

22 July 2024

DALDRUP & SOEHNE AG

Rating	Buy
Share price (EUR)	8.16
Target price (EUR)	11.00
Bloomberg Sector	4DS GY Renewables

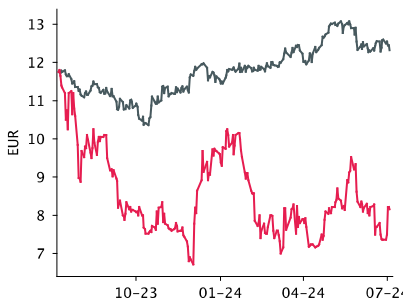
Share data

Shares out (m)	6.0
Daily volume shs (m)	0.0
Free float (%)	41.60
Market cap (EUR m)	48
EV (EUR m)	52
DPS (EUR)	0.00
Dividend yield (%)	0.0
Payout ratio (%)	0.0

Performance

ytd (%)	-9.2
12 months (%)	-26.2
12 months rel. (%)	-32.2
Index	SDAX

Share price performance



— Daldrup & Söhne AG
— Price rel. to SDAX – Price Index

Source: Bloomberg

Next triggers

29 August 2024: AGM
2/3 September 2024: Equity Forum

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Geothermal services to take advantage of the alternative energy transition

Daldrup & Söhne AG (“Daldrup”) is a specialized drilling service provider. In its core segment the company focuses on drilling services in the field of Geothermal Energy. The company operates mainly in the Central European market with a focus on the DACH region. Geothermal heat production offers a highly interesting and sustainable growth market, also in view of the supply shortages of fossil raw materials. We therefore initiate coverage with a Buy recommendation and a EUR 11.00 TP.

Sustainability driven business model

The business model of Daldrup is driven by the sustainability and climate focus of Germany and the EU. Geothermal energy as a recognized, inexhaustible and regenerative source of energy represents a promising sustainable alternative for achieving the ambitious environmental goals. The company is benefiting from the trend towards sustainable energy production. The heating and cooling sector accounts for more than 50% of final energy consumption in Germany. In this area, however, the use of renewable energies is still very low at 19%. With its focus on sustainable heat generation, Daldrup is positioning itself precisely in this niche segment with considerable growth potential.

Strong FY 2023 figures with very solid balance sheet

At EUR 48.4m, Daldrup’s total output was clearly above its forecast (EUR ~41m) and also higher than the previous year’s figure of EUR 36.9m. Its consolidated sales reached EUR 49.1m in FY 2023 – even higher compared to the previous year (EUR 38.2m). The company achieved an EBIT of EUR 2.6m (previous year: EUR 1.8m) in the FY 2023 period. This corresponds to an increase of almost 40% compared to FY 2022. The EBIT margin in relation to total output is therefore 5.3% (above guidance of 3%-5%) and previous year (4.9%).

It is worth mentioning that Daldrup reports under German accounting standards (HGB). If Daldrup was to report under IFRS, EBIT margin would increase by 200 basis points according to our calculations. In addition, Daldrup enjoys a very healthy balance sheet: Its equity ratio was a strong >50% with low net debt/EBITDA ratio of 1.1x.

The Management Board of Daldrup expects to generate total group revenues of around EUR 47m in FY 2024 and to achieve a significantly higher EBIT margin of between 5% and 7%. Given its EUR 38.6m order backlog and EUR ~260m market volume under negotiation, Daldrup’s outlook does not look aggressive.

Key figures		2022	2023	2024e	2025e	2026e
Sales	EUR m	38	49	50	52	54
EBITDA	EUR m	4	5	5	5	6
EBIT	EUR m	2	3	3	3	4
EPS	EUR	0.14	0.15	0.35	0.42	0.50
Sales growth	%	-51.1	28.6	2.2	3.2	3.7
EBIT growth	%	16.4	41.4	15.1	13.3	8.8
EPS growth	%	8.9	4.9	135.7	20.6	18.9
EBITDA margin	%	11.1	10.1	9.1	10.0	10.4
EBIT margin	%	4.8	5.3	6.0	6.6	6.9
Net margin	%	2.2	1.8	4.2	4.9	5.6
EV/Sales	ratio	1.42	1.09	1.04	0.97	0.86
EV/EBITDA	ratio	12.8	10.8	11.4	9.7	8.2
EV/EBIT	ratio	29.5	20.6	17.4	14.7	12.5
P/E	ratio	46.6	67.1	22.9	19.0	16.0
P/BV	ratio	2.0	2.9	2.1	1.9	1.7
Dividend yield	%	0.0	0.0	0.0	0.0	0.0

Source: Bloomberg, Company data, Quirin Privatbank estimates

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Executive Summary

Business model

Daldrup & Söhne AG ("Daldrup") is a leading provider of drilling and environmental services as well as deep geothermal energy projects to harness the earth's heat for electricity and/or heat generation. Its business activities are divided into the four divisions "Geothermal Energy", "Raw Materials & Exploration", "Water Extraction" and "Environment, Development & Services" (EDS).

