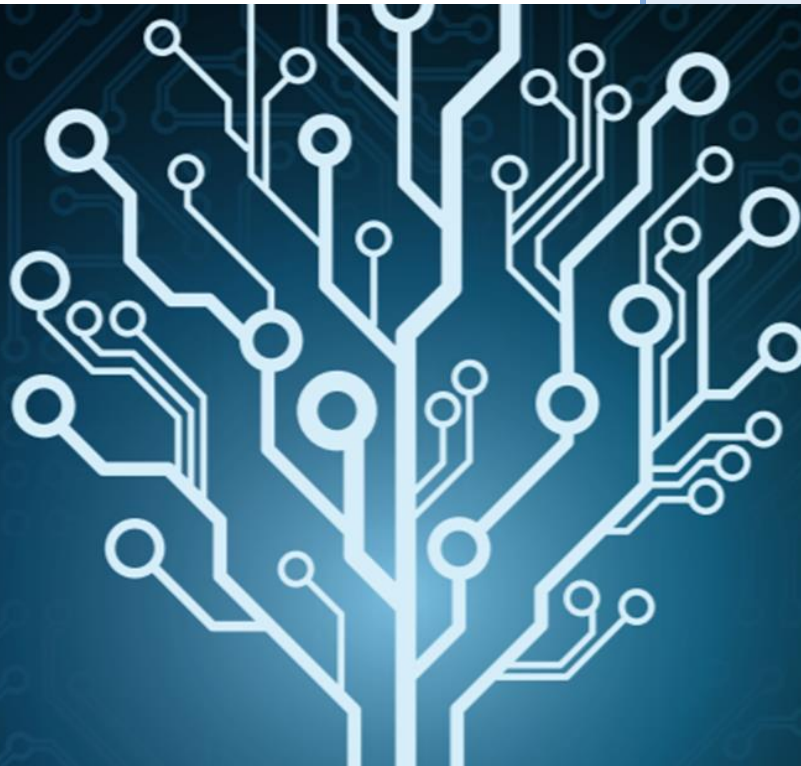


S&T AG

Austria | Technology | MCap EUR 1,426.8m

9 March 2021

UPDATE



Accelerated order intake in Q1/21

What's it all about?

S&T AG announced this morning that Q1/21 already saw strong momentum in new orders stemming from a broad spectrum of different industries. As such, we see S&T on a good way to achieve or even exceed its guided c. 12% sales increase in 2021 (EUR 1.4bn vs. eAR 1.44bn) despite current shortages of microchips which might lead to a slight shifts in sales from Q1/21 to subsequent quarters. In addition S&T delivers on its promised improvement in transparency and overall reduction in operational complexity. We reiterate our BUY recommendation yielding an upside of more than 40%. The increased maximum price for the share buyback to EUR 22.50 (prev. EUR 20.00) provides an additional safety cushion for investors in our view.

BUY (BUY)

Target price	EUR 31.00 (31.00)
Current price	EUR 21.66
Up/downside	43.1%

MAIN AUTHOR

Thomas Wissler

t.wissler@alsterresearch.com

+49 40 309 293-58

S&T AG

Austria | Technology | MCap EUR 1,426.8m | EV EUR 1,469.9m

BUY (BUY)

Target price EUR 31.00 (31.00)
Current price EUR 21.66
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Accelerated order intake in Q1/21; Guidance in reach

This morning, S&T AG announced that it had a **strong start into the year with an accelerating order intake** coming from a broad spectrum of different industries and companies, e.g. from a medical technology company with a volume of more than EUR 62m, public tenders from state or state-related rail infrastructure operators in the amount of more than EUR 81m as well as further train projects won in Germany, France, the UK and Spain. According to the company the public sector also developed very positively with EUR 82m in new orders in Q1/21. Thus, S&T expects new orders to exceed revenues by around 20% in Q1/21. Nonetheless, current shortage of microchips might lead to a slight shifts in sales from Q1/21 to subsequent quarters. Still, management expects its **FY 21 guidance to be intact**, being able to at least meet or exceed the guided sales level of EUR 1.4bn (eAR 1.44bn), EBITDA of EUR 140m (eAR 143m) and EPS of minimum EUR 1.00 (eAR EUR 1.07).

In addition, S&T implemented measures (TTS program) in order **to increase transparency and to reduce overall operational complexity** (i.e. reduction of subsidiaries) – a key element raised during the capital market day in Dec. last year amid criticism from - partly justified - short reports. We view this as a positive as S&T is actively approaching investors concerns of improved visibility.

