

February 11th, 2022  
Research update

# SMC Research

## Small and Mid Cap Research



**Platz 1**  
Europe  
Industrials  
(2018)



**Platz 2**  
German  
Software & IT  
(2018)



**Platz 1**  
German  
Software & IT  
(2017)

**Mehrfacher Gewinner**  
der renommierten  
**Refinitiv Analyst Awards**

## Mensch und Maschine Software SE

Disproportionately high  
profit growth continues

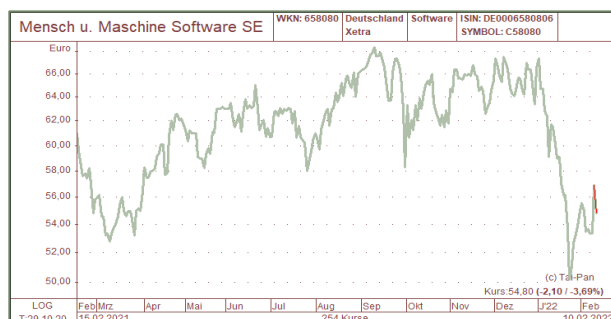
**Rating:** Strong Buy (unchanged) | **Price:** 54.80 € | **Price target:** 73.40 € (prev.: 70,00 €)

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Please take notice of the disclaimer at the end of the document!

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## Recent business development



### Basic data

<b>Based in:</b>	Wessling
<b>Sector:</b>	CAD/CAM software
<b>Headcount:</b>	971
<b>Accounting:</b>	IFRS
<b>ISIN:</b>	DE0006580806
<b>Ticker:</b>	MUM:GR
<b>Price:</b>	54.80 Euro
<b>Market segment:</b>	Scale / m:access
<b>Number of shares:</b>	17.2 m
<b>Market Cap:</b>	939.8 m Euro
<b>Enterprise Value:</b>	1.02 billion Euro
<b>Free Float:</b>	45.2%
<b>Price high/low (12M):</b>	69.20 / 49.50 Euro
<b>Ø turnover (Xetra, 12 M):</b>	362,200 Euro / day

With its preliminary figures, Mensch und Maschine has achieved its own forecast for 2021 and set new records for sales and profit. While sales increased by 9 percent to EUR 266 m, both EBIT and net profit increased by double digits. However, the EBIT target was slightly missed, and the net profit was only at the lower end of the target corridor, which is why our estimate turned out to be somewhat too optimistic, having been more in the middle of the range. However, the deviation is small and does not change the evidence of the excellent condition the company has been in for years. For example, the EBIT margin improved by 1.9 percentage points to 13.0 percent in the two Covid-19 years alone, while the dividend of EUR 1.20 per share announced for 2021 is more than 40 percent higher than the dividend for 2019. In a longer-term comparison, the increases are even more impressive. Above all, there is currently hardly anything that speaks against the continuation of this success story in the coming years. Accordingly, Mensch und Maschine feels confident that it can double its profits every four to five years, as it has done in the past.

FY ends: 31.12.	2019	2020	2021	2022e	2023e	2024e
<b>Sales (m Euro)</b>	245.9	244.0	266.0	296.6	327.7	360.5
<b>EBIT (m Euro)</b>	27.2	31.0	34.6	40.6	48.9	57.6
<b>Net Profit</b>	16.7	18.7	21.3	24.7	29.7	34.8
<b>EPS</b>	0.99	1.11	1.25	1.46	1.75	2.05
<b>Dividend per share</b>	0.85	1.00	1.20	1.40	1.60	1.81
<b>Sales growth</b>	32.7%	-0.8%	9.0%	11.5%	10.5%	10.0%
<b>Profit growth</b>	42.6%	12.3%	13.7%	16.2%	20.1%	17.3%
<b>PSR</b>	3.78	3.81	3.49	3.13	2.84	2.58
<b>PER</b>	55.8	49.7	43.7	37.6	31.3	26.7
<b>PCR</b>	35.3	27.6	25.5	25.1	21.5	18.9
<b>EV / EBIT</b>	37.2	32.6	29.3	24.9	20.7	17.6
<b>Dividend yield</b>	1.6%	1.8%	2.2%	2.6%	2.9%	3.3%

## Sales growth of 9 percent

According to preliminary figures, Mensch und Maschine increased its sales by 9 percent to EUR 266 m in the last financial year, which is at the upper end of the forecast range (EUR 259 to 268 m). The dynamics of the two segments were similar this time: Revenues in the VAR business rose by 8 percent to EUR 182 m, while growth in the software division was slightly disproportionately high at 11 percent to EUR 84 m. Broken down to the fourth quarter, the preliminary figures show double-digit growth in both segments as well as at group level (14 percent).

