

Media and Games Invest SE

Sweden / Application Software
 Nasdaq First North Premier & Xetra
 Bloomberg: M8G GR
 ISIN: SE0018538068

2022 results

RATING	BUY
PRICE TARGET	€ 4.00
Return Potential	147.5%
Risk Rating	High

SOFTWARE CLIENT GROWTH POWERS RESULTS

Despite the bumpy economic environment, MGI ended 2022 on a solid note with Q4 turnover up 16% Y/Y and AEBITDA 35% higher, thanks to 13% organic growth for the October-to-December quarter. The company's evolution towards an ad-software platform continues to pay off, and MGI's software client base now totals 551 after acquiring 133 new customers last year (+32%). This growth helped offset CPM (cost per thousands) pricing pressure. Headline figures reached the upper end of 2022 guidance and topped our forecasts, and we continue to expect further topline and earnings growth in 2023. Our target price moves to €4.0 (old: €4.4) on the dilution from warrants issued in Q4, and we remain Buy-rated on MGI.

Q4 outperforming the market MGI reported a strong set of Q4 results led by 35% AEBITDA growth to €32m that also overshot FBe (€27m). The performance owes chiefly to its robust software client base (+133 new clients) and underscores the company's ability to outperform an adverse ad-spend environment. Thanks to good operating cash flows, MGI was also able to compress its net debt / EBITDA ratio to 2.9x by YE22 (H1/22: 3.7x), which dipped further to 2.7x on a pro-forma basis following the EG7 exit (overleaf). The company ended 2022 with €150m in liquid assets and will explore options to buy back bonds and / or lengthen maturities with new issuances. The company noted that the financing environment has slightly improved recently.

Digital advertising still healthy after years-long bonanza For MGI and ad-sellers, 2021 was always going to be a hard act to follow. Online advertising boomed as work, leisure, and shopping shifted online during the brunt of the pandemic. The contrast in 2022 was stark, and the digital ad market notched a mere 9% growth rate after clocking over 30% in 2021 according to eMarketers, a market watcher. Plus, the crackdown on tracking last year has been especially hard on platforms that serve display ads, which target consumers based. . . (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2019	2020	2021	2022	2023E	2024E
Revenue (€m)	83.89	140.22	252.17	324.44	335.52	388.20
Y/Y growth	157.2%	67.1%	79.8%	28.7%	3.4%	15.7%
EBITDA (€m)	15.54	26.55	65.04	84.75	87.67	104.19
EBITDA margin	18.5%	18.9%	25.8%	26.1%	26.1%	26.8%
Net income (€m)*	-0.32	6.58	28.02	21.09	15.18	24.28
EPS (diluted) (€)*	-0.01	0.04	0.20	0.14	0.10	0.15
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	3.13	3.13	-12.50	-230.79	-42.45	57.68
Net gearing	22.4%	31.2%	63.7%	84.3%	77.1%	71.3%
Liquid assets (€m)	32.98	46.25	180.16	149.99	137.72	162.80

* Adjusted for PPA-amortisation

RISKS

Risks include but are not limited to: revenue diversity, financing, technology, and regulatory risks.

COMPANY PROFILE

Media and Games Invest SE is an advertising software platform with strong first-party games. MGI combines organic growth with value-generating synergetic acquisitions and has achieved strong profitable growth with a 78% revenue CAGR (2019-2022). MGI has acquired and integrated over 35 companies and assets in the past 10 years to achieve efficiency gains & competitive advantages.

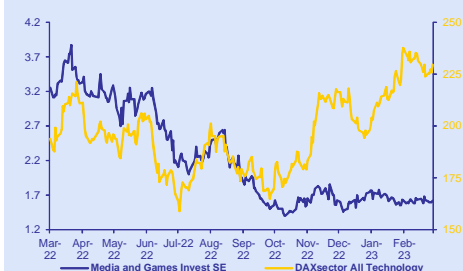
MARKET DATA

As of 03 Mar 2023

Closing Price	€ 1.62
Shares outstanding	159.25m
Market Capitalisation	€ 257.35m
52-week Range	€ 1.40 / 3.87
Avg. Volume (12 Months)	115,600

