

Buy (old: Buy)

Price target: EUR 31.00 (old: EUR 31.00)

Price:	EUR 14.43	Next result:	Q4'21: tba
Bloomberg:	SANT GR	Market cap:	EUR 875.1 m
Reuters:	SANT1.DE	Enterprise Value:	EUR 998.8 m

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The spirits I've cited...

It is our view that **S&T invited scrutiny** by making a number of unwise acquisitions in questionable jurisdictions involving minority structures. Add to this a complex corporate structure and a business model where the two main business lines – IoT Solutions and IT Services – exhibit little synergies.

Unwise, however, does not mean deceitful or fraudulent. That is why we simply cannot agree with the conclusions drawn by Viceroy. Indeed, **most of the accusations laid out in Viceroy's report appear to us either incorrect or trivial.**

Care for an example? Viceroy claims that S&T appears to hide several subsidiaries in an off-balance sheet structure to conceal corporate fraud, citing IMG China as an example, amongst other. **Our note shows that this grave accusation, which is the most damning in the report, simply does not hold up to scrutiny (see *Accusation I*).**

That does not mean that we dismiss Viceroy's entire report out of hand. Instead, **we advise S&T to shed more light on selected details**, such as the dealings in Funworld and Xtro, which we discuss in this note. We also recommend that S&T stop factoring, become much more selective in M&A, redeem debt to simplify the balance sheet and renew its buyback program.

We would also advise the company to commission a due diligence for its Eastern European IT Service business. However, **we understand this is already happening** as part of the planned divestment. Scheduled for early 2022, the PwC report should be instrumental in re-establishing confidence in the name.

In this note, we discuss six accusations and present our take. While most accusations seem unfounded, there are a number of concerns we agree with. However, these are not material enough for us to turn more cautious on the name. **Reiterate BUY.**

Y/E 31.12 (EUR m)	2017	2018	2019	2020	2021E	2022E	2023E
Sales	882.0	990.9	1,122.9	1,254.8	1,350.0	1,556.2	1,696.3
Sales growth	75 %	12 %	13 %	12 %	8 %	15 %	9 %
EBITDA	68.1	90.5	111.7	130.0	136.4	165.7	190.8
EBIT	41.7	61.5	61.8	68.6	72.3	100.1	124.8
Net income	22.5	45.0	49.1	55.6	59.4	84.3	100.6
Net debt	-101.8	-52.7	91.5	104.1	96.8	15.4	-73.3
Net gearing	-33.4 %	-14.8 %	24.5 %	25.8 %	21.9 %	3.0 %	-12.5 %
Net Debt/EBITDA	0.0	0.0	0.8	0.8	0.7	0.1	0.0
EPS pro forma	0.51	0.68	0.74	0.84	0.90	1.28	1.52
CPS	0.52	0.32	0.88	1.67	0.63	1.78	1.83
DPS	0.13	0.16	0.00	0.30	0.27	0.32	0.34
Dividend yield	1.0 %	1.2 %	0.0 %	2.3 %	2.1 %	2.4 %	2.6 %
Gross profit margin	36.7 %	36.0 %	37.2 %	37.2 %	37.0 %	37.4 %	37.9 %
EBITDA margin	7.7 %	9.1 %	9.9 %	10.4 %	10.1 %	10.7 %	11.3 %
EBIT margin	4.7 %	6.2 %	5.5 %	5.5 %	5.4 %	6.4 %	7.4 %
ROCE	9.4 %	11.9 %	8.8 %	9.9 %	8.2 %	10.9 %	12.8 %
EV/sales	0.9	0.8	0.9	0.8	0.7	0.6	0.5
EV/EBITDA	11.2	9.2	8.9	7.7	7.3	5.5	4.3
EV/EBIT	18.2	13.6	16.1	14.7	13.8	9.2	6.6
PER	26.0	19.5	17.8	15.7	14.7	10.4	8.7
Adjusted FCF yield	5.9 %	7.8 %	8.5 %	9.6 %	10.2 %	14.1 %	17.8 %

Source: Company data, Hauck & Aufhäuser Close price as of: 17.12.2021



Source: Company data, Hauck & Aufhäuser

High/low 52 weeks: 23.80 / 13.25
Price/Book Ratio: 2.0
Relative performance (TecDAX):
 3 months -39.1 %
 6 months -41.9 %
 12 months -51.5 %

Changes in estimates

		Sales	EBIT	EPS
2021	old:	1,350.0	72.3	0.90
	Δ	-	-	-
2022	old:	1,556.2	100.1	1.28
	Δ	-	-	-
2023	old:	1,696.3	124.8	1.52
	Δ	-	-	-

Key share data:

Number of shares: (in m pcs) 65.0
 Authorised capital: (in € m) 12.1
 Book value per share: (in €) 6.7
 Ø trading volume: (12 months) 155,000

Major shareholders:

Free Float 73.4 %
 Ennoconn 26.6 %
 AGI 5.0 %
 Ninety One 4.0 %

Company description:

Leading IoT solutions provider targeting industrial, medical, avionics, smart energy, and other applications

Accusation I: “S&T appears to hide several subsidiaries in an off-balance sheet structure to conceal corporate fraud” (see page 1 of Viceroy’s report).

Our take: Viceroy needs to show proof or retract the accusation.

Viceroy specifically mentions two entities that are supposedly part of an off-balance sheet structure, namely SandT Holding and IMG China. **We strongly doubt this is true.** Let us take a look at the two entities.

(1) SandT Holding

Our last update dealt with this entity, which comprises former S&T subsidiaries active in Moldova, the Ukraine and Russia.

These subsidiaries were bundled in the SandT Holding vehicle **in early 2011 to sell them off to a strategic investor.** The divestment was necessary because the “old” S&T was experiencing a liquidity crunch at the time. It had taken up too much debt to acquire a company called IMG (yes, that IMG). The operating business was largely sound but the gearing too high, and the banks became nervous.

Importantly, **the divestment of SandT Holding happened in early 2011**, when S&T AG was still called S&T System Integration & Technology Distribution AG, and was **led by an entirely different management team**, namely CFO Bergler and CRO Lanik.

