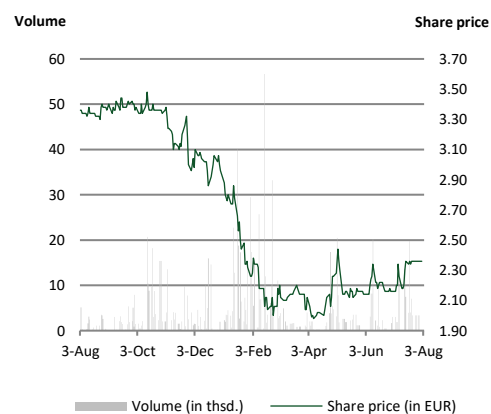


**Recommendation:** Buy**Price target:** 3.00 Euro**Upside potential:** +27 Percent**Share data**

Share price	2.36 Euro (Xetra)
Number of shares (in m)	24.56
Market cap. (in EUR m)	58.0
Enterprise Value (in EUR m)	215.9
Code	ERWE
ISIN	DE000A1X3WX6

**Performance**

52 week high (in EUR)	3.56
52 week low (in EUR)	1.89
3 M relative to SDAX	+5.0%
6 M relative to SDAX	+17.7%

**Shareholder structure**

Elbstein AG	33.8%
RW Property Investment GmbH	20.9%
Stapelfeld Beteiligungs GmbH	19.2%
VGHL Management GmbH	6.0%
ERWE Real Estate GmbH	2.2%
Free float	17.9%

**Calendar**

H1 results	30. August 2022
Q3 results	November 2022

**Change in estimates**

	2022e	2023e	2024e
Sales (old)	-	-	-
Δ in %	-	-	-
EBIT (old)	-	-	-
Δ in %	-	-	-
EPS (old)	-	-	-
Δ in %	-	-	-

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**Publication**

Comment 4 August 2022

**Fairness opinion confirms that mandatory offer is insufficient**

ERWE recently has published an opinion related to the mandatory offer of major shareholder Elbstein AG which is still valid until 11 August. Based on a third-party fairness opinion, the offer was deemed inappropriate by both management and supervisory board.

**Net asset value significantly above offer price:** The statutory minimum price offered by Elbstein is measured on the basis of the weighted average price of ERWE shares over the last six months and is EUR 2.36 per share. Based on the assessment of the two ERWE boards and with reference to an independent fairness opinion of Solventis AG, this amount is “significantly below the value of the company”, which corresponds to our evaluation of the mandatory offer (cf. Comment on 18 July). The net asset value on the basis of ERWE’s figures is significantly higher compared to both the EPRA NRV (net reinstatement value) and the EPRA NTA (net tangible asset) of EUR 3.48 and EUR 2.95 per share respectively. Both figures take account of the effects of the capital increase back in May. While the NRV calculation assumes that the properties are kept in the portfolio on a sustained basis, the NTA is determined under the assumption that property transactions will take place. The real estate transfer tax of EUR 13.0m (as per 31 March) thus reduces the value of the portfolio.

**We still consider NRV valuation to be appropriate:** Our valuation of the ERWE shares is based on the NRV because the property portfolio can be viewed as inventory. As the NRV was EUR 4.20 per share on 31 March we have applied an increased security discount of 30% to take account of the dilution caused by the capital increase. The assumption of a “normalized” discount of 15% would also result in a fair value of EUR 3.00 per share on the basis of the NRV of EUR 3.48 mentioned above. We therefore see the recent announcement as a confirmation of our valuation.