Multiples	2021	2022	2023E
P/E	8.2	12.0	17.0
EV/Sales	2.5	1.9	1.8
EV/EBITDA	9.5	7.3	7.1
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2022

Liquid Assets	€ 150.00m
Current Assets	€ 221.02m
Intangible Assets	€ 791.28m
Total Assets	€ 1,044.66m
Current Liabilities	€ 219.47m
Shareholders' Equity	€ 321.75m

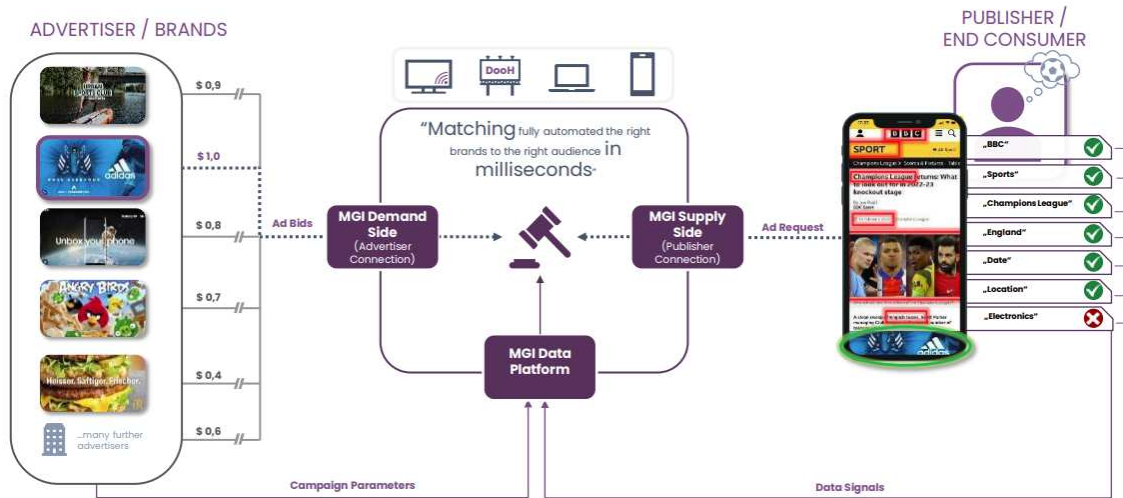
SHAREHOLDERS

Bodhivas GmbH	26.2%
Oaktree Capital Mngt	14.8%
Free Float	59.0%
Free Float	59.0%

. . . on their interests, as opposed to things they have actively searched for. Investors concerned about the health of digital advertising after the bonanza years sold their ad-tech stocks, and MGI shed some 57% in market cap in 2022 in the course of the sector sell-off.

We still bet that Media and Games Invest will emerge as a long-term winner in the current market downturn, thanks to the core features of its ad-software platform: (1) first party data; (2) growing software client base; (3) privacy-compliant solutions that contextualise ads and deliver results to advertisers in a world without identifiers; and (4) an end-to-end multichannel programmatic set-up.

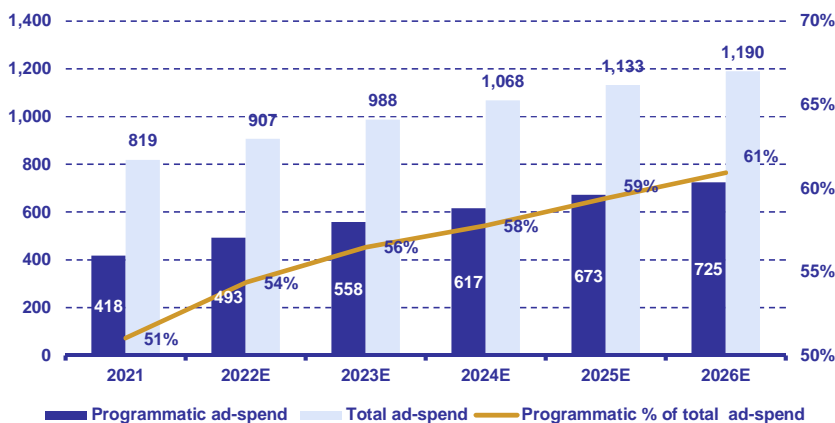
Figure 1: Programmatic advertising schematic