Finally, S&T **increased the maximum purchase price for its share buyback program** from EUR 20.00 to EUR 22.50, which in our view should provide an elevated floor for the company's share price. In total S&T aims for a cash distribution of 50% via share buybacks and dividends whilst the remaining 50% will be spent on further M&A related growth initiatives.

In sum, the good start into the year increases confidence into S&T's ability to yet again show robust organic growth – despite ongoing pandemic related supply chain disruptions. The increased price for the share buyback (up to EUR 22.50) additionally provides a reassuring floor to the share price performance. **We therefore reiterate our BUY recommendation, PT unchanged EUR 31.00.** The full and audited results for the financial year 2020 are due on March 25, 2021.

S&T AG	2018	2019	2020P	2021E	2022E	2023E
Sales	990.9	1,122.9	1,254.8	1,443.0	1,609.6	1,770.1
<i>Growth yoy</i>	12.3%	13.3%	11.7%	15.0%	11.5%	10.0%
EBITDA	90.5	111.7	129.2	142.9	159.4	175.2
EBIT	61.5	61.8	76.2	90.0	111.4	129.9
Net profit	45.0	49.1	58.9	70.3	88.1	103.3
Net debt (net cash)	-52.7	31.6	24.3	-44.4	-123.1	-207.2
Net debt/EBITDA	-0.6x	0.3x	0.2x	-0.3x	-0.8x	-1.2x
EPS recurring	0.70	0.75	0.89	1.07	1.34	1.57
DPS	0.13	0.16	0.22	0.27	0.33	0.39
<i>Dividend yield</i>	0.6%	0.7%	1.0%	1.2%	1.5%	1.8%
Gross profit margin	36.5%	37.7%	38.4%	38.0%	38.0%	38.0%
EBITDA margin	9.1%	9.9%	10.3%	9.9%	9.9%	9.9%
EBIT margin	6.2%	5.5%	6.1%	6.2%	6.9%	7.3%
ROCE	11.7%	7.8%	8.9%	10.7%	13.5%	14.6%
EV/EBITDA	15.2x	13.2x	11.4x	9.8x	8.3x	7.1x
EV/EBIT	22.4x	23.9x	19.3x	15.6x	11.9x	9.6x
PER	31.0x	29.1x	24.2x	20.3x	16.2x	13.8x
FCF yield	2.0%	4.0%	3.5%	6.3%	7.5%	8.3%

Source: Company data, Alster Research



Source: Company data, AlsterResearch

High/low 52 weeks 25.72 / 13.20
Price/Book Ratio 3.4x

Ticker / Symbols

ISIN AT0000A0E9W5
WKN A0X9EJ
Bloomberg SANT:GR

Changes in estimates

		Sales	EBIT	EPS
2021	old	1443	90	1.07
	Δ	-	-	-
2022	old	1610	111	1.34
	Δ	-	-	-
2023	old	1770	130	1.57
	Δ	-	-	-

Key share data

Number of shares: (in m pcs) 65.9
Book value per share: (in €) 6.36
Ø trading volume: (12 months) 48,500

Major shareholders

Ennoconn Corporation 26.6%
Allianz Global Investors 5.0%
Free Float 68.4%

Company description

S&T is an Austria-based technology company. It provides end-to-end IT services, including consulting, integration and support services. In the IoT segment, it provides products and solutions such as industrial PCs and embedded boards installed with proprietary software. Germany, Austria, Switzerland, France, Eastern Europe and North America are its core markets.

Quarterly table

P&L data	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Sales	225.1	248.7	279.4	369.7	270.1	268.6	297.7	na
yoy growth in %	10.5%	13.5%	17.7%	11.7%	20.0%	8.0%	6.6%	#WERT!%
Gross profit	88.6	92.9	109.6	131.9	111.6	107.2	110.8	na
Gross margin in %	39.4%	37.3%	39.2%	35.7%	41.3%	39.9%	37.2%	#WERT!%
EBITDA	21.2	23.2	27.4	40.0	23.2	27.0	31.7	na
EBITDA margin in %	9.4%	9.3%	9.8%	10.8%	8.6%	10.0%	10.7%	#WERT!%
EBIT	10.7	11.7	14.5	24.9	9.4	13.1	17.2	na
EBIT margin in %	4.8%	4.7%	5.2%	6.7%	3.5%	4.9%	5.8%	#WERT!%
EBT	9.6	10.2	12.2	22.1	9.1	11.9	15.3	na
taxes paid	1.0	1.4	1.5	0.6	0.6	1.9	3.3	na
tax rate in %	10.2%	14.2%	12.6%	2.7%	6.7%	16.1%	21.6%	#WERT!%
net profit	9.4	8.8	10.8	20.1	9.5	10.1	11.8	na
yoy growth in %	27.4%	-0.6%	16.0%	3.5%	1.8%	14.4%	8.9%	#WERT!%
EPS	0.14	0.13	0.16	0.31	0.15	0.16	0.18	na

