

Pyramid - the new “mic AG”

Germany | Technology | MCap EUR 54m*

26 January 2020

UPDATE



Strong prelim results of reverse IPO'ed Pyramid; PT up, Buy

What's it all about?

Pyramid's reported prelim. 2020 results supporting our positive view on the reverse IPO transaction and consequently the attractiveness of an investment in mic AG. Pyramid has once again proven that it is well on track to disproportionate grow in an attractive niche market (CAGR growth 19-23E of >13%). In addition, we view an organic top-line growth of 5% in a particularly challenging business year as another prove of the resilience of its business model. Finally, the strong cash position at YE of EUR 7m comes as a sweet surprise offering ample opportunities to put this money to work, but also reduces the overall purchase multiple mic has paid for Pyramid. We reiterate our BUY recommendation and increase our PT to EUR 4.50 (old EUR 4.00).

BUY (BUY)

Target price	EUR 4.50 (4.00)
Current price	EUR 2.84
Up/downside	58%

MAIN AUTHOR

Thomas Wissler
Equity Research Analyst
t.wissler@alsterresearch.com
+49 40 309 293-58

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Strong prelim results of reverse IPO'ed Pyramid; PT up

mic AG (“mic”) presented **stunning headline figures** of its recently reverse IPO'ed Pyramid Computer GmbH (“Pyramid”). In November last year mic agreed to acquire a majority stake in Freiburg based Pyramid – the digital leader at the point of sale. Pyramid will be consolidated into the “old mic” as of FY 2021 however, the earnings of the past financial year will entirely be made available to the new owner.

Despite Covid-19 induced sales delays from mainly the hospitality industry such as restaurants, FY 2020 sales came in at EUR 57.7m – approx. 5% above previous year's level and also some 5% above our initial forecast (eAR EUR 54.8m). In our view this highlights Pyramid's strong positioning in the fast growing market for digital solutions (e.g. touch screen panels) at the point of sale. Its focus on both, the retail and hospitality sector additionally provides **downside protection and hence resilience** against temporary weaknesses in one sector. That said, Pyramid experienced strong demand from the retail sector (trend towards touchless shopping) more than offsetting postponed orders from the hospitality sector (e.g. capex freeze at some restaurant chains).

Preliminary operating results (EBIT) also came in better than expected and reached EUR 4.8m – c. 17% above our expectation (eAR EUR 4.1m). With an EBIT margin of 8.3% for FY 2020, Pyramid hence achieved a solid level of profitability despite additional one-off costs associated with Covid-19 related hygiene measures or supply chain disruptions. **The biggest surprise however has been Pyramid's strong cash generation ability.** With YE cash at hand (equals net cash) of EUR 7.1m, Pyramid significantly outpaced our initial assumption of EUR -1m, which we have used to calculate the takeover multiple of Pyramid, highlighting management's ability to tightly manage costs, as well as its genuinely asset light business model.

In our view, **an unexpected war chest of some EUR 7m** clearly puts Pyramid / mic into a superior position to execute the final steps of its reverse IPO – and here in particular negotiating favorable terms for the outstanding debt financing tranche of c. EUR 5m. In addition, we see this surplus cash as a valuable source in order to fuel external (i.e. M&A) and internal (i.e. increasing sales force) growth initiatives.

- continue -

mic AG	2018	2019	2020E	2021E	2022E	2023E
Sales	0,10	0,79	0,65	62,46	72,0	89,4
Growth yoy	na	730,3%	-18,2%	>100%	15,2%	24,2%
EBITDA	-1,7	-1,4	0,0	5,4	7,8	9,9
EBIT	-1,7	-1,4	0,0	5,2	7,5	9,5
Net profit	-4,9	-1,5	-0,1	3,4	4,9	6,3
Y/E net debt (net cash)	0,0	-0,1	-0,6	-10,0	-13,5	-16,8
Net debt/EBITDA	0,0	0,0	na	-1,8	-1,7	-1,7
EPS recurring	-3,23	-0,93	-0,04	0,18	0,26	0,33
Dividend yield	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Gross profit margin	100,0%	100,0%	100,0%	31,2%	33,1%	31,1%
EBITDA margin	-1809%	-172%	0,0%	8,7%	10,9%	11,1%
EBIT margin	-1826%	-180%	-0,2%	8,4%	10,4%	10,6%
adj. ROCE (ex goodwill)	-30,9%	-54,1%	0,0%	19,4%	25,4%	27,1%
EV/EBITDA	-2,5	-3,3	na	8,1	5,1	3,7
EV/EBIT	-2,5	-3,2	na	8,4	5,4	3,9
PER	-0,9	-3,1	-68,7	15,8	10,9	8,5
FCF yield	-74,3%	-49,6%	0,0%	8,5%	13,3%	18,4%