In the Geothermal Energy division, Daldrup is the market leader for deep geothermal drilling in Continental Europe with a track record of more than 60 deep wells. The company owns 40 drilling rigs, including five high-tech deep drilling rigs for deep geothermal projects from 2,000m to 6,000m. Customers in Central Europe include public clients (municipalities, public utilities) as well as private investors and companies.

Daldrup's unique position

The special thing about Daldrup is the fusion of expertise from specialized civil engineering with that from deep drilling technology: As a result, the company is able to offer drilling services with a unique level of precision and react in the ideal manner to difficult geological conditions. Daldrup is unique in Germany in this area. It is worth mentioning that the company is not active in the oil and gas extraction industry.

Rising demand for geothermal energy

According to Fortune Business Insights, the global geothermal energy market is projected to grow from USD 66.2bn in FY 2023 to USD 117.0bn by FY 2032 at a CAGR of 6.6% over the forecast period.

Everything from a single source

Daldrup covers all stages of the value chain of a geothermal project through a broad network and cooperations. The company is able to realize the complete planning of customized solutions for clients.

Alternative-Risk-Transfer-Concept supports the industry

Recently an initiative of the Federal Ministry of Economics and Technology (BMWK) and the KfW development bank was announced in order to establish a state-supported insurance solution for the so-called "exploration risk" for deep geothermal wells. This means a strong tailwind for the geothermal industry: The exploration risk refers to the risk that drilled boreholes in the subsurface do not reach the temperatures or yields (known as the "fill") of the aquifers assumed in advance. This measure is part of the "geothermal campaign", which the ministry presented at the end of FY 2022.

Further regulatory improvements in Germany

For example, the German Federal Ministry for Economic Affairs and Climate Action is strengthening medium and deep geothermal energy by acceleration of approval procedures, support programs and other measures.

EBIT margin improvements ahead

Daldrup's earnings potential after FY 2023 amounts to ca. EUR ~1m due to expiry of the scheduled depreciation on the two large drilling rigs Bentec and Drillmec. Further tailwind for margin improvement comes from its expected increase of sales and total output.

From 2024 onwards: cash inflows from sold Geysir group expected

The financial result amounted to EUR - 1.7m after EUR - 1.0m in FY 2022. The main items in this partial result are EUR -0.9m, thereof EUR -0.8m (FY 2022: EUR - 0.3m) in depreciation on subordinated receivables from the sold Geysir Europe Group.

The Geysir Europe GmbH was divested in FY 2020. The company generates geothermal energy by combining heat and power and supplies to various locations in Germany since the current business year. Therefore, Daldrup does not expect any further depreciation, but even cash inflows in FY 2024, as the Geysir has commenced operations.

Strong balance sheet without goodwill position

Daldrup's balance sheet is extremely solid; the equity ratio is over 50%, net debt/EBITDA at 1.1x There is no goodwill at all.

Bottlenecks

In our view, there exist two bottlenecks for Daldrup's long-term growth: a) additional drilling rigs and b) additional specialized personnel. However, its current capacities allow for a sales potential of EUR >60m.

Valuation

We have decided not to carry out a peer group valuation, firstly because there are hardly any comparable listed companies and secondly because Daldrup prepares its accounts in accordance with conservative German accounting standards (HGB). We therefore apply a DCF valuation:

DCF valuation

Our DCF model indicates a fair value of EUR 11.12 per share for Daldrup and reflects the long-term perspectives of the company. Our assumptions are as follows:

Phase 1 (2024e-26e):

We estimated the free cash flows (FCF) of phase 1 according to our detailed financial forecasts for this period stated in the financials section.

Phase 2 (2027e-33e):

For Phase 2, we assumed an initial sales growth of conservative 3.5%. The growth fades out to 0.9% in 2033e. We assumed EBIT margin to rise from 7.0% to 7.9% in FY 2033e.

Phase 3:

For the calculation of the terminal value, we applied a long-term FCF growth rate of 2.0% to reflect Daldrup's growth perspectives.

Based on these assumptions, we calculated a fair value of the Daldrup's operating business of EUR 71m. We deducted its net debt position of 31 December 2023. The resulting fair value per share amounts to EUR 11.12.

Daldrup & Söhne

EURm	PHASE 1			PHASE 2							PHASE 3
	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	∞
Sales	50.2	51.8	53.7	55.6	57.1	58.4	59.5	60.3	61.0	61.6	
YoY growth	2.2%	3.2%	3.7%	3.5%	2.8%	2.2%	1.8%	1.4%	1.1%	0.9%	
EBIT	3.0	3.4	3.7	3.9	4.1	4.3	4.4	4.6	4.7	4.9	
EBIT margin	6.0%	6.6%	6.9%	7.0%	7.1%	7.3%	7.4%	7.6%	7.7%	7.9%	
Income tax on EBIT (cash tax rate)	-0.9	-1.0	-1.1	-1.0	-1.0	-1.1	-1.1	-1.1	-1.2	-1.2	
Depreciation and amortisation	1.6	1.8	1.9	0.8	0.9	0.9	0.9	0.9	0.9	0.9	
Change in long-term provisions	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
Other non-cash items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Change in net working capital	-0.3	-0.5	-0.6	-0.5	-0.4	-0.3	-0.3	-0.2	-0.2	-0.1	
Net capital expenditure	-2.5	-2.0	-1.5	-0.9	-0.9	-0.9	-1.0	-1.0	-1.0	-1.0	
Free cash flow	1.0	1.8	2.6	2.5	2.8	3.0	3.1	3.3	3.4	3.6	
Present values	0.9	1.7	2.2	2.1	2.1	2.1	2.1	2.1	2.1	2.0	51.3
Present value Phase 1	4.8										
Present value Phase 2	14.6										
Present value Phase 3	51.3										
Total present value	70.7										
+ Excess cash/Non-operating assets	3.6										
- Financial debt	-7.7										
- Pension provisions	0.0										
Fair value of equity	66.6										
Number of shares (m)	6.0										
Fair value per share (EUR)	11.12										

