

## Media and Games Invest plc\*5a;7;11

**Rating: Buy**  
**Target price: € 5.15**

Current price: 3.58  
 11/03/21 / Xetra /  
 (11:47 am)  
 Currency: EUR

**Master data:**

ISIN: MT0000580101  
 WKN: A1JGT0  
 Ticker Symbol: M8G  
 Number of shares<sup>3</sup>: 128.45  
 Market cap<sup>3</sup>: 459.85  
 EnterpriseValue<sup>3</sup>: 521.47  
<sup>3</sup> in m / in € m  
 Free float: 52.44%

Transparency level:  
 Nasdaq First North Premier

Market segment:  
 Open Market  
 (Open Market)

Accounting:  
 IFRS

Financial year: 31.12.

Designated Sponsors:  
 Hauck & Aufhäuser Private  
 Bankers AG  
 Pareto Securities AB

**Analysts**

Marcel Goldmann  
 goldmann@gbc-ag.de

Cosmin Filker  
 filker@gbc-ag.de

\* Catalogue of possible conflicts of interest on page 9

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 11/03/2021 (12:52 pm)

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 11/03/2021 (13:30 pm)

Validity of the target price: until  
 max. 31/12/2021

**Company profile**

Industry: Entertainment, Media  
 Focus: Video games (so-called MMOs)  
 Employees: 800  
 Founded: 2011 (gamigo in 2000)  
 Head office: Malta (probably Luxembourg from 2022)

Management Board: Remco Westermann (CEO), Paul  
 Echt (CFO)

Media and Games Invest plc has a profitable and growing portfolio of companies in the games and digital media sectors. The group primarily aims to grow through acquisitions of companies, restructuring and integrating them into one large platform. So far, this strategy has produced various synergies such as cost reductions, leverage and economies of scale. According to management, this strategy is followed by only a few competitors, especially in the gaming sector, leaving room for acquisitions at a favourable price. In 2020, the following had already been achieved: 1) the acquisition of North American mobile data platform Verve Group, 2) an increase in gamigo AG's shareholding from 53% to 99%, 3) the purchase of programmatic advertising company Platform 161, 4) a 100% stake in ReachHero, and 5) the full acquisition of Freenet Digital Group with more than 1,500 mobile games. In the current COVID-19 pandemic, video games have once again proven to be crisis-proof and non-cyclical. As consumers have had more free time, demand for entertainment and, therefore, video games, has soared. In July 2020, MGI shares were admitted to the Scale segment (previously: Basic Board) of Deutsche Börse and on 6 October 2020, a dual listing was carried out on Nasdaq First North Premier, where many other midcap game companies are listed.



| P&L in € m \ FY-end           | 31/12/2019 | 31/12/2020e | 31/12/2021e | 31/12/2022e |
|-------------------------------|------------|-------------|-------------|-------------|
| Revenues                      | 83.89      | 140.22      | 173.55      | 199.88      |
| Adj. EBITDA                   | 18.10      | 29.10       | 50.12       | 58.62       |
| EBITDA                        | 15.54      | 26.55       | 47.42       | 55.92       |
| EBIT                          | 5.00       | 11.04       | 23.72       | 33.02       |
| Net result (after minorities) | -0.32      | 2.71        | 12.08       | 18.24       |

**Key figures in EUR**

|                    |       |      |      |      |
|--------------------|-------|------|------|------|
| Earnings per share | -0.01 | 0.02 | 0.09 | 0.14 |
| Dividend per share | 0.00  | 0.00 | 0.00 | 0,00 |

**Key figures**

|                              |        |        |       |       |
|------------------------------|--------|--------|-------|-------|
| EV/turnover                  | 6.22   | 3.72   | 3.00  | 2.61  |
| EV/Adj. EBITDA               | 28.81  | 17.92  | 10.40 | 8.90  |
| EV/EBITDA                    | 33.56  | 19.64  | 11.00 | 9.33  |
| EV/EBIT                      | 104.29 | 47.23  | 21.98 | 15.79 |
| P/E ratio (after minorities) | neg.   | 169.69 | 38.07 | 25.21 |
| KBV                          |        | 2.60   |       |       |