Source: Company data; AlsterResearch; * based on fully diluted Nosh



Source: Company data, AlsterResearch

High/low 52 weeks 2.90 / 0.78
Price/Book Ratio 1.12x

Ticker / Symbols

ISIN DE000A254W52
WKN A254W5
Bloomberg M3BK:GR

Changes in estimates

		Sales	EBIT	EPS
2020	old	00.0	00.0	00.0
	Δ	-	-	-
2021	old	00.0	00.0	00.0
	Δ	-	-	-
2022	old	00.0	00.0	00.0
	Δ	-	-	-

Key share data

Number of shares: (in m pcs) 18.91*
Authorized capital: (in € m) 6.5
Book value per share*: (in €) 2.54
Ø trading volume: (12 months) 3,500

Major shareholders*

Frieder Hansen 22.3 %
Niko Hensler 22.3 %
Management 4.0 %
Free Float 51.4 %

Company description

mic is a leading developer and manufacturer of IT solutions for the retail & hospitality market. The company hardware solutions include interactive kiosks, network & security server as well as computer vision systems.

* after closing of transaction I + II

Apart from this unexpected influx on money and its manifold usage, the better than expected cash position also has an implication on the implied takeover multiple, mic has paid for Pyramid. In fact EUR 8m high cash (the difference between 7m net cash and our EUR 1m previous net debt assumption), brings down the EV to below EUR 38m, thus reducing the implied EV/EBITDA multiple by more than 1x (see chart below: OLD vs NEW), thus making the transaction a real bargain for mic AG.

			OLD	NEW
Payments in EUR			Cash	Cash
Step I	shares via capital increase in kind	1.695.970		
Step II	cash settlement		20.000.000	20.000.000
Total		1.695.970	20.000.000	20.000.000
Payment for 52%	@ 2.00 per share		23.391.940	23.391.940
Equity value 100%			44.984.500	44.984.500
Net debt			1.100.000	-7.000.000
Enterprise Value			46.084.500	37.984.500

Valuation	2021E	2022E	2022E
EBITDA - stand alone	5.219.355	7.470.355	7.470.355
EV/EBITDA	8,83x	6,17x	5,08x
Peer group	10,80x	8,50x	8,50x
Premium (-) / Discount (+)	18%	27%	40%

Source: Company data; AlsterResearch

As a fresh-up: The "new mic" will be an asset light technological hardware provider with an installed base of more than 40K digital kiosk systems and 1m server worldwide. That instantly makes "the new mic" the #1 kiosk system manufacturer for the retail and hospitality sector, catering into well known clients such as McDonald's, Edeka or Lidl. Being the digital innovator at the point of sale (POS), "the new mic" is helping customers to cut costs (i.e. efficiency gains) whilst at the same time improving its service offering to end consumers through convenience, connectivity and digitalization. A **project pipeline of more than EUR 200m** for the next three years clearly makes the tremendous growth opportunities tangible and visible translating into a CAGR (19-23E) growth of c. 13% (eAR).

Conclusion: In our view Pyramid's prelim. 2020 results support our positive view on the reverse IPO transaction and consequently the attractiveness of an investment in mic AG. Pyramid has once again proven that it is well on track to disproportionate grow in an attractive niche market (CAGR growth 19-23E of >13%). In addition, we view an organic top-line growth of 5% in a particularly challenging business year as another prove of the resilience of its business model. Finally, the strong cash position comes as a sweet surprise offering ample opportunities to put this money to work, but also reduces the overall purchase multiple mic has paid for Pyramid.

However, given the high growth, high return profile, we still see ample upside potential. That said, with an EV/EBIT '23E of 3.7x and a P/E '23E of 8.5x, the stock is still far from being adequately valued – especially after incorporating the new cash position. **We therefore reiterate our BUY recommendation with increased PT of EUR 4.50 (old EUR 4.00)**, based on our adj. FCF yield and DCF methods.