It was only a few months later, in September 2011, that Mr Niederhauser as CEO of Quanmax announced his intention to acquire S&T. **There was no relationship between Quanmax and S&T before.** The merger between both companies happened in 2012, and the combined entity assumed the name of S&T AG. Mr Niederhauser became the CEO of the “new” S&T AG.

How then could the current management team have possibly set up the SandT Holding entity to “hide corporate fraud”?

S&T today retains a 5% minority stake in SandT Holding and has no control over the entity.

Viceroy thinks otherwise mostly because the former subsidiaries that are part of SandT Holding continue to use S&T’s brand and credentials. **What they seem to miss is that as part of the deal in 2011, the entity was allowed to keep the S&T brand.**

We agree that there is one debatable point though. Despite its 5% minority stake, S&T did not receive any minority income from SandT Holding. This may simply reflect a lack of business success, in our view. After all, **the Russian subsidiary was liquidated already in 2016**, which suggests it was a failure.

Also, SandT Holding was sold for only € 6-7m (eH&A) in 2011, according to our sources. **This suggests that revenues and earnings were rather modest.** It certainly calls into question Viceroy’s claim that the subsidiaries should have generated “enormous revenues”. NB: **we have spoken to S&T’s founder and long-term CEO Thomas Streimelweger about this.**

In our last update, we suggested that the 5% minority stake in SandT Holding does not show up in S&T’s balance sheet. **This is incorrect.** It is accounted for at cost (€ 25k) under other financial assets.

(2) IMG China

It is indeed peculiar that IMG in China still claims it is an S&T subsidiary, on both its website and LinkedIn profile, **when clearly it is not**, in our view.

What gives us the confidence to state that IMG is no “hidden subsidiary”? We checked the website. **Nowhere do we find anything about S&T AG**, apart from the “About Us” section, which Viceroy highlights.

We do find a lot about a company called AMOGI Computer Software Services (Shanghai) Co. Ltd., however. See below for just a few examples. NB: the Chinese name is sometimes translated as Amoki, Emoki, Emoji or Imoki. **It is all the same.**

IMG listed on China's New OTC Market

Release time: 2016-12-30 Author: IMG: Xiaohui Browse: 1925

On October 28, 2016, AMOGI Computer Software Services (Shanghai) Co., Ltd. (hereinafter referred to as "IMG China ") was listed on the New Third Board and the bell ringing ceremony was held in Beijing's National SME Share Transfer System.

Congratulations to IMG for obtaining the SAP S4/HANA certificate

Release time: 2017-03-27 Author: IMG: Xiaohui Views: 2090

On January 24, 2017, AMOGI Computer Software Services (Shanghai) Co., Ltd. ("AMOGI China" for short) obtained the SAP S4/HANA certificate.

Statement from IMG China on Internet rumors

Release time: 2018-06-11 Author: imgchina Browse: 2792

Statement from IMG China on Internet rumors

Recently, someone pretended to be a partner of Imoki Computer Software Services (Shanghai) Co., Ltd. (hereinafter referred to as "Imoki (IMG)") on multiple forums to

Source: imgchina.com.cn

By using the names interchangeably, the corporate news section and external sources make it clear that **AMOGI and IMG China are the same company.**

Who are the owners of AMOGI / IMG, and who is the CEO? Again, a quick internet search reveals that **Mr Li Hongbo is the CEO as well as one of the owners.**

AMOGI / IMG China: management team

Li Hongbo Chairman of the board	Yin Liang Director and general manager	Xu Chao director	Yuan Tao director
Wang Yingze director	Jia Xinyan director	Shu Weiming director	Yang Yang Supervisor
Jin Hui Supervisor	Tang Xiaolin Supervisor		

Source: pedaily.cn

AMOGI / IMG China: shareholder structure

Shareholder information	Type of shareholder	subscribed funds
Longse (Shanghai) Investment Partnership (Limited Partnership)	company	6.192 million RMB
Li Hongbo	Natural person	2.684 million RMB
Yang Yang	Natural person	678,000 RMB
Yin Liang	Natural person	RMB 446,000

Source: pedaily.cn

The other owners are Mr Yang Yang and Mr Yin Liang, both managers at AMOGI. Major shareholders of Longse Investment Partnership are Yuan Tao, Wang Yingze and Xu Chao, who are also directors of AMOGI. **The name S&T is nowhere to be found.**

Longse Investment Partnership: major shareholders

Reference information of shareholder capital contribution (data source: third-party data valid time: 2021-07-14)

Type of shareholder	shareholder	Funded ratio
Natural person shareholder	Yuan Tao	29.23%
Natural person shareholder	Wang Yingze	23.29%
Natural person shareholder	Xu Chao	12.02%
Natural person shareholder	Zeng Lihua	10.64%

Source: qixin.com

Let us now take another look at the website of AMOGI / IMG China. **There is a copyright at the bottom of the page**, which says “Silk Cloud Business Jiangsu Technology Co. Ltd.”

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Copyright © Silk Cloud Business Jiangsu Technology Co., Ltd.

Source: imgchina.com.cn / Google translate

An internet search for Jiangsu leads us to the homepage of a Chinese company called BOS Cloud (www.bosyun.com). There again, at the bottom of the website is the copyright of Silk Cloud Jiangsu.

Evidently, there is a close relationship between BOS Cloud, AMOGI (IMG China) and Silk Cloud Jiangsu. Indeed, BOS Cloud states it is a “Silk Cloud Business”. So, just to make sure: who owns Silk Cloud Jiangsu? See for yourself:

Silk Cloud Business Jiangsu Technology Co. Ltd.: shareholder structure

Reference information for shareholder capital contribution (data source: industrial and commercial annual report valid time: 2021-05-19)

Type of shareholder	shareholder	Funded ratio	Subscribed capital
-	Yang Yang	42.48%	RMB 5 million
-	Xu Chao	33.98%	RMB 4 million
-	Beijing Chengxin Weiye Investment Co., Ltd.	10.03%	RMB 1.18 million
-	Shanghai Anjunda Investment Co., Ltd.	8.50%	RMB 1 million
-	Chongqing Qicai Office Supplies Co., Ltd.	5.01%	RMB 590,000

Source: qixin.com

Again, **no mention of S&T**. Mr Yang Yang is likely the same person as the supervisor for AMOGI / IMG China, shown one page earlier.

