



euromicron AG

Hoping for a turnaround in 2017

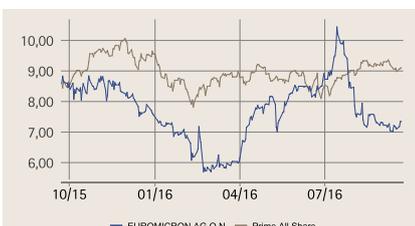
23/09/2016

Hold	(Hold)
7.00 EUR	(7.70 EUR)

Close 21/09/2016	7.34 EUR
Bloomberg: EUCA GY	WKN: A1K030
Sector	Technology

Share price performance

52 week high	10.44 EUR
52 week low	5.70 EUR
Compared to	Prime All Share
YTD	1.6%
1 month	-2.8%
12 months	-20.9%



Share data

EV (m EUR; 2016)	122.2
Market Cap (m EUR)	52.7
No. of shares (m)	7.2
Free float	100.0%

Next event

Quarterly Results	08/11/2016
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Change in model

	Sales	EBITDA	EPS
2016e	-5.5%	-59.5%	-572.8%
2017e	-5.3%	-37.6%	-103.2%
2018e	-5.1%	-37.0%	-77.8%

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See end of document for disclaimer.

Euromicron is embroiled in a costly restructuring phase. With revised revenue and earnings estimates for 2016-18, we have lowered our price target from € 7.70 to € 7.00 and maintain our HOLD rating for this stock.

INVESTMENT CASE

Euromicron lowered its guidance for FY 2016 materially in mid-2016. Based on our revised estimates, we expect the company to once more end FY 2016 with a net loss and a negative FCF, although H2 EBITDA should be positive. In view of increasing net debt (BHL 2016e: € 68 m vs. € 59 m at the end of 2015), we believe M&A will hardly be manageable for the time being, leaving the company dependent on organic growth. In terms of the operating performance, we expect the Smart Buildings segment to recover following the restructuring of the most relevant asset, Euromicron Deutschland GmbH. However, this is unlikely to be achieved before Q4 2016. We expect ongoing restructuring needs to weigh on the Q3 results. The next financial report is therefore unlikely to be a positive trigger for a re-valuation. From 2017 onwards, we see a chance of better profitability thanks to a lower cost base across the group. However, market expectations of EBITDA and EPS recovering in 2017 and 2018 are overly ambitious, in our view. We believe the company first needs to return to sustainable growth and positive FCFs for a higher valuation to be perceived as justified.

CATALYSTS

- The revised FY 2016 guidance should be confirmed along with the Q3 report.
- Order book: We put the order book as per 30/09/2016 at € 123 m (-7% yoy).
- Restructuring programme: This should be finalised in early 2017.

VALUATION

We analyse Euromicron stock based on a three-stage DCF model, which yields a price target of € 7.00.

in m EUR	2014	2015	2016e	2017e	2018e
Sales	346.3	344.9	338.7	354.5	369.3
EBITDA	21.1	6.9	6.5	14.6	17.8
EBITDA margin	6.1%	2.0%	1.9%	4.1%	4.8%
Net financial debt	54.4	59.2	67.8	67.9	65.8
Free cash-flow	-16.2	-5.2	-8.6	-0.3	1.9
EPS (in EUR)	0.36	-1.85	-0.93	-0.03	0.36
DPS (in EUR)	0.00	0.00	0.00	0.00	0.00
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Sales	0.4	0.3	0.4	0.3	0.3
EV/EBITDA	6.5	16.6	18.7	8.4	6.8
Price Earnings ratio (P/E)	32.1	-4.1	-7.9	-231.8	20.6

Source: Company information, Bankhaus Lampe Research estimates

Investment Case

Restructuring needs underestimated

A major profit warning in mid-2016 proved that Euromicron is still struggling with its restructuring exercise. Further restructuring measures are driving up costs, and reworks of old projects cannot be billed. As the restructuring will also affect H2 2016, the company lowered its sales guidance to € 330–350 m (previously: € 350–370 m), and it is projecting an operating EBITDA margin of 2–4% (down from 4.5–5.5%). The restructuring measures are expected to incur an additional cost of € 3–4 m (up from € 2–3 m). This leads to a new EBITDA guidance range of € 2.6–11.0 m (initially € 12.8–18.4 m). Our FY 2016 EBITDA estimate of € 6.5 m stands slightly below the mid-point of the new guidance range but still requires a significant operational turnaround in H2 following two quarters of losses at the EBITDA level.

