

Media and Games Invest plc

Malta / Entertainment
 Xetra & Nasdaq First North Premier
 Bloomberg: M8G GR
 ISIN: MT0000580101

2020
 Annual results

RATING
BUY

PRICE TARGET
€ 5.30

Return Potential 35.5%
 Risk Rating High

Q4 BEAT SUPERCHARGES ANNUAL RESULTS

Full year results beat both FBe and management guidance. Revenue and adjusted EBITDA grew 67% and 61% respectively on an annualised basis, thanks to a strong Q4/20 propelled by organic and M&A growth in both gaming and media. MGI shares are up some 91% YTD, thanks largely to the KingsIsle Entertainment deal announced in January, while core operations continue to hum during the pandemic. We have adjusted our DCF model on the results and derive a €5.3 price target (old: €4.0). We maintain our Buy rating.

Reason for update Annual results led by record revenues of €140m were well ahead of the upper end of guidance (sales of €125m to €130m with EBITDA of €23m to €26m) and overshot our targets (table 1 overleaf). Q4/20 revenue grew some 73% Y/Y to €49m (FBe: €39m), and EBITDA adjusted for one-offs climbed 74% on an annualised basis to €10m. The performance was spearheaded by organic growth with both the gaming and media segments contributing. The latter was spurred by high digital advertising activity thanks to revved up programmatic ad tech, while gaming was boosted by several updates and sequels. The company exited 2020 with net debt of some €62m (YE19: €35m) and noted January pro-forma net debt of €92m after adjusting for the KingsIsle transaction and the Oaktree cap hike. This leads to a 2x net leverage ratio on €46m of adj. pro-forma EBITDA.

What else has changed? Management also hinted that they are assessing new financing options to support further organic growth and corporate activity. The M&A pipeline (table 4 overleaf) entails five late stage candidates equal to ~€100m in sales. We expect more corporate activity in the coming quarters, while the company also recharges organic growth with planned gaming updates and sequels in 2021. Given the strong operational momentum and surging stock price, which is now catching up with operational performance, we think a new equity issuance will be part of the financing mix. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2018	2019	2020	2021E	2022E	2023E
Revenue (€m)	32.62	83.89	140.22	182.20	220.46	253.53
Y-o-y growth	n.a.	157.2%	67.1%	29.9%	21.0%	15.0%
EBITDA (€m)	8.65	15.54	26.55	49.31	58.17	70.09
EBITDA margin	26.5%	18.5%	18.9%	27.1%	26.4%	27.6%
Net income (€m)	5.26	1.25	2.71	15.21	19.78	27.91
EPS (diluted) (€)	0.10	-0.01	0.03	0.12	0.15	0.21
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-7.17	3.13	-12.50	-40.23	-11.42	29.62
Net gearing	24.0%	22.4%	34.8%	35.5%	38.0%	27.3%
Liquid assets (€m)	4.45	32.98	46.25	24.45	11.34	29.28

RISKS

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

COMPANY PROFILE

Media and Games Invest plc (MGI) is a fast-growing and profitable company operating in the digital games sector with a strongly supportive media unit. MGI combines organic growth with value-accretive acquisition strategy to deliver sustainable earnings growth.

MARKET DATA

As of 02 Mar 2021

Closing Price	€ 3.91
Shares outstanding	128.70m
Market Capitalisation	€ 503.22m
52-week Range	€ 0.95 / 4.49
Avg. Volume (12 Months)	133,742

Multiples	2020	2021E	2022E
P/E	130.3	32.3	26.0
EV/Sales	4.1	3.1	2.6
EV/EBITDA	21.4	11.5	9.8
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2020

Liquid Assets	€ 46.12m
Current Assets	€ 92.38m
Intangible Assets	€ 272.80m
Total Assets	€ 385.84m
Current Liabilities	€ 78.20m
Shareholders' Equity	€ 176.80m

SHAREHOLDERS

Bodhivas GmbH	33.0%
Oaktree Capital Mngt	9.0%
UBS	3.0%
Free Float	55.0%

UNAUDITED Q4 AND 2020 RESULTS

Table 1: 2020 results vs FBe and 2019

EURm	Q4/20	Q4/20E	Variance	Q4/19	Variance	2020	2019	Variance
Revenue	48.7	38.5	26%	28.2	73%	140.2	83.9	67%
EBITDA	9.0	7.4	22%	4.1	120%	26.5	15.5	71%
Margin	18.5%	19.2%	-	14.5%	-	18.9%	18.5%	-
EBIT	3.5	2.8	25%	0.9	289%	11.0	5.0	120%
Margin	7.2%	7.3%	-	3.2%	-	7.8%	6.0%	-
Net income	1.9	1.6	19%	0.3	459%	2.7	1.3	108%

Source: First Berlin Research estimates; Media and Games Invest

EBITDA rose 71% Y/Y to €27m (19% margin), owing to the higher revenue coupled with efficiency gains from synergy effects and a stable cost base. Adjusted EBITDA, which excludes one-time M&A and financing expenses, totalled €29m (21% margin) vs €16m in the prior year. Management noted on the conference call that EBITDA margin upside can be unlocked through increased critical mass and investments in structure optimisations.

