

Media and Games Invest plc

Malta / Entertainment
 Xetra & Nasdaq First North Premier
 Bloomberg: M8G GR
 ISIN: MT0000580101

Q1 / 21
 Results

RATING
BUY

PRICE TARGET
€ 6.10

Return Potential 27.6%
 Risk Rating High

ORGANIC GROWTH KICKS IN TO DRIVE Q1

First quarter reporting showed a continuation of good business momentum. Sales climbed some 96% on an annualised basis to €52m and topped FBe (€46m), while earnings grew at a stronger clip led by EBITDA (+128% Y/Y). The performance was spurred by good organic (+38%) and M&A (+58%) growth with the latter propelled by the KingsIsle and LKQD deals. Full organic and M&A pipelines suggest this strong performance will continue well into next year. We have increased our forecasts to reflect the good Q1 results, and our price target moves to €6.1 (old: €5.3). We reiterate our Buy rating.

Both Gaming and Media contribute to excellent start First quarter results (table 1 overleaf) were spurred by good contributions from both segments (table 2 overleaf) with Gaming revenue rising some 97% on an annualised basis followed closely by the Media segment at 94%. The segments contributed equally on an organic basis. Gaming benefited from several large content updates and the blockbuster KingsIsle deal (see note of 19 January 2021), which contributed for the full quarter. Organic growth from gaming ad-partnerships plus the LKQD transaction led the Media performance. The segment's open ad exchange is now also ranked in the top 20 of global programmatic marketplaces.

What else has changed? The company boosted its financial firepower with a €40m tap-up of its four year bond (SE00015194527) in Q1. The issuance was oversubscribed, and outstanding bonds now tally €120m—the full authorised amount set by the bond's framework. MGI continues to maintain a full M&A pipeline that includes 10 late-stage candidates with ~€200m in sales, and management hinted at further corporate activity over the next six months. The recent extraordinary general meeting (EGM) also approved the conversion of the corporate structure to an SE (Societas Europaea) paving the way for relocation of the company's headquarters. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2018	2019	2020	2021E	2022E	2023E
Revenue (€m)	32.62	83.89	140.22	199.11	264.82	323.08
Y-o-y growth	n.a.	157.2%	67.1%	42.0%	33.0%	22.0%
EBIT* (€m)	2.33	5.00	11.04	33.67	41.38	56.24
EBIT margin*	7.1%	6.0%	7.9%	16.9%	15.6%	17.4%
Net income* (€m)	5.26	1.25	2.71	11.06	15.79	25.82
EPS* (diluted) (€)	0.10	-0.01	0.03	0.09	0.12	0.20
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-7.17	3.13	-12.50	-39.10	-8.49	35.41
Net gearing	24.0%	22.4%	34.8%	56.6%	58.2%	43.9%
Liquid assets (€m)	4.45	32.98	46.25	63.85	51.37	72.79

* Adjusted for the PPA-amortisation reflected in Q1 reporting

RISKS

Risks include but are not limited to: revenue diversity, financing, technology, and regulatory risks.

COMPANY PROFILE

Media and Games Invest plc (MGI) is a fast-growing and profitable company operating in the digital games sector with a strongly supportive media unit. MGI combines organic growth with value-accretive acquisition strategy to deliver sustainable earnings growth.

MARKET DATA

As of 26 Apr 2021

Closing Price € 4.80
 Shares outstanding 128.70m
 Market Capitalisation € 618.27m
 52-week Range € 1.15 / 4.97
 Avg. Volume (12 Months) 143,011

Multiples	2020	2021E	2022E
P/E	159.3	53.2	39.8
EV/Sales	5.1	3.6	2.7
EV/EBIT*	64.7	21.2	17.3
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2021

Liquid Assets € 51.65m
 Current Assets € 94.16m
 Intangible Assets € 437.63m
 Total Assets € 555.62m
 Current Liabilities € 130.68m
 Shareholders' Equity € 207.53m

