



euromicron AG

Restructuring continues

01/07/2015

Hold (Hold)
9.70 EUR (14.00 EUR)

Close 29/06/2015 8.78 EUR
Bloomberg: EUCA GY WKN: A1K030
Sector Technology

Share price performance

52 week high 14.18 EUR
52 week low 8.78 EUR
Compared to Prime All Share
YTD -34.5%
1 month -16.2%
12 months -45.3%



Share data

EV (m EUR; 2015) 114.4
Market Cap (m EUR) 63.0
No. of shares (m) 7.2
Free float 95.4%

Next event

Quarterly Results 07/08/2015

Change in model

	Sales	EBIT	EPS
2015e	-8.0%	-41.9%	-59.8%
2016e	-8.9%	-33.6%	-44.3%
2017e	-9.5%	-33.2%	-40.3%

Analyst

Wolfgang Specht, Analyst
Phone: +49 (0)211 4952-637
wolfgang.specht@bankhaus-lampe.de

See end of document for disclaimer.

In view of a weak Q1, further restructuring requirements and a mixed market environment, we have substantially reduced our estimates for revenue and earnings for the years 2015-17e. Our fair value per share decreases from €14.00 to € 9.70. We reiterate our HOLD rating.

INVESTMENT CASE

The extensive restructuring measures underway since 2012 have so far not led to a significant improvement of the operating results. Revenue growth is lagging expectations and the margins are still under pressure. Reaching the median of the guidance for the EBITDA margin (5-7%) will still be a challenge in 2015/16. The new management duo, which took over at the start of the year, will therefore probably need some time to win back investors' trust. Despite an undervaluation of the stock based on a comparison of key figures with peer-group companies, we currently see only limited upside potential. We do not expect the resumption of dividend payouts before 2017.

CATALYSTS

- Development of order intake in Q2 and in FY 2015
- Achieving the 2015 guidance (revenue € 340 - 360 m; EBITDA margin 5-7%)
- Possible special business cycle due to Deutsche Telecom's expansion of VDSL (fibre-optic components)
- Progress in the restructuring programme

VALUATION

We value Euromicron based on a DCF model, which is supported by an SOTP analysis. All in all, this brings us to a rounded fair value of € 9.70 per share.

in m EUR	2013	2014	2015e	2016e	2017e
Sales	329.4	346.3	351.2	364.9	380.7
EBIT	5.5	11.4	10.6	14.8	18.2
EBIT margin	1.7%	3.3%	3.0%	4.1%	4.8%
Net financial debt	37.9	54.4	49.8	43.0	36.1
Free cash-flow	34.3	-16.2	4.6	6.5	6.5
EPS (in EUR)	-0.12	0.36	0.55	0.98	1.32
DPS (in EUR)	0.00	0.00	0.00	0.00	0.10
Dividend yield	0.0%	0.0%	0.0%	0.0%	1.1%
EV/Sales	0.4	0.4	0.3	0.3	0.3
EV/EBIT	25.9	12.1	10.7	7.3	5.6
Price Earnings ratio (P/E)	-119.8	32.1	16.0	8.9	6.7

Source: Company information, Bankhaus Lampe Research estimates

Investment case

Outlook for the relevant markets is still positive

Bearing in mind that Q4 is traditionally a strong quarter in terms of revenue, the Q1 results were in line with the targets for the full year. However, the operating expenses, which also include severance payments of € 0.5 m, continue to weigh strongly on margins. The management team pointed out in its outlook, that the forecast is based on a positive trend in the overall market and the IT/ITC sector environment. We regard a declining order book (-20% yoy to € 79.1 m) as a warning signal, although on a quarterly basis, this figure is subject to strong fluctuations.