**Commercial property market under pressure:** We expect ERWE to release a rather mixed set of operating figures for H1. Gross rental income should have increased significantly again both yoy and qoq (Q1: +19.4% yoy to EUR 2.07m) driven by the first-time full integration of the retail objects in Wuppertal and Bremerhaven alone (MONE: rental income of c. EUR 1m p.a.). On the bottom line, however, the fair value adjustments are still a great unknown in our view. While ERWE always acquires underdeveloped properties and has a long-term track record of value increases through revitalization of more than 30% on average, the company had to face some setbacks recently due to Covid-19 (2021 valuation result: EUR -2.01m). Additionally, real estate brokers JLL and CBRE recently have announced that the transaction volume of the commercial property market in Germany has decreased to some EUR 12.3bn (Q1/22: EUR 23.8bn; Q2/21: EUR 17.6bn). This leaves us with an increase of c. 5% yoy after the first six months, but market observers now anticipate a decline to roughly EUR 70bn on a full-year basis (-37% yoy) also driven by an increase in financing costs. Furthermore, retail sales (ERWE’s portfolio share: ca. 50%) saw a massive decline of -8.8% yoy in June according to data published by the Federal Statistical Office. This does not allow drawing specific conclusions on ERWE’s individual development projects, but we consider increases in value to be highly unlikely in this environment in the short term.

**Conclusion:** The continuing headwinds in the commercial property market may prove to be a burden to ERWE. However, we believe that this is still more than priced in with the significant discount to the net asset value and confirm our rating and price target.

**NRV-Valuation ERWE Immobilien AG**

Valuation as of 31.03.2022

Equity	51.41
Non-controlling interests	-2.41
Deferred tax liabilities	14.51
Property acquisition tax on investment properties	13.00

= Net Reinstatement Value of the portfolio	76.52
/ Shares	18.22

= NRV per share	4.20
minus safety margin	30%

<b>Target price</b>	<b>3.00</b>
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Source: Company, Montega, CapitalIQ

Figures in EUR m; NRVPS in Euro

## COMPANY BACKGROUND

ERWE Immobilien AG (ERWE) is a project developer and portfolio holder which has been listed on the stock exchange since 2018. The company is focused on the acquisition, development, and revitalization of commercial properties in inner city locations in Germany. ERWE Immobilien AG originates from a non-cash contribution of the predecessor company (ERWE Immobilien GmbH, founded in 2007) into the shell company of DeTeBe AG. The latter changed its name into ERWE Immobilien AG.

Business activities are focused on the acquisition of office, hotel and retail properties in promising locations which are attractively priced due to high vacancy rates and whose value growth can be sustainably exploited (so-called value-add objects). By implementing new utilization concepts and repositioning the properties in the market, vacancy rates are reduced and the potential for valuation gains is raised ( $\emptyset > 30\%$ ). In regional terms, ERWE focuses on commercial properties in heavily frequented areas (prime locations) of small and medium-sized towns and cities (>10k inhabitants). ERWE currently has a property portfolio of 8 objects with a broadly diversified mixed-used concept (habitation, offices, parking spaces) and a participating interest with a cumulated book value of EUR 204.2m (as of 31 December). ERWE Invest, the company's subsidiary, provides development and management services to third parties and offers institutional investors the possibility to invest in attractive properties and participate in the structural transformation of inner cities.

ERWE follows a strategy of buy/develop/hold and covers a wide range of services along the entire value chain. In view of the structurally changing market environment, the resultant strong acquisition pipeline and the positioning in a strongly growing niche, the company is expected to massively benefit from the increased importance of new utilization concepts over the next few years. Additionally, the future success of ERWE Immobilien will primarily be driven by the following factors:

- Sustainable changes in the usage behavior of consumers (e-commerce, home office, etc.) accelerate the structural transformation in inner cities and necessitate innovative ways of using properties previously put to monothematic use (e.g. major department stores)
- Structural changes in inner cities and a high vacancy rate prompt municipalities to make planned inner cities and pedestrian areas more attractive to maintain visitor numbers, and to respond flexibly to the changing requirements with the help of mixed-use concepts (co-working spaces, micro apartments, amongst others).
- Focus on investments in the niche leads to manageable competition, high purchase yields and advantageous financing conditions so that the acquisition pipeline is well filled