SHAREHOLDERS

Bodhivas GmbH 33.0%
 Oaktree Capital Mngt 9.0%
 UBS 1.2%
 Free Float 56.8%

**Table 1: First quarter vs prior year quarter and FBe**

EURm	Q1/21	Q1/21E	Variance	Q1/20	Variance
Revenue	51,930	45,555	14%	26,545	96%
EBITDA	12,092	11,022	10%	5,313	128%
Margin (%)	23.3%	24.2%	-	20.0%	-
EBIT	5,392	7,088	-24%	2,098	157%
Margin	10.4%	15.6%	-	7.9%	-
Net income	2,292	2,987	-23%	59	n.a.
Margin	4.4%	6.6%	-	0.2%	-

Source: First Berlin Equity Research; Media and Games Invest

Strong organic growth supplements M&A contributions Q1 demonstrated MGI's ability to translate its corporate strategy into organic growth (+38%). The number outperformed our assumption. Internal game developments yielded a record level of high-quality content updates on a quarterly basis to lay the foundation for further performance. These included the massive 3.0 update of Echo of Soul. The company also published a strong organic pipeline (figure 1 overleaf) that includes pending launches such as *Heroes of Twilight* and *Skydome*.

Earnings rose sharply on an annualised basis with EBITDA climbing some 128% to €12m. This KPI also rose 33% on a sequential basis. EBIT was lower than our figure, due to €-2.6m in PPA (purchase price allocation) amortisation. On an adjusted basis, EBIT totalled €8m and beat our target. We have adjusted our forecasts to account for PPA effects (overleaf).

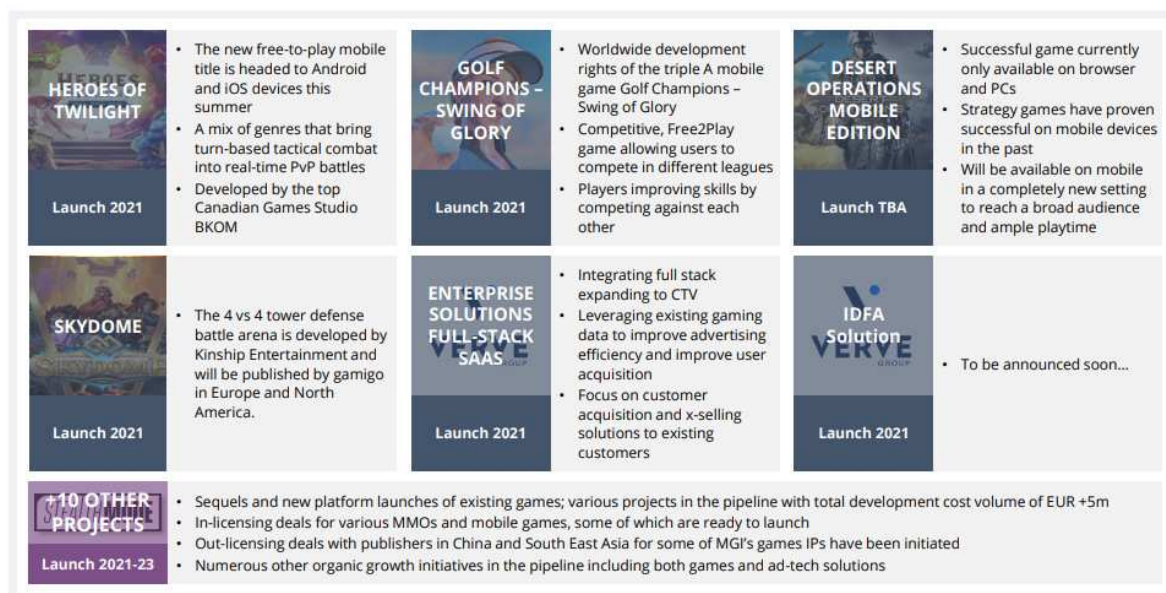
Table 2: Segment Q1 breakdown

EURm	Q1/21	Q1/20	Variance	FY20
Gaming segment				
Revenue	27.4	13.9	97%	75.2
EBITDA	9.5	4.5	111%	21.5
Margin (%)	35%	32%	-	29%
Media segment				
Revenue	24.5	12.6	94%	65.0
EBITDA	2.6	0.8	225%	5.1
Margin	11%	6%	-	8%

Source: First Berlin Equity Research; Media and Games Invest

Gaming contributed 53% to group revenue vs 50% in Q4/20, while the Media Segment accounted for the balance. We attribute the uptick in the Gaming ratio to the KingsIsle acquisition, which contributed to the Q1 performance as of 1 January 2021. North America led the regional split with 61% followed by the EU with 28%. The LKQD deal highlighted Q1 developments in the Media Segment. The company's digital video platform now reaches some 200m unique monthly users in the US.