Coming back to CEO Li Hongbo. His LinkedIn profile shows him as the CEO of IMG (i.e. AMOGI) and as Chief Architect of BOS Cloud. **There again is the relationship between the two companies**. BOS Cloud and AMOGI (IMG) also seem to largely have the same customer base, as revealed by their respective websites.

Who is Mr Li Hongbo? He seems to be **a well-respected manager in the SAP ecosystem**. His LinkedIn profile shows him at the 2019 SAP Global Partner event in Orlando, Florida, where he won the SAP Pinnacle Award. A closer look at the picture reveals a name we have heard before: Jiangsu.

Mr Li Hongbo: LinkedIn profile and at the SAP Global Partner Event 2019

Experience



Chief Architect
BOS Cloud
Feb 2019 – Present · 2 yrs 11 mos



The Information Management Group (IMG)
16 yrs 3 mos

CEO
Apr 2008 – Present · 13 yrs 9 mos

- Managing company
- Developing new business
- Innovation Strategy

VP
Oct 2005 – Mar 2008 · 2 yrs 6 mos

- Business Development
- SAP business management



Source: LinkedIn

His LinkedIn profile refers to the name S&T AG only once, stating that “after IMG incorporated into S&T Group in 2007, Mr. Li became IMG’s CEO...”

Why would his LinkedIn page say that, and why could it be that IMG China still has a reference to S&T on its website?

Because at one point, **IMG China was indeed a subsidiary of S&T**. Led by Mr Streimelweger, S&T acquired IMG in 2007.

However, when the “old” S&T ran into financial difficulties in 2011, IMG’s regional subsidiaries were either closed down (e.g. Germany) or divested.

The claim on IMG’s website and LinkedIn page are **hence simply outdated** – that is all, in our view. **We did not find any indication that S&T today is in any way still connected to AMOGI / IMG or Jiangsu.**

As a result, Viceroy’s allegation that S&T operates an off-balance entity structure seems unfounded. **If Viceroy think they have proof for this grave allegation, the right thing to do would be to disclose immediately or else retract the accusation.**

Accusation II: “Most tech acquisitions are made at 0.5x revenues, and complements S&T’s market trading at 1x revenue, generating false “value”. “(see page 1 of Viceroy’s report). Related: “The traditional method of growth-through-acquisition is simple: acquire businesses valued at lower multiples so that a consolidation “revalues” them upward” (see page 8)

Our take: Disregard. Argument is not plausible.

No investor or analyst we speak to uses EV / sales to value S&T. They typically look at EBITDA and net income.

Acquiring a company like Kapsch with € 121m revenues but **negative** EBITDA for zero cash outlay hence does **not** create any value per se. **It was the successful turnaround** – that Viceroy does not mention at all – **that created value for shareholders.**

To underpin the point, let us look at the day of the M&A announcement with Kapsch. It was May 23, 2019. What happened to S&T’s share price? **It declined by 4.9%, erasing some € 65m of value. This is a clear indication that the market does not look at EV / sales for S&T or its M&A transactions.** Still, Viceroy claims there was an immediate € 150m of “faux value creation” (see page 8 of their report). They rely exclusively on EV and sales to make the point.

NB: Viceroy make two mistakes in this calculation. First, they disregard the acquired € 11m net financial debt and hence underestimates the EV. Second, they claim Kapsch had € 150m of revenues when in fact it had € 121m. *Compare S&T’s 2019 annual report page 76.*

Now, **let’s look at the true value creation from Kapsch.** It is quite simple. Already in the first few months of consolidation in 2019, Kapsch contributed net income of € 11.3m to the group (*compare 2019 annual report, page 76*). Admittedly, this was boosted by positive one-offs. Even so, **it points to substantial value creation** considering Kapsch’s EV of only € 11m. Even more importantly, renamed Kontron Transportation, **Kapsch is one of S&T’s best performing units this year.**

Another example is CITYCOMP, a German IT Service company. In July 2020, S&T paid € 6m for a 55% stake. It has a call option for the remaining 45% for 6x EBITDA. Given the strong performance, we expect S&T to exercise the call option shortly.

We expect the company to achieve € 40m sales at € 4m EBITDA this year (eH&A), which would imply approx. 20% yoy top-line growth. What is the cash flow return on the transaction? It is 13%, which is ahead of the typical 10% pre-tax hurdle rate, **indicating value creation.**

How do we arrive at this? We take EBITDA less maintenance capex as an approximation of free cash flow and divide it by the EV. EBITDA is € 4m. Maintenance capex should be negligible considering that CITYCOMP is an IT Service company. The EV is € 30m, comprising € 6m for the 55% stake and € 24m for the 45% call option. **€ 4m divided by € 30m is 13%.**

It is another typical example of how S&T creates value for shareholders through M&A. This brings us to Viceroy’s next argument.

Accusation III: “In most instances, subsidiary revenues decline pre- and post-acquisition...” (*page 1 of Viceroy’s report*). Related: “S&T [has an] acquisition history of misfits, failures, bankruptcies...” (*page 8*). Also related: “Kontron has now been combined with fraud-riddled and obscure businesses...” (*page 5*).

Our take: the accusation is a simplification, dramatization and generalisation, and neglects S&T key acquisitions, which were a major success. We do agree though that some transactions were unwise (e.g. Bass Systems).

Let’s go through the arguments one by one.

(1) **“In most instances, subsidiary revenues decline pre-and post-acquisition”**

That is true by design. S&T pursues an M&A strategy focused on targets that are in “special situations”. The “old” S&T had financial difficulties, Kontron had an incompetent management team, Kapsch was struggling with its business in Hungary. It is typical for these businesses to flat-line or decline already pre-acquisition. **That by itself does not mean the targets are low-quality assets.**

Having acquired a company, **S&T looks to get rid of underperforming or low-margin parts.** That is why Kapsch’s revenues initially declined from € 120m to c. € 100m. Another example is Kontron America. Low-margin projects with Nokia and Juniper were gradually phased out, presenting a c. € 40m revenue headwind in the last 3-4 years. **The initial focus is always on turning M&A targets profitable,** which is S&T’s strong suit, rather than on revenue growth.