ORDER INTAKE AND ORDER BOOK

	2011	2012	2013	Q1	Q2	Q3	Q4e	2014	Q1
Order intake	309.2	327.8	327.7	98.7	65.4	86.4	89.6	340.1	79.1
Growth Order intake		6.0%	0.0%	19.7%	-9.6%	-8.5%	14.1%	3.8%	-19.9%
Order Book	127.5	125.2	127.7	144.8	128.1	130.1	120.0	121.5	126.0
Growth Order Book		-1.8%	2.0%	9.4%	0.9%	-7.8%	-6.0%	-4.9%	-13.0%
Book to bill ratio	1.0	1.0	1.0	1.2	0.8	1.0	0.9	1.0	1.1

Source: Company information, BHL estimates

EBITDA expectation below guidance median

For FY 2015 we project an EBITDA of € 20.7 m. This is below the guidance median of € 21.1 m (range € 17.0 – 25.2 m based on a revenue guidance of € 340 – 360 m). We also expect to see a small "special business cycle" effect in the OEM business, because the year 2015 and 2016 are likely to see the peak of the VDSL expansion of the major client Deutsche Telekom. The investment programme is continuing for the next few years and may well increase due to a planned infrastructure fund by the federal government. However, Euromicron is only one of several suppliers.

Price squeeze in OEM business

Euromicron reports its segmental results by region and not by product group. However, we believe that in the past three years, the price squeeze in the OEM business (components such as fibre-optic connections or active components like switches) has intensified appreciably and/or the sales mix has shifted towards lower-margin outsourcing/project business. A return to the double-digit EBITDA margins of yore therefore appears difficult at the moment. There is consequently still a danger that the company will remain at a low level of profitability despite an extensive restructuring programme in 2012-15 (targeted cost savings of € 10 m).

Estimates lowered for 2015 onwards

We have also markedly lowered our earnings estimates for 2015-17. We regard the market's expectation of a dividend payout of € 0.20 for FY 2015 and € 0.25 for 2016 as too optimistic in view of a loss-carry forward on the balance sheet. We do not expect the resumption of dividend payouts before 2017.

Company valuation

DCF IS KEY VALUATION TOOL

Our key valuation tool is a DCF model that is based on our estimates for the operating performance of euromicron's individual operating units. We have not taken account of any potential acquisitions in our calculations. Based on our reduced estimates, we arrive at a fair value of € 9.70 per share.

DCF MODEL

euromicron AG DCF model [in mio. €]	2015e	2016e	2017e	2018e	2019e	2020e	2021e	2022e	Terminal Value
EBIT	10.6	14.8	18.2	18.5	18.9	19.3	19.7	20.1	20.3
EBIT Non-Operating / FD	0	0	0	0	0	0	0	0	0
EBIT Industrial Business	10.6	14.8	18.2	18.5	18.9	19.3	19.7	20.1	20.3
Taxes	-3.3	-4.6	-5.7	-5.8	-5.9	-6.0	-6.2	-6.3	-6.3
NOPAT	7.3	10.2	12.5	12.7	13.0	13.2	13.5	13.8	13.9
+ Depreciation	10.1	11.0	11.3	11.5	11.8	12.0	13.2	14.5	14.6
- Capex	-9.5	-11.5	-13.1	-13.4	-13.6	-13.9	-14.2	-14.5	-14.6
+/- Change in working capital	-0.1	-0.1	-3.5	-3.6	-3.6	-3.7	-3.8	-3.9	-3.9
+/- Other cash items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Cashflow	7.8	9.6	7.2	7.3	7.5	7.6	8.8	9.9	10.0
Discounting period in years	0.5	1.5	2.5	3.5	4.5	5.5	6.5	7.5	8.5
WACC	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%
Present value	7.5	8.5	5.9	5.6	5.3	5.0	5.4	5.6	76.3

Calculation of fair value per share

Sum of all present values	125
thereof Terminal Value	61%
+ Financial Assets	0.9
- Minorities	-0.4
- Pension provisions	-1.2
- Net financial debt (start of year)	-54.4
Fair equity value	70
No. of shares [in mio.]	7.2

WACC model

Risk-free rate	1.00%
Equity risk premium	7.5%
Beta	1.4
Expected return on investment	11.4%
Cost of debt	6.00%
Tax rate	31.3%
Cost of debt after taxes	4.12%