Investment case in six charts

Products



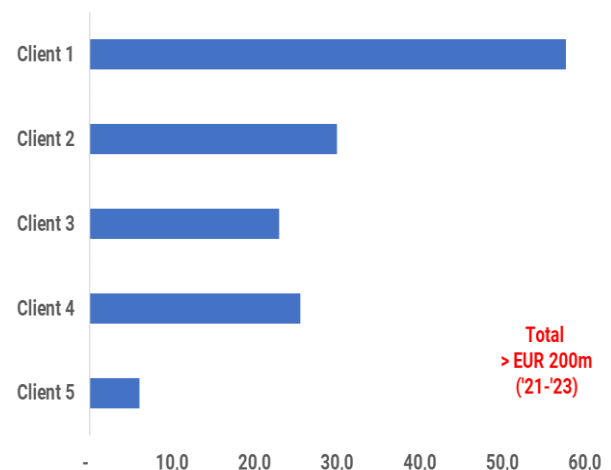
Competitive landscape



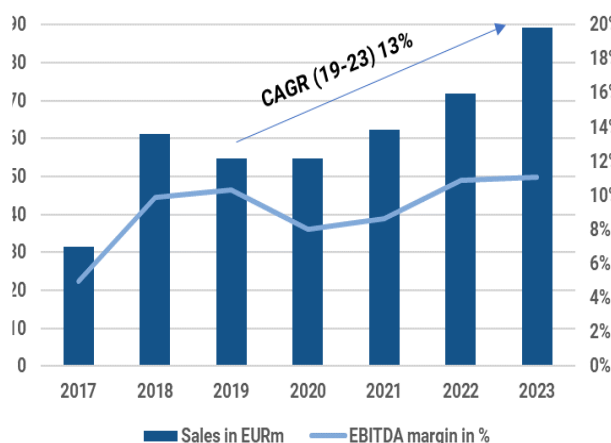
Blue chip clients



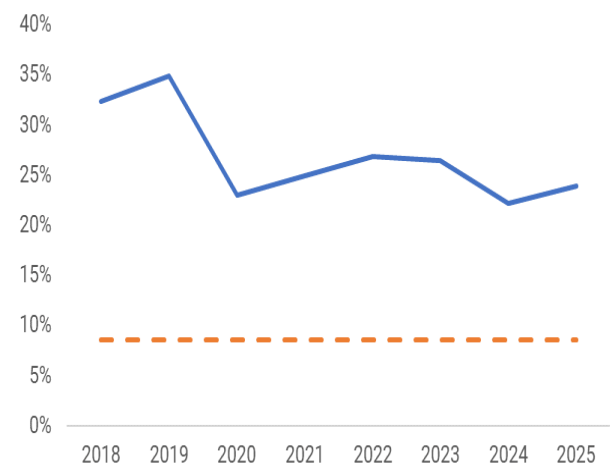
Cumulative project pipeline ('21-'23) - Top 5 clients



Sales and EBITDA margin (Pyramid stand alone)



ROCE vs. WACC Pyramid stand alone



SWOT-Analysis

SWOT-Analysis

Strengths

- Tailor-made products > fast adaptation of products to new situations (best of breed)
- Time-to-market: from idea to implementation in just eight weeks
- Leading market position (installed base) in digital kiosk system
- High customer satisfaction due to individual composition of the products
- High diversification
- Agility and flexibility due to lean organisational structure
- Focus on the core business
- 35 years of industry and technology know-how
- Cooperation with renowned customers
- Certification and awards from renowned companies and institutes

Opportunities

- High growth potential due to strong growth trends
- High innovation power
- Further global expansion
- Possible M&A activities
- New structure and opportunities through merger with mic AG
- Above-average growth fantasy through establishment of own sales organisation

Weaknesses

- Serial production of competitors could be more efficient and cheaper
- Compared to low-volume production, potentially at a cost disadvantage
- Low value chain = low IP

Threats

- Overall high market rivalry
- Price pressure from cheaper competitors, for example in Asia
- Compulsory innovation