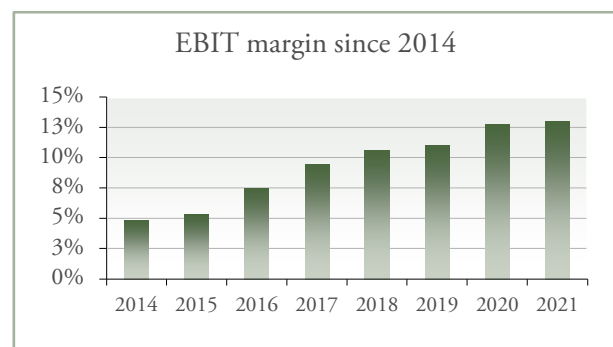
Business figures	FY 2020	FY 2021	Change
Sales	244.0	266.0	+9.0%
<i>VAR business</i>	168.4	182.0	+8.1%
<i>Software</i>	75.6	84.0	+11.1%
Gross profit	128.0	138.4	+8.2%
<i>Gross margin</i>	52.4%	52.0%	
EBIT	31.0	34.6	+11.5%
<i>VAR business</i>	11.9	13.3	+11.8%
<i>Software</i>	19.1	21.3	+11.3%
<i>EBIT margin</i>	12.7%	13.0%	
<i>VAR business</i>	7.1%	7.3%	
<i>Software</i>	25.3%	25.4%	
Net profit	18.7	21.3	+13.8%
<i>Net margin</i>	7.7%	8.0%	
Operating cash flow	33.7	36.5	+8.2%

In m Euro and percent, source: Company

## EBIT increases disproportionately again

Although the Group gross margin fell slightly compared to the previous year, EBIT again improved disproportionately. It increased by 11.5 percent to EUR 34.6 m, equivalent to a further margin increase to 13 percent. Compared to the last pre-pandemic year 2019, this represents an improvement of 1.9 percentage points; over the past five years, the EBIT margin has been improved by 3.6 percentage points. However, M+M's EBIT was slightly below the forecast (EUR 35.5 to 37.5 m), which the company explains upon enquiry with a combination of sales

shifts into the first quarter and – in view of the EPS forecast that was ultimately achieved (see below) – with the exploiting of leeway in the accrual process in the course of the final accounting work. With regard to the segment breakdown, the significantly larger share of group EBIT still comes from the software segment, which contributed around 62 percent in 2021 with EUR 21.3 m (+11.3 percent). EBIT in the VAR business amounted to EUR 13.3 m last year, almost 12 percent more than in 2020.



Source: Company

## New profit record

Thanks to positive effects in the financial result and the minority interest, the EPS forecast (125 to 135 cents) was ultimately achieved at the lower end of the target corridor with 126 cents. Our estimate, which had been in the middle of the range (at 131 cents), thus proved to be somewhat too optimistic. Nevertheless, with the almost 14 percent growth in net profit (to EUR 21.3 m), M+M was not only able to report another disproportionately high increase in profits, but also set a new profit record.

## Profit almost completely distributed

The operating cash flow was a positive surprise: we had expected it at the level of the very strong previous year (EUR 33.8 m), but this was now exceeded by 8 percent at EUR 36.5 m. This means that nearly 14 percent of sales remained in the till at the end of the year, which once again emphasises the quality of the result.

## Dividend to increase by 20 cents

Based on the very robust cash flows development, M+M intends to increase the dividend by 20 cents per share, and thus at the upper end of the forecast range. With a dividend of EUR 1.20 per share, the company intends to distribute almost the entire net profit for the year.