**Financial calendar**

|  |
|--|
| 31/05/2021: Interim Report Q1 2021                 |
| 30/06/2021: Consolidated financial statements 2020 |
| July 2021: Annual General Meeting                  |
| 31/08/2021: Semi-annual report 2021                |
| 30/11/2021: Interim Report Q3 2021                 |

**\*\*last research from GBC:**

| Date: Publication / Target price in EUR / Rating |
|--|
| 01/02/2021: RS / 5.15 / BUY                      |
| 07/12/2020: RS / 3.20 / BUY                      |
| 09/08/2020: RS / 2.95 / BUY                      |
| 25/08/2020: RS / 2.85 / BUY                      |

The research studies listed above can be viewed at [www.gbc-ag.de](http://www.gbc-ag.de) or requested from GBC AG, Halderstr. 27, D86150 Augsburg, Germany.

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**FY 2020 closed with significant revenue and earnings growth; extensive growth pipeline and KingsIsle M&A ensure further dynamic growth; optimisation of the media business and the advertising division's strong focus on digital advertising support the group's profitable growth path; confirmation of our price target & rating**

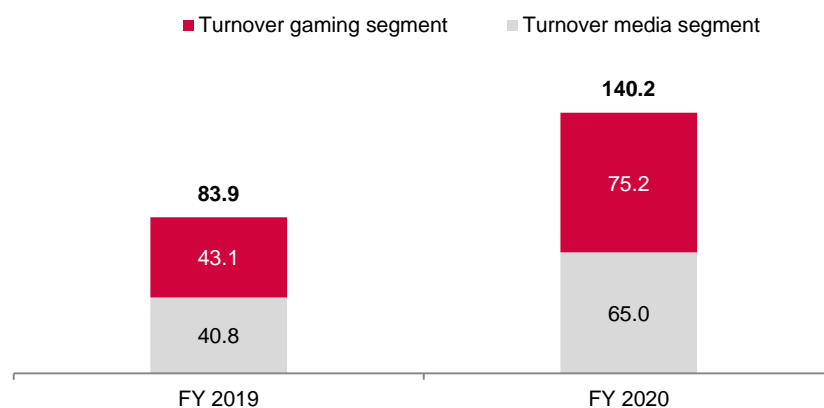
| Selected Group key figures (in € m) | FY 2019 | FY 2020 |
|-------------------------------------|---------|---------|
| Revenues                            | 83.89   | 140.22  |
| Adj. EBITDA                         | 18.10   | 29.10   |
| EBITDA                              | 15.54   | 26.55   |
| Adj. EBIT                           | 10.50   | 17.50   |
| EBIT                                | 5.00    | 11.04   |
| Net result                          | 1.25    | 2.71    |

Sources: Media and Games Invest plc

## Turnover and earnings development 2020

On 25 February 2021, Media and Games Invest plc (MGI) announced its preliminary business figures for the past financial year 2020. According to these figures, the MGI Group was able to continue its dynamic growth course in the past financial year with an increase in turnover of 67.1% to €140.22 million (previous year: €83.89 million). The high growth rate was primarily due to a fast-growing fourth quarter (revenue Q4 2019: €28.17 million vs. revenue Q4 2020: €48.69 million), which was the strongest in terms of revenue and earnings in the company's history to date.

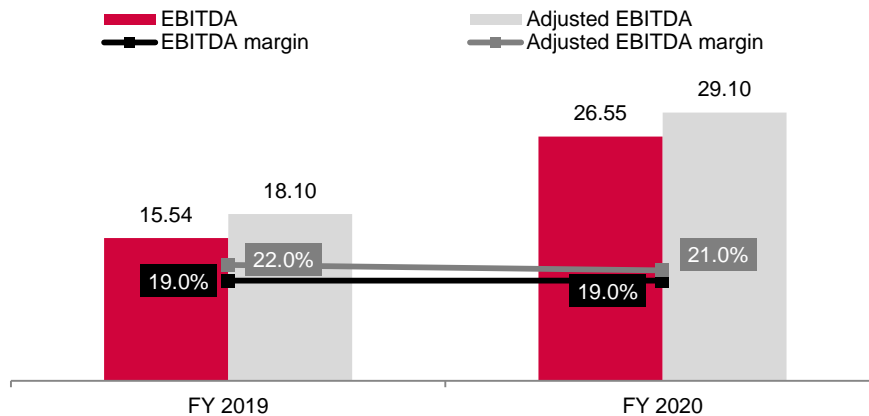
### Development of Group and segment turnover (in € million)