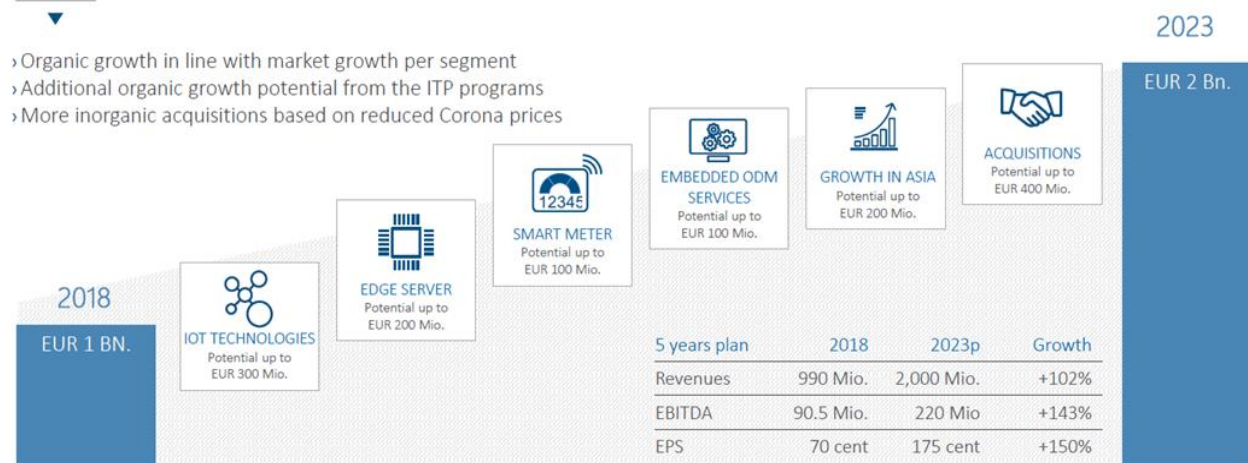
Source: Company data; AlsterResearch

Investment case in charts

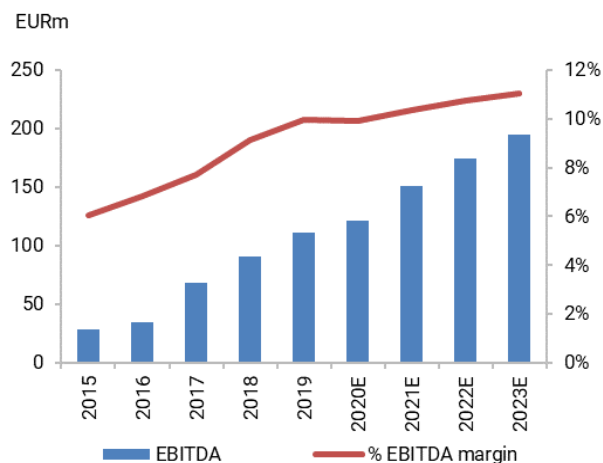
Business units and end markets



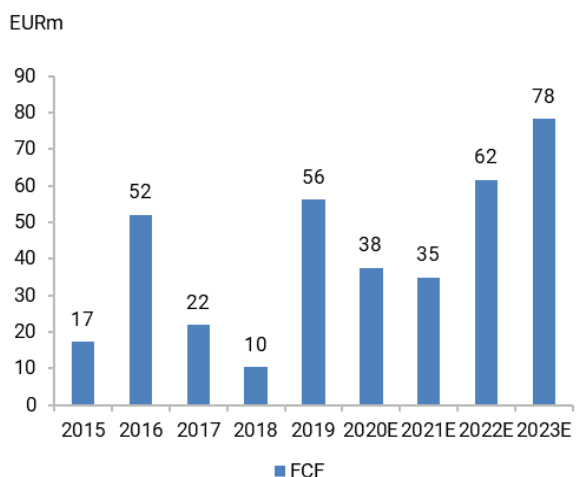
Growth projection until 2023E



EBITDA and margins on an upwards trend



FCF to strengthen going forward



Source: Company data; AlsterResearch

SWOT Analysis

Strengths

- Strong and strategic partnership with Foxconn
- Offers comprehensive suite of solutions in IT Service business
- Strong presence in DACH and EE countries
- Has diversified clients and is present in multiple geographies, minimising concentration risk

Weaknesses

- A large part of revenue accrues from IT Services segment, which is a low-margin business and has low pricing power
- Lacks a scalable platform
- Avionics, one of its target IoT markets, is witnessing a rough phase due to travel restrictions