Figure 1: Organic pipeline for new games and ad-tech launches



Source: First Berlin Equity Research; Media and Games Invest

Table 3: Financial highlights

EUR '000	Q1/21	2020	Variance
Cash	51,650	46,254	12%
Liabilities (short- and long-term)	348,085	208,997	67%
Intangible assets	437,638	272,829	60%
Total assets	555,620	385,842	44%
Total equity	207,534	176,845	17%
Equity ratio	37%	46%	-

Source: First Berlin Equity Research; Media and Games Invest

Bond tap up replenishes financial coffers Cash and cash equivalents totalled €52m providing good financial flexibility at the end of Q1, thanks to the aforementioned €40m tap up of MGI's 5.75% bond. Net debt tallied €98m in Q1, while the interest coverage ratio (ICR) was reported at 4.8x (YE20: 4.1x). The equity ratio dipped to 37% on the KingsIsle transaction. Net cash flow for the three month period totalled €5.4m with operating cash flows helping finance corporate activity.

Table 4: Cash flow summary

EUR '000	Q1/21	Q1/20	Variance
Operating cash flow	11,263	6,155	83%
Investing cash flow	-71,001	-14,084	n.a.
Financing cash flow	65,134	-12,105	n.a.
Net cash flow	5,396	-20,034	n.a.
Cash & cash equivalents	51,650	12,950	299%

Source: First Berlin Equity Research; Media and Games Invest



VALUATION

Updated forecasts reflect the Q1 outperformance. We have bumped up our 2021 revenue target to reflect higher than expected internal growth (+38%) in Q1, and we have raised our 2022 growth target to 30% (old: 20%), given the strong pipeline for updates and launches to spur internal growth. This upside is somewhat offset by the amount of purchase price allocation associated with the KingsIsle deal that we had previously not factored in. Our price target moves to €6.1 (old: €5.3) on the recalibrated forecasts. Our rating remains Buy.

Table 5: Changes to FBe

	old	new	revision	upside	dividend yield	total return
Price target (€)	5.3	6.1	15.0%	27.6%	0.0%	27.6%
2021E						
All figures in € '000	old	new	revision	old	new	revision
Revenue	182,202	199,112	9.3%	220,464	264,819	20.1%
EBITDA	49,306	52,392	6.3%	58,168	66,418	14.2%
Margin (%)	27.1%	26.3%	-	26.4%	25.1%	-
EBIT*	29,090	33,671	15.7%	35,987	41,378	15.0%
Margin (%)	16.0%	16.9%	-	16.3%	15.6%	-

* adjusted for PPA amortisation

Source: First Berlin Equity Research estimates

DCF MODEL

All figures in EUR '000	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Revenue	199,112	264,819	323,080	371,542	408,696	429,131	446,296	459,685
NOPLAT	16,653	21,855	31,887	40,195	49,891	57,586	62,938	68,120
(+) depreciation & amortisation	27,721	34,039	37,108	41,324	38,670	33,043	29,902	26,202
Net operating cash flow	44,374	55,895	68,995	81,520	88,561	90,629	92,840	94,322
(-) Investments	-86,438	-60,416	-29,142	-33,513	-32,777	-34,416	-32,223	-27,673
(-) Working capital	-6,514	-7,686	-8,176	-7,143	-5,165	-2,538	-2,132	-1,663
Free cash flows (FCF)	-48,578	-12,208	31,677	40,863	50,618	53,674	58,485	64,986
PV of FCF's	-46,129	-10,739	25,817	30,853	35,406	34,781	35,110	36,142