Fair value per share [in €] **9.70**

Sensitivity of fair value per share

		TV growth					
		9.70	0.0%	0.5%	1.0%	1.5%	2.0%
Beta	1.0	12.4	13.6	15.0	16.8	18.9	
	1.2	10.1	11.0	12.0	13.3	14.7	
	1.4	8.2	8.9	9.7	10.6	11.7	
	1.6	6.7	7.3	7.9	8.6	9.4	
	1.8	5.5	5.9	6.4	6.9	7.6	

Model assumptions

Short-term CAGR (first 3 years)	16.7%
Medium-term CAGR (next 5 years)	2.0%
Terminal value growth (ad infinity)	1.0%
Terminal value EBIT margin	5.0%

Source: Company information, Bankhaus Lampe Research

CHANGES IN OUR ESTIMATES FOR 2014-2016

€m	2015E old	2015E new	change	2016E old	2016E new	change	2017E old	2017E new	change
Revenues	381.6	351.2	-8.0%	400.7	364.9	-8.9%	397.0	380.7	-4.1%
EBITDA	29.2	20.7	-29.0%	33.8	25.8	-23.6%	31.7	29.5	-7.1%
<i>EBITDA margin</i>	<i>7.7%</i>	<i>5.9%</i>		<i>8.4%</i>	<i>7.1%</i>		<i>8.4%</i>	<i>7.7%</i>	
EBIT	18.3	10.6	-41.9%	22.3	14.8	-33.6%	19.9	18.2	-8.7%
Net income after minorities	9.8	3.9	-59.8%	12.6	7.0	-44.3%	9.9	9.5	-4.4%
EPS, reported (€)	1.37	0.55	-59.8%	1.76	0.98	-44.3%	1.38	1.32	-4.5%
FCF	4.6	4.6	-1.9%	6.9	6.5	-6.2%	7.0	6.5	-6.7%

Source: BHL

BHL estimates vs. Consensus Estimates

€m	2015E			2016E			2017E		
	BHL	Consensus	delta	BHL	Consensus	delta	BHL	Consensus	delta
Revenues	351	370	-5%	365	390	-6%	381	365	4%
EBITDA	21	20	3%	26	22	20%	29	24	24%
EPS €	0.55	1.37	-60%	0.98	1.76	-44%	1.32	0.87	52%
DPS €	0.00	0.20	-100%	0.00	0.25	-100%	0.00		
FCF	4.6	4.6	1%	6.5	6.9	-6%	6.5		

Source: BHL, consensus factset

Key figures

euromicron AG – Income statement

in m EUR	2013	2014	2015e	2016e	2017e
Sales	329.4	346.3	351.2	364.9	380.7
Own work capitalised	4.3	5.4	6.0	6.5	7.0
Total sales	333.7	351.7	357.2	371.4	387.7
Material expenses	-176.4	-182.5	-184.0	-190.1	-197.2
Personnel expenses	-99.2	-103.2	-105.0	-108.7	-113.1
Unusual or infrequent items	0.0	0.0	0.0	0.0	0.0
Other operating result	-43.7	-44.9	-47.4	-46.7	-48.0
EBITDA	14.4	21.1	20.7	25.8	29.5
Depreciation	8.9	9.7	10.1	11.0	11.3
EBITA	5.5	11.4	10.6	14.8	18.2
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	5.5	11.4	10.6	14.8	18.2
Financial result	-3.8	-3.7	-4.6	-4.2	-3.8
Income on ordinary activities	1.7	7.8	6.0	10.6	14.4
Extraordinary income/loss	0.0	0.0	0.0	0.0	0.0
EBT	1.7	7.8	6.0	10.6	14.4
Taxes	-2.5	-4.9	-1.8	-3.2	-4.4
Net income from cont. operations	-0.8	2.9	4.2	7.4	10.0
Net income from discount. operations	0.0	0.0	0.0	0.0	0.0
Minority interest	-0.1	-0.3	-0.3	-0.4	-0.5
Net income (adj.)	-0.9	2.6	3.9	7.0	9.5
No. of shares	7.2	7.2	7.2	7.2	7.2
EPS	-0.12	0.36	0.55	0.98	1.32