The important thing is that most M&A targets achieve the turnaround after a while, which results in **substantial value creation for S&T shareholders.** Kapsch (i.e. Kontron Transportation) is now one of S&T’s best performing assets. CITYCOMP struggled in 2020 following the data leak, which happened **before** S&T acquired the company. This year, we expect CITYCOMP to reach € 40m sales (c. +20% yoy) with a 10% EBITDA margin. **These are just two examples of a strong M&A track record.**

(2) **“S&T has an acquisition history of misfits, failures and bankruptcies...and Kontron has now been combined with fraud-riddled and obscure businesses...”**

To make the point, Viceroy mention **several smaller and rather immaterial acquisitions,** which happened years ago. At the same time, **they ignore the major successful acquisitions,** which have been instrumental in transforming S&T into the business it is today. These major acquisitions include S&T “old”, Kontron and Kapsch.

It hence seems fair to say that Viceroy’s statement is a simplification, generalisation, and dramatization.

Let’s take a look at Viceroy’s list of “obscure” subsidiaries (*see page 8 of the Viceroy report*), that are in some form of legal dispute. **Most of these M&A transactions happened years ago. Legal disputes oftentimes involve only selected employees or they happened before S&T acquired said entities. Other issues Viceroy mentions seem trivial.** Note that we discuss Funworld, Roding and Xtro further below.

- **Kapsch TrafficCom – Irrelevant.** Acquired for slightly more than € 1m.
- **Kapsch CarrierCom Poland** – Poland is just one subsidiary of Kapsch CarrierCom (i.e. Kontron Transportation), **and Kontron Transportation is one of the best performers in 2021.** The alleged fraud in Poland happened in 2017, two years before S&T acquired Kapsch. The investigation involves former employees only.
- **S&T Romania – True.** The investigation involves several market players, according to our knowledge, so this is not an S&T-specific topic.
- **S&T Serbia** – This is a dispute between S&T Serbia and the State. Both have sued each other over a project gone wrong. **This is unlikely to be material.** It is normal for a € 1.4bn revenue company to be involved in lawsuits from time to time.
- **Iskratel (Macedonia / Ukraine)** – The emphasis should be on **lawful** intercept surveillance equipment. Regarding alleged tender fraud in the Ukraine, we ask S&T to provide more insights.
- **Bass Systems – An unwise acquisition.** S&T has divested Bass in the meantime. The shareholder value destruction was immaterial.
- **CITYCOMP** – Mentioned above. **A strong performer in 2021.** Customer losses following a data leak have been overcompensated. The data leak happened in early 2019. S&T acquired CITYCOMP in 2020.
- **Dorobet – This subsidiary has already been closed down and has not been relevant for years.** The key asset of Dorobet was a gaming license. Remember that security appliances and software for betting terminals were a major revenue contributor for S&T in 2011 / 2012, when the company was still called Quanmax. Today, this end-market explains less than € 10m of annual revenues (eH&A). In any case, several of S&T's customers back then expressed the wish to buy security solutions and hardware out of one hand while also using a third-party gaming license. That is why S&T acquired Dorobet many years ago.

Accusation IV: “Substantial portions of S&T’s free cash flow likely stem from asset-stripping acquisitions.” (*page 10 of Viceroy’s report*). Related: “Accounts receivable balances in acquisitions appear to be factored or otherwise immediately collected, artificially boosting operating cash flows.” (*page 6*).

Our take: Disregard. The argument does not hold up to scrutiny.

Viceroy uses Iskratel as an example for how S&T supposedly artificially boosts cash flow through asset stripping of M&A targets (*see page 10 of Viceroy’s report*).

The math does not add up, however.

Look at 2020, the year when S&T acquired Iskratel. The target had accounts receivable of € 23m. **S&T group factoring went up by only € 14m yoy**, however (*compare S&T’s 2020 annual report, page 50*). Most likely, the increase in factoring did not exclusively relate to Iskratel.

Hence, accounts receivable balances in acquisitions are clearly **not** immediately factored. Maybe Viceroy would care to explain how a company could otherwise “immediately collect” the entire accounts receivable of an M&A target that is a going concern?

Viceroy highlights that “The Analyst” had made a similar argument back in 2020. It is true, **and the argument was also flawed**. We discussed this in our update called “A rebuttal” (*October 5, 2020*) and will not go into further detail here.

Next, **consider S&T’s operating cash flow in 2020: it came in at € 141m. Free Cash Flow was a strong € 107m**. So what about accounts receivable and factoring?

The change in accounts receivable explained € 41m of the operating cash flow. That is a big number. However, factoring, which is part of this change, only went up by € 14m yoy, as stated above. **The main improvement in accounts receivable came from S&T’s working capital efficiency program**. This has nothing to do with alleged “asset stripping”.

Most importantly, **S&T generated Free Cash Flow of € 93m in FY’20, even when adjusted for the increase in factoring**. It means that Viceroy’s claim that “substantial portions of S&T’s free cash flow likely stem from asset stripping of acquisitions” **looks incorrect**.

Accusation V: “Ramping acquisitions are necessary to S&T’s survival: management even state in financial accounts that the company is “crisis proof” because it has sufficient cash to continue making acquisitions.” (page 1). Related: “The roll-up nature of S&T is critical to its survival and growth.” (page 1).

Our take: Disregard. The accusation is partly wrong and entirely absurd.

What is partly wrong about the accusation? **S&T never stated that it is crisis-proof because it can do acquisitions.** Instead, it claims to have a crisis-proof set-up and is well-prepared for acquisition opportunities due to liquid assets of € 281.9m. That is the exact translation of the text snippet from S&T’s annual report 2020, page 3. See below.



Source: Annual Report 2020, page 3

It seems possible that Viceroy deliberately misstated the quote so that it would fit its narrative.

What else is there to say about the accusation? Viceroy seems to suggest that S&T needs the cash inflow from alleged M&A asset stripping for its survival.

This accusation is absurd considering that M&A leads to an initial cash outflow. In 2020, S&T paid € 41m for M&A (see the 2020 Annual Report, page 71). This is cash out. Even the immediate collection of Iskratel’s € 23m accounts receivable (whichever way that may work) would not have turned this into a net cash inflow.

Given that S&T has not engaged in any major M&A in 2021, we are waiting for Viceroy to next tell us that the company is thus doomed.