## Forecast for 2023 raised

For the current year, Mensch und Maschine continues to target EPS growth of 18 to 24 cents and, on this basis, aims to increase the dividend again by 15 to 20 cents per share. While these figures are in line with the targets already formulated, from next year M+M wants to increase profit growth to 20 to 30 cents per share and dividend growth to 15 to 25 cents per share. This target is based on the expectation of increasing sales and gross profit by an average of 8 to 12 percent p.a. and EBIT by 14 to 20 percent over these two years.

## Next profit doubling in sight

Building on the experience of recent years and especially against the background of the resilience, flexibility and scalability of the business model proved once again during the Covid-19 crisis, Mensch und Maschine is confident of being able to continue the dynamic profit growth trend for a long time to come. As a foundation of the performance to date and the confidence in its continuation, the management points to the group-wide requirement for the approximately 100 decentralised profit centres to limit cost growth to about two-thirds of gross profit growth, which, together with strict EBIT incentivisation, ensures very conscious and active cost management. Having more than doubled earnings per share in this model between 2017 and 2021, M+M is now confident of another doubling to more than 250 cents in the next four to five years. For sales, the company expects a slightly longer doubling period, so that the half-billion mark is to be attained in 2028/2029.

## Sales projection largely unchanged

The long-term forecast corresponds fairly closely to the scenario we had already assumed, in which we had

last calculated with sales of EUR 538 m for 2028. Since last year's sales were also almost exactly in line with our estimate (EUR 263.9 m), we have left the assumed sales projection largely unchanged. Our sales expectation for 2022 is now slightly higher than before (EUR 296.6 m instead of EUR 295.5 m), and the new target sales at the end of the detailed forecast period in 2029 is now EUR 581 m.

## Further margin growth

In terms of earnings, our estimates are also well reflected in the new long-term forecast. We had already assumed that the EPS mark of EUR 2.50 would be exceeded in 2026. However, as the preliminary earnings figures for 2021 were below our expectations, we have reduced our earnings estimate somewhat, especially for the current year. For 2022, we now expect EBIT of EUR 40.6 m and assume on this basis an EPS growth of 21 cents to EUR 1.46 (previously: EUR 42.9 m and EUR 1.54). This puts our estimate at the lower end of management's forecast corridor. Regarding the subsequent margin development, we expect a further continuous increase, but the achievable EBIT margin for our entire detailed forecast period remains below the 20 percent mark, which M+M is confident of exceeding in the medium term according to earlier statements. Our target margin for 2029 is now 19.4 percent. The resulting model business performance for the next eight years, which we assume for determining the fair value, is summarised in the table below; further details can also be found in the Annex.

## Debt ratio reduced

As in the past, we apply a 10 percent safety margin to the target margin of the detailed forecast period to determine the terminal value, so that we calculate an EBIT margin of 17.5 percent and assume "perpetual" cash flow growth of 1 percent p.a. on this basis. However, there has been a change in the WACC rate. The steady increase in the equity ratio led to a decrease in the target debt ratio in the capital structure from 40 percent to 37.5 percent, which resulted in a new discount rate of 5.8 percent (previously: 5.7 percent) with unchanged figures for borrowed capital and equity costs (4 and 7.7 percent, respectively).

m Euro	12 2022	12 2023	12 2024	12 2025	12 2026	12 2027	12 2028	12 2029
Sales	296.6	327.7	360.5	396.6	436.2	479.8	527.8	580.6
Sales growth		10.5%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
EBIT margin	13.7%	14.9%	16.0%	16.8%	17.6%	18.2%	18.8%	19.4%
<b>EBIT</b>	<b>40.6</b>	<b>48.9</b>	<b>57.6</b>	<b>66.6</b>	<b>76.8</b>	<b>87.4</b>	<b>99.4</b>	<b>112.7</b>
Tax rate	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%
Adjusted tax payments	12.4	14.9	17.6	20.3	23.4	26.7	30.3	34.4
<b>NOPAT</b>	<b>28.2</b>	<b>34.0</b>	<b>40.1</b>	<b>46.3</b>	<b>53.3</b>	<b>60.8</b>	<b>69.1</b>	<b>78.3</b>
+ Depreciation & Amortisation	4.5	5.0	5.0	5.1	5.1	5.1	5.1	5.0
+ Increase long-term accruals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Gross operating Cash Flows</b>	<b>32.8</b>	<b>39.0</b>	<b>45.1</b>	<b>51.4</b>	<b>58.4</b>	<b>65.8</b>	<b>74.1</b>	<b>83.3</b>
- Increase Net Working Capital	-0.7	-0.8	-0.9	-1.0	-1.1	-1.2	-1.4	-1.5
- Investments in fixed assets	-4.8	-4.8	-4.7	-4.7	-4.6	-4.6	-4.5	-4.5
<b>Free Cash Flows</b>	<b>27.2</b>	<b>33.4</b>	<b>39.5</b>	<b>45.7</b>	<b>52.7</b>	<b>60.0</b>	<b>68.2</b>	<b>77.3</b>