Source: First Berlin Equity Research; Media and Games Invest

Programmatic, or the automated trading of ad slots, is complex, fiendishly fast and still mystifies many investors. Management thus devoted a portion of the earnings call to the programmatic ad business. Programmatic simplifies online advertising by enabling advertisers to bid for space on a webpage that a consumer has just clicked on, based on cookies and other tracking tools. An auction is held, and the “winning” ad is transmitted within milliseconds. The idea is to help publishers get the best price for their space and advertisers the best return on their investment. eMarketers is calling for 13% growth for programmatic ad-spend in 2023.

Figure 2: Programmatic trends and market forecasts (\$bn)



Source: First Berlin Equity Research; eMarketers



FOURTH QUARTER HIGHLIGHTS

The 37% year-on-year revenue growth in Q4 was spurred by 13% OSG, which owed mainly to the onboarding of new software clients. This was able to offset a slight dip in MGI's 'net \$ expansion rate', the key industry indicator that gauges a company's ability to expand the revenues it generates from its customers, to 96%, while customer retention remained high at 97%. The 13% OSG also outpaced the digital advertising market, which only grew at a 6% clip according to JMP Securities, an investment bank. On an annualised basis, topline growth topped 29%, thanks to 18% OSG and a 32% increase in the software client base to 551.

Table 1: Fourth quarter vs prior year and FBe

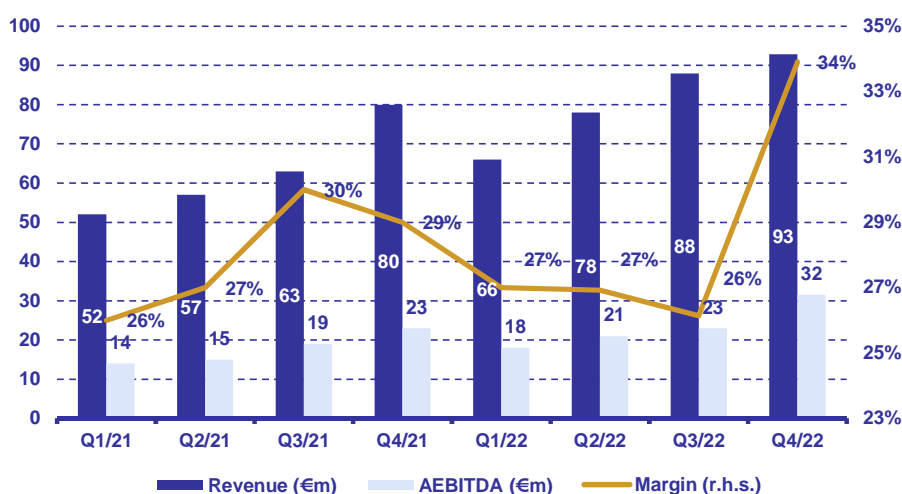
EURm	Q4/22	Q4/22E	Variance	Q4/21	Variance	2022	2021	Variance
Revenue	92.9	85.6	9%	80.2	16%	324.4	252.2	29%
EBITDA	26.5	25.1	5%	20.9	27%	84.8	65.0	30%
Margin	28%	29%	-	26%	-	26%	26%	-
EBIT	-8.4	18.8	-	13.7	-	26.6	36.8	-28%
Margin	-9%	22%	-	17%	-	8%	15%	-
AEBITDA ¹	31.5	27.0	17%	23.3	35%	93.2	71.1	31%
Margin	34%	32%	-	29%	-	29%	28%	-
AEBIT ²	28.1	25.1	12%	19.4	45%	76.6	54.8	40%
Margin	30%	29%	-	24%	-	24%	22%	-

¹ EBITDA adjusted for one-off expenses; ² EBIT adjusted for one-off & PPA expenses

Source: First Berlin Equity Research; Media and Games Invest

Margins remain solid Adjusted EBITDA (AEBITDA), the key indicator of profitability stripped of one-off costs, tallied €32m in the October-to-December period equal to a solid 28% margin. EBIT of €-8.4m resulted from a non-cash write-down of intangible assets totalling €-23.6m. This was traced to a cleansing of the gaming portfolio, since MGI has shifted its gaming focus away from MMO (massively multiplayer online) games towards mobile and casual games. Adjusted for the fair value write-down and PPA amortisation, AEBIT totalled €28m for the quarter equal to a 30% margin.