Accusation VI: S&T engaged in undisclosed related-party transactions (see pages 8, 19, 20, and 21 of Viceroy's report)

Our take: There is *some* truth to it. We ask S&T to shed more light on Xtro and Funworld but note that these are small acquisitions, which happened more than 5 years ago.

Viceroy mentions Roding Embedded and Funworld as undisclosed related-party transactions and Xtro as a dubious deal, where S&T allegedly bought the same company twice. Let's take a closer look:

- **Roding Embedded GmbH** – founded in 2014, Roding was acquired by S&T one year later for € 1.6m. **The deal is simply not material. It is also not concerning.** What's the background? In 2013, Kontron restructured its business and decided to close down several offices, including the one in the small town of Roding, Bavaria. Note that this was before S&T made a move for Kontron in 2016. The former Kontron employees in Roding decided to launch a start-up in 2014, making use of their know-how and customer relations. The start-up financing was provided by Dr Wieczorek, who was **not** a member of S&T's supervisory in either 2014 or 2015. **We fail to see anything concerning in this transaction.**
- **Funworld** – S&T acquired a stake in Funworld GmbH in 2017 for € 0.33m. The entity had been formed in 2016 by CEO Niederhauser, amongst other. **We ask S&T to shed more light on this transaction.**
- **Xtro** – Viceroy complains that S&T acquired a company called Xtro IT Solutions GmbH in 2010 for € 2.9m and a company called Xtro AG in 2017 for € 2.5m. In both cases, the sellers were Mr Nechwatal and Mr Roos. Truth be told, this looks peculiar, especially since there was *yet another* company by the name of Xtro Informationssysteme GmbH, which was acquired in 2002 by Kontron, when Mr Niederhauser was the company's CEO (see *Kontron's 2003 annual report, page 74*).

Given that we do not like the looks of this, we spoke with Mr Stephan Nechwatal, who is now working as founder and CEO of a company called itecpro GmbH. Mr Nechwatal appears to be a genuinely friendly and straightforward person. **He confirmed to us that Xtro IT Solutions and Xtro AG were indeed different companies** with different products and different customers. Still, **we ask S&T to clarify.**

Financials

Profit and loss (EUR m)	2017	2018	2019	2020	2021E	2022E	2023E
Net sales	882.0	990.9	1,122.9	1,254.8	1,350.0	1,556.2	1,696.3
<i>Sales growth</i>	75.1 %	12.3 %	13.3 %	11.7 %	7.6 %	15.3 %	9.0 %
Increase/decrease in finished goods and work-in-process	13.4	15.1	15.5	17.6	16.2	17.1	17.8
Total sales	895.3	1,006.0	1,138.4	1,272.4	1,366.2	1,573.3	1,714.1
Other operating income	8.5	7.5	8.0	8.8	8.1	8.6	8.5
Material expenses	567.0	644.3	715.4	799.0	861.3	985.1	1,065.3
Personnel expenses	179.4	194.6	245.2	273.3	291.6	333.0	359.6
Other operating expenses	89.4	84.0	74.2	78.8	85.1	98.0	106.9
Total operating expenses	827.3	915.4	1,026.7	1,142.4	1,229.9	1,407.6	1,523.2
EBITDA	68.1	90.5	111.7	130.0	136.4	165.7	190.8
Depreciation	7.4	29.0	25.9	30.9	31.3	32.6	33.0
EBITA	60.7	61.5	85.8	99.1	105.1	133.1	157.8
Amortisation of goodwill	0.0	n/a	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	18.9	n/a	24.0	30.5	32.7	33.0	33.0
Impairment charges	0.0	n/a	0.0	0.0	0.0	0.0	0.0
EBIT (inc revaluation net)	41.7	61.5	61.8	68.6	72.3	100.1	124.8
Interest income	0.6	1.0	1.3	1.6	1.8	1.6	1.6
Interest expenses	6.9	6.2	9.0	9.3	8.1	8.1	8.1
Other financial result	0.0	0.0	0.0	-0.2	0.0	0.0	0.0
Financial result	-6.4	-5.2	-7.7	-7.9	-6.3	-6.5	-6.5
Recurring pretax income from continuing operations	35.4	56.3	54.1	60.7	66.0	93.6	118.3
Extraordinary income/loss	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Earnings before taxes	35.4	56.3	54.1	60.7	66.0	93.6	118.3
Taxes	6.0	7.9	4.6	6.1	6.6	9.4	17.7
Net income from continuing operations	29.4	48.5	49.5	54.6	59.4	84.3	100.6
Result from discontinued operations (net of tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income	29.4	48.5	49.5	54.6	59.4	84.3	100.6
Minority interest	6.9	3.5	0.4	-1.0	0.0	0.0	0.0
Net profit (reported)	22.5	45.0	49.1	55.6	59.4	84.3	100.6
Average number of shares	52.5	66.1	66.1	65.0	65.0	65.0	65.0
EPS reported	0.43	0.68	0.74	0.86	0.91	1.30	1.55