Weak order trends

Both order intake (-20%) and order book (-10%) saw a downturn in Q2 with the former mainly due to projects with sub-contractor status being scrapped deliberately in the Smart Buildings segment. The company has changed its strategy for this business and now only pitches for prime contractor projects in order to have a better control over project and profitability. However, based on the recent order newsflow (e.g. Göttinger Verkehrsbetriebe) and our expectation of increased order volumes from Deutsche Telekom (in light of its VDSL rollout), we expect the order intake to pick up in Q3 2016.

Order intake and order book

	2011	2012	2013	2014	Q1	Q2	Q3	Q4	2015	Q1	Q2	Q3	Q4	2016e
Order intake	309.2	327.8	327.7	340.1	79.1	88.6	86.1	73.0	326.8	85.2	70.8	94.0	64.8	314.8
Growth in order intake		6.0%	0.0%	3.8%	-19.9%	35.4%	-0.3%	-18.5%	-3.9%	7.7%	-20.1%	9.2%	-11.2%	-3.7%
Order book	127.5	125.2	127.7	121.5	126.0	132.5	132.6	103.4	103.4	123.4	119.5	123.3	79.4	79.5
Growth in order book		-1.8%	2.0%	-4.9%	-13.0%	3.4%	1.9%	-13.8%	-14.9%	-2.1%	-9.8%	-7.0%	-23.2%	-23.2%
Book to bill ratio	1.0	1.0	1.0	1.0	1.1	1.1	1.0	0.7	0.9	1.3	0.9	1.0	0.6	0.9

Source: Company information, BHL estimates

Estimates lowered for 2016 onwards

We have markedly lowered our sales and earnings estimates for 2016–2018. We also believe that market expectations of dividend payments resuming in 2018 are overly optimistic. The group should prioritise the issue of leverage, in our view, which has increased materially over the last few years.

€m	2016E old	2016E new	change	2017E old	2017E new	change	2018E old	2018E new	change
Revenues	358.4	338.7	-5.5%	374.2	354.5	-5.3%	389.3	369.3	-5.1%
EBITDA	16.1	6.5	-59.5%	23.3	14.6	-37.6%	28.2	17.8	-37.0%
EBITDA margin	4.5%	1.9%		6.2%	4.1%		7.2%	4.8%	
EBIT	6.1	-3.5	-156.7%	13.5	4.8	-64.7%	18.9	8.5	-55.2%
Net income after minorities	1.4	-6.7	-572.8%	7.1	-0.2	-103.2%	11.5	2.6	-77.8%
EPS, reported (€)	0.20	-0.93	-572.8%	0.99	-0.03	-103.2%	1.60	0.36	-77.8%

Source: BHL estimates

Our new estimates are well below market consensus, which, however, is limited to only four brokers including Bankhaus Lampe.

€m	2016E			2017E			2018E		
	BHL	Consensus	<i>delta</i>	BHL	Consensus	<i>delta</i>	BHLe	Consensus	<i>delta</i>
Revenues	339	347	-2%	355	363	-2%	369	382	-3%
EBITDA	7	10	-37%	15	21	-32%	18	26	-32%
EBIT	-3	-1	146%	5	11	-55%	8	15	-44%
EPS €	-0.93	-0.20	376%	-0.03	0.79	-104%	0.36	1.30	-73%
DPS €	0.00	0.00		0.00	0.00		0.00	0.08	-100%

Source: BHL estimates, FactSet consensus

We expect the Smart Buildings segment to recover following the restructuring of the most relevant asset, Euromicron Deutschland GmbH. However, this is unlikely to happen before Q4 2016. As ongoing restructuring needs should also weigh on the Q3 results, we believe that the next financial report is unlikely to be a positive trigger for a re-valuation of the share. From 2017 onwards, we see a chance of better profitability thanks to a lower cost base across the group. However, market expectations of EBITDA and EPS recovering in 2017 and 2018 are overly ambitious, in our view. We believe the company needs to return to sustainable growth and positive FCFs a higher valuation to be perceived as justified. As a result, we maintain our HOLD rating for the share.