Risk free rate	3.00%	Target equity ratio	40.0%
Equity risk premium	6.00%	Beta (fundamental)	1.0
Debt risk premium	2.50%	WACC	6.02%
Tax shield	30.0%	Terminal growth	2.0%

Sensitivity analysis						
		Terminal growth (Phase 3)				
		1.0%	1.5%	2.0%	2.5%	3.0%
WACC	5.0%	12.06	13.44	15.28	17.85	21.68
	5.5%	10.56	11.58	12.91	14.67	17.12
	6.0%	9.35	10.14	11.12	12.39	14.07
	6.5%	8.36	8.98	9.74	10.68	11.89
	7.0%	7.54	8.03	8.63	9.35	10.25

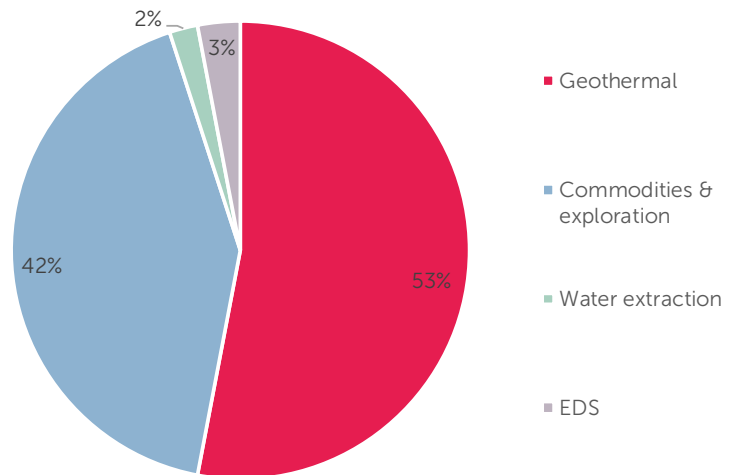
Source: Quirin Privatbank

Operating Segments

Business model

The company provides its customers drilling and environmental services with a focus on geothermal energy. Their operating segments are divided into geothermic (deep, medium-deep, flat), water extraction, commodities & exploration and EDS (environment, development, services). Due to the project nature of Daldrup's business the revenue distribution differs each year. The core activities for Daldrup are based in the DACH region. There is also a focus on the Benelux states and some other middle European countries. Daldrup owns a portfolio of 40 drillings rigs covering drilling depths up to 6,000m. They offer their clients top-tier technology as well as experienced drilling teams to successfully implement their projects. Geothermal energy is an unlimited and sustainable energy source which is generating substantially less Co2. With regards to the European climate goals, the energy transition and the energy crisis (as a result of the Russian attack on Ukraine) showing the dependence on energy imports, there is a state subsidized interest in shifting energy extraction towards sustainable, climate-friendly and local methods.

FY-23: Revenues by segments



Source: Daldrup & Söhne, Quirin Privatbank

Project business may lead to a volatile sales development

The Daldrup Group offers its clients an in cooperation with renowned insurers developed solution for mitigating the risks associated with deep geothermal drilling projects. The Alternative Risk Transfer-Konzept (ART) is available only to Daldrup's customers and enables the financing of geothermal projects with a high proportion of external funding. Daldrup does not act as a financier or insurer but rather transfers the risks to third parties. This ART concept is an essential tool for customer and project acquisition in Central Europe. Actually, this makes it a unique selling proposition for the Daldrup Group in the deep geothermal segment.

Geothermal energy

The Geothermal business unit provides drilling services for near-surface drilling up to 400 meters, medium-deep and deep drilling up to 6,000 meters. This provides access and opens up the usage of earth heat to extract energy and heat. For this business unit the capacity utilization is good. The business unit accumulates 53% of the company's revenues. The continuing sanctions against Russia following their attack on Ukraine showed the dependency of middle European countries and especially Germany on gas-imports used for heating purposes. Daldrup & Söhne is one of the leading market participants in implementing geothermal energy extraction projects which provide an alternate sustainable and local source of energy.