Profit and loss (common size)	2017	2018	2019	2020	2021E	2022E	2023E
Net sales	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
Increase/decrease in finished goods and work-in-process	1.5 %	1.5 %	1.4 %	1.4 %	1.2 %	1.1 %	1.1 %
Total sales	101.5 %	101.5 %	101.4 %	101.4 %	101.2 %	101.1 %	101.1 %
Other operating income	1.0 %	0.8 %	0.7 %	0.7 %	0.6 %	0.6 %	0.5 %
Material expenses	64.3 %	65.0 %	63.7 %	63.7 %	63.8 %	63.3 %	62.8 %
Personnel expenses	20.3 %	19.6 %	21.8 %	21.8 %	21.6 %	21.4 %	21.2 %
Other operating expenses	10.1 %	8.5 %	6.6 %	6.3 %	6.3 %	6.3 %	6.3 %
Total operating expenses	93.8 %	92.4 %	91.4 %	91.0 %	91.1 %	90.5 %	89.8 %
EBITDA	7.7 %	9.1 %	9.9 %	10.4 %	10.1 %	10.7 %	11.3 %
Depreciation	0.8 %	2.9 %	2.3 %	2.5 %	2.3 %	2.1 %	1.9 %
EBITA	6.9 %	6.2 %	7.6 %	7.9 %	7.8 %	8.6 %	9.3 %
Amortisation of goodwill	0.0 %	n/a	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Amortisation of intangible assets	2.1 %	n/a	2.1 %	2.4 %	2.4 %	2.1 %	1.9 %
Impairment charges	0.0 %	n/a	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
EBIT (inc revaluation net)	4.7 %	6.2 %	5.5 %	5.5 %	5.4 %	6.4 %	7.4 %
Interest income	0.1 %	0.1 %	0.1 %	0.1 %	0.1 %	0.1 %	0.1 %
Interest expenses	0.8 %	0.6 %	0.8 %	0.7 %	0.6 %	0.5 %	0.5 %
Other financial result	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Financial result	neg.	neg.	neg.	neg.	neg.	neg.	neg.
Recurring pretax income from continuing operations	4.0 %	5.7 %	4.8 %	4.8 %	4.9 %	6.0 %	7.0 %
Extraordinary income/loss	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Earnings before taxes	4.0 %	5.7 %	4.8 %	4.8 %	4.9 %	6.0 %	7.0 %
Tax rate	17.0 %	14.0 %	8.4 %	10.0 %	10.0 %	10.0 %	15.0 %
Net income from continuing operations	3.3 %	4.9 %	4.4 %	4.4 %	4.4 %	5.4 %	5.9 %
Income from discontinued operations (net of tax)	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Net income	3.3 %	4.9 %	4.4 %	4.4 %	4.4 %	5.4 %	5.9 %
Minority interest	0.8 %	0.4 %	0.0 %	neg.	0.0 %	0.0 %	0.0 %
Net profit (reported)	2.6 %	4.5 %	4.4 %	4.4 %	4.4 %	5.4 %	5.9 %

Source: Company data, Hauck & Aufhäuser

Balance sheet (EUR m)	2017	2018	2019	2020	2021E	2022E	2023E
Intangible assets	189.9	207.6	294.9	302.3	294.6	287.8	271.8
Property, plant and equipment	31.9	37.1	99.8	135.1	125.4	117.7	111.9
Financial assets	17.6	0.3	22.8	22.1	22.1	22.1	22.1
FIXED ASSETS	239.4	244.9	417.5	459.5	442.2	427.6	405.7
Inventories	104.0	130.8	146.8	159.9	207.7	207.5	220.3
Accounts receivable	172.4	202.7	212.2	204.5	255.2	294.2	320.7
Other current assets	43.5	68.0	102.6	104.2	106.9	109.5	112.3
Liquid assets	216.9	171.8	312.3	281.9	289.2	370.6	459.3
Deferred taxes	28.6	29.8	34.4	36.6	36.6	36.6	36.6
Deferred charges and prepaid expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CURRENT ASSETS	565.5	603.0	808.2	787.1	895.6	1,018.4	1,149.1
TOTAL ASSETS	804.9	847.9	1,225.7	1,246.6	1,337.7	1,446.1	1,554.9
SHAREHOLDERS EQUITY	305.1	356.0	372.7	404.0	442.5	508.3	585.3
MINORITY INTEREST	26.7	11.3	12.4	5.4	5.4	5.4	5.4
Long-term debt	68.7	79.4	341.0	343.2	343.2	343.2	343.2
Provisions for pensions and similar obligations	21.2	14.6	30.0	26.8	26.8	26.8	26.8
Other provisions	36.7	28.0	54.4	40.5	40.5	40.5	40.5
Non-current liabilities	126.6	122.0	425.4	410.5	410.5	410.5	410.5
short-term liabilities to banks	46.4	39.6	62.8	42.8	42.8	42.8	42.8
Accounts payable	154.9	177.0	205.0	210.0	258.9	298.4	325.3
Advance payments received on orders	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities (incl. from lease and rental contracts)	135.6	129.4	134.2	160.6	160.6	165.4	170.3
Deferred taxes	9.5	12.6	13.4	13.3	17.0	15.2	15.2
Deferred income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current liabilities	346.4	358.6	415.3	426.6	479.3	521.8	553.6
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	804.9	847.9	1,225.7	1,246.6	1,337.7	1,446.1	1,554.9

Balance sheet (common size)	2017	2018	2019	2020	2021E	2022E	2023E
Intangible assets	23.6 %	24.5 %	24.1 %	24.2 %	22.0 %	19.9 %	17.5 %
Property, plant and equipment	4.0 %	4.4 %	8.1 %	10.8 %	9.4 %	8.1 %	7.2 %
Financial assets	2.2 %	0.0 %	1.9 %	1.8 %	1.7 %	1.5 %	1.4 %
FIXED ASSETS	29.7 %	28.9 %	34.1 %	36.9 %	33.1 %	29.6 %	26.1 %
Inventories	12.9 %	15.4 %	12.0 %	12.8 %	15.5 %	14.3 %	14.2 %
Accounts receivable	21.4 %	23.9 %	17.3 %	16.4 %	19.1 %	20.3 %	20.6 %
Other current assets	5.4 %	8.0 %	8.4 %	8.4 %	8.0 %	7.6 %	7.2 %
Liquid assets	27.0 %	20.3 %	25.5 %	22.6 %	21.6 %	25.6 %	29.5 %
Deferred taxes	3.6 %	3.5 %	2.8 %	2.9 %	2.7 %	2.5 %	2.4 %
Deferred charges and prepaid expenses	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
CURRENT ASSETS	70.3 %	71.1 %	65.9 %	63.1 %	66.9 %	70.4 %	73.9 %
TOTAL ASSETS	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
SHAREHOLDERS EQUITY	37.9 %	42.0 %	30.4 %	32.4 %	33.1 %	35.2 %	37.6 %
MINORITY INTEREST	3.3 %	1.3 %	1.0 %	0.4 %	0.4 %	0.4 %	0.3 %
Long-term debt	8.5 %	9.4 %	27.8 %	27.5 %	25.7 %	23.7 %	22.1 %
Provisions for pensions and similar obligations	2.6 %	1.7 %	2.4 %	2.2 %	2.0 %	1.9 %	1.7 %
Other provisions	4.6 %	3.3 %	4.4 %	3.2 %	3.0 %	2.8 %	2.6 %
Non-current liabilities	15.7 %	14.4 %	34.7 %	32.9 %	30.7 %	28.4 %	26.4 %
short-term liabilities to banks	5.8 %	4.7 %	5.1 %	3.4 %	3.2 %	3.0 %	2.8 %
Accounts payable	19.2 %	20.9 %	16.7 %	16.8 %	19.4 %	20.6 %	20.9 %
Advance payments received on orders	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Other liabilities (incl. from lease and rental contracts)	16.9 %	15.3 %	10.9 %	12.9 %	12.0 %	11.4 %	11.0 %
Deferred taxes	1.2 %	1.5 %	1.1 %	1.1 %	1.3 %	1.0 %	1.0 %
Deferred income	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Current liabilities	43.0 %	42.3 %	33.9 %	34.2 %	35.8 %	36.1 %	35.6 %
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