Company Valuation

DCF IS KEY VALUATION TOOL

Our key valuation tool is a DCF model based on our estimates for the operating performance of the company's individual operating units (segments). We assume a risk-free rate of 1% and an equity risk premium of 6.5%. In combination with a beta of 1.35 (taking into account the ongoing operational downturn and an unfinished restructuring programme), we calculate a WACC of 5.8%. Our DCF assumptions lead us to a fair value for the share of € 7.00.

DCF model

euromicron AG DCF model (EUR m)	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	Terminal Value
EBIT	-3.5	4.8	8.5	9.0	9.5	10.1	10.7	11.3	11.4
EBIT Non-Operating / FD	0	0	0	0	0	0	0	0	0
EBIT Industrial Business	-3.5	4.8	8.5	9.0	9.5	10.1	10.7	11.3	11.4
Taxes	1.0	-1.4	-2.5	-2.7	-2.9	-3.0	-3.2	-3.4	-3.4
NOPAT	-2.4	3.3	5.9	6.3	6.7	7.0	7.5	7.9	8.0
+ Depreciation	10.0	9.8	9.3	9.9	10.4	11.1	12.7	14.5	13.5
- Capex	-9.2	-9.8	-10.0	-10.6	-11.2	-11.9	-12.6	-13.4	-13.5
+/- Change in working capital	-2.6	-0.3	-0.1	-1.1	-1.1	-1.2	-1.3	-1.3	-1.3
+/- Other cash items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Cashflow	-4.2	3.0	5.1	4.5	4.7	5.0	6.3	7.7	6.7
Discounting period in years	0.3	1.3	2.3	3.3	4.3	5.3	6.3	7.3	8.3
WACC	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%
Present value	-4.2	2.8	4.5	3.7	3.7	3.7	4.4	5.1	86.8

Calculation of fair value per share

Sum of all present values	111
thereof Terminal Value	78%
+ Operating Segment Financial Assets	0.7
- Minorities	-0.4
- Pension provisions	-1.2
- Net financial debt (cash) of operations	-59.2
Fair operating value	51
Bookvalue non-operating assets	0
Equity Value	51
Holding discount	0%
Fair equity value	51
No. of shares [in mio.]	7.2

Fair value per share [in €] 7.00

Source: BHL estimates

WACC model

Risk-free rate	1.00%
Equity risk premium	6.5%
Beta	1.4
Expected return on investment	9.8%
Cost of debt	5.50%
Tax rate	30.0%
Cost of debt after taxes	3.85%

Sensitivity of fair value per share

	TV growth				
	0.0%	0.5%	1.0%	1.5%	2.0%
Beta 1.0	7.5	9.0	10.8	13.2	16.3
1.2	6.0	7.2	8.7	10.6	12.9
1.4	4.8	5.8	7.0	8.5	10.3
1.6	3.8	4.6	5.6	6.8	8.2
1.8	2.8	3.5	4.4	5.3	6.5

Source: Company information, Bankhaus Lampe Research

A variation of the beta within a range of 1.0-1.8 and of the terminal growth within a range of 0-2.0% leads to a valuation of between € 2.80 and € 16.30.

Key figures

euromicron AG – Income statement

in m EUR	2014	2015	2016e	2017e	2018e
Sales	346.3	344.9	338.7	354.5	369.3
Own work capitalised	5.4	6.8	4.5	5.0	5.2
Total sales	351.7	351.7	343.2	359.5	374.5
Material expenses	-182.5	-189.8	-177.8	-184.4	-190.5
Personnel expenses	-103.2	-107.9	-111.1	-112.4	-116.3
Unusual or infrequent items	0.0	0.0	0.0	0.0	0.0
Other operating result	-44.9	-47.1	-47.8	-48.2	-49.9
EBITDA	21.1	6.9	6.5	14.6	17.8
Depreciation	9.7	15.6	10.0	9.8	9.3
EBITA	11.4	-8.6	-3.5	4.8	8.5
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	0.0	0.0	0.0	0.0	0.0
EBIT	11.4	-8.6	-3.5	4.8	8.5
Financial result	-3.7	-4.1	-4.6	-4.8	-4.8
Income on ordinary activities	7.8	-12.7	-8.1	0.0	3.7
Extraordinary income/loss	0.0	0.0	0.0	0.0	0.0
EBT	7.8	-12.7	-8.1	0.0	3.7
Taxes	-4.9	-0.4	1.5	0.0	-0.9
Net income from cont. operations	2.9	-13.1	-6.6	0.0	2.8
Net income from discount. operations	0.0	0.0	0.0	0.0	0.0
Minority interest	-0.3	-0.1	-0.1	-0.2	-0.2
Net income (adj.)	2.6	-13.2	-6.7	-0.2	2.6
No. of shares	7.2	7.2	7.2	7.2	7.2
EPS	0.36	-1.85	-0.93	-0.03	0.36