Sources: Media and Games Invest plc; GBC AG

On an EBITDA basis, an increase of around 71.0% to €26.55 million (previous year: €15.54 million) was achieved in the past financial year. EBITDA adjusted for one-off effects (e.g. special and restructuring costs from M&A transactions) increased by 60.8% to €29.10 million (previous year: €18.10 million) compared to the previous year. The adjusted EBITDA margin was 21.0%. The high margin level of the previous year (PY: 22.0%) was thus almost confirmed.

### Development of EBITDA and adjusted EBITDA (in € million)



Source: Media and Games Invest plc; GBC AG

The significant increase in group revenue was driven in particular by the gaming segment. In this business segment, the company achieved a jump in turnover of 74.5% to € 75.20 million (previous year: € 43.10 million). In addition to positive effects from the "Corona stay-at-home policy", game updates and expansions as well as M&A measures also contributed to this positive development. It should be mentioned here that the players acquired in the course of the ongoing Corona situation have considerably expanded the existing player base and, due to their traditionally high player loyalty, have also considerably increased the previous "revenue base".

Furthermore, the media division also made a significant contribution to the increase in Group turnover with a significant increase in turnover of 59.3% to € 65.0 million (previous year: € 40.80 million). In addition to revenue increases from organic growth, this business segment also benefited from the positive effects from completed M&A measures (e.g. acquisition of the main assets of Verve Wireless; acquisition of Platform 161, increase in shares in ReachHero). In our opinion, the organic growth of this business segment was primarily driven by the fact that the company's advertising division with its various digital advertising formats (incl. services) focused very strongly on customers from the fast-growing gaming and e-commerce sector (revenue share GBCe: approx. 80%).

Furthermore, the MGI Group has announced that after now well over 10 acquisitions in the media sector, this advertising division (Verve Group) is one of the few players in the digital programmatic advertising market that can offer a fully integrated programmatic advertising platform from the demand side to the supply side. Thus, in 2020, all media platforms were interconnected, resulting in significant synergies on the cost side combined with strong revenue synergies.

In addition, the company has reported that within this division, the focus and revenue distribution has shifted significantly from more personalized services such as influencers and affiliate business to programmatic software-as-a-service media and gaming infrastructure services. At this point, it is worth highlighting that programmatic advertising is considered by media experts to be one of the fastest growing segments in the digital advertising market. According to the company, Verve's Open Exchange is now one of the top 10 programmatic marketplaces worldwide.

## Forecasts and evaluation

| P&L in € m \ FY-end           | FY 2020e (new) | FY 2020e (old) | FY 2021e | FY 2022e |
|-------------------------------|----------------|----------------|----------|----------|
| Turnover                      | 140.22         | 133.25         | 173.55   | 199.88   |
| Adj. EBITDA                   | 29.10          | 27.72          | 50.12    | 58.62    |
| EBITDA                        | 26.55          | 25.02          | 47.42    | 55.92    |
| Adj. EBIT                     | 17.50          | 17.22          | 29.42    | 38.72    |
| EBIT                          | 11.04          | 11.52          | 23.72    | 33.02    |
| Net result (after minorities) | 2.71           | 2.47           | 12.08    | 18.24    |

Source: GBC AG estimates

The preliminary figures published by MGI for the 2020 financial year are significantly above our previous forecasts and also above management's guidance. Consequently, we have moderately raised our previous estimates for this financial period in terms of revenue to € 140.22 million (previously: € 133.25 million) and EBITDA to € 26.55 million (previously: € 25.02 million).