Source: Company information, Bankhaus Lampe Research estimates

	2013	2014	2015e	2016e	2017e
Gross margin	46.4%	47.3%	47.6%	47.9%	48.2%
EBITDA margin	4.4%	6.1%	5.9%	7.1%	7.7%
EBITA margin	1.7%	3.3%	3.0%	4.1%	4.8%
EBIT margin	1.7%	3.3%	3.0%	4.1%	4.8%
EBT margin	0.5%	2.2%	1.7%	2.9%	3.8%
Net profit margin	-0.3%	0.7%	1.1%	1.9%	2.5%
Tax rate	144.7%	63.2%	29.8%	30.1%	30.6%

Source: Company information, Bankhaus Lampe Research estimates

Growth rates yoy	2013	2014	2015e	2016e	2017e
Sales	-0.2%	5.1%	1.4%	3.9%	4.3%
EBITDA	-42.5%	46.7%	-1.8%	24.5%	14.0%
EBIT	-67.8%	>100%	-6.8%	39.4%	22.4%
EBT	-86.1%	>100%	-22.0%	75.9%	35.0%
Net income (adj.)	---	---	54.9%	78.3%	34.4%
EPS	---	---	54.9%	78.3%	34.4%

Source: Company information, Bankhaus Lampe Research estimates

euromicron AG – Balance sheet

Assets (in m EUR)	2013	2014	2015e	2016e	2017e
Fixed assets	155.1	150.7	150.2	150.8	152.7
Property, plant and equipment	14.5	14.1	13.5	14.0	15.8
Intangible assets	137.2	134.3	134.3	134.3	134.3
Financial assets	1.0	0.9	0.9	0.9	1.0
Other long-term assets	2.4	1.5	1.5	1.5	1.6
Current assets	173.8	136.7	150.0	161.5	173.8
Inventories	28.0	29.0	28.9	30.0	31.3
Accounts receivable	98.4	85.8	84.7	88.0	91.8
Other current assets	8.6	6.3	6.3	6.6	6.9
Securities	0.0	0.0	0.0	0.0	0.0
Cash	38.8	15.6	30.2	37.0	43.8
Total assets	328.9	287.4	300.2	312.3	326.5
Equity and liabilities in m EUR					
Shareholders' equity	122.6	110.4	114.3	121.4	130.9
Shareholders' equity (before minority)	122.2	110.0	113.9	121.0	130.4
Minorities	0.4	0.4	0.4	0.4	0.4
Non-current liabilities	53.4	57.6	57.7	58.2	58.6
Pension provisions	0.9	1.2	1.2	1.3	1.3
Other provisions	1.8	1.9	1.9	2.0	2.1
Long-term financial debt	42.0	47.1	47.1	47.1	47.1
Other long-term debt	8.7	7.4	7.5	7.8	8.1
Current liabilities	152.9	119.4	128.1	132.8	137.0
Short-term debt	34.7	22.9	32.8	32.8	32.8
Other accruals short-term	2.3	1.7	1.8	1.8	1.9
Accounts payable	54.6	44.2	42.2	44.8	46.6
Other liabilities	61.2	50.6	51.3	53.3	55.6
Total equity and liabilities	328.9	287.4	300.2	312.3	326.5

Source: Company information, Bankhaus Lampe Research estimates

euromicron AG – Balance sheet structure

Assets	2013	2014	2015e	2016e	2017e
Fixed assets	47.2%	52.4%	50.0%	48.3%	46.8%
Property, plant and equipment	4.4%	4.9%	4.5%	4.5%	4.8%
Intangible assets	41.7%	46.7%	44.7%	43.0%	41.1%
Current assets	52.8%	47.6%	50.0%	51.7%	53.2%
Inventories	8.5%	10.1%	9.6%	9.6%	9.6%
Accounts receivable	29.9%	29.9%	28.2%	28.2%	28.1%
Cash	11.8%	5.4%	10.1%	11.8%	13.4%
Equity and liabilities					
Shareholders' equity	37.3%	38.4%	38.1%	38.9%	40.1%
Non-current liabilities	16.2%	20.0%	19.2%	18.6%	18.0%
Pension provisions	0.3%	0.4%	0.4%	0.4%	0.4%
Long-term financial debt	12.8%	16.4%	15.7%	15.1%	14.4%
Current liabilities	46.5%	41.6%	42.7%	42.5%	42.0%
Short-term debt	10.6%	8.0%	10.9%	10.5%	10.1%
Accounts payable	16.6%	15.4%	14.1%	14.3%	14.3%