Source: AlsterResearch

Products



polytouch* 32 curve - SIM
card kiosk



polytouch* Flex21.5



polytouch* 27 passport



Digital Signage Slim Pro



polytouch* 32 curve - gift



polytouch* 15 PE1000
check&queue



polytouch* 32 PE2000 - Self-
scan kiosk



polytouch* 32 passport mit
Puck Dispenser



polytouch* 32 PE4000



polytouch* 32 curve



Pyramid Location System
(PLS)



polytouch* 32 passport



polytouch* Interactive Mirror



polytouch* 24 rock



polytouch* 24 classic



polytouch* 32 classic



VarioFlex



BoxFlex



VarioFlex Front I/O

Financials

Profit and loss (EUR m)	2018	2019	2020E	2021E	2022E	2023E
Net sales	0,1	0,8	0,7	62,5	72,0	89,4
Sales growth	na	730,3%	-18,2%	9508,8%	15,2%	24,2%
Increase/decrease in finished goods and work-in-process	0,0	0,0	0,0	0,0	0,0	0,0
Total sales	0,1	0,8	0,7	62,5	72,0	89,4
Other operating income	0,0	0,0	0,0	0,8	0,8	0,8
Material expenses	0,0	0,0	0,0	43,0	48,1	61,6
Personnel expenses	0,2	0,1	0,2	9,9	11,3	12,4
Other operating expenses	1,6	2,0	0,5	5,0	5,5	6,3
Total operating expenses	1,8	2,2	0,7	57,0	64,1	79,4
EBITDA	-1,7	-1,4	0,0	5,4	7,8	9,9
Depreciation	0,0	0,1	0,0	0,2	0,4	0,4
EBITA	-1,7	-1,4	0,0	5,2	7,5	9,5
Amortisation of goodwill and intangible assets	0,0	0,0	0,0	0,0	0,0	0,0
Impairment charges	0,0	0,0	0,0	0,0	0,0	0,0
EBIT	-1,7	-1,4	0,0	5,2	7,5	9,5
Financial result	-3,2	-0,1	-0,1	-0,3	-0,3	-0,4
Recurring pretax income from continuing operations	-4,9	-1,5	-0,1	4,9	7,1	9,1
Extraordinary income/loss	0,0	0,0	0,0	0,0	0,0	0,0
Earnings before taxes	-4,9	-1,5	-0,1	4,9	7,1	9,1
Taxes	0,0	0,0	0,0	1,5	2,2	2,8
Net income from continuing operations	-4,9	-1,5	-0,1	3,4	4,9	6,3
Result from discontinued operations (net of tax)	0,0	0,0	0,0	0,0	0,0	0,0
Net income	-4,9	-1,5	-0,1	3,4	4,9	6,3
Minority interest	0,0	0,0	0,0	0,0	0,0	0,0
Net profit (reported)	-4,9	-1,5	-0,1	3,4	4,9	6,3
Average number of shares	1,5	1,6	2,4	18,9	18,9	18,9
EPS reported	-3,23	-0,93	-0,04	0,18	0,26	0,33

Profit and loss (common size)	2018	2019	2020E	2021E	2022E	2023E
Net sales	100%	100%	100%	100%	100%	100%
Increase/decrease in finished goods and work-in-process	0%	0%	0%	0%	0%	0%
Total sales	100%	100%	100%	100%	100%	100%
Other operating income	0%	0%	0%	1%	1%	1%
Material expenses	0%	0%	0%	69%	67%	69%
Personnel expenses	195%	17%	23%	16%	16%	14%
Other operating expenses	1714%	255%	77%	8%	8%	7%
Total operating expenses	1909%	272%	100%	91%	89%	89%
EBITDA	-1809%	-172%	0%	9%	11%	11%
Depreciation	17%	9%	0%	0%	1%	0%
EBITA	-1826%	-180%	0%	8%	10%	11%
Amortisation of goodwill and intangible assets	0%	0%	0%	0%	0%	0%
Impairment charges	0%	0%	0%	0%	0%	0%
EBIT	-1826%	-180%	0%	8%	10%	11%
Financial result	-3326%	-9%	-15%	0%	0%	0%
Recurring pretax income from continuing operations	-5151%	-190%	-16%	8%	10%	10%
Extraordinary income/loss	0%	0%	0%	0%	0%	0%
Earnings before taxes	-5151%	-190%	-16%	8%	10%	10%
Taxes	1%	0%	0%	2%	3%	3%
Net income from continuing operations	-5152%	-190%	-16%	5%	7%	7%
Result from discontinued operations (net of tax)	0%	0%	0%	0%	0%	0%
Net income	-5152%	-190%	-16%	5%	7%	7%
Minority interest	0%	0%	0%	0%	0%	0%
Net profit (reported)	-5152%	-190%	-16%	5%	7%	7%