Figure 1: Operational highlights driving Q4 performance ('Q4/20 vs Q3/20)



Source: First Berlin Research estimates; Media and Games Invest

Q4/20 developments On a quarterly basis, revenue climbed 26% Y/Y to €49m, while EBITDA rose 15% to €9m. The margin equalled 19% for the three month period vs 15% in the prior year. The gaming and media segments showed sequential increases of 36% and 42% respectively contributing strongly to the Q4 performance. There was no Q4/19 segment data available for an annualised comparison.

Table 2: Segment breakdown

EURm	Q4/20	Q3/20	Variance	FY20	FY19	Variance
Gaming segment						
Revenue	24.5	18.0	36%	75.2	43.1	74%
EBITDA	6.9	4.8	44%	21.5	12.6	71%
Margin (%)	28%	27%	-	29%	29%	-
Media segment						
Revenue	24.2	17.0	42%	65.0	40.8	59%
EBITDA	2.1	1.1	91%	5.1	2.9	76%
Margin	9%	6%	-	8%	7%	-

Source: First Berlin Research estimates; Media and Games Invest



The gaming segment (table 2) benefited from seasonality effects as well as several content updates and sequels such as *Atlas Rogues*. The strong uptick in the media segment was spurred by robust organic growth from mobile advertising partnerships. MGI counts several blue-chip brands such as Amazon, Uber and Zynga in its advertising roster. We expect the good segment momentum to continue with global advertising expected to top \$398bn in 2021 (+12% Y/Y).

BALANCE SHEET AND CASH FLOW

Total assets rose to €386m (YE19: €312m), stemming mainly from the Verve, Platform 161, and Freenet Digital acquisitions. Long-term liabilities increased by some €41m to €131m owing to the bond issuances in H2/20. Net debt totalled €62m for the year.

Table 3: Balance sheet developments

EUR '000	2020	2019	Variance
Cash	46,254	32,984	40%
Liabilities (short- and long-term)	208,997	143,891	45%
Intangible assets	272,829	233,207	17%
Total assets	385,842	312,449	23%
Total equity	176,845	168,558	5%
Equity ratio	46%	54%	-

Source: First Berlin Equity Research; Media and Games Invest

The equity ratio dipped to 46%, due to the bond issuances to help finance the gamigo minority buy-out and higher asset base from corporate expansion. The interest coverage ratio (ICR) climbed to 4.1x at YE20 (YE19: 3.1x). This was occasioned by higher profitability, which outpaced the rise in financing costs.

Table 4: Condensed cash flow statement

EUR '000	2020	2019	Variance
Operating cash flow	25,203	16,200	56%
Investing cash flow	-37,707	-13,069	189%
Financing cash flow	25,774	25,407	1%
Net cash flow	13,270	28,538	-54%
YE cash & cash equivalents	46,254	32,984	40%

Source: First Berlin Equity Research; Media and Games Invest



INVESTOR SENTIMENT IS SURGING

Until recently the markets had regarded the initial successes of the nascent gaming market consolidator with a degree of scepticism. We believe such doubts have faded now that management can point to 30+ successful and accretive deals including the blockbuster KingsIsle transaction. Sentiment has also benefited from the Nasdaq First North Premier Stockholm listing that exposed MGI's underappreciated equity story to gaming-savvy Scandinavian investors. The timing (October 2020) of the dual listing was excellent.

Table 5: Corporate activity pipeline

Status	Gaming targets	Media targets	Combined revenue
Shortlisted	+35	+30	> €900m
Contacted	+15	+10	> €500m
Ongoing talks	+5	+5	> €200m

Source: First Berlin Research estimates; Media and Games Invest

MGI looks primed for another big year with strong contributions from the gaming and media segments. A full pipeline is a ground for optimism about further M&A-driven growth. The company has executed over 30 deals since 2013 focusing on distressed companies that could be snapped up at low multiples. Management continue to filter candidates with a 6x EBITDA hurdle but will consider higher multiples if synergies are realisable.