Source: Company information, Bankhaus Lampe Research estimates

	2014	2015	2016e	2017e	2018e
Gross margin	47.3%	45.0%	47.5%	48.0%	48.4%
EBITDA margin	6.1%	2.0%	1.9%	4.1%	4.8%
EBITA margin	3.3%	-2.5%	-1.0%	1.3%	2.3%
EBIT margin	3.3%	-2.5%	-1.0%	1.3%	2.3%
EBT margin	2.2%	-3.7%	-2.4%	0.0%	1.0%
Net profit margin	0.7%	-3.8%	-2.0%	-0.1%	0.7%
Tax rate	63.2%	-3.3%	18.6%	0.0%	24.6%

Source: Company information, Bankhaus Lampe Research estimates

Growth rates yoy	2014	2015	2016e	2017e	2018e
Sales	5.1%	-0.4%	-1.8%	4.7%	4.2%
EBITDA	46.7%	-67.2%	-5.6%	>100%	21.8%
EBIT	>100%	---	-59.9%	---	77.2%
EBT	>100%	---	-36.5%	-99.7%	---
Net income (adj.)	---	---	-49.7%	-96.6%	---
EPS	---	---	-49.7%	-96.6%	---

Source: Company information, Bankhaus Lampe Research estimates

euromicron AG – Balance sheet

Assets (in m EUR)	2014	2015	2016e	2017e	2018e
Fixed assets	150.7	142.0	141.1	141.2	141.9
Property, plant and equipment	14.1	15.3	14.5	14.5	15.2
Intangible assets	134.3	125.7	125.7	125.7	125.7
Financial assets	0.9	0.7	0.7	0.8	0.8
Other long-term assets	1.5	0.2	0.2	0.2	0.2
Current assets	136.7	128.9	112.6	116.7	122.6
Inventories	29.0	30.8	27.8	29.1	30.4
Accounts receivable	85.8	80.7	76.1	78.7	80.9
Other current assets	6.3	6.7	6.6	6.9	7.2
Securities	0.0	0.0	0.0	0.0	0.0
Cash	15.6	10.7	2.1	2.0	4.1
Total assets	287.4	270.8	253.7	257.9	264.5
Equity and liabilities in m EUR					
Shareholders' equity	110.4	97.0	90.4	90.1	92.7
Shareholders' equity (before minority)	110.0	96.6	90.0	89.7	92.3
Minorities	0.4	0.4	0.4	0.4	0.4
Non-current liabilities	57.6	31.0	30.8	31.2	31.6
Pension provisions	1.2	1.3	1.2	1.3	1.3
Other provisions	1.9	1.8	1.8	1.9	1.9
Long-term financial debt	47.1	22.3	22.3	22.3	22.3
Other long-term debt	7.4	5.6	5.5	5.8	6.0
Current liabilities	119.4	142.8	132.5	136.5	140.2
Short-term debt	22.9	47.5	47.5	47.5	47.5
Other accruals short-term	1.7	2.1	2.0	2.1	2.2
Accounts payable	44.2	48.4	39.0	40.8	42.5
Other liabilities	50.6	44.7	43.9	46.0	47.9
Total equity and liabilities	287.4	270.8	253.7	257.9	264.5