Commodities & exploration

The business unit commodities and exploration provides drilling services to explore and exploit repositories for fossil energy sources as well as mineral raw materials and ores. An additional service provided by this business unit is exploring and securing the building ground in mining areas. Services in the commodities & exploration business unit were accountable for 42% of Daldrup's revenues, building their second largest revenue stream in 2023. Especially the exploration of repositories (e.g., atomic waste) is an up-and-coming business opportunity that fits Daldrup's strengths. For example

Nagra, the National Co-operative for the Disposal of Radioactive Waste in Switzerland, is a longstanding customer. In addition, Daldrup has received orders from the Bundesgesellschaft für Endlagerung mbH (BGE)

Water extraction

Daldrup has its entrepreneurial origin in the water extraction segment. This segment consists mainly of the construction and renewal of wells to gain different types of water as well as some complimentary services. They offer additionally to the drilling service also further services as stainless steel piping for water extraction, the professional development of well systems or the installation of modern filter and pump systems. Water extraction makes up for 2% of Daldrup's revenues.

Environment, Development, Services (EDS)

The business unit EDS includes special environmental engineering services. This unit sums up additional services provided by the group because of their expertise and technical capabilities. The projects in this field vary from remediation of contaminated sites to the construction of water purification plants and many more. EDS makes up for 3% of Daldrup's revenues.

Segment development

Due to its project-based business model the exact utilization of segment capacities varies due to project demand. The demand for geothermal energy drilling services is steadily rising which is reflected in the company's relevant market (260m EUR in 2023 – up almost 30% yoy). The demand for Daldrup's services remains intact in all of their segments.

Drilling equipment and project capacities

Daldrup owns around 40 drilling rigs. Out of these 40 drilling rigs 27 are for near surface drilling services and 13 are for middle-deep to deep drilling services. The project capacities of Daldrup are limited to the shortage of skilled workers, limited drilling rig capacities and limited to market capacities. With market capacities not being that much of a limitation for the company due to their filled order pipeline, the shortage of skilled professionals and additional drilling rigs post an obstacle for them and as for the whole industry. Deep geothermal energy is substantial in providing heat and energy for the industrial usage. Now Daldrup & Söhne only have five drilling rigs that can reach these depths. For projects that require drilling rig capacity up to 6,000 meters, they only have one rig capable of doing so. The project utilisation as well as the drilling rig and professional team capacity utilisation are on a very solid level. Nonetheless, it still has organic growth potential through further process optimization. Daldrup has the USP that almost all the geothermal projects need a cost estimate, and they are the ones able to provide the knowledge and experience to create one for the project developers. Through this USP the company has early access to these projects and the respective project developer. This puts them in a position where they can decide which projects they want to take. In the coming years, Daldrup will be able to meet the demand for the geothermal projects by extending its drilling capacity through new rigs and personnel. This should have a positive impact on margins.

Customers

The customer base is broadly diversified: it ranges from private individuals in well drilling and shallow geothermal energy, environmental and exploratory companies for environmental and exploratory drilling, to municipalities and financial investors for deep geothermal projects. Daldrup has long-lasting and trustful business relationships with their municipalities and cities clients as well as their private economy clients. They gained some new customers in these segments and established relationships with investors for some great projects in the geothermal energy market. They expect to gain even more customers in these segments. Also, with regards to the state subsidiaries for geothermal energy, it looks like more industry firms are likely to look for alternate energy sources and therefore are potential customers of Daldrup.

Management and shareholder structure

Management board



Andreas Tönnies: Spokesman of the Management Board

- Part of the Daldrup group for more than 40 years
- Started in the construction side of the business and developed into a leading role as a project manager
- Since 2005 part of the management board

Key responsibilities:

- Purchasing
- Shareholdings and legal
- Deep-geothermal Project Development



Stephan Temming: CFO

- Joined Daldrup & Söhne in 2017
- More than 22 years of experience in banking and finance

Key responsibilities:

- Finance & Controlling
- Investor Relations
- Shareholdings (together with Andreas Tönnies)



Bernd Daldrup

- Joined Daldrup & Söhne in 2009
- Part of the owner family
- Broad experience as a project manager within the Daldrup group

Key responsibilities:

- Engineering
- HR
- Deep and medium-depth geothermal project management



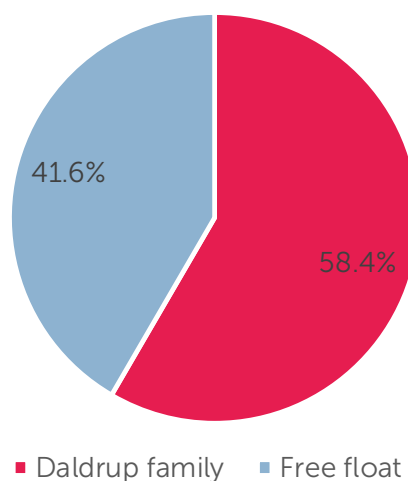
Karl Daldrup

- Joined Daldrup & Söhne in 2008
- Part of the owner family
- Broad experience as a project manager within the Daldrup group

Key responsibilities:

- General drilling
- Near-surface geothermal energy
- Raw material exploration and reconnaissance
- Abandoned mine safety and rehabilitation