Raising price target to €5.3 (old: €4.0) Our DCF model now factors in a revised WACC, which we have trimmed to 7.6% (old: 8.6%) to reflect: (1) a higher long-term debt ratio now that the company has demonstrating improved access to debt markets; (2) lower cost of debt; (3) the addition of in Oaktree Capital as an anchor shareholder; (4) better operational transparency helped by intensified market communication; and (5) a significant increase in company market capitalisation since our last update. Our rating remains Buy.



VALUATION MODEL

All figures in EUR '000	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Revenue	182,202	220,464	253,534	291,564	320,720	336,756	350,227	360,733
NOPLAT	19,636	24,291	32,423	39,090	45,903	48,295	52,627	56,832
(+) depreciation & amortisation	20,216	22,180	22,057	25,366	24,695	25,930	23,465	20,562
Net operating cash flow	39,852	46,472	54,480	64,457	70,599	74,225	76,092	77,394
(-) Investments	-78,401	-56,327	-22,869	-26,299	-25,722	-27,008	-25,286	-21,716
(-) Working capital	-4,595	-4,533	-4,970	-5,606	-4,053	-1,992	-1,673	-1,305
Free cash flows (FCF)	-43,144	-14,388	26,642	32,552	40,824	45,225	49,133	54,372
PV of FCF's	-40,609	-12,587	21,662	24,600	28,674	29,524	29,811	30,663

All figures in thousands	WACC	Terminal EBIT margin							
		21.3%	23.3%	25.3%	27.3%	29.3%	31.3%	33.3%	
PV of FCFs in explicit period	178,772	4.6%	8.97	10.20	11.42	12.65	13.87	15.10	16.32
PV of FCFs in terminal period	563,798	5.6%	6.44	7.28	8.13	8.97	9.81	10.66	11.50
Enterprise value (EV)	742,570	6.6%	4.90	5.52	6.14	6.76	7.37	7.99	8.61
(+) Net cash / (-) net debt (2020)	-61,599	7.6%	3.87	4.34	4.81	5.28	5.75	6.22	6.70
(-) Non-controlling interests	-743	8.6%	3.13	3.50	3.87	4.24	4.61	4.98	5.34
Shareholder value	680,228	9.6%	2.57	2.87	3.16	3.46	3.76	4.05	4.35
Fair value per share (€)	5.30	10.6%	2.14	2.38	2.62	2.86	3.10	3.34	3.58

	WACC	Terminal growth rate							
		0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	
Cost of equity	9.4%	4.6%	8.82	9.78	11.02	12.65	14.91	18.25	23.69
Pre-tax cost of debt	5.0%	5.6%	6.79	7.37	8.08	8.97	10.10	11.60	13.68
Tax rate	32.5%	6.6%	5.39	5.77	6.22	6.76	7.41	8.23	9.27
After-tax cost of debt	3.4%	7.6%	4.37	4.63	4.93	5.28	5.70	6.19	6.80
Share of equity capital	70.0%	8.6%	3.60	3.78	4.00	4.24	4.52	4.84	5.22
Share of debt capital	30.0%	9.6%	3.00	3.13	3.29	3.46	3.65	3.88	4.13
WACC	7.6%	10.6%	2.52	2.62	2.73	2.86	3.00	3.16	3.34

*Please note our model runs through 2030 and we have only shown the abbreviated version for formatting purposes