Opportunities

- Has a strong presence in medical and transport segments of IoT market, which are expected to grow well
- Has sufficient liquidity and balance sheet strength to undertake acquisitions in current market where valuations are attractive
- Margin expansion, as focus shifts to higher margin IoT segment and proprietary products
- Expanding presence in China, one of the fastest-growing IoT markets

Threats

- A relatively small player in the IoT market and could be hard pressed to defend its turf if a larger player enters its segment
- Dependent on Asia for hardware manufacturing and China for raw material. Geopolitical tension in the area could impair its supply chain
- Aggressive acquisitions could drag company's prospects if not properly synergized

Valuation

Due to the fact that companies rarely bear sufficient resemblance to peers in terms of geographical exposure, size or competitive strength and in order to adjust for the pitfalls of weak long-term visibility, we have conducted an Adjusted Free Cash Flow analysis (Adjusted FCF).

The adjusted free cash flow yield results in a fair value of EUR 27.30 per share based on 2021E and EUR 32.00 per share on 2022E. We note that this supports our DCF-based price target. Looking beyond 2021E, i.e. 2022 and beyond, seem justified considering benefits from the expansion in its range of offerings, improvement in the product mix, and potential synergies from its recent acquisitions will be realized by then.

The main driver of this model is the level of return available to a controlling investor, influenced by the cost of that investors' capital (opportunity costs) and the purchase price – in this case the enterprise value of the company. Here, the adjusted FCF yield is used as a proxy for the required return and is defined as EBITDA less minority interest, taxes and investments required to maintain existing assets (maintenance capex).

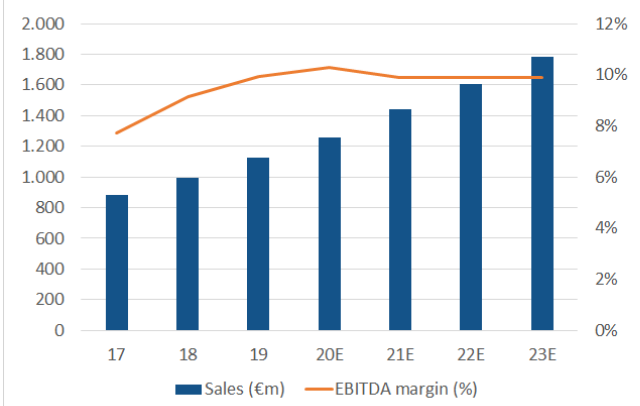
Simply put, the model assumes that investors require companies to generate a minimum return on the investor's purchase price. The required after tax return equals the model's hurdle rate of 6%. Anything lower suggests the stock is expensive; anything higher suggests the stock is cheap.

FCF yield in EURm	2021E	2022E	2023E	2024E	2025E	
EBITDA	142,9	159,4	175,2	199,0	209,0	
- Maintenance capex	30,9	31,9	33,6	35,9	39,1	
- Minorities	-2,2	-2,7	-3,2	-3,8	-4,1	
- tax expenses	12,5	15,6	18,4	22,0	23,3	
= Adjusted Free Cash Flow	101,6	114,5	126,4	144,9	150,6	
Actual Market Cap	1.427	1.427	1.427	1.427	1.427	
+ Net debt (cash)	-44,4	-123,1	-207,2	-300,9	-398,5	
+ Pension provisions	21,6	24,1	26,6	30,2	31,7	
+ Off balance sheet financing	0,0	0,0	0,0	0,0	0,0	
- Financial assets	62,5	62,5	62,5	62,5	62,5	
- Accumulated dividend payments	17,6	39,6	65,4	96,4	129,2	
<i>EV Reconciliations</i>	-102,8	-201,0	-308,6	-429,6	-558,5	
= Actual EV'	1.324	1.226	1.118	997	868	
Adjusted Free Cash Flow yield	7,7%	9,3%	11,3%	14,5%	17,3%	
base hurdle rate	6,0%	6,0%	6,0%	6,0%	6,0%	
ESG adjustment (score 50/100)	0,0%	0,0%	0,0%	0,0%	0,0%	
adjusted hurdle rate	6,0%	6,0%	6,0%	6,0%	6,0%	
Fair EV	1.694	1.909	2.107	2.416	2.510	
- <i>EV Reconciliations</i>	-103	-201	-309	-430	-558	
Fair Market Cap	1.796	2.110	2.416	2.845	3.068	
No. of shares (million)	65,9	65,9	65,9	65,9	65,9	
Fair value per share in EUR	27,3	32,0	36,7	43,2	46,6	
Premium (-) / discount (+) in %	25,9%	47,9%	69,3%	99,4%	115,1%	
Sensitivity analysis fair value						
Adjusted hurdle rate	4,0%	40,1	46,5	52,7	61,5	65,6
	5,0%	32,4	37,8	43,1	50,5	54,2
	6,0%	27,3	32,0	36,7	43,2	46,6
	7,0%	23,6	27,9	32,1	38,0	41,1
	8,0%	20,8	24,8	28,7	34,0	37,1