### Price target: EUR 73.40 per share

The model results in a fair market value of equity of EUR 1,245 m or EUR 73.38 per share, from which we derive the new price target of EUR 73,40 (previously: EUR 70.00). The increase is mainly due to the effect caused by the roll-over of the model to the new base year 2022, whose impact was, however, dampened by the slightly reduced profit expectations for 2022 as well as the minimally increased WACC rate.

A sensitivity analysis for the price target determination can be found in the Annex. The assessment of the forecast risk of our estimates remains unchanged at two out of six possible points.

## Conclusion

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With the preliminary figures for 2021, Mensch und Maschine has completed the next successful year and set new sales and, above all, earnings records. Sales, which had fallen minimally in the previous year due to Covid-19, increased by 9 percent to EUR 266 m, while EBIT and net income again showed double-digit growth. Compared to the last pre-pandemic year 2019, M+M was able to increase the EBIT margin by 1.9 percentage points to 13.0 percent.

Against the background of these figures and the very strong cash flows development, M+M wants to increase the dividend by 20 percent to EUR 1.20 per share, as already indicated in autumn. At the same time, the company has presented a forecast for 2022 and beyond that holds out the prospect of a continuation of the steep upward trends in sales, profit and dividend. M+M is confident that it will achieve the next doubling of profits to more than EUR 2.50 per share within the next four to five years.

This long-term forecast is largely congruent with the scenario on which we have already based our estimates. In this respect, we have left them largely unchanged. Last year's profit was slightly below our expectations, but this is a deviation within the forecast. We have therefore formulated our earnings estimate for 2022 somewhat more cautiously, but its impact on our price target was more than compensated for by the effect from the roll-over of the model to the new base year 2022. This has further increased our price target to EUR 73.40, which, in conjunction with the recent market-induced price setback for the share, now signals a high upside potential of over 30 percent.

Anticipating the continuation of the successful development, we confirm therefore our "Strong Buy" rating.

# Annex I: SWOT analysis

## Strengths

- Strong position in attractive target markets established for decades.
- A fast-growing, highly profitable software segment with a global market presence and a leading technological position.
- High continuity at management level and very low employee turnover.
- Stable shareholder structure with more than 50 percent of shares in management hands.
- Solid balance sheet structure with a high equity ratio and low debt.
- Growth dynamics above the industry average, with recently a disproportionately high rise in profits.
- Previous forecast accuracy supports the target of further profit increases.

## Opportunities

- There is still considerable potential for margin growth in the VAR business that should allow an above-average profit development in the next few years, if the present trends continue.
- The increasing importance of digitisation projects is likely to further boost the development of the VAR business.
- With its expertise in BIM and bridge and tunnel construction, the new subsidiary SOFiSTiK is addressing very promising markets.
- With the new eXs software, M+M has a modern product for an attractive market in which there is nothing comparable on offer.
- The foreseeable profit growth should allow a steady and considerable increase in dividends.

## Weaknesses

- The VAR business is largely determined by Autodesk's product and pricing policy.
- The geographic expansion of the VAR business requires the expensive establishment of additional offices; in principle, the segment's scaling potential is limited.
- Strong dependence on Germany and Europe.
- In both segments, M+M faces the challenge of attracting and retaining suitable employees in a difficult labour market.
- In terms of marketing, technology and personnel, there are at best only minor synergies between the segments.