Daldrup & Söhne AG: Current Shareholder Structure



Source: Quirin Privatbank, Daldrup & Söhne

History

- **1946:** Foundation of the predecessor company by Karl Daldrup
- **1994:** First well over 1,000 m for CO₂ extraction for the beverage industry
- **1995:** First use of deep drilling technology for hot water extraction/production of thermal brine for a spa
- **2001:** Restructuring, establishment of the company in the legal form of a joint-stock company (AG)
 - First use of directional drilling systems to access mine gas in the Ruhr area
- **2005:** Deepest tap hole in Austria (ca. 1,200 m / Ø 101 mm)
- **2006:** Work starts on the first deep geothermic borehole in Arnsberg for the installation of a deep ground source heat pump (TEWS) designed to heat a swimming pool.
- **2007:** IPO
 - 1st and 2nd deep boreholes in Bleiswijk, Netherlands / Heat supply for industrial greenhouses
- **2008:** Completion of the deep ground source heat pump borehole in Arnsberg (2,800 m, deepest drill hole in the state of NRW)
- **2009:** Joint venture with RWE Innogy and Majority shareholding in the Geysir/Exorka-Group for the development of geothermal power plant projects
- **2010:** Completion of numerous geothermic boreholes in Germany, Switzerland and the Netherlands in order to supply geothermic heat to the population
- **2011:** Expansion of geothermal activities to Austria and Italy

- **2019:** Daldrup & Söhne sells off the participation in the Geysir-Group and divests the business segment of own geothermal power plants
- **2020:** Josef Daldrup leaves his CEO position
- **2020:** Focus on the company's core segments and competences, market leader in providing onshore geothermal drilling services
- **2021:** Regaining operative profitability through the new strategy
- **2023:** Daldrup's relevant market volume under negotiation rises to EUR ~260m

Market for geothermal energy & drilling services

By segment dependent project demand driven growth perspectives

High growth in the coming years for the geothermal energy market needed to achieve the energy transition...

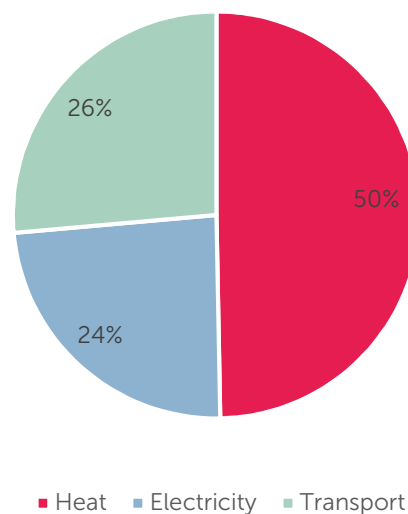
Daldrup's relevant market and its growth perspective

As a provider of drilling services, Daldrup's market is made by the demand for their services in their respective operating segment. For the market for drilling services to grow, it is necessary that there are investments in projects that require drilling services. Growth of Daldrup's relevant market is therefore achieved through increasing project investments and demand in their operating segments geothermal energy, raw materials & exploration, water extraction and EDS. Especially the demand for geothermal energy is crucial for Daldrup's relevant market, since it is by far the largest share in terms of project volumes.

The necessary growth of the geothermal energy market

The company focusses its core activities on middle Europe, mainly the DACH region. With the European Union and other states committing to challenging climate goals to achieve within the next few years, it is necessary to reduce Co2-emissions, shift energy extraction to sustainable and renewable sources and therefore invest in their exploration and development. For Germany the biggest source of energy consumption is the heating and cooling sector before transport and electricity. Although heat consumes more than double the energy than electricity, the portion of renewable energy sources in heat extraction is only about 19% in 2023, while the portion of renewable electricity energy sources on electricity production is at almost 52% for the same time frame as measured by the federal ministry of economy and climate protection in Germany.

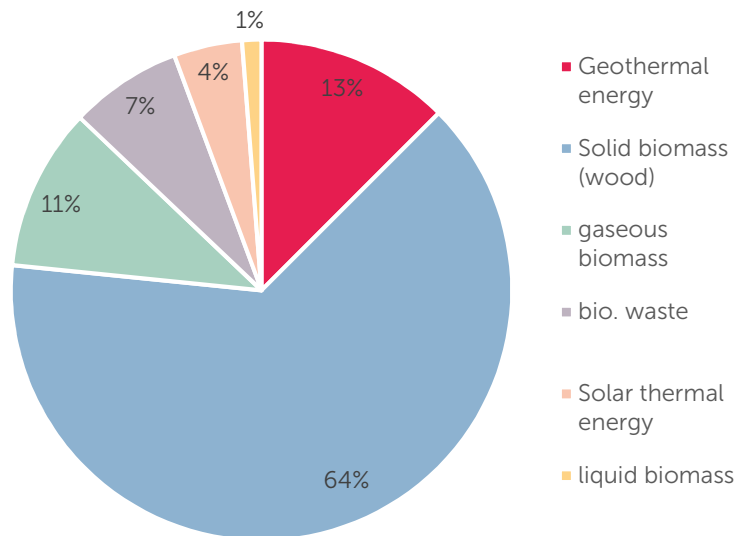
Final energy consumption Germany 2023



Source: Quirin Privatbank, federal environment agency Germany, AG energy balances