In view of the very good company performance and the well-filled organic growth pipeline and the recent promising acquisition (KingsIsle) within the gaming division, we confirm our previous estimates. For the current financial year 2021, we expect revenues of € 173.55 million and EBITDA of € 47.42 million. For the following year 2022, we continue to expect revenues of € 199.88 million and an EBITDA of € 55.92 million.

### Organic growth pipeline of the MGI Group

|  |  |
|--|--|
|  | <ul style="list-style-type: none"> <li>gamigo has also acquired the worldwide licensing right for the mobile game "Heros of Twilight"</li> <li>The competitive and turn-based role-play game is characterized by a dynamic day and night change, which means that the characters and the game environment can change unexpected at any time</li> <li>The free-to-play game is the sequel to the multiple award-winning Little Lords of Twilight and thus has a strong existing fanbase</li> </ul>  |
|  | <ul style="list-style-type: none"> <li>MGI's gaming segment (gamigo) has acquired the worldwide development and publishing rights of the triple-A mobile game "Golf Champions – Swing of Glory" from top Canadian developer Behavior Interactive.</li> <li>Golf Champions is a competitive, free-to-play mobile game in which players compete in leagues. Players unlock different golf characters and can improve their skills as they compete against each other</li> </ul>  |
|  | <ul style="list-style-type: none"> <li>Our successful strategy wargame Desert Operations is currently only available to be played in the browser on PCs.</li> <li>Strategy games are a successful genre on mobile devices, also Desert Operations is very suitable which lead to this project.</li> <li>Desert Operations will be available on mobile in a complete new setting to reach a broad audience and increase playtime.</li> </ul>  |
|  | <ul style="list-style-type: none"> <li>The successful Voxel MMO Trove is currently available to be played on the platform Windows PC, Sony Playstation 4 and Microsoft XBOX. As Switch has become very popular it was decided to test Trove as a first game to be ported to Switch.</li> <li>This technical port will make the game available on Nintendo Switch Consoles targeting yet another major audience.</li> <li>Together with Aprogen Games, gamigo is bringing the PC version of the action-packed MMO to South Korea</li> </ul> |
|  | <ul style="list-style-type: none"> <li>After a year of development we have a solution that enables us to generate audience data on the device without the use of PII</li> <li>Verve EDGE solves for the upcoming industry challenge depreciating mobile IDs on iOS14. Patent for Verve Edge is pending</li> <li>Verve Edge is now being rolled out, while leveraging on and further extending our SDK base</li> </ul>  |
|  | <ul style="list-style-type: none"> <li>Work on integrating the Full Stack continues after the acquisition of Nexstar Digital which expanded our offering into CTV.</li> <li>Part of that work is leveraging our existing gaming data to improve advertising effectiveness and improve user acquisition</li> <li>The next product launch in our SaaS Enterprise offering is the HyBid Cloud which is an offering for game and app publisher monetization</li> </ul>   |
|  | <ul style="list-style-type: none"> <li>Sequels of existing games: various projects in the pipeline with total development cost volume of € 5 m+</li> <li>In-Licensing deals for various MMO's and mobile games; for games ready to launch</li> <li>Outlicensing deals with Publishers in China and Japan for some of MGI's game IP's in negotiations</li> <li>More to come...</li> </ul>   |

Sources: Media and Games Invest plc; GBC AG

Upon the implementation of some growth-specific projects within the gaming division at the beginning of the year, we also expect significant growth for the media division. In addition to the strong focus on the growth area of digital advertising, this division should also be able to benefit significantly from recovery effects in the "post-Corona phase" in classic sectors (e.g. the tourism and hotel industry) due to a rebound in advertising business.

In addition, we believe that the advertising division has now reached a critical size in the recent past through organic and inorganic growth and increased synergy effects and has

also significantly strengthened its market position to be able to grow significantly more profitably than before. In the future, this division should benefit from a significantly improved cost base and be able to increase its profitability disproportionately through the expected economies of scale.