Source: Company data; AlsterResearch

Balance sheet (EUR m)	2018	2019	2020E	2021E	2022E	2023E
Intangible assets	0,1	0,0	0,0	38,2	38,2	38,2
Property, plant and equipment	0,0	0,0	0,0	1,0	1,0	1,0
Financial assets	2,0	1,7	1,4	0,0	0,0	0,0
FIXED ASSETS	2,0	1,7	1,4	39,2	39,2	39,2
Inventories	0,0	0,0	0,0	15,2	17,1	21,3
Accounts receivable	1,9	0,7	0,8	3,4	3,9	4,9
Other current assets	0,0	0,0	0,0	0,0	0,0	0,0
Liquid assets	0,0	0,1	0,6	15,0	18,5	21,8
Deferred taxes	0,0	0,0	0,0	0,2	0,2	0,2
Deferred charges and prepaid expenses	0,0	0,0	0,0	0,0	0,0	0,0
CURRENT ASSETS	1,9	0,8	1,4	33,8	39,8	48,2
TOTAL ASSETS	3,9	2,4	2,8	73,0	79,0	87,4
SHAREHOLDERS EQUITY	3,1	1,5	2,2	55,0	60,0	66,3
MINORITY INTEREST	0,0	0,0	0,0	0,0	0,0	0,0
Long-term debt	0,0	0,0	0,0	5,0	5,0	5,0
Provisions for pensions and similar obligations	0,0	0,0	0,0	0,0	0,0	0,0
Other provisions	0,3	0,4	0,1	5,1	5,1	5,1
Non-current liabilities	0,3	0,4	0,1	10,1	10,1	10,1
short-term liabilities to banks	0,0	0,0	0,0	0,0	0,0	0,0
Accounts payable	0,0	0,0	0,0	5,5	6,5	8,6
Advance payments received on orders	0,0	0,0	0,0	0,0	0,0	0,0
Other liabilities (incl. from lease and rental contracts)	0,5	0,5	0,5	0,5	0,5	0,5
Deferred taxes	0,0	0,0	0,0	1,9	1,9	1,9
Deferred income	0,0	0,0	0,0	0,0	0,0	0,0
Current liabilities	0,5	0,5	0,5	6,0	7,0	9,1
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	3,9	2,4	2,8	73,0	79,0	87,4

Balance sheet (common size)	2018	2019	2020E	2021E	2022E	2023E
Intangible assets	2%	0%	0%	52%	48%	44%
Property, plant and equipment	0%	0%	0%	1%	1%	1%
Financial assets	50%	68%	50%	0%	0%	0%
FIXED ASSETS	52%	68%	50%	54%	50%	45%
Inventories	0%	0%	0%	21%	22%	24%
Accounts receivable	47%	29%	29%	5%	5%	6%
Other current assets	0%	0%	0%	0%	0%	0%
Liquid assets	0%	3%	21%	20%	23%	25%
Deferred taxes	0%	0%	0%	0%	0%	0%
Deferred charges and prepaid expenses	0%	0%	0%	0%	0%	0%
CURRENT ASSETS	48%	32%	50%	46%	50%	55%
TOTAL ASSETS	100%	100%	100%	100%	100%	100%
SHAREHOLDERS EQUITY	78%	64%	78%	75%	76%	76%
MINORITY INTEREST	0%	0%	0%	0%	0%	0%
Long-term debt	0%	0%	0%	7%	6%	6%
Provisions for pensions and similar obligations	0%	0%	0%	0%	0%	0%
Other provisions	9%	15%	4%	7%	6%	6%
Non-current liabilities	9%	15%	4%	14%	13%	12%
short-term liabilities to banks	0%	0%	0%	0%	0%	0%
Accounts payable	0%	0%	0%	7%	8%	10%
Advance payments received on orders	0%	0%	0%	0%	0%	0%
Other liabilities (incl. from lease and rental contracts)	14%	22%	19%	1%	1%	1%
Deferred taxes	0%	0%	0%	3%	2%	2%
Deferred income	0%	0%	0%	0%	0%	0%
Current liabilities	14%	22%	19%	8%	9%	10%
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	100%	100%	100%	100%	100%	100%

