,308	18,782	19,267
Changes in non-current op. assets/lias.	88,472	59,353	-147,713	0	0	0
Changes in working capital	77,740	36,127	1,732	27,111	-4,612	-5,989
Refund liabilities	0	0	0	-145,860	-6,635	0
Other adjustments	0	0	0	0	0	0
Income tax	-2,021	-1,631	-154	0	0	0
Operating cash flow	137,738	76,901	-245,344	-106,528	-46,417	18,644
Property, plant and equipment	-18,936	-92,229	-29,246	-22,000	-22,660	-23,340
Investments in intangibles	-535	-942	-76	-750	-750	-750
Free cash flow	118,267	-16,270	-274,666	-129,278	-69,827	-5,446
Acquisitions & disposals, net	24	0	8	0	0	0
Interest received	107	55	260	0	0	0
Investing cash flow	-19,340	-93,116	-29,054	-22,750	-23,410	-24,090
Debt financing, net	28,271	-1,097	37,538	-505	-9,830	-39,321
Equity financing, net	290	166,823	189,837	0	0	0
Payment of lease liabilities	-2,111	-2,805	-3,048	0	0	0
Interest expense	-4,710	-8,417	-9,211	0	0	0
Cash flow from financing	21,740	154,504	215,116	-505	-9,830	-39,321
Forex & other	-142	3,962	2,026	0	0	0
Net cash flows	139,996	142,251	-57,256	-129,784	-79,657	-44,767
Cash and equivs., start of the year	64,439	204,435	346,686	289,430	159,646	79,989
Cash and equivs., end of the year	204,435	346,686	289,430	159,646	79,989	35,222
Adj. EBITDA/share	-0.50	-0.48	-0.60	0.20	-0.19	0.22
Y-Y Growth						
Operating cashflow	2391.2%	-44.2%	n.a.	n.a.	n.a.	n.a.
Free cashflow	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EBITDA/share	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

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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: Simon Scholes, Analyst

All publications of the last 12 months were authored by Simon Scholes.

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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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.

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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	26 April 2017	€2.52	Buy	€4.00
2...32	↓	↓	↓	↓
33	12 November 2021	€21.60	Buy	€23.40
34	16 December 2021	€22.36	Add	€23.40
35	27 January 2022	€15.21	Buy	€23.40
36	10 February 2022	€15.03	Buy	€22.10
37	6 July 2022	€11.12	Add	€12.00
38	26 July 2022	€9.75	Buy	€12.50
39	19 August 2022	€9.91	Add	€12.00
40	4 April 2023	€4.86	Buy	€8.90
41	Today	€5.69	Buy	€8.90

INVESTMENT HORIZON

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

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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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