**Overall, we continue to see the MGI Group well positioned to continue to grow dynamically in both high-growth business areas through the good market positioning of the two divisions and to exploit considerable synergy effects between the two complementary business areas. The optimization measures carried out within the media business should have significantly strengthened this division and made it more efficient, thus enabling significantly more profitable growth in the future. In addition, the high level of cash on hand (cash and cash equivalents at the end of 2020: € 46.30 million) continues to offer the company the opportunity to further strengthen the group through targeted acquisitions and thereby increase the pace of growth once again.**

Within the framework of our DCF valuation model, we have confirmed our previous price target of € 5.15 per share based on our retained estimates for the 2021 and 2022 financial years. In view of the current price level, we thus continue to assign a Buy rating and see significant price potential.

## Evaluation

### *Model assumptions*

We have valued Media and Games Invest plc using a three-stage DCF model. Starting with the concrete estimates for the years 2020 to 2022 in phase 1, the forecast has been made from 2023 to 2027 in the second phase by applying value drivers. We expect revenue to increase by 7.5% (previously: 7.5%). We have assumed an EBITDA target margin of 28.0% (previously: 28.0%). We have included the tax rate at 30.0% in phase 2. In the third phase, a residual value is determined after the end of the forecast horizon using the perpetual annuity. In the terminal value we assume a growth rate of 2.0%.

### *Determination of the cost of capital*

The weighted average cost of capital (WACC) of Media and Games Invest plc is calculated from the cost of equity and the cost of debt. In order to determine the cost of equity, the fair market premium, the company-specific beta and the risk-free interest rate must be determined.

The risk-free interest rate is derived from current yield curves for risk-free bonds in accordance with the recommendations of the Fachausschuss für Unternehmensbewertungen und Betriebswirtschaft (FAUB) of the IDW. The basis for this is the zero bond interest rates published by the Deutsche Bundesbank according to the Svensson method. To smooth short-term market fluctuations, the average yields of the previous three months are used and the result rounded to 0.25 basis points. The currently used value for the risk-free interest rate is 0.25% (previously: 0.25%).

We set the historical market premium of 5.5% as a reasonable expectation of a market premium. This is supported by historical analyses of equity market returns. The market premium reflects the percentage by which the equity market is expected to yield better than low-risk government bonds.

According to the GBC estimation method, a beta of 1.36 (previously: 1.36) is currently determined.

Using the assumptions made, we calculate a cost of equity of 7.71% (previously: 7.71%) (beta multiplied by risk premium plus risk-free interest rate). Since we assume a sustainable weighting of the cost of equity of 80.0% (previously: 80.0%), the weighted average cost of capital (WACC) is 7.11% (previously: 7.11%).

### *Valuation result*

The future cash flows are discounted on the basis of the entity approach. We have calculated the corresponding cost of capital (WACC) at 7.11%. The resulting fair value per share at the end of the 2021 financial year corresponds to a target price of €5.15 (previously: €5.15).

## DCF model

### Media and Games Invest plc - Discounted Cashflow (DCF) model

Value driver used in the DCF-model's estimate phase:

| consistency - Phase          |       | final - Phase                        |       |
|------------------------------|-------|--------------------------------------|-------|
| Revenue growth               | 7.5%  | Perpetual growth rate                | 2.0%  |
| EBITDA-margin                | 28.0% | Perpetual EBITA margin               | 22.5% |
| Depreciation on fixed assets | 25.0% | Effective tax rate in terminal value | 30.0% |
| Working capital to sales     | 7.0%  |                                      |       |