Source: Company information, Bankhaus Lampe Research estimates

euromicron AG – Balance sheet structure

Assets	2014	2015	2016e	2017e	2018e
Fixed assets	52.4%	52.4%	55.6%	54.8%	53.7%
Property, plant and equipment	4.9%	5.7%	5.7%	5.6%	5.7%
Intangible assets	46.7%	46.4%	49.6%	48.8%	47.5%
Current assets	47.6%	47.6%	44.4%	45.2%	46.3%
Inventories	10.1%	11.4%	11.0%	11.3%	11.5%
Accounts receivable	29.9%	29.8%	30.0%	30.5%	30.6%
Cash	5.4%	4.0%	0.8%	0.8%	1.6%
Equity and liabilities					
Shareholders' equity	38.4%	35.8%	35.6%	35.0%	35.0%
Non-current liabilities	20.0%	11.4%	12.2%	12.1%	12.0%
Pension provisions	0.4%	0.5%	0.5%	0.5%	0.5%
Long-term financial debt	16.4%	8.2%	8.8%	8.7%	8.4%
Current liabilities	41.6%	52.7%	52.2%	52.9%	53.0%
Short-term debt	8.0%	17.6%	18.7%	18.4%	18.0%
Accounts payable	15.4%	17.9%	15.4%	15.8%	16.1%

Source: Company information, Bankhaus Lampe Research estimates

euromicron AG – Cash flow statement

in m EUR	2014	2015	2016e	2017e	2018e
Net income (adj.)	2.6	-13.2	-6.7	-0.2	2.6
Depreciation	9.7	15.6	10.0	9.8	9.3
Amortisation of goodwill & intangible assets	0.0	0.0	0.0	0.0	0.0
Change of provisions	-0.2	0.3	-0.1	0.2	0.2
Other	-6.8	0.7	0.0	0.0	0.0
Operating Cash-flow before changes in w/c	5.3	3.3	3.2	9.8	12.1
Change in inventory	-1.1	-1.7	2.9	-1.3	-1.2
Change in accounts receivable	12.6	5.1	4.6	-2.6	-2.3
Change in accounts payable	-10.4	4.2	-9.5	1.8	1.7
Change in other working capital positions	-8.3	-6.2	-0.7	1.7	1.6
Operating Cash-flow	-1.9	4.6	0.6	9.5	11.9
Capex, excluding maintenance	-6.4	-7.4	-9.2	-9.8	-10.0
Payments for acquisitions	-8.0	-2.7	0.0	0.0	0.0
Financial investments	0.1	0.2	0.0	0.0	0.0
Income from asset disposals	0.0	0.0	0.0	0.0	0.0
Income from financial investments	0.0	0.0	0.0	0.0	0.0
Cash-flow from investing activities	-14.3	-9.9	-9.2	-9.8	-10.0
Free cash-flow	-16.2	-5.2	-8.6	-0.3	1.9
Capital measures	0.0	0.0	0.0	0.0	0.0
Increase/decrease in debt position	-6.8	1.7	0.0	0.0	0.0
Purchase of own shares	0.0	0.0	0.0	0.0	0.0
Other financing Cash-flow	-0.2	-1.3	-0.1	0.3	0.2
Dividend paid	0.0	0.0	0.0	0.0	0.0
Cash-flow from financing activities	-7.0	0.4	-0.1	0.3	0.2
Increase/ decrease in liquid assets	-23.2	-4.8	-8.7	-0.1	2.1
Effects of exchange rate changes	0.0	0.0	0.0	0.0	0.0
Cash at beginning of period	38.8	15.6	10.7	2.1	2.0
Change in total cash and cash equivalents	-23.2	-4.8	-8.7	-0.1	2.1
Cash at end of period	15.6	10.7	2.1	2.0	4.1