Source: Company information, Bankhaus Lampe Research estimates

euromicron AG – Cash flow statement

in m EUR	2013	2014	2015e	2016e	2017e
Net income (adj.)	-0.9	2.6	3.9	7.0	9.5
Depreciation	8.9	9.7	10.1	11.0	11.3
Amortisation of goodwill & intangible assets	0.0	0.0	0.0	0.0	0.0
Change of provisions	0.8	-0.2	0.1	0.2	0.2
Other	-10.0	-6.8	0.0	-0.1	-0.1
Operating Cash-flow before changes in w/c	-1.1	5.3	14.1	18.2	20.9
Change in inventory	-0.5	-1.1	0.2	-1.1	-1.3
Change in accounts receivable	-1.6	12.6	1.1	-3.3	-3.8
Change in accounts payable	11.8	-10.4	-2.0	2.6	1.8
Change in other working capital positions	30.8	-8.3	0.6	1.8	2.0
Operating Cash-flow	39.4	-1.9	14.1	18.0	19.7
Capex, excluding maintenance	-6.4	-6.4	-9.5	-11.5	-13.1
Payments for acquisitions	0.0	-8.0	0.0	0.0	0.0
Financial investments	0.5	0.1	0.0	0.0	0.0
Income from asset disposals	0.8	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	-5.1	-14.3	-9.5	-11.5	-13.1
Free cash-flow	34.3	-16.2	4.6	6.5	6.5
Capital measures	6.7	0.0	0.0	0.0	0.0
Increase/decrease in debt position	-5.4	-6.8	9.9	0.0	0.0
Purchase of own shares	0.0	0.0	0.0	0.0	0.0
Other financing Cash-flow	-0.2	-0.2	0.1	0.3	0.3
Dividend paid	-2.0	0.0	0.0	0.0	0.0
Cash-flow from financing activities	-0.9	-7.0	10.1	0.3	0.3
Increase/ decrease in liquid assets	33.4	-23.2	14.6	6.8	6.9
Effects of exchange rate changes	0.0	0.0	0.0	0.0	0.0
Cash at beginning of period	5.4	38.8	15.6	30.2	37.0
Change in total cash and cash equivalents	33.4	-23.2	14.6	6.8	6.9
Cash at end of period	38.8	15.6	30.2	37.0	43.8