#### Three-phase DCF - model:

| Phase<br>in mEUR             | estimate |         |        | consistency |        |        |        |        | final<br>value |
|------------------------------|----------|---------|--------|-------------|--------|--------|--------|--------|----------------|
|                              | FY 20e   | FY 21e  | FY 22e | FY 23e      | FY 24e | FY 25e | FY 26e | FY 27e |                |
| Revenue (RE)                 | 140.22   | 173.55  | 199.88 | 214.87      | 230.98 | 248.31 | 266.93 | 286.95 |                |
| Revenue change               | 67.1%    | 23.8%   | 15.2%  | 7.5%        | 7.5%   | 7.5%   | 7.5%   | 7.5%   | 2.0%           |
| Revenue to fixed assets      | 1.34     | 1.81    | 2.36   | 2.84        | 3.36   | 3.91   | 4.48   | 5.06   |                |
| EBITDA                       | 26.55    | 47.42   | 55.92  | 60.11       | 64.62  | 69.47  | 74.68  | 80.28  |                |
| EBITDA-margin                | 18.9%    | 27.3%   | 28.0%  | 28.0%       | 28.0%  | 28.0%  | 28.0%  | 28.0%  |                |
| EBITA                        | 11.04    | 23.72   | 33.02  | 38.93       | 45.74  | 52.31  | 58.81  | 65.38  |                |
| EBITA-margin                 | 7.9%     | 13.7%   | 16.5%  | 18.1%       | 19.8%  | 21.1%  | 22.0%  | 22.8%  | 22.5%          |
| Taxes on EBITA               | -3.38    | -5.93   | -8.26  | -11.68      | -13.72 | -15.69 | -17.64 | -19.61 |                |
| Tax rate                     | 30.6%    | 25.0%   | 25.0%  | 30.0%       | 30.0%  | 30.0%  | 30.0%  | 30.0%  | 30.0%          |
| EBI (NOPLAT)                 | 7.66     | 17.79   | 24.77  | 27.25       | 32.02  | 36.61  | 41.16  | 45.76  |                |
| Return on Capital            | 8.1%     | 16.2%   | 23.0%  | 27.1%       | 35.3%  | 43.2%  | 50.9%  | 58.4%  | 60.1%          |
| Working Capital (WC)         | 5.61     | 12.15   | 15.99  | 15.04       | 16.17  | 17.38  | 18.69  | 20.09  |                |
| WC to sales                  | 4.0%     | 7.0%    | 8.0%   | 7.0%        | 7.0%   | 7.0%   | 7.0%   | 7.0%   |                |
| Investment in WC             | -3.01    | -6.54   | -3.84  | 0.95        | -1.13  | -1.21  | -1.30  | -1.40  |                |
| Operating fixed assets (OFA) | 104.32   | 95.62   | 84.72  | 75.54       | 68.66  | 63.49  | 59.62  | 56.71  |                |
| Depreciation on OFA          | -15.51   | -23.70  | -22.90 | -21.18      | -18.89 | -17.16 | -15.87 | -14.90 |                |
| Depreciation to OFA          | 14.9%    | 24.8%   | 27.0%  | 25.0%       | 25.0%  | 25.0%  | 25.0%  | 25.0%  |                |
| CAPEX                        | -28.20   | -15.00  | -12.00 | -12.00      | -12.00 | -12.00 | -12.00 | -12.00 |                |
| Capital Employed             | 109.93   | 107.77  | 100.71 | 90.58       | 84.82  | 80.87  | 78.30  | 76.80  |                |
| EBITDA                       | 26.55    | 47.42   | 55.92  | 60.11       | 64.62  | 69.47  | 74.68  | 80.28  |                |
| Taxes on EBITA               | -3.38    | -5.93   | -8.26  | -11.68      | -13.72 | -15.69 | -17.64 | -19.61 |                |
| Total Investment             | -35.46   | -129.54 | -15.84 | -11.05      | -13.13 | -13.21 | -13.30 | -13.40 |                |
| Investment in OFA            | -28.20   | -15.00  | -12.00 | -12.00      | -12.00 | -12.00 | -12.00 | -12.00 |                |
| Investment in WC             | -3.01    | -6.54   | -3.84  | 0.95        | -1.13  | -1.21  | -1.30  | -1.40  |                |
| Investment in Goodwill       | -4.25    | -108.00 | 0.00   | 0.00        | 0.00   | 0.00   | 0.00   | 0.00   |                |
| Free Cashflows               | -12.29   | -88.05  | 31.82  | 37.38       | 37.77  | 40.57  | 43.73  | 47.27  | 874.25         |

|   |        |             |
|---|--------|-------------|
| Value operating business (due date)       | 632.25 | 765.24      |
| Net present value explicit free Cashflows | 91.63  | 186.19      |
| Net present value of terminal value       | 540.62 | 579.04      |
| Net debt                                  | 30.17  | 100.42      |
| Value of equity                           | 602.08 | 664.81      |
| Minority interests                        | -3.50  | -3.86       |
| Value of share capital                    | 598.58 | 660.95      |
| Outstanding shares in m                   | 117.07 | 128.45      |
| Fair value per share in €                 | 5.11   | <b>5.15</b> |