All figures in thousands	WACC	Terminal EBIT margin							
		19.8%	21.8%	23.8%	25.8%	27.8%	29.8%	31.8%	
PV of FCFs in explicit period	220,299	4.9%	9.51	10.88	12.24	13.61	14.98	16.34	17.71
PV of FCFs in terminal period	626,938	5.9%	7.06	8.02	8.99	9.95	10.92	11.89	12.85
Enterprise value (EV)	847,237	6.9%	5.50	6.22	6.94	7.66	8.38	9.10	9.82
(+) Net cash / (-) net debt (2020)	-61,599	7.9%	4.43	4.98	5.54	6.09	6.65	7.21	7.76
(-) Non-controlling interests	-847	8.9%	3.64	4.08	4.52	4.96	5.40	5.84	6.28
Shareholder value	784,790	9.9%	3.04	3.40	3.75	4.11	4.46	4.82	5.17
Fair value per share (€)	6.10	10.9%	2.57	2.86	3.15	3.44	3.73	4.02	4.32

	WACC	Terminal growth rate							
		0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	
Cost of equity	9.9%	4.9%	9.86	10.83	12.04	13.61	15.71	18.67	23.15
Pre-tax cost of debt	5.0%	5.9%	7.73	8.33	9.06	9.95	11.07	12.52	14.45
Tax rate	32.5%	6.9%	6.23	6.63	7.10	7.66	8.33	9.15	10.19
After-tax cost of debt	3.4%	7.9%	5.12	5.40	5.72	6.09	6.53	7.05	7.66
Share of equity capital	70.0%	8.9%	4.27	4.47	4.70	4.96	5.26	5.60	6.01
Share of debt capital	30.0%	9.9%	3.60	3.75	3.92	4.11	4.32	4.56	4.83
WACC	7.9%	10.9%	3.06	3.18	3.30	3.44	3.60	3.77	3.97

*Please note our model runs through 2030 and we have only shown the abbreviated version for formatting purposes



INCOME STATEMENT

All figures in EUR '000	2018	2019	2020	2021E	2022E	2023E
Revenues	32,621	83,893	140,220	199,112	264,819	323,080
Capitalised work	2,791	10,187	15,994	11,231	12,242	13,099
Total output	35,412	94,080	156,214	210,343	277,061	336,178
Cost of goods sold	-12,699	-45,803	-77,620	-87,709	-115,991	-141,832
Gross profit	22,713	48,277	78,594	122,634	161,070	194,346
Personnel expenses	-10,438	-27,359	-39,573	-51,968	-68,853	-77,539
Other OpEx	-10,135	-10,012	-18,745	-23,097	-30,719	-37,477
Other operating income	6,506	4,636	6,272	4,823	4,919	5,018
EBITDA	8,646	15,542	26,549	52,392	66,418	84,348
Depreciation & amortisation	-6,318	-10,543	-15,508	-27,721	-34,039	-37,108
Operating income (EBIT)	2,328	4,999	11,041	24,671	32,378	47,240
Net financial result	-1,641	-5,758	-7,139	-8,288	-8,988	-8,988
Pre-tax income (EBT)	687	-759	3,901	16,383	23,391	38,252
Income taxes	895	2,012	-1,194	-5,325	-7,602	-12,432
Net income	1,582	1,253	2,707	11,059	15,789	25,820
Discontinued operations	3,673	0	0	0	0	0
Consolidated profit	5,255	1,253	2,707	11,059	15,789	25,820
Minority interests	-932	-1,577	352	-22	-316	-516
Net income to owners	4,323	-324	3,059	11,037	15,473	25,304
Diluted EPS (in €)	0.10	-0.01	0.03	0.09	0.12	0.20
Adj. EBIT (excl: PPA amortisation)	2,328	4,999	11,041	33,671	41,378	56,240
Ratios						
Gross margin on output	64.1%	51.3%	50.3%	58.3%	58.1%	57.8%
EBITDA margin on revenues	26.5%	18.5%	18.9%	26.3%	25.1%	26.1%
EBIT margin on revenues	7.1%	6.0%	7.9%	12.4%	12.2%	14.6%
Net margin on revenues	13.3%	-0.4%	2.2%	5.5%	5.8%	7.8%
Tax rate	n.a.	n.a.	30.6%	32.5%	32.5%	32.5%
Expenses as % of revenues						
Personnel expenses	32.0%	32.6%	28.2%	26.1%	26.0%	24.0%
Other OpEx	31.1%	11.9%	13.4%	11.6%	11.6%	11.6%
Depreciation & amortisation	19.4%	12.6%	11.1%	13.9%	12.9%	11.5%
Y-Y Growth						
Revenues	n.a.	157.2%	67.1%	42.0%	33.0%	22.0%
EBTIDA	n.a.	79.8%	70.8%	97.3%	26.8%	27.0%
Operating income	n.a.	114.7%	120.9%	123.5%	31.2%	45.9%
Net income/ loss	n.a.	n.m.	n.m.	260.8%	40.2%	63.5%