Final energy consumption in Germany was 2,200 TWh of which only 22% are covered by renewable energies. Goal of the European Union is to achieve a coverage of 30% of the final energy consumption by renewable energies until 2030. As stated above the share of renewable heat energy sources cover only around 19% of the heat energy used in Germany, which is by far the biggest energy consumer with about 50% of Germany's energy consumption in 2023 coming from heat usage. So, for Germany to achieve its sustainability goals a transition of heat extraction from fossil raw materials to renewable energy sources must be implemented. An effective way to execute this transition to renewable energy sources is to broadly expand the usage of geothermal energy in heat extraction. Geothermal energy is an unlimited and climate-friendly energy source, which is also cost-efficient according to the world energy council in Germany. Right now, geothermal energy makes up for around 13% of renewable heat energy sources, which is around 25 kWh. The Fraunhofer Institute estimates the extraction of 300 kWh only from deep-geothermal energy sources. This shows there is clearly much potential for more geothermal energy plants to extract more geothermal heat.

Distribution of renewable heat supply Germany 2023



Source: Quirin Privatbank, federal environment agency Germany, AG energy balances

...and, to lower dependencies of central European countries on energy imports...

A consequence of the attack of Russia on the Ukraine is that most of the European countries do not continue to trade with Russia. Therefore, the import of Russian gas and oil was stopped. This led to a shortage of fossil raw material for heating, a huge increase in energy prices and had a great impact on inflation. Germany and other Central European countries were shown their strong dependency on and vulnerability to Russian gas and oil imports. This represents a major uncertainty and vulnerability regarding the energy supply of Central European countries. One of the conclusions Central European countries took from this, is that they must secure their energy supply and reduce their exposure to import risks. Geothermal heat extraction is an unlimited and local alternative to fossil raw material imports, so it can help reduce the exposure to import risks.

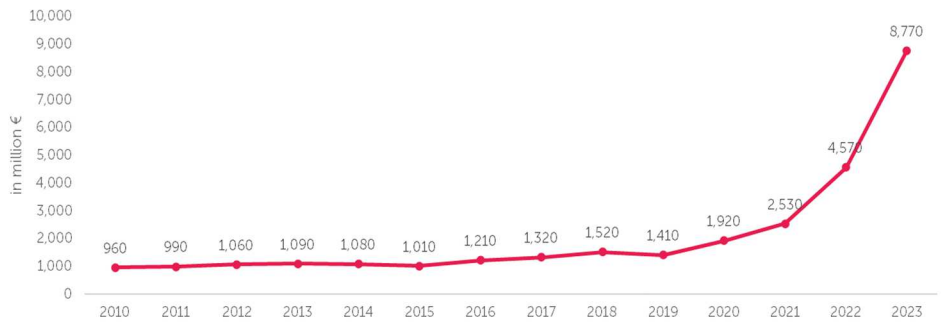
...with a constant level of clean heat extraction.

Geothermal heat provides another benefit in terms of an over the year constant ability to provide heat, which makes its market more attractive to investors. Since the heat extraction process of geothermal heat does not rely on any environmental circumstances. This makes the market an even more interesting investment opportunity for the government because energy and heat supply are regulated over time. By solar plants and windmills extracted energy and heat is only available for certain environmental conditions. Organic waste offers another sustainable method for heat extraction, which is more popular among the renewable energy sources in Germany. The greenhouse emissions for the energy extraction from organic waste though, are much higher than the emissions for geothermal energy extraction. So geothermal energy extraction offers a renewable, unlimited, climate-friendly and constant method for energy and heat extraction.

Project-planning already increasing

According to the German federal association for geothermal energy for the years 2023/2024 there are 82 deep-geothermal energy projects currently in the planning phase for Germany. For the moment 12 deep-geothermal energy projects are in the construction phase. Additionally, to these deep-geothermal energy projects, according to the federal association for heat pumps the sales of heat pumps in Germany increased by 53% for 2022 in comparison to the previous year, which drives the demand for near-surface drilling services. This already shows that there is an increasing demand for projects relating to geothermal energy extraction. The federal environmental agency of Germany published in their report "Erneuerbare Energien in Deutschland. Daten zur Entwicklung im Jahr 2023" some estimates for the development of investment into the construction of renewable geothermal energy plants. In the last 10 years investment in constructing geothermal energy plants increased by 710%.

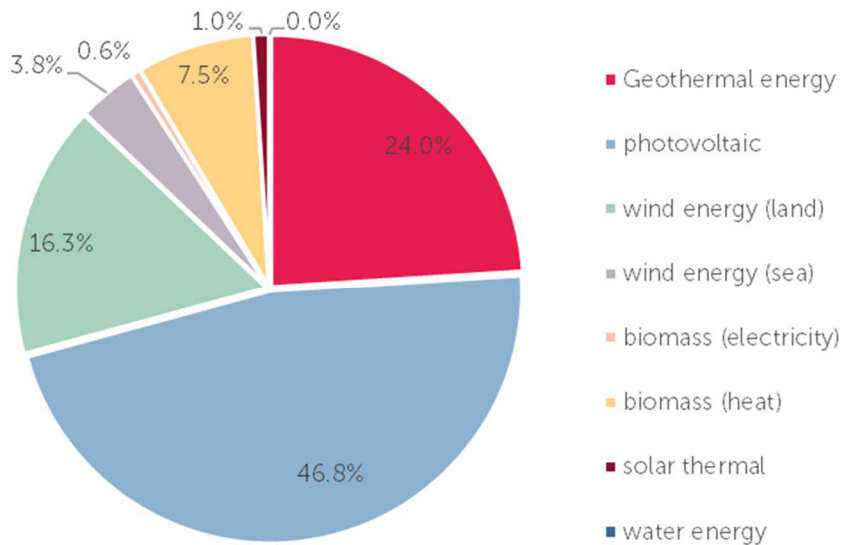
Development of investments in geothermal energy plants