#### Cost of Capital:

|                     |             |
|---------------------|-------------|
| Risk free rate      | 0.3%        |
| Market risk premium | 5.5%        |
| Beta                | 1.36        |
| Cost of equity      | 7.7%        |
| Target weight       | 80.0%       |
| Cost of debt        | 6.0%        |
| Target weight       | 20.0%       |
| Taxshield           | 22.0%       |
| WACC                | <b>7.1%</b> |

| Return on Capital | WACC |      |             |      |      |
|-------------------|------|------|-------------|------|------|
|                   | 6.5% | 6.8% | 7.1%        | 7.4% | 7.7% |
| 59.6%             | 5.88 | 5.47 | 5.11        | 4.79 | 4.51 |
| 59.9%             | 5.90 | 5.49 | 5.13        | 4.81 | 4.52 |
| 60.1%             | 5.92 | 5.51 | <b>5.15</b> | 4.82 | 4.54 |
| 60.4%             | 5.94 | 5.53 | 5.16        | 4.84 | 4.56 |
| 60.6%             | 5.97 | 5.55 | 5.18        | 4.86 | 4.57 |

## APPENDIX

### I.

#### **Research under MiFID II**

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2. the research report shall be made available simultaneously to all investment service providers interested in it.

### II.

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The respective recommendations/ classifications/ ratings are associated with the following expectations:

|      |  |
|------|--|
| BUY  | The expected return, based on the determined price target, incl. dividend payment within the corresponding time horizon is $\geq + 10\%$ .             |
| HOLD | The expected return, based on the determined price target, incl. dividend payment within the corresponding time horizon is $> - 10\%$ and $< + 10\%$ . |
| SELL | The expected return, based on the determined price target, incl. dividend payment within the corresponding time horizon is $\leq - 10\%$ .             |

GBC AG price targets are determined on the basis of the fair value per share, which is determined on the basis of generally recognised and widely used methods of fundamental analysis, such as the DCF method, the peer group comparison and/or the sum-of-the-parts method. This is done by taking into account fundamental factors such as share splits, capital reductions, capital increases, M&A activities, share buy-backs, etc.

**§ 2 (III) Historical recommendations:**

GBC's historical recommendations on the present analysis(s) are available on the internet at the following address:

<http://www.gbc-ag.de/de/Offenlegung>

**§ 2 (IV) Information basis:**

For the preparation of the present analysis(s), publicly available information on the issuer(s) (where available, the three most recently published annual and quarterly reports, ad hoc announcements, press releases, securities prospectus, company presentations, etc.) was used, which GBC considers to be reliable. Furthermore, in order to prepare the present analysis(s), discussions were held with the management of the company(ies) concerned in order to obtain a more detailed explanation of the facts relating to the business development.

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**The following potential conflict of interest exists with respect to the securities or financial instruments discussed in the analysis: (5a,7,11)**

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(12) At the time of the financial analysis, the analysed company is in one of the financial legal entity, managed or advised financial instrument or financial product (such as certificate, fund, etc.)

### **§ 2 (V) 3. Compliance:**

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### **§ 2 (VI) Responsible for the preparation:**

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GBC AG is currently represented by its board members Manuel Hölzle (Chairman) and Jörg Grunwald.

The analysts responsible for this analysis are:

**Marcel Goldmann, M.Sc., Financial Analyst**

**Cosmin Filker, Dipl. Betriebswirt (FH), Deputy Chief Analyst**

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GBC AG

Halderstrasse 27

D 86150 Augsburg

Tel.: 0821/24 11 33-0

Fax.: 0821/24 11 33-30

Internet: <http://www.gbc-ag.de>

E-mail: [compliance@gbc-ag.de](mailto:compliance@gbc-ag.de)