### Key Facts

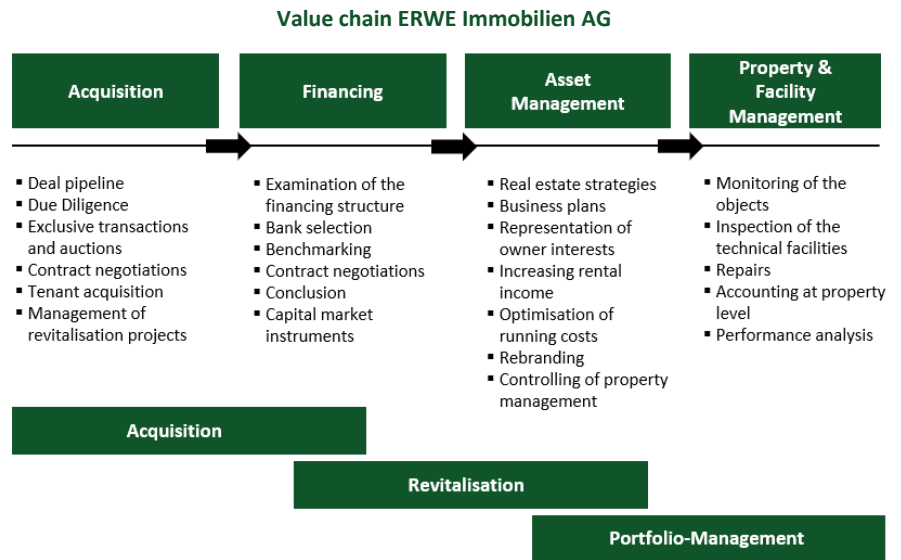
<b>Sector</b>	Real Estate	<b>Rental income</b>	7.89 EUR m
<b>Ticker</b>	ERWE	<b>NRV</b>	77.15 EUR m
<b>Employees</b>	44 Employees	<b>NRV per share</b>	4.23 Euro
<b>Business model</b>	Project developer and portfolio holder for inner-city commercial properties in A-locations of small and medium-sized cities with 10,000 inhabitants and more		
<b>Core competence</b>	Revitalisation and repositioning of properties through reallocation and project development		
<b>Tenant structure</b>	Mixed use, but mainly long-term oriented, solvent clients (a.o. city administration, hotels)		

Source: Company, Montega

Status: 31.12.2021

**Service offering**

As a property holder and project developer, ERWE pursues a buy/develop/hold strategy. Although ERWE covers the entire value chain, the current focus is on development and/or repositioning and on the acquisition of promising objects in line with the path taken by the company.



Source: Company

As part of the growth path, ERWE pursues a selective investment strategy based on the four investment criteria below:

- Type of objects:** Exclusive acquisition of commercial properties such as office and hotel buildings as well as retail objects in inner city locations. The company prefers niche properties in prime locations of German towns and cities with more than 10,000 inhabitants, which have high visitor numbers, high density of shops and excellent transport connections.
- Investment volume:** The sweet spot for investments is between EUR 10m and 20m to reduce administrative expenses and to make optimal use of existing resources. The targeted loan-to-value (LTV) is some 60% given a well-balanced financing mix.
- Expected return:** High initial yields thanks to the acquisition of development projects in the less competitive niche market. Consequently, ERWE generates attractive cash-on-cash returns after successful revitalization.
- Development potential:** The conceptual focus is on the revitalization of portfolio properties with the help of new utilization concepts and a rebranding so that existing structures (macro location, micro location) must have sufficient development potential.

**Portfolio overview**

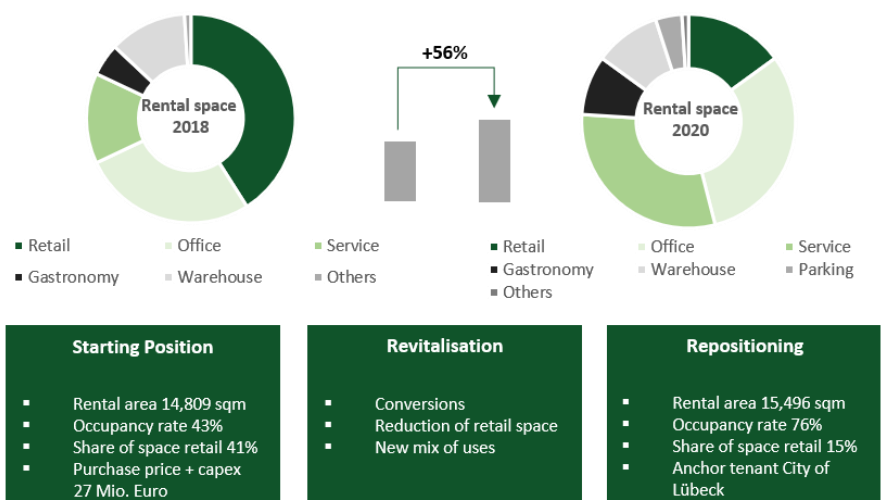
The total portfolio of ERWE is based on three complementary pillars so that the company operates on the market along the lines of a full-service provider. The property portfolio currently includes 9 objects in various stages of value creation, which contribute to the company’s revenues to a varying degree. Although the properties usually generate rental income from the date of acquisition, inventory properties currently are the key determining factor in terms of revenues. Development objects only play a subordinate role for income, but experience has shown that ERWE can significantly increase rental income after a successful repositioning. Progress in development is reflected by an increase in an object’s value which is determined by an independent appraiser once a year. According to management, the estimated potential for valuation gains of the entire property portfolio is some EUR 50m after completion of the current projects.