Figure 3: Quarterly sales and earnings developments



Source: First Berlin Equity Research; Media and Games Invest

**Table 2: 2022 results vs guidance and prior year**

	Unit	2021A	Guidance			2022A
			2022 (old)	2022 (1st update)	2022 (2nd update)	
Revenue	€m	252	290 - 310	295 - 315	315 - 325	324
Grow th	%	80	15 - 23	17 - 25	25 - 29	29
AEBITDA	€m	71	80 - 90	83 - 93	83 - 93	93
Grow th	%	143	13 - 27	17 - 31	17 - 31	31

Source: First Berlin Equity Research; Media and Games Invest

Table 3: Financial highlights

EURm	2022	2021	Variance
Cash	150	180	-17%
Liabilities (short- and long-term)	723	627	15%
Net debt	274	199	38%
Intangible assets	791	606	31%
Total assets	1,045	934	12%
Total equity	322	308	5%
Equity ratio	31%	33%	-
Interest coverage ratio*	4.0x	4.6x	-
Net leverage ratio	2.9x	2.8x	-

* based on cash interest expenses

Source: First Berlin Equity Research; Media and Games Invest

Balance sheet and liquidity position MGI exited the year with cash of €150m after the final earn-out and deferred purchase price payments for KingsIsle and the initial payments in conjunction with the AxisInMotion and Datasat deals.

Thanks to good operating cash flows (table 4) helped by the securitisation of receivables, the company was able to compress the leverage ratio back down to 2.9x by YE22 (H1/22: 3.7x). Following the disposal of Enad Global 7 (EG7) the KPI stood at 2.7x on a pro-forma basis. In February, the company sold its strategic minority stake in the Swedish gaming company after a strong rally in the EG7 share price allowed MGI to exit close to break-even. Cash conversion (Net OCF – Maintenance CapEx / EBITDA) equalled 229% in Q4 and 135% for the year.

Table 4: Cash flow developments

EURm	Q4/22	Q4/21	Variance	2022	2021	Variance
Net operating cash flow	74	31	141%	134	65	107%
Investing cash flow	-2	-58	n.m.	-177	-296	n.m.
Financing cash flow	-41	8	n.m.	12	365	-97%
Net cash flow	32	-18	n.m.	-30	134	n.m.
Cash & cash equivalents	150	199	-24%	150	180	-17%

Source: First Berlin Equity Research; Media and Games Invest



OUTLOOK

We have adjusted our near term forecasts to reflect the operating structure that emerged in H2/22. This includes higher COGS with CPM (cost per thousand) pricing still under pressure, which is largely offset by greater other operating income than previously modelled.

Table 5: Changes to FBe and target price

	old	new	revision	upside	dividend yield	total return
Price target (€)	4.4	4.0	-9.1%	147.5%	0.0%	147.5%
All figures in € '000		2023E			2024E	
	old	new	revision	old	new	revision
Revenue	335,522	335,521	0.0%	385,851	388,198	0.6%
EBITDA	92,917	87,674	-5.6%	107,165	104,190	-2.8%
Margin (%)	27.7%	26.1%	-	27.8%	26.8%	-
EBIT	60,087	54,844	-8.7%	70,964	67,831	-4.4%
Margin (%)	17.9%	16.3%	-	18.4%	17.5%	-
AEBITDA*	94,917	91,174	-3.9%	107,165	104,190	-2.8%
Margin (%)	28.3%	27.2%	-	27.8%	26.8%	-

* adjusted for one-offs

Source: First Berlin Equity Research estimates

MGI has also adopted an employee stock option program (ESOP) that entails 15m warrants for key staff members (see announcement of 10 January 2023). Our fully diluted share count thus increases to 174.2m (old: 159.2m). We have also increased our risk free rate to 2.5% with the continued rise in the German 10 year Bund. The adjustments to our DCF model now point to a €4.0 target price (old: €4.4).