## Threats

- High personnel intensity in the VAR business means a high extent of utilisation risk in economically weaker phases.
- The targeted further increase in margins is not a foregone conclusion, especially at the level already achieved.
- Should Autodesk fall behind in competition, it could have a perceptibly negative impact on the VAR business.
- The role as technology leader requires intensive development activities in the software segment and carries the risk of technological failures.
- The share's current valuation reflects the very high earnings growth and the expectation of a continuation of this trend. A disappointment of this expectation could lead to significant price slumps.

## Annex II: Balance sheet and P&L estimation

### Balance sheet estimation

m Euro	2021 act.	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e
<b>ASSETS</b>									
I. Total non-current assets	100.4	101.6	101.4	101.1	100.7	100.2	99.8	99.2	98.7
1. Intangible assets	62.2	61.6	61.1	60.6	60.1	59.6	59.1	58.7	58.3
2. Tangible assets	35.7	37.5	37.8	38.0	38.1	38.2	38.1	38.1	38.0
II. Total current assets	61.3	66.7	75.9	86.3	98.5	113.0	127.8	144.5	163.5
<b>LIABILITIES</b>									
I. Equity	87.1	93.6	102.8	113.0	124.9	138.9	153.0	169.0	187.2
II. Accruals	12.1	12.2	12.3	12.4	12.5	12.6	12.7	12.8	12.9
III. Liabilities									
1. Long-term liabilities	25.3	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7
2. Short-term liabilities	37.2	38.8	38.5	38.3	38.1	38.1	38.1	38.2	38.5
<b>TOTAL</b>	<b>161.7</b>	<b>168.3</b>	<b>177.3</b>	<b>187.4</b>	<b>199.2</b>	<b>213.3</b>	<b>227.5</b>	<b>243.8</b>	<b>262.3</b>

### P&L estimation

m Euro	2021 act.	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e
Sales	266.0	296.6	327.7	360.5	396.6	436.2	479.8	527.8	580.6
Gross profit	138.4	155.8	174.5	193.6	213.9	236.3	261.0	288.3	318.5
EBITDA	44.0	50.7	59.4	68.2	77.2	87.3	98.0	109.9	123.2
EBIT	34.6	40.6	48.9	57.6	66.6	76.8	87.4	99.4	112.7
EBT	34.0	40.0	48.3	57.1	66.0	76.2	86.9	98.8	112.2
EAT (before minorities)	23.7	27.8	33.6	39.7	45.9	52.9	60.4	68.7	78.0
EAT	21.3	24.7	29.7	34.8	40.1	45.9	52.0	58.8	66.3
EPS	1.25	1.46	1.75	2.05	2.36	2.71	3.07	3.47	3.91



## Annex III: Cash flows estimation and key figures

### Cash flows estimation

m Euro	2021 act.	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e
CF operating	36.5	37.1	43.2	49.3	55.5	62.4	69.7	77.9	87.0
CF from investments	-7.7	-4.8	-4.8	-4.7	-4.7	-4.6	-4.6	-4.5	-4.5
CF financing	-25.4	-29.3	-31.8	-36.9	-41.5	-46.4	-53.7	-60.1	-67.3
Liquidity beginning of year	16.0	19.4	22.3	28.9	36.6	45.9	57.3	68.8	82.0
Liquidity end of year	19.4	22.3	28.9	36.6	45.9	57.3	68.8	82.0	97.2

### Key figures

percent	2021 act.	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e
Sales growth	9.0%	11.5%	10.5%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Gross profit growth	8.2%	12.6%	12.0%	11.0%	10.5%	10.5%	10.5%	10.5%	10.5%
Gross margin	52.0%	52.5%	53.2%	53.7%	53.9%	54.2%	54.4%	54.6%	54.9%
EBITDA margin	16.5%	17.1%	18.1%	18.9%	19.5%	20.0%	20.4%	20.8%	21.2%
EBIT margin	13.0%	13.7%	14.9%	16.0%	16.8%	17.6%	18.2%	18.8%	19.4%
EBT margin	12.8%	13.5%	14.7%	15.8%	16.7%	17.5%	18.1%	18.7%	19.3%
Net margin (after minorities)	8.0%	8.3%	9.1%	9.7%	10.1%	10.5%	10.8%	11.1%	11.4%