Business activities can be divided in three segments: revitalization, property management, ERWE Invest. They will be described in more detail below.

**Revitalization & optimization**

The revitalization and repositioning of underperforming commercial and retail properties is the company’s core competence, as already proven by the successful completion of reference objects such as LICHTHOF in Lübeck or Postgalerie in Speyer. Targeted investments and innovative utilization concepts sustainably raise the value of these properties, which improves their attractiveness for tenants and attracts new business. Project development usually involves the extension and change of use of the rental space, a rebranding, architectural modifications, and flexible use of space, which can be customized according to the tenants’ special requirements. ERWE is expected to have increased the value of its latest development projects by more than 30% on average. The ongoing development projects are likely to be completed by 2022 according to management and should be transferred to the company’s own portfolio which indicates an increase in rental income and cash flows from 2023 onwards.

**Revitalisation process using the example of LICHTHOF Lübeck**



Source: Company

### Property management

The company's core segment includes traditional property management of objects already revitalized and is the major source of income. The portfolio currently includes 5 properties. Based on the acquisition strategy (unattractive tenant mix, high vacation rate) and the still high exposure in object development, ERWE recently posted an occupancy rate of 89.5% for the portfolio properties. A gradual expansion of the property portfolio should increase the occupancy rate to more than 95% in the medium term. Following the restructuring and modernization of objects, the tenant structure is often characterized by a well-balanced tenant mix with a long-term orientation, which supports a continuous growth in cash flows thanks to high utilization. The WALT is 6.8 years.

#### Overview of largely completed development projects

	Starting position	Purchase price + Capex	Status Quo	GAV
Postgalerie Speyer	Area: 15,432 sqm Occupancy rate: 68%	47 Mio. Euro	Area: 16,967 sqm Occupancy rate: 86%	57 Mio. Euro
LICHTHOF Lübeck	Area: 14,809 sqm Occupancy rate: 43%	27 Mio. Euro	Area: 15,496 sqm Occupancy rate: 76%	42 Mio. Euro
City Colonnaden Krefeld	Area: 10,931 sqm Occupancy rate: 75%	18 Mio. Euro	Area: 23,427 sqm Occupancy rate: 100%	27 Mio. Euro
FAC1	Area: 48,140 sqm Occupancy rate: 66%	168 Mio. Euro (10.1% Share)	Area: 48,140 sqm Occupancy rate: 92%	250 Mio. Euro (10.1% Share)
Kupferpassage Coesfeld	Area: 10,624 sqm Occupancy rate: 91%	17 Mio. Euro	Area: 14,948 sqm Occupancy rate: 92%	21 Mio. Euro

Source: Company; Status 30.09.2021

### Services

ERWE Invest is aimed at encouraging fund-based direct investments in commercial properties for institutional investors (pension funds, insurance companies, etc.). ERWE intends to establish a real-estate fund to finance the acquisition of major objects in order to reasonably expand the sweet spot of ERWE Immobilien AG (Ø acquisition volume of EUR 10m-20m) by large-scale acquisitions (EUR >30m). By using existing platforms and available human resources the company would not only achieve cost benefits and synergy effects. In fact, the communicated focus on property management and the corresponding projectable recurring cash flows in the form of service revenues and profit participation are also expected to strengthen the earnings situation of ERWE Immobilien AG. It may also be conceivable that ERWE Immobilien AG will contribute a portfolio property to the fund when it is launched. The resulting cash inflow should enable the company to acquire further development projects at group level and should also support the portfolio's value on the balance sheet.