Source: Company data; AlsterResearch

Cash flow statement (EUR m)	2018	2019	2020E	2021E	2022E	2023E
Net profit/loss	-4,9	-1,5	-0,1	3,4	4,9	6,3
Depreciation of fixed assets (incl. leases)	0,0	0,1	0,0	0,2	0,4	0,4
Amortisation of goodwill	0,0	0,0	0,0	0,0	0,0	0,0
Amortisation of intangible assets	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
Cash flow from operations before changes in w/c	-4,9	-1,4	-0,1	3,6	5,3	6,7
Increase/decrease in inventory	0,0	0,0	0,0	-2,0	-1,9	-4,1
Increase/decrease in accounts receivable	0,9	1,2	-0,1	0,4	-0,5	-1,0
Increase/decrease in accounts payable	0,0	0,0	0,0	0,9	1,0	2,1
Increase/decrease in other w/c positions	0,0	0,0	0,0	0,0	0,0	0,0
Increase/decrease in working capital	0,9	1,2	-0,1	-0,7	-1,4	-3,0
Cash flow from operating activities	-4,1	-0,3	-0,2	2,9	3,9	3,7
CAPEX	0,0	0,0	0,0	0,3	0,4	0,4
Payments for acquisitions	0,0	0,0	0,0	20,0	0,0	0,0
Financial investments	0,0	0,0	0,0	0,0	0,0	0,0
Income from asset disposals	3,7	0,3	0,0	2,0	0,0	0,0
Cash flow from investing activities	3,7	0,3	0,0	-18,3	-0,4	-0,4
Cash flow before financing	-0,4	0,0	-0,2	-15,4	3,5	3,3
Increase/decrease in debt position	0,0	0,0	0,0	5,0	0,0	0,0
Purchase of own shares	0,0	0,0	0,0	0,0	0,0	0,0
Capital measures	0,4	0,0	0,9	17,6	0,0	0,0
Dividends paid	0,0	0,0	0,0	0,0	0,0	0,0
Others	0,0	0,0	0,0	7,0	0,0	0,0
Effects of exchange rate changes on cash	0,0	0,0	0,0	0,0	0,0	0,0
Cash flow from financing activities	0,4	0,0	0,9	29,6	0,0	0,0
Increase/decrease in liquid assets	0,0	0,1	0,7	14,2	3,5	3,3
Liquid assets at end of period	0,0	0,1	0,8	15,0	18,5	21,8