## Annex IV: Sensitivity analysis

WACC	Perpetual cash flows growth				
	2.0%	1.5%	1.0%	0.5%	0.0%
4.8%	121.27	105.74	94.30	85.51	78.56
5.3%	102.09	91.07	82.61	75.92	70.49
5.8%	87.97	79.83	<b>73.38</b>	68.15	63.82
6.3%	77.15	70.94	65.90	61.73	58.22
6.8%	68.60	63.75	59.73	56.35	53.46

# Disclaimer

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## *Charts*

The charts were made with Tai-Pan ([www.lp-software.de](http://www.lp-software.de)).

## Disclaimer

### **Legal disclosures (§85 of the German Securities Trading Act (WHPG), MAR, Commission Delegated Regulation (EU) 2016/958 supplementing Regulation (EU) No 596/2014)**

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## *II) Preparation and updating*

The present financial analysis was prepared by: Dipl. Volkswirt Dr. Adam Jakubowski

Participants in the preparation of the present financial analysis: -

The present analysis was finished on 11.02.2022 at 14:00 and published on 11.02.2022 at 14:25.

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Strong Buy	We expect an increase in price for the analysed financial instrument by at least 10 percent. We assess the estimation risk as below average (1 to 2 points).
Buy	We expect an increase in price for the analysed financial instrument by at least 10 percent. We assess the estimation risk as average (3 to 4 points).
Speculative Buy	We expect an increase in price for the analysed financial instrument by at least 10 percent. We assess the estimation risk as above average (5 to 6 points).

Hold	We expect that the price of the analysed financial instrument will remain stable (between -10 and +10 percent). The forecast risk (1 to 6 points) has no further impact on the rating. The rating “hold” is also used in cases where we perceive a price potential of more than 10 percent, but explicitly mentioned temporary factors prevent a short-term realization of the price potential.
Sell	We expect that the price of the analysed financial instrument will drop by at least 10 percent. The forecast risk (1 to 6 points) has no further impact on the rating.

The expected change in price refers to the current share price of the analysed company. This price and any other share prices used in this analysis are XETRA closing prices as of the last trading day before publication. If the share is not traded on XETRA, the closing price of another public stock exchange is used with a separate note to that effect.

The price targets published within the assessment are calculated with common methods of financial mathematics, especially with the DCF (discounted cash flow) method, the sum of the parts valuation and a peer group analysis. The valuation methods are affected by economic framework conditions, especially by the development of the interest rates.

The rating resulting from these methods reflects current expectations and can change anytime subject to company-specific or economic changes.

More detailed explanations of the models used by SMC Research can be found at:

<http://www.smc-research.com/impressum/modellerlaeuterungen>

An overview of the recommendations prepared and distributed by SMC Research in the last 12 months can be found at: <http://www.smc-research.com/publikationsuebersicht>

In the past 24 months, sc-consult GmbH has published the following financial analyses for the company:

Date	Rating	Target price	Conflict of interests
25.10.2021	Strong Buy	70.00 Euro	1), 3), 4)
05.08.2021	Strong Buy	68.00 Euro	1), 3), 4)
23.04.2021	Hold	63.70 Euro	1), 3)
16.03.2021	Strong Buy	63.40 Euro	1), 3)
12.02.2021	Hold	62.70 Euro	1), 3), 4)
22.10.2020	Hold	52.30 Euro	1), 3), 4)
18.09.2020	Buy	52.20 Euro	1), 3), 4)
24.07.2020	Hold	50.50 Euro	1), 3)
22.04.2020	Buy	50.00 Euro	1), 3), 4)
17.03.2020	Buy	50.00 Euro	1), 3)
17.02.2020	Hold	50.50 Euro	1), 3), 4)

In the course of the next twelve months, sc-consult GmbH will presumably prepare the following financial analyses for the company: one research report and two updates

The publishing dates for the financial analyses are not yet fixed at the present moment.

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