INCOME STATEMENT

All figures in EUR '000	2018	2019	2020	2021E	2022E	2023E
Revenues	32,621	83,893	140,220	182,202	220,464	253,534
Capitalised work	2,791	10,187	15,994	11,231	12,242	13,099
Total output	35,412	94,080	156,214	193,433	232,706	266,633
Cost of goods sold	-12,699	-45,803	-77,620	-80,260	-96,563	-111,301
Gross profit	22,713	48,277	78,594	113,173	136,143	155,331
Personnel expenses	-10,438	-27,359	-39,573	-47,555	-57,321	-60,848
Other OpEx	-10,135	-10,012	-18,745	-21,135	-25,574	-29,410
Other operating income	6,506	4,636	6,272	4,823	4,919	5,018
EBITDA	8,646	15,542	26,549	49,306	58,168	70,091
Depreciation & amortisation	-6,318	-10,543	-15,508	-20,216	-22,180	-22,057
Operating income (EBIT)	2,328	4,999	11,041	29,090	35,987	48,034
Net financial result	-1,641	-5,758	-7,139	-6,563	-6,688	-6,688
Pre-tax income (EBT)	687	-759	3,901	22,527	29,299	41,346
Income taxes	895	2,012	-1,194	-7,321	-9,522	-13,437
Net income	1,582	1,253	2,707	15,206	19,777	27,908
Discontinued operations	3,673	0	0	0	0	0
Consolidated profit	5,255	1,253	2,707	15,206	19,777	27,908
Minority interests	-932	-1,577	352	-304	-396	-558
Net income to owners	4,323	-324	3,059	14,902	19,382	27,350
Diluted EPS (in €)	0.10	-0.01	0.03	0.12	0.15	0.21
Ratios						
Gross margin on output	64.1%	51.3%	50.3%	58.5%	58.5%	58.3%
EBITDA margin on revenues	26.5%	18.5%	18.9%	27.1%	26.4%	27.6%
EBIT margin on revenues	7.1%	6.0%	7.9%	16.0%	16.3%	18.9%
Net margin on revenues	13.3%	-0.4%	2.2%	8.2%	8.8%	10.8%
Tax rate	n.a.	n.a.	30.6%	32.5%	32.5%	32.5%
Expenses as % of revenues						
Personnel expenses	32.0%	32.6%	28.2%	26.1%	26.0%	24.0%
Other OpEx	31.1%	11.9%	13.4%	11.6%	11.6%	11.6%
Depreciation & amortisation	19.4%	12.6%	11.1%	11.1%	10.1%	8.7%
Y-Y Growth						
Revenues	n.a.	157.2%	67.1%	29.9%	21.0%	15.0%
EBTIDA	n.a.	79.8%	70.8%	85.7%	18.0%	20.5%
Operating income	n.a.	114.7%	120.9%	163.5%	23.7%	33.5%
Net income/ loss	n.a.	n.m.	n.m.	387.1%	30.1%	41.1%



BALANCE SHEET

All figures in EUR '000	2018	2019	2020	2021E	2022E	2023E
Assets						
Current assets, total	16,250	55,856	92,375	81,855	80,802	109,157
Cash and equivalents	4,447	32,984	46,254	24,449	11,341	29,276
Trade receivables	11,803	22,872	46,121	57,406	69,461	79,881
Non-current assets, total	220,043	256,593	293,467	351,977	386,454	387,603
Property, plant & equipment	4,189	3,521	1,742	1,778	1,823	1,873
Intangible assets	204,142	233,208	272,829	330,978	365,080	365,841
Deferred taxes	6,353	11,215	15,737	16,052	16,373	16,700
Long-term loans to investees	5,359	6,410	1,207	1,207	1,207	1,207
Other non-current assets	0	2,239	1,952	1,962	1,972	1,981
Total assets	236,293	312,449	385,842	433,831	467,256	496,759
Shareholders' equity & debt						
Liabilities, total	24,358	54,544	78,205	85,527	93,690	99,790
Trade payables	9,366	20,274	30,037	36,727	44,250	49,700
Financial debt	3,595	6,772	6,087	6,087	6,087	6,087
Provisions	7,031	12,585	17,257	17,516	17,779	18,045
Other current liabilities	4,366	14,913	24,824	25,196	25,574	25,958
Provisions, total	53,395	89,347	130,792	131,267	136,752	132,247
Long-term debt	14,100	8,369	11,671	11,671	16,671	11,671
Bonds	24,877	63,988	95,355	95,355	95,355	95,355
Deferred tax liabilities	14,418	16,990	23,766	24,241	24,726	25,221
Shareholders' equity	158,540	168,558	176,845	217,037	236,814	264,723
Total consolidated equity and debt	236,293	312,449	385,842	433,831	467,256	496,759
Ratios						
Current ratio (x)	0.7	1.0	1.2	1.0	0.9	1.1
Net debt	38,125	37,776	61,599	76,993	90,101	72,166
ICR (x)	5.0	2.7	3.7	7.5	8.7	10.5
Net gearing	24%	22%	35%	35%	38%	27%
Net debt / EBITDA (x)	4.4	2.4	2.3	1.6	1.5	1.0
Equity ratio	67%	54%	46%	50%	51%	53%
Return on equity (ROE)	1.0%	0.7%	1.5%	7.0%	8.4%	10.5%
Capital employed (CE)	211,935	257,905	307,637	348,305	373,567	396,970
Return on capital employed (ROCE)	1%	2%	4%	8%	10%	12%



