April 19th, 2024
Research update

SMC Research
Small and Mid Cap Research

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Mensch und Maschine Software SE

Q1 with new profit and cash flow records

Rating: Strong Buy (unchanged) | **Price:** 50.00 € | **Price target:** 69.00 € (unchanged)

Analyst: Dipl. Volkswirt Dr. Adam Jakubowski
sc-consult GmbH, Alter Steinweg 46, 48143 Münster

Phone: +49 (0) 251-13476-93
Telefax: +49 (0) 251-13476-92
E-Mail: kontakt@sc-consult.com
Internet: www.sc-consult.com

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Current development

Basic data

Based in:	Wessling
Sector:	CAD/CAM software
Headcount:	1,056
Accounting:	IFRS
ISIN:	DE0006580806
Ticker:	MUM:GR
Price:	50.00 Euro
Market segment:	Scale / m:access
Number of shares:	17.2 m
Market Cap:	857.5 m Euro
Enterprise Value:	911.1 m Euro
Free float:	45.5 %
Price high/low (12M):	57.80 / 44.35 Euro
Ø turnover (Xetra,12M):	225,500 Euro / day

Sales down as announced

As Mensch und Maschine had announced in advance, group sales in the first quarter were down on the previous year. This was due to the significant slowdown in business with Autodesk subscription following the expiry of the discount campaign for the extension of three-year contracts, which had provided a strong boost to sales at the beginning of 2023. As a result, revenue in the Digitization segment fell by 5 percent to EUR 70.2 m, which is nevertheless the second-highest quarterly figure to date. In the Software segment, on the other hand, growth continued and a new sales record was set with an increase of 5 percent to EUR 30.7 m. This results in consolidated sales of EUR 100.9 m. Although this is around 2 percent less than a year ago, it is the second time in the company's history that revenue has exceeded EUR 100 m.

Gross margin significantly improved

The lower weight of the low-margin business with Autodesk licences is reflected in the gross margin, which increased by a full 4 percentage points to 49.7 percent at group level. This is due to the shift in the sales structure towards the high-margin software segment on the one hand and to the increase in the gross margin

FY ends: 31.12.	2021	2022	2023	2024e	2025e	2026e
Sales (m Euro)	266.2	320.5	322.3	354.5	280.0	308.0
EBIT (m Euro)	34.7	42.6	46.8	54.4	62.7	71.4
Net Profit	21.3	26.0	28.9	33.2	38.1	43.3
EPS	1.26	1.55	1.72	1.97	2.26	2.57
Dividend per share	1.20	1.40	1.65	1.90	2.15	2.35
Sales growth	9.1%	20.4%	0.6%	10.0%	-21.0%*	10.0%
Profit growth	13.9%	22.1%	11.0%	15.1%	14.8%	13.4%
PSR	3.16	2.63	2.61	2.37	3.01	2.73
PER	39.5	32.4	29.2	25.3	22.1	19.5
PCR	22.6	21.6	16.6	16.9	15.6	13.9
EV / EBIT	25.8	21.0	19.1	16.4	14.3	12.5
Dividend yield	2.4%	2.8%	3.3%	3.8%	4.3%	4.7%

**arithmetical effect through transition of the partner model at Autodesk* within the segments on the other. In the Digitization segment, the lower trading business led to an increase of 3.3 percentage points to 32.0 percent, while the Software segment improved its margin by 1.5 percentage points to 90.3 percent. Last year's pull-forward effect with Autodesk licences was also at least partly responsible for this, because the software of the subsidiary SOFiSTiK is based on Autodesk products and therefore also requires corresponding licences. In absolute figures, gross profit thus increased in both segments as well as at group level: Gross profit in the Digitization segment rose from EUR 21.3 m to EUR 22.5 m (+5.8 percent), in the Software segment from EUR 25.8 m to EUR 27.7 m (+7.2 percent) and in the group from EUR 47.1 m to a new quarterly record of EUR 50.2 m (+6.6 percent).