Source: Company information, Bankhaus Lampe Research estimates

euromicron AG – Ratios

	2014	2015	2016e	2017e	2018e
Per Share Data					
EPS	0.36	-1.85	-0.93	-0.03	0.36
Book value per share	15.38	13.52	12.59	12.56	12.92
Free Cash-flow per share	-2.26	-0.73	-1.19	-0.05	0.26
Dividend per share	0.00	0.00	0.00	0.00	0.00
Valuation ratios					
EV/Sales	0.4	0.3	0.4	0.3	0.3
EV/EBITDA	6.5	16.6	18.7	8.4	6.8
EV/EBITDA	12.1	-13.3	-35.2	25.6	14.2
Price Earnings ratio (P/E)	32.1	-4.1	-7.9	-231.8	20.6
Price to book (total equity)	0.7	0.6	0.6	0.6	0.6
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
Profitability ratios					
EBITDA margin	6.1%	2.0%	1.9%	4.1%	4.8%
EBIT margin	3.3%	-2.5%	-1.0%	1.3%	2.3%
Net return on sales	0.7%	-3.8%	-2.0%	-0.1%	0.7%
Return on capital employed (ROCE)	6.3%	-5.1%	-2.1%	3.0%	5.2%
Productivity ratios					
Capital turnover	63.9%	59.4%	60.8%	58.7%	57.1%
Operating leverage	-1.1	1.8	0.6	2.4	-0.8
Sales per employee	194,114	188,979	184,601	191,643	196,423
EBIT per employee	6,401	0	0	2,580	4,498
Number of employees (in thousands)	1.8	1.8	1.8	1.9	1.9
Financial ratios					
Equity ratio	38.4%	35.8%	35.6%	35.0%	35.0%
Net financial debt (in m EUR)	54.4	59.2	67.8	67.9	65.8
Net debt / Equity	49.3%	61.0%	75.0%	75.3%	70.9%
Interest cover	> 10	< -10	-0.8	1.0	> 10
Net debt / EBITDA	2.58	8.55	10.38	4.66	3.70
Working Capital (in m EUR)	70.6	63.0	65.0	67.0	68.8
Change Working Capital (in m EUR)	-1.1	-7.5	1.9	2.1	1.8
WC /sales	20.4%	18.3%	19.2%	18.9%	18.6%
Stocks in days of sales	30	30	30	30	30
Trade debtors in days of sales	86	90	82	81	80
Trade creditors in days of COGS/Material cost	50	44	42	42	42
Cash conversion cycle	66	76	70	69	68
Invest. (property/plant/equity) / Depreciation	66.0%	47.2%	92.0%	100.0%	107.5%
Others					
Sales CAGR (last 3 years)	4.3%	1.5%	0.9%	0.8%	2.3%
EBIT CAGR (last 3 years)	-22.2%	-179.7%	-185.7%	-25.2%	-199.3%
Net income CAGR (last 3 years)	-40.7%	-215.6%	97.9%	-144.7%	-157.8%
Pay out ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Free cash-flow (in m EUR)	-16.2	-5.2	-8.6	-0.3	1.9
Free cash flow yield	-19.8%	-9.6%	-16.3%	-0.6%	3.6%

Source: Company information, Bankhaus Lampe Research estimates

Disclaimer

Analyst declaration

The relevant research analysts, as named on the front cover of this research report, certify that (a) all of the views expressed in this research report accurately reflect their personal views about the securities and companies mentioned in this research report; and (b) that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views expressed by them in this research report.

Rating system

Shares are rated based upon analyst forecasts with regard to the performance of the share during a period of twelve months. The rating "Buy" within this general concept means that the share's forecast performance is at least 10%. "Hold" means a price movement in a bandwidth of -10% to 10%. "Sell" means that the share's forecast performance is less than -10%.

Explanation of valuation

Unless shown otherwise, the stated upside targets are based upon either a discounted cash-flow pricing or upon a comparison of the performance ratios of companies that the respective analyst considers to be comparable, or upon a combination of these two analyses. Analysts modify the result of this fundamental assessment to incorporate the potential trend in market sentiment.

Overview of changes in our recommendations/price targets in the previous twelve months for: euromicron AG (EUCA GY), Close (21/09/2016): 7.34 EUR, Analyst: Wolfgang Specht (Analyst).

Date of publication	Price at recommendation	Rating	Price target
04/05/2016	8.16 EUR	Hold	7.70 EUR

The distribution of recommendations in our investments universe is currently as follows (date: 01/07/2016)

Rating	Basis: all analysed companies	Basis: companies with investment banking relationships
Buy	56.0%	66.7%
Hold	38.0%	33.3%
Sell	5.0%	0.0%
Under Review	0.0%	0.0%

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Company	Disclosure
euromicron AG	---

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