CASH FLOW STATEMENT

All figures in EUR '000	2018	2019	2020	2021E	2022E	2023E
Net income	5,255	1,253	2,707	15,206	19,777	27,908
Depreciation and amortisation	6,318	10,543	15,508	20,216	22,180	22,057
Change in trade rec & other assets	-8,083	1,437	-4,334	-11,600	-12,376	-10,747
Change in payable & other liabilities	14,501	3,928	-209	7,797	8,648	6,595
Results from sale of subsidiaries	-5,645	0	0	0	0	0
Other non-cash adjustments	-6,150	-5,752	4,072	0	0	0
Net interest expense	1,641	5,529	6,264	6,563	6,688	6,688
Tax result	-895	-822	1,194	7,321	9,522	13,437
Operating cash flow	6,942	16,116	25,202	45,503	54,439	65,939
Tax expense	0	0	0	-7,321	-9,522	-13,437
Interest income	1	83	0	0	0	0
Net operating cash flow	6,943	16,199	25,202	38,182	44,917	52,501
Payments for intangible assets	-11,042	-12,606	-17,380	0	0	0
Acquisition of subsidiaries	-3,919	-6,214	-22,930	-78,000	-55,842	-22,311
CapEx	0	0	0	-401	-485	-558
Deposits / payments for other assets	848	5,750	2,603	-10	-10	-10
Cash flow from investing	-14,113	-13,070	-37,707	-78,411	-56,337	-22,879
Free cash flow (FCF)	-7,170	3,129	-12,505	-40,229	-11,420	29,623
Equity inflow, net	3,792	8,845	26,876	24,987	0	0
Debt inflow, net	-15,992	-12,011	-1,420	0	5,000	-5,000
Corporate debt, net	25,800	38,699	27,678	0	0	0
Interest paid	-2,014	-5,345	-6,018	-6,563	-6,688	-6,688
Payments for non-controlling interests	0	-5,000	-17,480	0	0	0
Other adjustments	-489	220	-3,862	0	0	0
Cash flow from financing	11,097	25,408	25,774	18,424	-1,688	-11,688
Net cash flows	3,927	28,537	13,269	-21,805	-13,107	17,935
Fx adjustments	114	0	0	0	0	0
Cash, start of the year	406	4,447	32,984	46,254	24,449	11,341
Cash, end of the year	4,447	32,984	46,253	24,449	11,341	29,276
EBITDA/share (in €)	0.20	0.26	0.28	0.40	0.45	0.54
Y-Y Growth						
Operating cash flow	n.m.	133.3%	55.6%	51.5%	17.6%	16.9%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
EBITDA/share	n.m.	26.2%	8.5%	43.7%	12.6%	20.5%

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INFORMATION PURSUANT TO SECTION 64 OF THE GERMAN SECURITIES TRADING ACT [WPHG], DIRECTIVE 2014/65/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 15 MAY 2014 ON MARKETS IN FINANCIAL INSTRUMENTS AND AMENDING DIRECTIVE 2002/92/EC AND DIRECTIVE 2011/61/EU, ACCOMPANIED BY THE MARKETS IN FINANCIAL INSTRUMENTS REGULATION (MIFIR, REG. EU NO. 600/2014).

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PRICE TARGET DATES

Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

AGREEMENT WITH THE ANALYSED COMPANY AND MAINTENANCE OF OBJECTIVITY

The present financial analysis is based on the author's own knowledge and research. The author prepared this study without any direct or indirect influence exerted on the part of the analysed company. Parts of the financial analysis were possibly provided to the analysed company prior to publication in order to avoid inaccuracies in the representation of facts. However, no substantial changes were made at the request of the analysed company following any such provision.

ASSET VALUATION SYSTEM

First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

ASSET RECOMMENDATION

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.

RISK ASSESSMENT

The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

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...3	↓	↓	↓	↓
4	4 March 2020	€1.16	Buy	€2.80
5	16 April 2020	€1.15	Buy	€2.80
6	23 June 2020	€1.41	Buy	€2.80
7	6 August 2020	€1.33	Buy	€2.90
8	14 August 2020	€1.28	Buy	€2.90
9	1 October 2020	€1.30	Buy	€2.50
10	2 December 2020	€1.49	Buy	€2.80
11	19 January 2021	€2.76	Buy	€4.00
12	Today	€3.91	Buy	€5.30

INVESTMENT HORIZON

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

UPDATES

At the time of publication of this financial analysis it is not certain whether, when and on what occasion an update will be provided. In general First Berlin strives to review the financial analysis for its topicality and, if required, to update it in a very timely manner in connection with the reporting obligations of the analysed company or on the occasion of ad hoc notifications.

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Legally required information regarding

- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

can be accessed through the following internet link: <https://firstberlin.com/disclaimer-english-link/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Marie-Curie-Straße 24-28, 60439 Frankfurt am Main

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