Personnel expenses increased moderately

In relation to this, the growth in personnel expenses was a third lower (+4.2 percent to EUR 26.5 m), which primarily reflects the 3.7 percent increase in the number of employees to 1,081 FTEs. According to the company, the small net increase in the number of employees masks a significantly higher number of new hires, which compensated for especially age-related departures. For M+M, this ongoing rejuvenation of the workforce has the advantage that the wage pressure, which M+M feels from the market as well, is dampened with regard to the level of average personnel costs. Due to the age of the company and the continuity of the personnel practised there, this effect is also likely to slow down the dynamics of personnel expenses somewhat in the coming years.

Other operating expenses significantly higher

Depreciation and amortisation also increased at a much slower rate than gross profit, namely by just under 2 percent to EUR 2.5 m, while the increase in other operating expenses of almost 19 percent to EUR 5.3 m was higher than that of gross profit. Upon enquiry, the company explains this with higher travel and marketing costs, but above all with an internal IT project, which is also likely to have an impact on costs in the coming quarters.

Business figures	Q1 2023	Q1 2024	*Change*
Sales	103.06	100.87	*-2.1%*
Digitization	73.96	70.21	*-5.1%*
Software	29.10	30.66	*+5.4%*
Gross profit	47.09	50.18	*+6.6%*
Digitization	21.25	22.49	*+5.8%*
Software	25.84	27.70	*+7.2%*
Gross margin	*45.7%*	*49.7%*	
EBIT	15.81	16.86	*+6.7%*
Digitization	6.62	6.96	*+5.2%*
Software	9.19	9.90	*+7.7%*
EBIT margin	*15.3%*	*16.7%*	
Digitization	*8.9%*	*9.9%*	*+10.8%*
Software	*31.6%*	*32.3%*	*+2.2%*
EBT	15.40	16.57	*+7.6%*
EBT margin	*14.9%*	*16.4%*	-
Net profit	9.82	10.62	*+8.2%*
Net margin	*9.5%*	*10.5%*	
Free cash flow	23.33	24.02	*+2.9%*

In m Euro and percent, source: Company

EBIT margin at new record level

Overall cost growth once again remained well behind the increase in gross profit, so that M+M was again able to report new profit records for the first quarter. EBIT increased by 7 percent to EUR 16.9 m, with the increase in Digitization at 5 percent being weaker than in the Software segment (+8 percent). As a result, the EBIT margin at group level increased to a new record of 16.7 percent, compared to 15.3 percent in the previous year. At 32.3 percent, the Software business achieved a figure above the 30-percent mark for the second time in the company's history (after Q1 2023), while the Digitization segment achieved an almost double-digit EBIT margin of 9.9 percent.

Financial result improved

With a slight improvement in the financial result from EUR -0.4 m to EUR -0.3 m due to the high repayments in the previous year, pre-tax profit increased by almost 8 percent to EUR 16.6 m. Less income taxes

(EUR 4.9 m) and minority interests, the net profit also increased by 8 percent to EUR 10.6 m.

Cash flow development remains strong

The cash flow of the first quarter was very strong. Driven by the positive result, as well as by the significant increase in trade payables and the sharp rise in deferred income, which recurs at the beginning of each year, operating cash flow totalled EUR 25.5 m or a quarter of the revenue generated in Q1 (previous year: EUR +24.6 m). Less payments for investments of EUR -1.5 m, free cash flow of EUR 24.0 m was generated in the first three months of the year, compared to EUR 23.3 m in the previous year.

High liquidity

Around EUR 4 m of this was used for financing purposes, of which the repayment of financial liabilities (EUR -1.5 m) and the lease payments (EUR -1.4 m) represent the two largest items. In addition, M+M bought back a further 18,300 of its own shares for a total of EUR 0.9 m in the first quarter, meaning that 1.8 percent of the subscribed capital was held in treasury at the end of March. Overall, the balance sheet liquidity increased from EUR 24.9 m to EUR 44.7 m in the first three months, which means that the liquid funds represent one fifth of the balance sheet total of EUR 212.2 m.

Comfortable balance sheet figures

After deducting financial liabilities (including leasing liabilities), M+M therefore has net liquidity of EUR 27 m. Even if part of the liquidity is earmarked for the payment of the announced dividend of EUR 1.65 per share (the exact amount of the distribution depends on the extent to which the shareholders will take advantage of the stock dividend option), this represents a very good figure. The same applies to equity, which increased in the first quarter by 10 percent to EUR 110.0 m or 51.8 percent of the balance sheet total.