Additionally, the range of services is complemented by peko group (services in property development) and ERWE Asset (consulting services for third parties).

**Management**

The operating business is currently managed by two board members, who have a sound experience in management positions as well as an excellent track record in the real-estate industry.



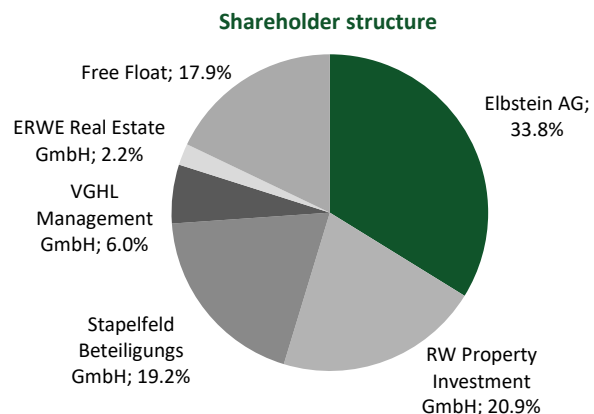
**Rüdiger Weitzel** is the founder and major shareholder of ERWE Immobilien AG. Prior to the foundation of the company, Mr. Weitzel held several senior management and board positions (DeTe Immobilien GmbH, DIC Asset AG, etc.) and has been a member of the Board of ERWE since 2018. He is in charge of property development projects and their relevant management.



**Axel Harloff** is also a major shareholder of ERWE Immobilien AG and has been a board member since 2018. Following several senior management positions in various real estate companies, he previously held the position of CEO of the listed ADLER Real Estate AG. He is mainly responsible for Human Resources and Asset Management.

**Shareholder structure**

ERWE Immobilien AG issued 24,562,922 no-par ordinary bearer shares and is currently listed in the Prime Standard of Deutsche Börse. Since the most recent capital increase in June 2022, the largest single shareholder has been Elbstein AG with around 33.8%. Around 20.9% of the shares are held by the investment vehicle of company founder and CEO Mr. Weitzel (RW Property Investment GmbH), to whom ERWE Real Estate is also assigned (2.2%). Another significant stake is held by Stapelfeld Beteiligungs GmbH (19.2%) and VGHL Management GmbH (6.0%), both related to Mr. Harloff. The free float amounts to approx. 17.9%.



Source: Company

## APPENDIX

P&L (in EUR m) ERWE Immobilien AG	2018	2019	2020	2021
<b>Gross rental income</b>	<b>2.8</b>	<b>3.5</b>	<b>5.6</b>	<b>7.9</b>
Expenses from property lettings	1.6	2.1	3.0	3.5
<b>Earnings from property lettings</b>	<b>1.2</b>	<b>1.4</b>	<b>2.6</b>	<b>4.4</b>
Other operating income	1.1	0.8	1.2	1.2
Personnel expenses	2.4	1.8	4.9	4.3
Other operating expenses	0.0	3.1	4.5	4.1
Result from measurement of investment properties	9.6	12.6	6.8	-2.0
<b>EBIT</b>	<b>9.5</b>	<b>11.5</b>	<b>3.9</b>	<b>-4.8</b>
Financial income	0.0	0.0	0.0	0.0
Financial expenses	0.0	3.3	6.6	6.8
<b>EBT</b>	<b>7.4</b>	<b>8.2</b>	<b>-2.7</b>	<b>-11.5</b>
Taxes on income	2.5	-0.5	-2.8	-1.4
<b>Consolidated net income</b>	<b>4.9</b>	<b>8.7</b>	<b>0.1</b>	<b>-10.2</b>
Non-controlling interests	0.4	0.5	-0.2	-1.0
<b>Comprehensive income attributable to shareholders</b>	<b>4.5</b>	<b>8.2</b>	<b>0.3</b>	<b>-9.2</b>