Source: Quirin Privatbank, federal environment agency Germany, AG energy balances

The federal environmental agency in Germany is also tracking the total amount of investment in renewable energies. Looking at total investment in renewable energies in 2023, geothermal energy is located on the second place. With about 8.8bn EUR (2022: ~3.6bn EUR) invested in projects, geothermal energy makes up for 24% of total investment in renewable energy in 2023. In comparison to the previous year the share of investment in geothermal energy grew by 6% (18% in 2022) and the total amount of investment in renewable energies grew from 19.9bn EUR to 36.6bn EUR. The investment trend is clearly into highly green renewable energy sources which is also why the total share of investment in biomass declined by 7.9% yoy. A further energy source that profits from this trend except from geothermal energy is photovoltaic which rose 7.8% yoy.

Investments in renewable energy in 2023



Source: Quirin Privatbank, federal environment agency Germany, AG energy balances

Drilling services as a necessary investment for the energy transition

The geothermal energy market has huge potential regarding the aspects stated before. A necessary service to build more geothermal energy plants is to provide the drilling services. For drilling services market access is characterized by high technical, financial, and increasingly regulatory and administrative barriers. Also, there is high expertise and experience needed for professional project teams. Daldrup & Söhne positioned themselves as market leaders for onshore drilling services in Germany.

More industry companies expected to take on geothermal projects

With MTU Aero Engines AG a big industry player is implementing a geothermal energy project to reduce carbon emissions for their heat supply. Process heat makes up to 67% of the industry’s energy demand and therefore is the largest point of energy consumption in the industrial sector. With the European sustainability goals especially industry companies need to reduce their carbon emissions and it is expected that more companies will follow MTU’s example and look for alternative energy sources.

The industry sector is discovering geothermal energy

Market perspectives in Daldrup's other operating markets

Markets for commodities & exploration, water extraction and EDS

Since Daldrup's business model is project driven, their market perspectives in their other operating segments are also driven by the demand for projects regarding these segments.

The commodities & exploration segment of Daldrup is their second largest stream of revenues. One of the main factors driving these revenues up is the need to explore repositories for atomic waste. The proper disposal of atomic waste is of utmost importance for governments of the central European countries. As a result of Germany's withdrawal from the nuclear power generation market, the need for nuclear waste disposal sites in Germany has increased. The German federal company for radioactive waste disposal states that the amount of low and intermediate level waste will increase by 150% until 2050. Other Central European countries still extract nuclear energy. So, they continuously produce atomic waste which needs to be stored properly, which therefore provides opportunities for Daldrup & Söhne.

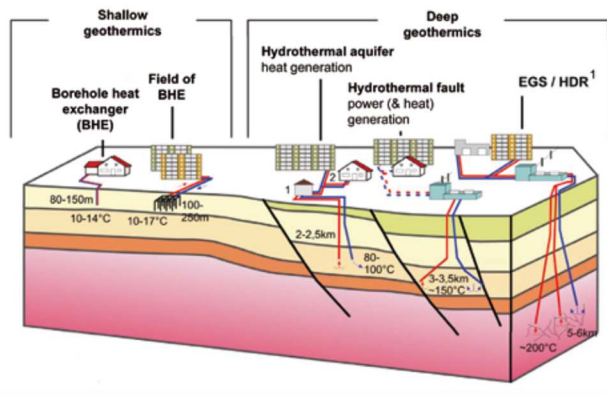
The European water situation varies by region, but in general, water scarcity is becoming an increasing concern in many areas due to climate change, population growth, and overuse of water resources. According to the European Environment Agency, about 30% of European Union territory is classified as water-stressed or water-scarce, and this percentage is expected to increase in the coming years. The situation is particularly acute in southern Europe, where droughts are more frequent and severe. With groundwater being the source for 99% of freshwater and the groundwater level dropping, this increases the need and demand for deeper well drilling. Clean water and sanitation are sustainable development goals declared by the United Nations. Especially in Europe regulators are taking the sustainable development goals as guidelines in developing regulatory requirements for companies, as well as define them as investment criteria for sustainable investing.

Deep geothermic energy

Geothermic power combines a number of benefits: it is base loadable, which means that it is not dependent on external factors such as weather, time of day, seasons etc, it is available everywhere and it is inexhaustible. The use of this constant source of natural energy is supported by EEG 2012, public funding programmes and intelligent insurance solutions. Furthermore, it offers an outstanding carbon footprint. Daldrup differentiates between shallow and deep geothermic energy.