Forecast confirmed

Although the first quarter was stronger than expected, M+M has left its forecast unchanged, which the company explains with the uncertainty about possible delays in the Autodesk business, which could arise in the course of the announced change of the indirect sales model at Autodesk from reselling to a commission solution. Accordingly, the company is still aiming for average EpS growth of 17 percent p.a. in 2024 and 2025. For 2024, the management expects gross profit to grow by 8 to 12 percent to between EUR 182 and 189 m and earnings per share to increase by 10 to 20 percent to between 189 and 206 cents and on this basis intends to increase the dividend by a further 20 to 30 cents to between 185 and 195 cents. The target ranges for the coming year are higher, with earnings growth of 12 to 25 percent and an increase in the dividend of 25 to 35 cents. The medium-term target of doubling earnings per share to more than 344 cents by 2027/2028 also remains unchanged.

Estimates unchanged

M+M has exceeded our expectations with the Q1 figures. As the first three months are likely to be the most challenging period of the year in terms of growth rates due to the very strong basis of the previous year, the good performance now makes the annual targets appear even more realistic. This also applies to our previous estimates, which we have placed in the middle of the forecast ranges. We do not currently see any need for adjustment and therefore expect sales to grow by 10 percent to EUR 354.5 m in 2024 with a gross profit margin of 52.4 percent. The growth assumptions for the following years are also unchanged and are around 10 percent p.a. for gross profit. At the end of the detailed forecast period in 2031, we thus expect sales of EUR 496 m and consolidated gross profit of EUR 366 m. It should be noted that we have made a one-time shift downwards in the time series for revenue and cost of materials in 2025 (by EUR 110 m each) to take account of the change in the sales model announced by Autodesk.

Further margin increase

In 2025, this will result in a sharp improvement in the gross profit margin (from 52.4 to 73.3 percent) and the subsequent relative earnings figures. In addition, we also assume that the improvement in profitability will continue further, meaning that the EBIT margin

m Euro	12 2024	12 2025	12 2026	12 2027	12 2028	12 2029	12 2030	12 2031
Sales	354.5	280.0	308.0	338.8	372.7	409.9	450.9	496.0
Sales growth		-21.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
EBIT margin	15.4%	22.4%	23.2%	24.0%	24.8%	25.5%	26.1%	26.8%
EBIT	**54.4**	**62.7**	**71.4**	**81.3**	**92.3**	**104.4**	**117.8**	**132.9**
Tax rate	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%
Adjusted tax payments	16.6	19.1	21.8	24.8	28.2	31.8	35.9	40.5
NOPAT	**37.8**	**43.6**	**49.6**	**56.5**	**64.2**	**72.5**	**81.9**	**92.3**
+ Depreciation & Amortisation	4.3	4.7	5.1	5.5	5.8	6.1	6.4	6.7
+ 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
Gross operating Cash Flow	42.1	48.3	54.7	61.9	70.0	78.6	88.3	99.0
- Increase Net Working Capital	1.7	-0.4	-0.5	-0.6	-0.7	-0.8	-0.9	-1.1
- Investments in fixed assets	-5.3	-5.6	-5.9	-6.1	-6.4	-6.7	-7.0	-7.3
Free Cash Flow	**38.5**	**42.3**	**48.4**	**55.2**	**62.9**	**71.1**	**80.3**	**90.6**

SMC estimation model

should increase to 26.8 percent by 2031. The absolute EBIT estimate for 2024 remains at EUR 54.4 m, while we now expect a net profit for the year of EUR 33.2 m or EUR 1.97 per share. The table above shows the overall model business development resulting from our assumptions for the years 2024 to 2031; detailed overviews of the estimates for balance sheet, income statement and cash flows statement can be found in the Annex.

Target price remains at EUR 69.00

Based on an unchanged discount rate of 7.0 percent and unchanged assumptions regarding the terminal value (safety discount of 10 percent on the target margin, perpetual growth of 1 percent), the fair value now amounts to EUR 1,164.3 m or EUR 69.16 per share, from which we derive the unchanged price target of EUR 69.00 (a sensitivity analysis for determining the price target is included in the Annex). We continue to rate the forecast risk as below average with two points on a scale of 1 (low) to 6 (high).