Remaining Buy-rated on MGI shares In our view, MGI remains well positioned to capitalise on an evolving digital advertising market that continues to trend towards programmatic solutions. We expect market tailwinds with a rebound in CPM pricing (likely 2024) to pick up and spur growth along with operating leverage.



VALUATION MODEL

All figures in EUR '000	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Revenue	324,444	335,521	388,198	442,545	491,225	530,523	557,049	579,331
NOPLAT	19,164	39,487	48,838	58,142	68,978	74,884	80,020	85,197
(+) depreciation & amortisation	58,135	32,830	36,359	38,201	34,262	36,895	38,672	40,165
(=) Net operating cash flow	77,300	72,317	85,197	96,343	103,240	111,779	118,693	125,362
(-) Investments	-295,792	-34,180	-41,387	-44,366	-32,479	-32,505	-32,224	-32,153
(-) Working capital	47,369	-2,759	-1,566	-1,822	-1,858	-1,810	-1,623	-1,589
(=) Free cash flows (FCF)	-171,124	35,379	42,245	50,155	68,904	77,464	84,846	91,620
PV of FCFs	0	32,591	35,207	37,815	46,998	47,800	47,364	46,270

All figures in thousands		Terminal EBIT margin							
		15.6%	17.6%	19.6%	21.6%	23.6%	25.6%	27.6%	
PV of FCFs in explicit period	463,630	9.0%	4.05	4.50	4.96	5.42	5.88	6.34	6.79
PV of FCFs in terminal period	500,198	9.5%	3.65	4.06	4.46	4.87	5.27	5.68	6.08
Enterprise value (EV)	963,828	10.0%	3.31	3.67	4.03	4.39	4.75	5.11	5.47
(+) Net cash / (-) net debt (pro-forma)	-271,298	10.5%	3.01	3.33	3.65	3.97	4.29	4.61	4.94
(-) Non-controlling interests	-578	11.0%	2.74	3.03	3.32	3.60	3.89	4.18	4.47
Shareholder value	691,952	11.5%	2.50	2.76	3.02	3.28	3.54	3.80	4.06
Fair value per share (€)	4.00	12.0%	2.29	2.52	2.75	2.99	3.22	3.46	3.69

		Terminal growth rate							
		1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	
Cost of equity	14.3%	9.0%	4.61	4.84	5.11	5.42	5.78	6.21	6.72
Pre-tax cost of debt	5.0%	9.5%	4.19	4.39	4.61	4.87	5.16	5.51	5.91
Tax rate	28.0%	10.0%	3.82	3.98	4.17	4.39	4.63	4.92	5.25
After-tax cost of debt	3.6%	10.5%	3.48	3.63	3.79	3.97	4.18	4.41	4.68
Share of equity capital	65.0%	11.0%	3.19	3.31	3.45	3.60	3.78	3.97	4.20
Share of debt capital	35.0%	11.5%	2.92	3.03	3.15	3.28	3.43	3.59	3.78
WACC	10.5%	12.0%	2.68	2.77	2.87	2.99	3.11	3.26	3.41

*Please note our model runs through 2033 and we have only shown the abbreviated version for formatting purposes