Source: Company (reported data)

P&L (in % of gross rental income) ERWE Immobilien AG	2018	2019	2020	2021
<b>Gross rental income</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
Expenses from property lettings	175.0%	60.6%	52.9%	44.3%
<b>Earnings from property lettings</b>	<b>42.9%</b>	<b>39.4%</b>	<b>47.1%</b>	<b>55.7%</b>
Other operating income	39.3%	24.3%	22.4%	15.2%
Personnel expenses	85.7%	52.4%	87.0%	54.4%
Other operating expenses	0.0%	88.3%	80.7%	51.9%
Result from measurement of investment properties	342.9%	362.7%	121.5%	-25.3%
<b>EBIT</b>	<b>339.3%</b>	<b>333.0%</b>	<b>69.9%</b>	<b>-60.8%</b>
Financial income	0.5%	0.3%	0.2%	0.2%
Financial expenses	0.0%	96.0%	118.0%	86.1%
<b>EBT</b>	<b>264.3%</b>	<b>237.3%</b>	<b>-47.9%</b>	<b>-145.6%</b>
Taxes on income	89.3%	-13.9%	-49.7%	-17.7%
<b>Consolidated net income</b>	<b>175.0%</b>	<b>251.2%</b>	<b>1.8%</b>	<b>-129.1%</b>
Non-controlling interests	14.3%	13.9%	-2.8%	-12.7%
<b>Comprehensive income attributable to shareholders</b>	<b>160.7%</b>	<b>237.3%</b>	<b>4.6%</b>	<b>-116.5%</b>

Source: Company (reported data)

Balance sheet (in EUR m) ERWE Immobilien AG	2018	2019	2020	2021
<b>ASSETS</b>				
Intangible assets	0.0	0.0	0.0	0.0
Property, plant & equipment	0.2	1.5	1.4	1.4
Investment properties	101.9	131.9	192.7	195.5
Prepayments made for investments	0.1	0.0	1.4	1.3
Investments in associates	4.6	6.2	8.8	10.2
<b>Fixed assets</b>	<b>106.7</b>	<b>139.6</b>	<b>204.3</b>	<b>208.4</b>
Inventories	0.0	0.0	0.0	0.0
Accounts receivable	0.2	0.3	0.6	0.6
Liquid assets	19.2	19.1	8.0	8.6
Other assets	1.0	2.9	1.3	2.5
<b>Current assets</b>	<b>20.3</b>	<b>23.0</b>	<b>10.8</b>	<b>11.7</b>
<b>Total assets</b>	<b>127.0</b>	<b>162.6</b>	<b>215.2</b>	<b>220.1</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Shareholders' equity</b>	<b>49.6</b>	<b>58.3</b>	<b>58.4</b>	<b>53.5</b>
<b>Minority Interest</b>	<b>3.1</b>	<b>3.6</b>	<b>3.4</b>	<b>2.5</b>
Provisions	0.0	0.0	1.4	1.0
Financial liabilities	58.3	86.4	138.1	147.9
Accounts payable	2.1	0.9	1.9	0.2
Other liabilities	17.0	17.0	15.3	6.3
Deferred tax liabilities	15.7	15.3	12.5	11.1
<b>Liabilities</b>	<b>77.4</b>	<b>104.4</b>	<b>156.8</b>	<b>166.5</b>
<b>Total liabilities and shareholders' equity</b>	<b>127.0</b>	<b>162.6</b>	<b>215.2</b>	<b>220.1</b>

Source: Company (reported data)