BALANCE SHEET

All figures in EUR '000	2018	2019	2020	2021E	2022E	2023E
Assets						
Current assets, total	16,250	55,856	92,375	126,584	134,807	174,581
Cash and equivalents	4,447	32,984	46,254	63,850	51,370	72,788
Trade receivables	11,803	22,872	46,121	62,734	83,436	101,792
Non-current assets, total	220,043	256,593	293,467	452,509	479,217	471,588
Property, plant & equipment	4,189	3,521	1,742	1,782	1,835	1,899
Intangible assets	204,142	233,208	272,829	431,506	457,831	449,800
Deferred taxes	6,353	11,215	15,737	16,052	16,373	16,700
Long-term loans to investees	5,359	6,410	1,207	1,207	1,207	1,207
Other non-current assets	0	2,239	1,952	1,962	1,972	1,981
Total assets	236,293	312,449	385,842	579,093	614,023	646,169
Shareholders' equity & debt						
Current liabilities, total	24,358	54,544	78,205	151,935	165,592	176,423
Trade payables	9,366	20,274	30,037	40,136	53,153	63,332
Financial debt	3,595	6,772	6,087	6,087	6,087	6,087
Provisions	7,031	12,585	17,257	17,516	17,779	18,045
Other current liabilities	4,366	14,913	24,824	88,196	88,574	88,958
Long term liabilities, total	53,395	89,347	130,792	214,267	219,752	215,247
Long-term debt	14,100	8,369	11,671	11,671	16,671	11,671
Bonds	24,877	63,988	95,355	135,355	135,355	135,355
Other LT liabilities	0	0	0	43,000	43,000	43,000
Deferred tax liabilities	14,418	16,990	23,766	24,241	24,726	25,221
Shareholders' equity	158,540	168,558	176,845	212,890	228,679	254,499
Total consolidated equity and debt	236,293	312,449	385,842	579,093	614,023	646,169
Ratios						
Current ratio (x)	0.7	1.0	1.2	0.8	0.8	1.0
Net debt	38,125	37,776	61,599	120,592	133,072	111,654
ICR (x)	5.0	2.7	3.7	6.3	7.4	9.4
Net gearing	24%	22%	35%	57%	58%	44%
Net debt / EBITDA (x)	4.4	2.4	2.3	2.3	2.0	1.3
Equity ratio	67%	54%	46%	37%	37%	39%
Return on equity (ROE)	1.0%	0.7%	1.5%	5.2%	6.9%	10.1%
Capital employed (CE)	211,935	257,905	307,637	427,158	448,431	469,746
Return on capital employed (ROCE)	1%	2%	4%	6%	7%	10%