INCOME STATEMENT

All figures in EUR '000	2019	2020	2021	2022	2023E	2024E
Revenues	83,893	140,220	252,166	324,444	335,521	388,198
Capitalised work	10,187	15,994	22,851	28,928	20,668	26,203
Total output	94,080	156,214	275,017	353,373	356,189	414,401
Cost of goods sold	-45,803	-77,620	-137,968	-179,470	-177,826	-205,745
Gross profit	48,277	78,594	137,049	173,903	178,363	208,656
Other OpEx	-10,012	-18,745	-24,655	-36,149	-34,559	-38,985
Personnel expenses	-27,359	-39,573	-55,978	-76,207	-78,176	-88,189
Other operating income	4,636	6,272	8,626	23,206	22,046	22,707
EBITDA	15,542	26,549	65,042	84,753	87,674	104,190
Depreciation & amortisation	-10,543	-15,508	-28,238	-58,135	-32,830	-36,359
Operating income (EBIT)	4,999	11,041	36,804	26,617	54,844	67,831
Net financial result	-5,758	-7,139	-21,919	-37,959	-38,044	-39,935
Pre-tax income (EBT)	-759	3,901	14,885	-11,342	16,800	27,896
Income taxes	2,012	-1,194	1,169	-9,063	-11,972	-13,966
Net income	1,253	2,707	16,054	-20,405	4,828	13,930
Discontinued operations	0	0	0	0	0	0
Consolidated profit	1,253	2,707	16,054	-20,405	4,828	13,930
Minority interests	-1,577	352	7	88	-5	-14
Net income to owners	-324	3,059	16,060	-20,316	4,823	13,916
Diluted EPS (in €)	-0.01	0.03	0.11	-0.13	0.03	0.08
Adj. EPS (excl PPA amort.) (diluted)	-0.01	0.04	0.20	0.14	0.10	0.15
AEBITDA (excl: one-offs)	18,110	29,090	71,100	93,153	91,174	104,190
AEBIT (excl: PPA amort. & one-offs)	4,999	14,916	54,826	76,507	68,694	78,181
Ratios						
Gross margin on revenues	57.5%	56.1%	54.3%	53.6%	53.2%	53.8%
EBITDA margin on revenues	18.5%	18.9%	25.8%	26.1%	26.1%	26.8%
EBIT margin on revenues	6.0%	7.9%	14.6%	8.2%	16.3%	17.5%
Net margin on revenues	-0.4%	2.2%	6.4%	-6.3%	1.4%	3.6%
AEBITDA margin on revenues	21.6%	20.7%	28.2%	28.7%	27.2%	26.8%
Tax rate	n.a.	30.6%	n.a.	27.0%	29.0%	32.5%
Expenses as % of revenues						
Other OpEx	11.9%	13.4%	9.8%	11.1%	10.3%	10.0%
Personnel expenses	32.6%	28.2%	22.2%	23.5%	23.3%	22.7%
Depreciation & amortisation	12.6%	11.1%	11.2%	17.9%	9.8%	9.4%
Y-Y Growth						
Revenues	157.2%	67.1%	79.8%	28.7%	3.4%	15.7%
EBITDA	79.8%	70.8%	145.0%	30.3%	3.4%	18.8%
Operating income	114.7%	120.9%	233.4%	-27.7%	106.0%	23.7%
Net income/ loss	n.m.	n.m.	425.0%	n.m.	n.m.	188.5%