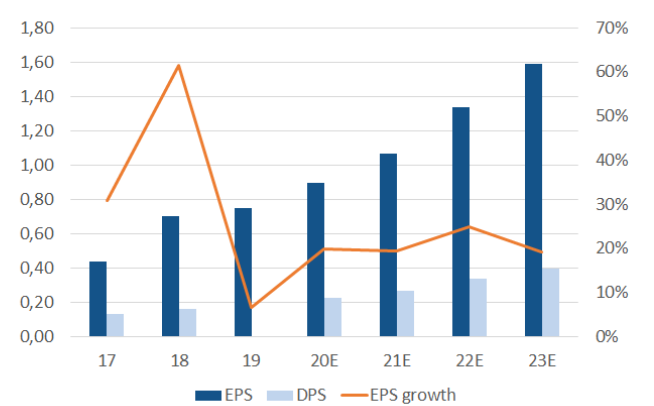
Source: AlsterResearch

Financials in six charts

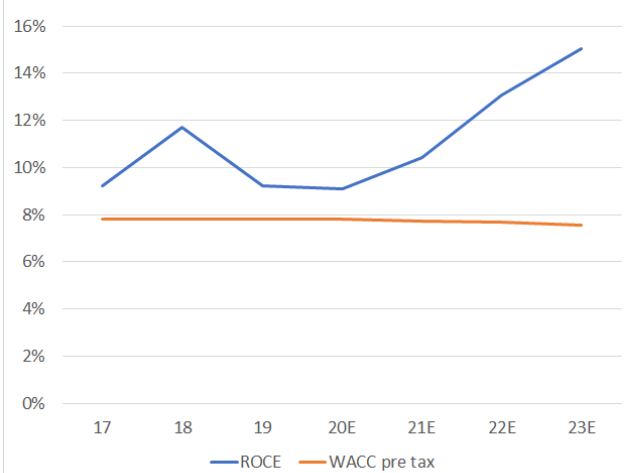
Sales vs. EBITDA margin development



EPS, DPS in EUR & yoy EPS growth



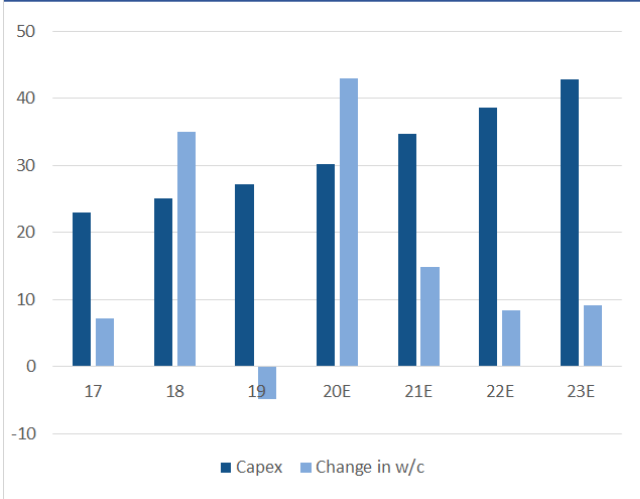
ROCE vs. WACC (pre tax)