Source: Company data, Hauck & Aufhäuser

Cash flow statement (EUR m)	2017	2018	2019	2020	2021E	2022E	2023E
Net profit/loss	29.4	48.5	49.5	54.6	59.4	84.3	100.6
Depreciation of fixed assets (incl. leases)	7.4	29.9	49.9	30.9	31.3	32.6	33.0
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	18.9	0.0	0.0	30.5	32.7	33.0	33.0
Others	-13.6	-17.7	3.7	-8.5	0.0	0.0	0.0
Cash flow from operations before changes in w/c	42.1	60.7	103.1	107.5	123.4	149.9	166.6
Increase/decrease in inventory	-17.9	-4.1	-16.0	-13.1	-47.8	0.2	-12.8
Increase/decrease in accounts receivable	5.5	-23.1	-30.0	41.4	-50.7	-39.0	-26.5
Increase/decrease in accounts payable	15.2	2.1	49.7	5.0	48.9	39.5	26.9
Increase/decrease in other working capital positions	0.0	0.0	-23.5	0.0	0.0	0.0	0.0
Increase/decrease in working capital	2.8	-25.1	-19.8	33.3	-49.7	0.8	-12.4
Cash flow from operating activities	44.9	35.5	83.4	140.8	73.8	150.6	154.2
CAPEX	23.0	25.1	27.1	33.9	39.2	43.6	44.1
Payments for acquisitions	11.5	39.6	27.2	41.0	7.5	7.5	0.0
Financial investments	5.7	-0.5	4.3	3.6	0.0	0.0	0.0
Income from asset disposals	1.2	1.1	2.9	1.3	0.0	0.0	0.0
Cash flow from investing activities	-39.1	-63.1	-55.7	-77.2	-46.7	-51.1	-44.1
Cash flow before financing	5.8	-27.6	27.7	63.6	27.1	99.6	110.1
Increase/decrease in debt position	28.8	1.2	128.1	-40.9	0.0	0.0	0.0
Purchase of own shares	0.0	0.0	14.6	12.2	0.0	0.0	0.0
Capital measures	86.9	2.2	0.0	1.4	0.0	0.0	0.0
Dividends paid	4.9	8.3	10.6	0.0	19.8	18.1	21.4
Others	-17.7	-15.9	-19.1	-14.1	0.0	0.0	0.0
Effects of exchange rate changes on cash	-2.0	0.3	1.1	-8.1	0.0	0.0	0.0
Cash flow from financing activities	93.1	-20.9	83.8	-65.8	-19.8	-18.1	-21.4
Increase/decrease in liquid assets	97.0	-48.2	112.6	-10.2	7.3	81.4	88.6
Liquid assets at end of period	216.9	171.8	312.3	281.9	289.2	370.6	459.3

Source: Company data, Hauck & Aufhäuser

Regional split (EUR m)	2017	2018	2019	2020	2021E	2022E	2023E
Domestic	108.3	98.4	102.2	106.7	108.0	141.6	0.0
yoy change	80.1 %	-9.1 %	3.8 %	4.4 %	1.3 %	31.1 %	n/a
Rest of Europe	242.7	300.0	336.9	373.9	395.6	471.5	0.0
yoy change	46.0 %	23.6 %	12.3 %	11.0 %	5.8 %	19.2 %	n/a
NAFTA	132.1	133.2	152.7	178.2	198.5	211.6	0.0
yoy change	n/a	0.8 %	14.7 %	16.7 %	11.4 %	6.6 %	n/a
Asia Pacific	n/a	n/a	n/a	n/a	n/a	n/a	0.0
yoy change	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Rest of world	398.9	459.4	531.1	596.0	648.0	722.1	0.0
yoy change	43.8 %	15.2 %	15.6 %	12.2 %	8.7 %	11.4 %	n/a
TTL	882.0	990.9	1,122.9	1,254.8	1,350.0	1,556.2	0.0
yoy change	75.1 %	12.3 %	13.3 %	11.7 %	7.6 %	15.3 %	n/a