BALANCE SHEET

All figures in EUR '000	2019	2020	2021	2022	2023E	2024E
Assets						
Current assets, total	55,856	92,375	283,599	221,021	211,260	247,888
Cash and equivalents	32,984	46,254	180,157	149,991	137,721	162,804
Trade receivables	22,872	46,121	103,442	71,030	73,539	85,084
Non-current assets, total	256,593	293,467	650,495	823,637	798,174	792,045
Property, plant & equipment	3,521	1,742	4,681	5,522	5,858	6,052
Intangible assets	233,208	272,829	605,746	791,284	782,612	776,143
Deferred taxes	11,215	15,737	11,545	6,651	6,784	6,920
Investments in associated companies	6,410	1,207	1,154	1,003	1,003	1,003
Other financial assets	2,239	1,952	27,369	19,177	1,918	1,927
Total assets	312,449	385,842	934,094	1,044,658	1,009,434	1,039,933
Shareholders' equity & debt						
Current liabilities, total	54,544	78,205	243,434	219,471	412,854	178,926
Trade payables	20,274	30,037	53,754	68,711	68,461	78,441
ST financial debt	6,772	6,087	32,027	31,903	233,925	0
Provisions	12,585	17,257	54,036	65,225	66,203	67,196
Other current financial liabilities	0	12,897	83,568	32,290	22,603	11,302
Other current liabilities	14,913	11,927	20,049	21,342	21,662	21,987
Long term liabilities, total	89,347	130,792	383,168	503,443	270,007	520,505
Long-term debt	8,369	11,671	16,034	89,618	89,618	89,618
Bonds	63,988	95,355	343,925	389,386	155,461	405,461
Other LT liabilities	0	0	0	0	0	0
Deferred tax liabilities	16,990	23,766	23,209	24,439	24,928	25,426
Shareholders' equity	168,558	176,845	307,492	321,744	326,572	340,502
Total consolidated equity and debt	312,449	385,842	934,094	1,044,658	1,009,434	1,039,933
Ratios						
Current ratio (x)	1.0	1.2	1.2	1.0	0.5	1.4
Net debt	37,776	55,188	195,795	271,298	251,665	242,657
ICR (x)	3.1	4.1	3.2	4.0	4.0	4.3
Net gearing	22%	31%	64%	84%	77%	71%
Net debt / EBITDA (x)	2.4	2.1	3.0	3.2	2.9	2.3
Equity ratio	54%	46%	33%	31%	32%	33%
Return on equity (ROE)	0.7%	1.5%	5.2%	-6.3%	1.5%	4.1%
Capital employed (CE)	257,905	307,637	690,660	825,187	596,579	861,007
Return on capital employed (ROCE)	2%	4%	5%	3%	9%	8%



CASH FLOW STATEMENT

All figures in EUR '000	2019	2020	2021	2022	2023E	2024E
Net income	1,253	2,707	16,054	-20,405	4,828	13,930
Depreciation and amortisation	10,543	15,508	28,238	58,135	32,830	36,359
Results from sale of subsidiaries	0	0	0	0	0	0
Other non-cash adjustments	-5,752	4,072	1,165	0	0	0
Net interest expense	5,529	6,264	21,600	37,959	38,044	39,935
Tax result	-822	1,194	1,939	9,063	11,972	13,966
Operating cash flow	10,751	29,745	68,996	84,753	87,674	104,190
Tax expense	0	0	-425	-9,063	-11,972	-13,966
Change in working capital	5,365	-4,543	-4,634	58,530	-1,104	115
Net operating cash flow	16,116	25,202	63,937	134,220	74,597	90,339
Cash flow from investing	-12,987	-37,707	-294,729	-176,672	-16,921	-41,396
Cash flow from financing	25,408	25,774	364,695	12,287	-69,947	-23,860
Net cash flows	28,537	13,269	133,903	-30,166	-12,270	25,083
Fx adjustments	0	0	0	0	0	0
Cash, start of the year	4,447	32,984	46,254	180,157	149,991	137,721
Cash, end of the year	32,984	46,253	180,157	149,991	137,721	162,804
Free cash flow (FCF)	3,129	-12,505	-230,792	-42,453	57,676	48,943
FCFps (in €)	0.05	-0.15	-1.63	-0.27	0.36	0.31
Y-Y Growth						
Operating cash flow	132.2%	56.4%	153.7%	109.9%	-44.4%	21.1%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	-15.1%
FCF / share	-74.6%	n.m.	n.m.	n.m.	n.m.	-15.1%

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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

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First Berlin Equity Research GmbH

Authored by: Ellis Acklin, Senior Analyst

All publications of the last 12 months were authored by Ellis Acklin.

Company responsible for preparation: First Berlin Equity Research GmbH, Friedrichstraße 69, 10117 Berlin

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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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RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	7 November 2019	€1.23	Buy	€2.10
2...20	↓	↓	↓	↓
21	10 February 2022	€3.73	Buy	€8.20
22	3 March 2022	€3.56	Buy	€7.90
23	25 April 2022	€3.23	Buy	€7.90
24	4 May 2022	€3.29	Buy	€8.20
25	2 June 2022	€3.08	Buy	€8.20
26	29 July 2022	€2.24	Buy	€4.40
27	9 September 2022	€1.92	Buy	€4.40
28	17 November 2022	€1.79	Buy	€4.40
29	Today	€1.62	Buy	€4.00

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- key sources of information in the preparation of this research report
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