Source: Company information, Bankhaus Lampe Research estimates

euromicron AG – Ratios

	2013	2014	2015e	2016e	2017e
Per Share Data					
EPS	-0.12	0.36	0.55	0.98	1.32
Book value per share	17.08	15.38	15.93	16.91	18.23
Free Cash-flow per share	4.78	-2.26	0.63	0.91	0.91
Dividend per share	0.00	0.00	0.00	0.00	0.10
Valuation ratios					
EV/Sales	0.4	0.4	0.3	0.3	0.3
EV/EBITDA	9.9	6.5	5.5	4.2	3.4
EV/EBIT	25.9	12.1	10.7	7.3	5.6
Price Earnings ratio (P/E)	-119.8	32.1	16.0	8.9	6.7
Price to book (total equity)	0.8	0.7	0.6	0.5	0.5
Dividend yield	0.0%	0.0%	0.0%	0.0%	1.1%
Profitability ratios					
EBITDA margin	4.4%	6.1%	5.9%	7.1%	7.7%
EBIT margin	1.7%	3.3%	3.0%	4.1%	4.8%
Net return on sales	-0.3%	0.7%	1.1%	1.9%	2.5%
Return on capital employed (ROCE)	2.7%	6.3%	5.4%	7.3%	8.6%
Productivity ratios					
Capital turnover	68.8%	63.9%	63.1%	61.4%	60.2%
Operating leverage	0.7	-1.1	0.1	-0.4	-0.2
Sales per employee	189,202	194,114	195,741	202,289	209,286
EBIT per employee	3,159	6,401	5,936	8,227	9,984
Number of employees (in thousands)	1.7	1.8	1.8	1.8	1.8
Financial ratios					
Equity ratio	37.3%	38.4%	38.1%	38.9%	40.1%
Net financial debt (in m EUR)	37.9	54.4	49.8	43.0	36.1
Net debt / Equity	30.9%	49.3%	43.5%	35.4%	27.6%
Interest cover	> 10	> 10	> 10	> 10	> 10
Net debt / EBITDA	2.63	2.58	2.40	1.66	1.23
Working Capital (in m EUR)	71.7	70.6	71.3	73.2	76.5
Change Working Capital (in m EUR)	-9.7	-1.1	0.7	1.9	3.3
WC /sales	21.8%	20.4%	20.3%	20.1%	20.1%
Stocks in days of sales	30	30	30	30	30
Trade debtors in days of sales	107	86	88	88	88
Trade creditors in days of COGS/Material cost	47	50	44	45	45
Cash conversion cycle	90	66	74	73	73
Invest. (property/plant/equity) / Depreciation	71.8%	66.0%	94.1%	104.5%	115.9%
Others					
Sales CAGR (last 3 years)	17.4%	4.3%	2.1%	3.5%	3.2%
EBIT CAGR (last 3 years)	-35.1%	-22.2%	-14.6%	39.2%	16.7%
Net income CAGR (last 3 years)	-142.2%	-40.7%	-22.8%	-301.6%	54.8%
Pay out ratio	0.0%	0.0%	0.0%	0.0%	7.6%
Free cash-flow (in m EUR)	34.3	-16.2	4.6	6.5	6.5
Free cash flow yield	33.3%	-19.8%	7.2%	10.3%	10.4%

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 (29/06/2015): 8.78 EUR, Analyst: Wolfgang Specht (Analyst).

Date of publication	Price at recommendation	Rating	Price target
17/11/2014	12.63 EUR	Hold	14.00 EUR

The distribution of recommendations in our investments universe is currently as follows (date: 01/04/2015)

Rating	Basis: all analysed companies	Basis: companies with investment banking relationships
Buy	52.5%	71.4%
Hold	33.8%	28.6%
Sell	13.7%	0.0%
Under Review	0.0%	0.0%

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Company	Disclosure
euromicron AG	---

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Bankhaus Lampe KG, Jägerhofstraße 10, D-40479 Düsseldorf is responsible for this study.

Further information may be obtained from Bankhaus Lampe KG.

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Contacts

HEAD OF CAPITAL MARKETS & ADVISORY

Ute Gerbaulet

+ 49 (0)211 4952-656

ute.gerbaulet@bankhaus-lampe.de

HEAD OF EQUITY

Ralf Menzel

+ 49 (0)211 4952-282

ralf.menzel@bankhaus-lampe.de

VIA

INTERNATIONAL KBR FINANCE LLC CHAPERONE
OF BANKHAUS LAMPE KG IN THE US

EQUITY SALES CONTINENTAL EUROPE

Ulrich Klingmüller

+ 49 (0)211 4952-784

ulrich.klingmueller@bankhaus-lampe.de

EQUITY SALES IN GB

Yusuf Bilgic

+ 44 (0)203 405 4318

yb@lampe-capital.com

EQUITY SALES IN US

Jörg Hagenbuch

+1 212 218 7411

jh@ikbrfinance.com

EQUITY SALES TRADING CONTINENTAL EUROPE

Nils Carstens

+ 49 (0)211 4952-753

nils.carstens@bankhaus-lampe.de

EQUITY SALES TRADING IN GB

Chris Ford

+ 44 (0)203 405 1083

cf@lampe-capital.com

EQUITY SALES TRADING IN US

Kim Last

+1 212 218 7412

kl@ikbrfinance.com

Bankhaus Lampe Research

Jägerhofstraße 10

D - 40479 Düsseldorf

research@bankhaus-lampe.de

📞 + 49 (0)211 4952-678

📠 + 49 (0)211 4952-494