CASH FLOW STATEMENT

All figures in EUR '000	2018	2019	2020	2021E	2022E	2023E
Net income	5,255	1,253	2,707	11,059	15,789	25,820
Depreciation and amortisation	6,318	10,543	15,508	27,721	34,039	37,108
Change in trade rec & other assets	-8,083	1,437	-4,334	-16,928	-21,023	-18,683
Change in payable & other liabilities	14,501	3,928	-209	11,206	14,142	11,325
Results from sale of subsidiaries	-5,645	0	0	0	0	0
Other non-cash adjustments	-6,150	-5,752	4,072	0	0	0
Net interest expense	1,641	5,529	6,264	8,288	8,988	8,988
Tax result	-895	-822	1,194	5,325	7,602	12,432
Operating cash flow	6,942	16,116	25,202	46,670	59,536	76,989
Tax expense	0	0	0	-5,325	-7,602	-12,432
Interest income	1	83	0	0	0	0
Net operating cash flow	6,943	16,199	25,202	41,345	51,934	64,557
Payments for intangible assets	-11,042	-12,606	-17,380	0	0	0
Acquisition of subsidiaries	-3,919	-6,214	-22,930	-80,000	-59,834	-28,431
CapEx	0	0	0	-438	-583	-711
Deposits / payments for other assets	848	5,750	2,603	-10	-10	-10
Cash flow from investing	-14,113	-13,070	-37,707	-80,448	-60,426	-29,152
Free cash flow (FCF)	-7,170	3,129	-12,505	-39,102	-8,492	35,406
Equity inflow, net	3,792	8,845	26,876	24,987	0	0
Debt inflow, net	-15,992	-12,011	-1,420	0	5,000	-5,000
Corporate debt, net	25,800	38,699	27,678	40,000	0	0
Interest paid	-2,014	-5,345	-6,018	-8,288	-8,988	-8,988
Payments for non-controlling interests	0	-5,000	-17,480	0	0	0
Other adjustments	-489	220	-3,862	0	0	0
Cash flow from financing	11,097	25,408	25,774	56,699	-3,988	-13,988
Net cash flows	3,927	28,537	13,269	17,596	-12,480	21,418
Fx adjustments	114	0	0	0	0	0
Cash, start of the year	406	4,447	32,984	46,254	63,850	51,370
Cash, end of the year	4,447	32,984	46,253	63,850	51,370	72,788
EBITDA/share (in €)	0.20	0.26	0.28	0.43	0.52	0.66
Y-Y Growth						
Operating cash flow	n.m.	133.3%	55.6%	64.1%	25.6%	24.3%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
EBITDA/share	n.m.	26.2%	8.5%	52.6%	21.0%	27.0%

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Ggf. Inhaltlich Verantwortlicher gem. § 6 MDStV

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The production of this recommendation was completed on 27 April 2021 at 14:38

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INFORMATION PURSUANT TO SECTION 64 OF THE GERMAN SECURITIES TRADING ACT [WPHG], DIRECTIVE 2014/65/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 15 MAY 2014 ON MARKETS IN FINANCIAL INSTRUMENTS AND AMENDING DIRECTIVE 2002/92/EC AND DIRECTIVE 2011/61/EU, ACCOMPANIED BY THE MARKETS IN FINANCIAL INSTRUMENTS REGULATION (MIFIR, REG. EU NO. 600/2014).

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PRICE TARGET DATES

Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

AGREEMENT WITH THE ANALYSED COMPANY AND MAINTENANCE OF OBJECTIVITY

The present financial analysis is based on the author's own knowledge and research. The author prepared this study without any direct or indirect influence exerted on the part of the analysed company. Parts of the financial analysis were possibly provided to the analysed company prior to publication in order to avoid inaccuracies in the representation of facts. However, no substantial changes were made at the request of the analysed company following any such provision.

ASSET VALUATION SYSTEM

First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

ASSET RECOMMENDATION

The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy ¹	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

¹ The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

RISK ASSESSMENT

The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	7 November 2019	€1.23	Buy	€2.10
2...4	↓	↓	↓	↓
5	16 April 2020	€1.15	Buy	€2.80
6	23 June 2020	€1.41	Buy	€2.80
7	6 August 2020	€1.33	Buy	€2.90
8	14 August 2020	€1.28	Buy	€2.90
9	1 October 2020	€1.30	Buy	€2.50
10	2 December 2020	€1.49	Buy	€2.80
11	19 January 2021	€2.76	Buy	€4.00
12	5 March 2021	€3.48	Buy	€5.30
13	Today	€4.80	Buy	€6.10

INVESTMENT HORIZON

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

UPDATES

At the time of publication of this financial analysis it is not certain whether, when and on what occasion an update will be provided. In general First Berlin strives to review the financial analysis for its topicality and, if required, to update it in a very timely manner in connection with the reporting obligations of the analysed company or on the occasion of ad hoc notifications.

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Legally required information regarding

- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

can be accessed through the following internet link: <https://firstberlin.com/disclaimer-english-link/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Marie-Curie-Straße 24-28, 60439 Frankfurt am Main

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