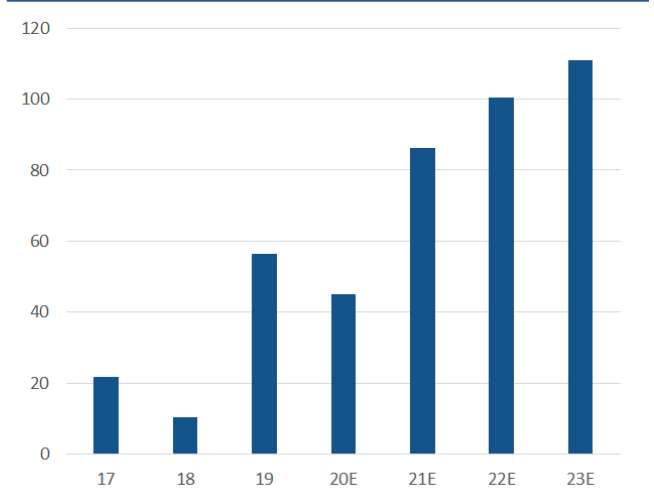
Net debt and net debt/EBITDA



Capex & chg in w/c requirements in EURm



Free Cash Flow in EURm



Source: Company data; AlsterResearch

Financials

Profit and loss (EUR m)	2018	2019	2020P	2021E	2022E	2023E
Net sales	990.9	1,122.9	1,254.8	1,443.0	1,609.6	1,770.1
Sales growth	12.3%	13.3%	11.7%	15.0%	11.5%	10.0%
Change in finished goods and work-in-process	15.1	15.5	0.0	0.0	0.0	0.0
Total sales	1,006.0	1,138.4	1,254.8	1,443.0	1,609.6	1,770.1
Material expenses	644.3	715.4	773.0	894.7	998.0	1,097.4
Gross profit	361.7	423.0	481.8	548.3	611.7	672.6
Other operating income	7.5	8.0	6.3	7.2	8.0	8.9
Personnel expenses	194.6	245.2	273.5	314.6	350.9	385.9
Other operating expenses	84.0	74.2	85.3	98.1	109.5	120.4
EBITDA	90.5	111.7	129.2	142.9	159.4	175.2
Depreciation	8.2	25.9	26.0	30.9	31.9	33.6
EBITA	82.3	85.8	103.3	111.9	127.5	141.6
Amortisation of goodwill and intangible assets	20.8	24.0	27.1	22.0	16.0	11.7
EBIT	61.5	61.8	76.2	90.0	111.4	129.9
Financial result	-5.2	-7.7	-5.0	-5.0	-5.0	-5.0
Recurring pretax income from continuing operations	56.3	54.1	71.2	85.0	106.4	124.9
Extraordinary income/loss	0.0	0.0	0.0	0.0	0.0	0.0
Earnings before taxes	56.3	54.1	71.2	85.0	106.4	124.9
Taxes	7.9	4.6	10.5	12.5	15.6	18.4
Net income from continuing operations	48.5	49.5	60.7	72.5	90.8	106.5
Result from discontinued operations (net of tax)	0.0	0.0	0.0	0.0	0.0	0.0
Net income	48.5	49.5	60.7	72.5	90.8	106.5
Minority interest	-3.5	-0.4	-1.8	-2.2	-2.7	-3.2
Net profit (reported)	45.0	49.1	58.9	70.3	88.1	103.3
Average number of shares	64.33	65.87	65.87	65.87	65.87	65.87
EPS reported	0.70	0.75	0.89	1.07	1.34	1.57

Profit and loss (common size)	2018	2019	2020P	2021E	2022E	2023E
Net sales	100%	100%	100%	100%	100%	100%
Change in finished goods and work-in-process	2%	1%	0%	0%	0%	0%
Total sales	102%	101%	100%	100%	100%	100%
Material expenses	65%	64%	62%	62%	62%	62%
Gross profit	36%	38%	38%	38%	38%	38%
Other operating income	1%	1%	1%	1%	1%	1%
Personnel expenses	20%	22%	22%	22%	22%	22%
Other operating expenses	8%	7%	7%	7%	7%	7%
EBITDA	9%	10%	10%	10%	10%	10%
Depreciation	1%	2%	2%	2%	2%	2%
EBITA	8%	8%	8%	8%	8%	8%
Amortisation of goodwill and intangible assets	2%	2%	2%	2%	1%	1%
EBIT	6%	6%	6%	6%	7%	7%
Financial result	-1%	-1%	-0%	-0%	-0%	-0%
Recurring pretax income from continuing operations	6%	5%	6%	6%	7%	7%
Extraordinary income/loss	0%	0%	0%	0%	0%	0%
Earnings before taxes	6%	5%	6%	6%	7%	7%
Taxes	1%	0%	1%	1%	1%	1%
Net income from continuing operations	5%	4%	5%	5%	6%	6%
Result from discontinued operations (net of tax)	0%	0%	0%	0%	0%	0%
Net income	5%	4%	5%	5%	6%	6%
Minority interest	-0%	-0%	-0%	-0%	-0%	-0%
Net profit (reported)	5%	4%	5%	5%	5%	6%