Conclusion

Mensch und Maschine has made a surprisingly strong start to the new financial year. There has been an – announced and expected – moderate decline in revenue, but gross profit, profit figures and cash flow were all increased to new record levels. Specifically, gross profit and EBIT both increased by 7 percent to EUR 50.2 m and EUR 16.9 m respectively, while quarterly profit rose by over 8 percent to EUR 10.6 m. The operating cash flow, which more than doubled in the previous year, also continued to grow slightly and, at EUR 25.5 m, corresponded to a quarter of quarterly revenue. In view of the extraordinarily strong basis for comparison from the previous year, which still included the special economic boom due to a discount campaign at Autodesk, these are very convincing figures.

The good start to the year has also reinforced the targets for the entire year, for which M+M is aiming for gross profit growth of 8 to 12 percent and an increase in earnings per share of 10 to 20 percent to between 189 and 206 cents. Our estimates are roughly in the middle of these corridors (10.2 percent and EUR 1.97 per share) and appear well achievable after the convincing performance in the first quarter. The assumption that gross profit and margins will continue to grow in the coming years also appears well-founded, which is why we have left our estimates unchanged.

On this basis, we continue to see the price target at EUR 69.00, which, in combination with the all-round convincing overall impression, continues to justify the “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 a disproportionately high rise in profits.
- Remarkable forecast accuracy supports the target of further profit increases.

Weaknesses

- The Digitization business is largely determined by Autodesk's product and pricing policy.
- The geographic expansion of the Digitization segment requires the expensive establishment of additional offices.
- 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.

Opportunities

- There is still considerable potential for margin growth in the Digitization business that should allow an above-average profit development in the next few years, if the present trends continue.
- The increasing importance of digitization projects is likely to further boost the development.
- With its expertise in BIM and bridge and tunnel construction, the SOFiSTiK subsidiary is addressing very promising markets.
- With the 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.

Threats

- A further escalation of geopolitical conflicts or a deep recession in Europe could slow down or interrupt the positive trend.
- High personnel intensity in the Digitization business means a high extent of utilisation risk in economically weaker phases.
- The targeted further increase in margins cannot be taken for granted, especially in the Software segment at the level already achieved.
- Should Autodesk fall behind in competition, it could have a perceptibly negative impact on the Digitization segment.
- The role as technology leader requires intensive development activities in the Software segment and carries the risk of technological failures.

Annex II: Balance sheet and P&L estimation

Balance sheet estimation

m Euro	2023 act.	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e
ASSETS									
I. Total non-current assets	105.7	106.7	107.6	108.3	109.0	109.6	110.2	110.8	111.4
1. Intangible assets	69.9	69.3	68.8	68.2	67.7	67.2	66.7	66.2	65.7
2. Tangible assets	34.7	36.3	37.7	39.0	40.2	41.3	42.4	43.5	44.6
II. Total current assets	81.5	84.1	88.2	93.8	102.7	115.3	130.6	148.0	167.7
LIABILITIES									
I. Equity	99.8	107.1	115.5	125.2	137.8	152.4	167.6	184.6	203.8
II. Accruals	13.4	13.8	14.2	14.6	15.0	15.4	15.8	16.3	16.7
III. Liabilities									
1. Long-term liabilities	17.3	15.3	13.4	11.5	9.7	8.0	8.0	8.0	8.0
2. Short-term liabilities	56.7	54.6	52.6	50.8	49.2	49.0	49.4	50.0	50.6
TOTAL	**187.2**	**190.8**	**195.7**	**202.1**	**211.7**	**224.9**	**240.8**	**258.8**	**279.1**

P&L estimation

m Euro	2023 act.	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e
Sales	322.3	354.5	280.0	308.0	338.8	372.7	409.9	450.9	496.0
Gross profit	168.5	185.7	205.3	226.3	249.3	274.8	302.4	332.7	366.2
EBITDA	56.6	64.7	73.4	82.5	92.7	104.1	116.5	130.2	145.5
EBIT	46.8	54.4	62.7	71.4	81.3	92.3	104.4	117.8	132.9
EBT	45.2	54.4	62.8	71.7	81.7	93.0	105.2	118.8	133.9
EAT (before minorities)	31.9	37.8	43.6	49.8	56.8	64.7	73.1	82.6	93.1
EAT	28.9	33.2	38.1	43.3	49.0	55.4	62.3	69.8	78.2
EPS	1.72	1.97	2.26	2.57	2.91	3.29	3.70	4.15	4.65