Source: Company data, Hauck & Aufhäuser

Key ratios (EUR m)	2017	2018	2019	2020	2021E	2022E	2023E
P&L growth analysis							
Sales growth	75.1 %	12.3 %	13.3 %	11.7 %	7.6 %	15.3 %	9.0 %
EBITDA growth	97.9 %	33.0 %	23.4 %	43.6 %	22.1 %	27.4 %	40.0 %
EBIT growth	73.1 %	47.3 %	0.4 %	11.5 %	17.1 %	46.0 %	72.5 %
EPS growth	29.9 %	58.9 %	9.2 %	25.7 %	23.1 %	51.5 %	69.2 %
Efficiency							
Total operating costs / sales	93.8 %	92.4 %	91.4 %	91.0 %	91.1 %	90.5 %	89.8 %
Sales per employee	306.0	254.1	259.8	288.9	307.8	709.6	765.8
EBITDA per employee	23.6	23.2	25.9	29.9	31.1	75.6	86.1
Balance sheet analysis							
Avg. working capital / sales	13.6 %	14.0 %	13.8 %	12.4 %	13.3 %	11.5 %	12.4 %
Inventory turnover (sales/inventory)	8.5	7.6	7.7	7.8	6.5	7.5	7.7
Trade debtors in days of sales	71.3	74.6	69.0	59.5	69.0	69.0	69.0
A/P turnover [(A/P*365)/sales]	64.1	65.2	66.6	61.1	70.0	70.0	70.0
Cash conversion cycle (days)	38.6	48.5	39.2	36.6	47.3	35.3	33.0
Cash flow analysis							
Free cash flow	21.9	10.4	56.3	106.9	34.6	107.1	110.1
Free cash flow/sales	2.5 %	1.1 %	5.0 %	8.5 %	2.6 %	6.9 %	6.5 %
FCF / net profit	97.3 %	23.2 %	114.6 %	192.2 %	58.3 %	127.0 %	109.4 %
Capex / depre	109.2 %	82.3 %	62.9 %	61.2 %	61.2 %	66.4 %	66.8 %
Capex / maintenance capex	145.7 %	n/a	74.6 %	70.3 %	67.5 %	75.9 %	82.2 %
Capex / sales	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Security							
Net debt	-101.8	-52.7	91.5	104.1	96.8	15.4	-73.3
Net Debt/EBITDA	0.0	0.0	0.8	0.8	0.7	0.1	0.0
Net debt / equity	neg.	neg.	0.2	0.3	0.2	0.0	neg.
Interest cover	6.0	10.0	6.9	7.4	8.9	12.4	15.4
Dividend payout ratio	36.6 %	23.5 %	0.0 %	35.7 %	30.5 %	25.4 %	22.4 %
Asset utilisation							
Capital employed turnover	1.7	1.9	1.3	1.5	1.5	1.6	1.6
Operating assets turnover	5.7	5.1	4.4	4.3	4.1	4.8	5.2
Plant turnover	27.7	26.7	11.3	9.3	10.8	13.2	15.2
Inventory turnover (sales/inventory)	8.5	7.6	7.7	7.8	6.5	7.5	7.7
Returns							
ROCE	9.4 %	11.9 %	8.8 %	9.9 %	8.2 %	10.9 %	12.8 %
ROE	7.4 %	12.6 %	13.2 %	13.8 %	13.4 %	16.6 %	17.2 %
Other							
Interest paid / avg. debt	6.6 %	5.3 %	3.4 %	3.7 %	2.1 %	2.1 %	2.1 %
No. employees (average)	2882	3900	4322	4343	4387	2193	2215
Number of shares	52.5	66.1	66.1	65.0	65.0	65.0	65.0
DPS	0.1	0.2	0.0	0.3	0.3	0.3	0.3
EPS reported	0.43	0.68	0.74	0.86	0.91	1.30	1.55
Valuation ratios							
P/BV	2.8	2.5	2.3	2.2	2.0	1.7	1.5
EV/sales	0.9	0.8	0.9	0.8	0.7	0.6	0.5
EV/EBITDA	11.2	9.2	8.9	7.7	7.3	5.5	4.3
EV/EBITA	12.5	13.6	11.6	10.2	9.5	6.9	5.3
EV/EBIT	18.2	13.6	16.1	14.7	13.8	9.2	6.6
EV/FCF	34.7	80.2	17.7	9.4	28.8	8.6	7.5
Adjusted FCF yield	5.9 %	7.8 %	8.5 %	9.6 %	10.2 %	14.1 %	17.8 %
Dividend yield	1.0 %	1.2 %	0.0 %	2.3 %	2.1 %	2.4 %	2.6 %

Source: Company data, Hauck & Aufhäuser

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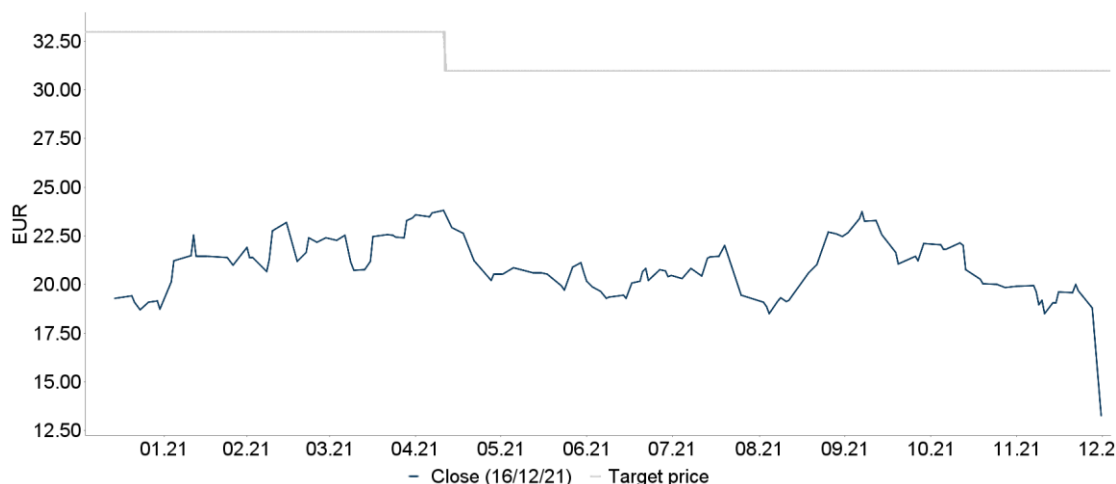
Company	Disclosure
S&T AG	3

Historical target price and rating changes for S&T AG in the last 12 months

Price and Rating History S&T AG as of 19/12/21

Initiation coverage

30-May-12



Company	Date	Analyst	Rating	Target price	Close
S&T AG	17.12.2021	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 13,25
	10.11.2021	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 20,02
	26.10.2021	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 21,82
	12.10.2021	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 21,22
	10.09.2021	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 22,70

07.09.2021	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 21,04
07.09.2021	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 21,04
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07.09.2021	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 21,04
07.09.2021	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 21,04
07.09.2021	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 21,04
06.08.2021	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 22,02
03.08.2021	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 21,46
11.05.2021	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 21,22
11.05.2021	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 21,22
07.05.2021	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 21,22
28.04.2021	Wunderlich, CFA, Tim	Buy	EUR 31,00	EUR 23,80
24.02.2021	Wunderlich, CFA, Tim	Buy	EUR 33,00	EUR 22,76

Hauck & Aufhäuser distribution of ratings and in proportion to investment banking services

Buy	78.95 %	96.30 %
Sell	5.26 %	0.00 %
Hold	15.79 %	3.70 %

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