Source: Company data; AlsterResearch

Balance sheet (EUR m)	2018	2019	2020P	2021E	2022E	2023E
Intangible assets (exl. Goodwill)	87.6	100.5	81.4	59.4	43.4	31.7
Goodwill	120.0	194.4	194.4	194.4	194.4	194.4
Property, plant and equipment	37.1	99.8	119.0	122.7	129.4	138.2
Financial assets	47.8	62.5	62.5	62.5	62.5	62.5
FIXED ASSETS	292.5	457.2	457.2	438.9	429.6	426.8
Inventories	130.8	146.8	148.2	174.0	194.1	213.5
Accounts receivable	207.0	239.4	264.7	308.4	344.0	378.3
Other current assets	18.5	21.1	21.1	21.1	21.1	21.1
Liquid assets	171.8	322.0	345.7	334.4	323.1	377.2
Deferred taxes	0.0	0.0	0.0	0.0	0.0	0.0
Deferred charges and prepaid expenses	27.5	39.4	37.6	43.3	48.3	53.1
CURRENT ASSETS	555.5	768.5	817.4	881.2	930.5	1,043.1
TOTAL ASSETS	847.9	1,225.7	1,274.6	1,320.1	1,360.2	1,469.9
SHAREHOLDERS EQUITY	356.0	372.7	418.7	473.6	542.3	623.0
MINORITY INTEREST	11.3	12.4	12.4	12.4	12.4	12.4
Long-term debt	79.4	267.1	300.0	250.0	200.0	100.0
Provisions for pensions and similar obligations	5.6	19.9	18.8	21.6	24.1	26.6
Other provisions	46.8	44.8	50.2	57.7	64.4	70.8
Non-current liabilities	131.9	331.8	369.0	329.4	288.5	197.4
short-term liabilities to banks	39.6	86.5	70.0	40.0	0.0	70.0
Accounts payable	177.0	205.0	211.8	245.1	273.4	300.7
Advance payments received on orders	38.1	61.1	50.2	57.7	64.4	70.8
Other liabilities (incl. from lease and rental contracts)	55.6	109.0	87.8	101.0	112.7	123.9
Deferred taxes	12.6	13.4	13.4	13.4	13.4	13.4
Deferred income	25.9	33.8	41.4	47.6	53.1	58.4
Current liabilities	348.8	508.8	474.6	504.8	517.0	637.2
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	847.9	1,225.7	1,274.6	1,320.1	1,360.2	1,469.9

Balance sheet (common size)	2018	2019	2020P	2021E	2022E	2023E
Intangible assets (excl. Goodwill)	10%	8%	6%	4%	3%	2%
Goodwill	14%	16%	15%	15%	14%	13%
Property, plant and equipment	4%	8%	9%	9%	10%	9%
Financial assets	6%	5%	5%	5%	5%	4%
FIXED ASSETS	34%	37%	36%	33%	32%	29%
Inventories	15%	12%	12%	13%	14%	15%
Accounts receivable	24%	20%	21%	23%	25%	26%
Other current assets	2%	2%	2%	2%	2%	1%
Liquid assets	20%	26%	27%	25%	24%	26%
Deferred taxes	0%	0%	0%	0%	0%	0%
Deferred charges and prepaid expenses	3%	3%	3%	3%	4%	4%
CURRENT ASSETS	66%	63%	64%	67%	68%	71%
TOTAL ASSETS	100%	100%	100%	100%	100%	100%
SHAREHOLDERS EQUITY	42%	30%	33%	36%	40%	42%
MINORITY INTEREST	1%	1%	1%	1%	1%	1%
Long-term debt	9%	22%	24%	19%	15%	7%
Provisions for pensions and similar obligations	1%	2%	1%	2%	2%	2%
Other provisions	6%	4%	4%	4%	5%	5%
Non-current liabilities	16%	27%	29%	25%	21%	13%
short-term liabilities to banks	5%	7%	5%	3%	0%	5%
Accounts payable	21%	17%	17%	19%	20%	20%
Advance payments received on orders	4%	5%	4%	4%	5%	5%
Other liabilities (incl. from lease and rental contracts)	7%	9%	7%	8%	8%	8%
Deferred taxes	1%	1%	1%	1%	1%	1%
Deferred income	3%	3%	3%	4%	4%	4%
Current liabilities	41%	42%	37%	38%	38%	43%
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	100%	100%	100%	100%	100%	100%