Annex III: Cash flows estimation and key figures

Cash flows estimation

m Euro	2023 act.	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e
CF operating	50.6	49.8	53.9	60.4	67.6	75.7	84.4	94.0	104.7
CF from investments	-7.2	-5.3	-5.6	-5.9	-6.1	-6.4	-6.7	-7.0	-7.3
CF financing	-43.0	-42.3	-47.0	-51.7	-55.7	-60.0	-65.8	-73.3	-81.7
Liquidity beginning of year	24.4	24.9	27.0	28.4	31.2	37.0	46.4	58.3	72.0
Liquidity end of year	24.9	27.0	28.4	31.2	37.0	46.4	58.3	72.0	87.7

Key figures

m Euro	2023 act.	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e
CF operating	0.6%	10.0%	-21.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
CF from investments	4.6%	10.2%	10.5%	10.2%	10.2%	10.2%	10.0%	10.0%	10.0%
CF financing	52.3%	52.4%	73.3%	73.5%	73.6%	73.7%	73.8%	73.8%	73.8%
Liquidity beginning of year	17.6%	18.3%	26.2%	26.8%	27.4%	27.9%	28.4%	28.9%	29.3%
Liquidity end of year	14.5%	15.4%	22.4%	23.2%	24.0%	24.8%	25.5%	26.1%	26.8%
m Euro	14.0%	15.3%	22.4%	23.3%	24.1%	25.0%	25.7%	26.3%	27.0%
CF operating	9.0%	9.4%	13.6%	14.0%	14.5%	14.9%	15.2%	15.5%	15.8%

Annex IV: Sensitivity analysis

	Perpetual cash flows growth				
WACC	**2.0%**	**1.5%**	**1.0%**	**0.5%**	**0.0%**
6.0%	99.73	91.08	84.15	78.48	73.75
6.5%	88.12	81.44	75.97	71.41	67.55
7.0%	78.83	73.56	**69.16**	65.44	62.25
7.5%	71.24	67.00	63.41	60.33	57.66
8.0%	64.92	61.45	58.48	55.91	53.66

Disclaimer

Editor
sc-consult GmbH
Alter Steinweg 46
48143 Münster
Internet: www.sc-consult.com

Phone: +49 (0) 251-13476-94
Telefax: +49 (0) 251-13476-92
E-Mail: kontakt@sc-consult.com

Responsible analyst
Dipl. Volkswirt Dr. Adam Jakubowski

Charts
The charts were made with Tai-Pan (www.lp-software.de).

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9) At the time of the publication of the report, the issuer holds holdings exceeding 5 % of its total issued share capital in the sc-consult GmbH

10) sc-consult GmbH has included the company's shares in a virtual portfolio managed by sc-consult GmbH

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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 19.04.2024 at 13:35 and published on 19.04.2024 at 14:00.

For the preparation of its financial analyses, the sc-consult GmbH uses a five-tier rating scheme with regard to price expectation in the next twelve months. Additionally, estimation risk is quantified on a scale from 1 (low) to 6 (high). The ratings are as follows:

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).

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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.

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

Date	Investment recomm.	Target price	Conflict of interests
20.03.2024	Strong Buy	69.00 Euro	1), 3)
09.02.2024	Strong Buy	68.00 Euro	1), 3)
20.10.2023	Strong Buy	66.00 Euro	1), 3), 4)
01.08.2023	Strong Buy	66.00 Euro	1), 3), 4)
24.04.2023	Strong Buy	63.60 Euro	1), 3)
17.03.2023	Strong Buy	61.70 Euro	1), 3)
13.02.2023	Strong Buy	62.30 Euro	1), 3)
26.10.2022	Strong Buy	66.50 Euro	1), 3), 4)
27.07.2022	Strong Buy	65.00 Euro	1), 3), 4)
22.04.2022	Strong Buy	71.00 Euro	1), 3)

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

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

Exclusion of liability

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