Balance sheet (in %) ERWE Immobilien AG	2018	2019	2020	2021
<b>ASSETS</b>				
Intangible assets	0.0%	0.0%	0.0%	0.0%
Property, plant & equipment	0.2%	0.9%	0.6%	0.6%
Investment properties	80.2%	81.1%	89.6%	88.8%
Prepayments made for investments	0.1%	0.0%	0.7%	0.6%
Investments in associates	3.6%	3.8%	4.1%	4.6%
<b>Fixed assets</b>	<b>84.0%</b>	<b>85.9%</b>	<b>94.9%</b>	<b>94.7%</b>
Inventories	0.0%	0.0%	0.0%	0.0%
Accounts receivable	0.2%	0.2%	0.3%	0.3%
Liquid assets	15.1%	11.7%	3.7%	3.9%
Other assets	0.8%	1.8%	0.6%	1.1%
<b>Current assets</b>	<b>16.0%</b>	<b>14.2%</b>	<b>5.0%</b>	<b>5.3%</b>
<b>Total assets</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Shareholders' equity</b>	<b>39.0%</b>	<b>35.8%</b>	<b>27.1%</b>	<b>24.3%</b>
<b>Minority Interest</b>	<b>2.5%</b>	<b>2.2%</b>	<b>1.6%</b>	<b>1.1%</b>
Provisions	0.0%	0.0%	0.7%	0.5%
Financial liabilities	45.9%	53.1%	64.2%	67.2%
Accounts payable	1.7%	0.6%	0.9%	0.1%
Other liabilities	13.4%	10.5%	7.1%	2.9%
Deferred tax liabilities	12.4%	9.4%	5.8%	5.0%
<b>Liabilities</b>	<b>61.0%</b>	<b>64.2%</b>	<b>72.9%</b>	<b>75.6%</b>
<b>Total liabilities and shareholders' equity</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Company (reported data)



Statement of cash flows (in EUR m) ERWE Immobilien AG	2018	2019	2020	2021
EBIT	9.5	11.5	3.9	-4.8
Depreciation of fixed assets	0.0	0.2	0.2	0.3
Measurement result from investment properties	-9.6	-12.6	-6.8	2.0
Result from associates measured at equity	0.0	-1.6	-2.6	0.0
Other	-0.6	-0.6	2.3	-1.3
<b>Cash flow from operating activities</b>	<b>-1.4</b>	<b>-6.2</b>	<b>-9.5</b>	<b>-3.8</b>
Payments for the acquisition of investment property	-11.9	-6.1	-32.4	-1.3
Investments in investment properties	-1.5	-8.7	-21.9	-4.8
Other	-3.9	-0.1	-1.6	-0.2
<b>Cash flow from investing activities</b>	<b>-17.0</b>	<b>-15.4</b>	<b>-56.2</b>	<b>-6.2</b>
(Payments) / proceeds in connection with equity allocations	18.0	-0.6	-0.5	5.3
Taking up of financial debt	17.0	51.1	55.1	46.1
Repayment of financial debt	-2.3	-28.8	0.0	-34.1
<b>Cash flow from financing activities</b>	<b>32.6</b>	<b>21.5</b>	<b>54.1</b>	<b>10.6</b>
Effects of exchange rate changes on cash	0.0	0.0	0.0	0.0
<b>Change in cash and cash equivalents</b>	<b>14.3</b>	<b>-0.1</b>	<b>-11.1</b>	<b>0.6</b>
<b>Cash and cash equivalents at end of period</b>	<b>19.2</b>	<b>19.1</b>	<b>8.0</b>	<b>8.6</b>

Source: Company (reported data)

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### Our ratings:

Buy: The analysts at Montega AG believe the share price will rise during the next twelve months.

Hold: Upside/downside potential limited. No immediate catalyst visible.

Sell: The analysts at Montega AG believe the share price will fall during the next twelve months.

### Authority responsible for supervision:

Bundesanstalt für Finanzdienstleistungsaufsicht

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**Share price and recommendation history**

<b>Recommendation</b>	<b>Date</b>	<b>Price (EUR)</b>	<b>Price target (EUR)</b>	<b>Potential</b>
Buy (Initiation)	16.08.2021	3.34	4.35	30%
Buy	06.09.2021	3.38	4.25	26%
Buy	12.11.2021	3.24	4.00	27%
Buy	10.03.2022	2.10	3.60	71%
Buy	31.03.2022	2.04	3.60	76%
Buy	26.04.2022	2.14	3.00	40%
Buy	31.05.2022	2.16	3.00	39%
Buy	13.06.2022	2.34	3.00	28%
Buy	18.07.2022	2.36	3.00	27%
Buy	04.08.2022	2.36	3.00	27%