Source: Company data; AlsterResearch

Ratios	2018	2019	2020P	2021E	2022E	2023E
Per share data						
Earnings per share reported	0.70	0.75	0.89	1.07	1.34	1.57
Cash flow per share	0.42	0.87	0.75	1.37	1.63	1.80
Book value per share	5.53	5.66	6.36	7.19	8.23	9.46
Dividend per share	0.13	0.16	0.22	0.27	0.33	0.39
Valuation						
P/E	31.0x	29.1x	24.2x	20.3x	16.2x	13.8x
P/CF	51.0x	24.8x	29.0x	15.9x	13.3x	12.0x
P/BV	3.9x	3.8x	3.4x	2.9x	2.6x	2.3x
Dividend yield (%)	0.6%	0.7%	1.0%	1.2%	1.5%	1.8%
FCF yield (%)	2.0%	4.0%	3.5%	6.3%	7.5%	8.3%
EV/Sales	1.4x	1.3x	1.2x	1.0x	0.8x	0.7x
EV/EBITDA	15.2x	13.2x	11.4x	9.8x	8.3x	7.1x
EV/EBIT	22.4x	23.9x	19.3x	15.6x	11.9x	9.6x
Income statement (EURm)						
Sales	990.9	1,122.9	1,254.8	1,443.0	1,609.6	1,770.1
yoy chg in %	12.3%	13.3%	11.7%	15.0%	11.5%	10.0%
Gross profit	361.7	423.0	481.8	548.3	611.7	672.6
Gross margin in %	36.5%	37.7%	38.4%	38.0%	38.0%	38.0%
EBITDA	90.5	111.7	129.2	142.9	159.4	175.2
EBITDA margin in %	9.1%	9.9%	10.3%	9.9%	9.9%	9.9%
EBIT	61.5	61.8	76.2	90.0	111.4	129.9
EBIT margin in %	6.2%	5.5%	6.1%	6.2%	6.9%	7.3%
Net profit	45.0	49.1	58.9	70.3	88.1	103.3
Cash flow statement (EURm)						
CF from operations	35.5	83.4	75.2	120.9	139.3	152.4
Capex	-25.1	-27.1	-30.1	-34.6	-38.6	-42.5
Maintenance Capex	8.2	25.9	26.0	30.9	31.9	33.6
Free cash flow	10.4	56.3	45.1	86.3	100.7	110.0
Balance sheet (EURm)						
Intangible assets	207.6	294.9	275.7	253.8	237.7	226.0
Tangible assets	37.1	99.8	119.0	122.7	129.4	138.2
Shareholders' equity	356.0	372.7	418.7	473.6	542.3	623.0
Pension provisions	5.6	19.9	18.8	21.6	24.1	26.6
Liabilities and provisions	171.5	418.3	439.0	369.4	288.5	267.4
Net financial debt	-52.7	31.6	24.3	-44.4	-123.1	-207.2
w/c requirements	122.7	119.9	151.0	179.6	200.3	220.3
Ratios						
ROE	13.6%	13.3%	14.5%	15.3%	16.7%	17.1%
ROCE	11.7%	7.8%	8.9%	10.7%	13.5%	14.6%
Net gearing	-14.8%	8.5%	5.8%	-9.4%	-22.7%	-33.3%
Net debt / EBITDA	-0.6x	0.3x	0.2x	-0.3x	-0.8x	-1.2x

Source: Company data; AlsterResearch

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Contacts

SRH AlsterResearch AG
Himmelstr. 9
22299 Hamburg

Tel: +49 40 309 293-52
Fax: +49 40 556 330-54
E-Mail: info@alsterresearch.com

mwb fairtrade Wertpapierhandelsbank AG
Rottenbacher Straße 28
82166 Gräfelfing

Tel: +49 89 85852-0
Fax: +49 89 85852-505
E-Mail: info@mwbfairtrade.com

Our research can be found under

Research

OLIVER DREBING
Senior Analyst
Tel: +49 40 309 293-57
E-Mail: o.drebing@alsterresearch.com

LOUISA HESSELBEIN
Analyst
Tel: +49 40 309 293-52
E-Mail: l.hesselbein@alsterresearch.com

KARSTEN RAHLF, CFA
Senior Analyst
Tel: +49 40 309 293-54
E-Mail: k.rahlf@alsterresearch.com

KATHARINA SCHLÖTER
Analyst
Tel: +49 40 309 293-52
E-Mail: k.schloeter@alsterresearch.com

THOMAS WISSLER
Senior Analyst
Tel: +49 40 309 293-58
E-Mail: t.wissler@alsterresearch.com

ALEXANDER ZIENKOWICZ
Analyst
Tel: +49 40 309 293-56
E-Mail: a.zienkowicz@alsterresearch.com

Sales

MARKUS KÖNIG-WEISS
Head of Sales
Tel: +49 40 309 293-52
E-Mail: mkw@alsterresearch.com

Equity Capital Markets / Trading

KAI JORDAN
Member of the Board
Tel: +49 40 36 0995-22
E-Mail: kjordan@mwbfairtrade.com

ALEXANDER DEUSS
Head of Institutional Sales
Tel: +49 40 36 0995-22
E-Mail: adeuss@mwbfairtrade.com

SASCHA GUENON
Head of Designated Sponsoring
Tel: +49 40 360 995-23
E-Mail: sguenon@mwbfairtrade.com

RESEARCH HUB	www.research-hub.de
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