Source: Company data; AlsterResearch

Ratios	2018	2019	2020E	2021E	2022E	2023E
Per share data						
Earnings per share reported	-3,23	-0,93	-0,04	0,18	0,26	0,33
Cash flow per share	-2,67	-0,20	-0,08	0,14	0,19	0,18
Book value per share	2,00	0,96	0,89	2,91	3,17	3,51
Dividend per share	0,00	0,00	0,00	0,00	0,00	0,00
Valuation						
P/E	-0,9x	-3,1x	-68,7x	15,8x	10,9x	8,5x
P/CF	-1,1x	-13,9x	-34,6x	19,7x	15,0x	16,1x
P/BV	1,4x	3,0x	3,2x	1,0x	0,9x	0,8x
Dividend yield (%)	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
FCF yield (%)	-74,3%	-49,6%	0,0%	8,5%	13,3%	18,4%
EV/Sales	45,1	5,7	9,7	0,7	0,6	0,4
EV/EBITDA	-2,5	-3,3	#DIV/0!	8,1	5,1	3,7
EV/EBIT	-2,5	-3,2	-6331,4	8,4	5,4	3,9
Income statement (EURm)						
Sales	0,1	0,8	0,7	62,5	72,0	89,4
yoy chg in %	na	730%	-18%	9509%	15%	24%
Gross profit	0,1	0,8	0,7	19,5	23,8	27,8
Gross margin in %	100%	100%	100%	31%	33%	31%
EBITDA	-1,7	-1,4	0,0	5,4	7,8	9,9
EBITDA margin in %	-1809%	-172%	0%	9%	11%	11%
EBIT	-1,7	-1,4	0,0	5,2	7,5	9,5
EBIT margin in %	-1826%	-180%	0%	8%	10%	11%
Net profit	-4,9	-1,5	-0,1	3,4	4,9	6,3
Cash flow statement (EURm)						
CF from operations	-4	-0,3	-0,2	2,9	3,9	3,7
Capex	0	0,0	0,0	0,3	0,4	0,4
Maintenance Capex	0	0,1	0,0	0,2	0,3	0,4
Free cash flow	-4,1	-0,3	-0,2	2,6	3,5	3,3
Balance sheet (EURm)						
Intangible assets	0,1	0,0	0,0	38,2	38,2	38,2
Tangible assets	0,0	0,0	0,0	1,0	1,0	1,0
Shareholders' equity	3,1	1,5	2,2	55,0	60,0	66,3
Pension provisions	0,0	0,0	0,0	0,0	0,0	0,0
Liabilities and provisions	0,3	0,4	0,1	10,1	10,1	10,1
Net financial debt	0,0	-0,1	-0,6	-10,0	-13,5	-16,8
w/c requirements	2,3	1,3	0,8	7,0	13,9	16,1
Ratios						
ROE	-161%	-97%	-5%	6%	8%	10%
ROCE	-31%	-54%	0%	19%	25%	27%
Net gearing	-1%	-4%	-28%	-18%	-23%	-25%
Net debt / EBITDA	0,01	0,05	#DIV/0!	-1,84	-1,73	-1,69

Source: Company data; AlsterResearch

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Contacts

SRH AlsterResearch AG
Himmelstr. 9
22299 Hamburg

Tel: +49 40 309 293-52
Fax: +49 40 556 330-54
E-Mail: info@alsterresearch.com

Schlöter, Reidock & Hertrich GmbH
Leinpfad 100
22299 Hamburg

Tel: +49 40 3785 52- 0
Fax: +49 40 3785 52- 19
E-Mail: info@srh-research.de

mwb fairtrade Wertpapierhandelsbank AG
Rottenbucher Straße 28
82166 Gräfelfing

Tel: +49 89 85852-0
Fax: +49 89 85852-505
E-Mail: info@mwbfairtrade.com

Research

OLIVER DREBING
Senior Analyst
Tel: +49 40 309 293-57
E-Mail: o.drebing@alsterresearch.com

LOUISA HESSELBEIN
Analyst
Tel: +49 40 309 293-52
E-Mail: l.hesselbein@alsterresearch.com

KARSTEN RAHLF, CFA
Senior Analyst
Tel: +49 40 309 293-54
E-Mail: k.rahlf@alsterresearch.com

ANDREAS SCHÜLER
Analyst
Tel: +49 40 309 293-55
E-Mail: a.schueler@alsterresearch.com

KATHARINA SCHLÖTER
Analyst
Tel: +49 40 309 293-52
E-Mail: k.schloeter@alsterresearch.com

THOMAS WISSLER
Senior Analyst
Tel: +49 40 309 293-58
E-Mail: t.wissler@alsterresearch.com

ALEXANDER ZIENKOWICZ
Analyst
Tel: +49 40 309 293-56
E-Mail: a.zienkowitz@alsterresearch.com

Sales

MARKUS KÖNIG-WEISS
Head of Sales
Tel: +49 40 309 293-52
E-Mail: mkw@alsterresearch.com

Sales

CLEMENS SCHLÖTER
Senior Sales
Tel: +49 40 378 55 211
E-Mail: c.schloeter@srh-research.de

HANS SÜLWALD
Sales
Tel: +49 40 378 55 235
E-Mail: h.suelwald@srh-research.de

Equity Capital Markets / Trading

KAI JORDAN
Member of the Board
Tel: +49 40 36 0995-22
E-Mail: kjordan@mwbfairtrade.com

ALEXANDER DEUSS
Head of Institutional Sales
Tel: +49 40 36 0995- 22
E-Mail: adeuss@mwbfairtrade.com

SASCHA GUENON
Head of Designated Sponsoring
Tel: +49 40 360 995 - 23
E-Mail: sguenon@mwbfairtrade.com