Deep geothermic energy poses particular challenges to drilling technology: Daldrup creates boreholes of up to 6,000 metres deep in order to access the ground heat for generating electricity and/or heat. Their domestic focus is on the Molasse basin in Bavaria and in future on Oberrheingraben. Across Europe they are much in demand as a partner; in particular in the DACH region.

Daldrup operates deep ground source heat pumps for heat recovery as well as hydrothermal and petrothermal systems for generating heat and electricity. The deep hydrothermal energy extraction process taps into the hot water held in layers of rock. The deep petrothermal energy process, in comparison, extracts heat from crystalline rock by using water to expand existing cracks and fissures to create a natural heat exchange process. Injection wells are used to force water into the rocks and this is then brought up to the surface through boreholes.



Source: Daldrup, Quirin Privatbank

Daldrup & Söhne: Financials

Financial year 2023

P&L

Increase of EBIT and EBIT margin

At EUR 48.4m, Daldrup's total output was clearly above its forecast (EUR ~41m) and also above the previous year's figure of EUR 36.9m. The typically volatile nature of large drilling orders led to consolidated sales of EUR 49.1m in FY 2023 – even higher compared to the previous year (EUR 38.2m).

The company achieved an EBIT of EUR 2.6m (previous year: EUR 1.8m) in the FY 2023 period. This corresponds to an increase of almost 40% compared to the previous year. The EBIT margin in relation to total output is therefore 5.3% (above guidance of 3%-5%) and previous year (4.9%). Consolidated net income for the year amounted to EUR 890k (previous year: EUR 852k).

in EURm	FY-23	FY-22	change in %
Sales	49.1	38.2	28.6%
Increase/decrease in inventory	-1.7	-1.4	
Other own work capitalized	0.9	0.1	
Total output	48.4	36.9	31.2%
Other operating income	1.8	1.1	
Cost of materials	-21.3	-13.4	
Personnel expenses	-10.3	-10.0	
Other operating expenses	-13.6	-10.4	
EBITDA	4.9	4.3	15.5%
EBITDA margin (in % of total output)	10.2%	11.5%	
Depreciation	-2.4	-2.4	
EBIT	2.6	1.8	38.8%
EBIT margin (in % of total output)	5.3%	5.0%	
Financial result	-1.7	-1.0	
EBT	0.9	0.9	
Taxes	0.0	0.0	
Net profit	0.9	0.9	3.5%

Source: Daldrup, Quirin Privatbank

FY 2024 guidance reflects high order backlog

At EUR 38.5m as at the end of March 2024, the order backlog is at a high level and is expected to utilize crews and drilling equipment until FY 2025. The market volume under negotiation is developing dynamically and reached EUR 260m at the end of March 2024 according to Daldrup. As a result, the Management Board of Daldrup is confident that, if business develops as planned, it will generate total group revenues of around EUR 47m in FY 2024 and achieve a significantly higher EBIT margin of between 5% and 7% based on total output. We regard Daldrup's guidance as far from being aggressive.

Balance sheet

Daldrup's total assets as at 31 December 2023 amounted to EUR 41.5m (EUR 40.2m in FY 2022) and slightly increased compared to the previous year's reporting date by around EUR 1.3m yoy.

Property, plant and equipment is subject to scheduled depreciation and amounted to EUR 6.2m (EUR 5.7m). It primarily comprises the drilling rigs, the vehicle fleet as well as the necessary operating and office equipment. The change results from additions to fixed assets in the amount of around EUR 3.0m, of which around EUR 0.9m is

attributable to own work capitalized. Scheduled depreciation and amortization amounted to around EUR 2.4m. The additions include investments necessary for operations, in particular the acquisition of new equipment for drilling operations and also replace previously leased equipment.

Financial assets totaled EUR 4.0m (EUR 5.0m). The subordinated receivables from the companies of the former Geysir subgroup are recognized at around EUR 3.0m (FY 2022: EUR 3.6m), after a further EUR 0.9m (FY 2022: EUR 0.3m) of this subordinated item was written down. During an analysts' call, management explained that no further depreciation is expected as the Geysir has commenced operations. In contrast to previous years, Daldrup expects cash inflows.

Low net debt position and ...

Cash and cash equivalents increased slightly to EUR 3.6m (EUR 3.1m) and exceeded the previous year's figure by around EUR 0.5. Its net debt position (bank liabilities (EUR 7.7m) plus liabilities to affiliated companies (EUR 1.2m) minus cash (EUR 3.6m)) amounted to a small position of EUR 5.3m (FY 2022: EUR 6.1m).

... Equity ratio >50%

On the equity and liabilities side of the balance sheet, the equity of Daldrup as at 31 December 2023 increased to a total of EUR 21.0m (EUR 20.0m). The equity ratio as at the reporting date of 31 December 2023 is a comfortable 50.6% (FY 2022: 49.7%) of the balance sheet total.

There was a significant decline in liabilities totaling EUR 17.7m in FY 2023 (EUR 19.1m in the previous year). Despite the investments made, liabilities to banks fell slightly to EUR 7.7m (EUR 7.8m). Medium-term financing in connection with the acquisition of necessary operating and office equipment took place in FY 2023 and reached a volume of around EUR 0.9m.

Strong increase of CF from operating activities

Cash flow

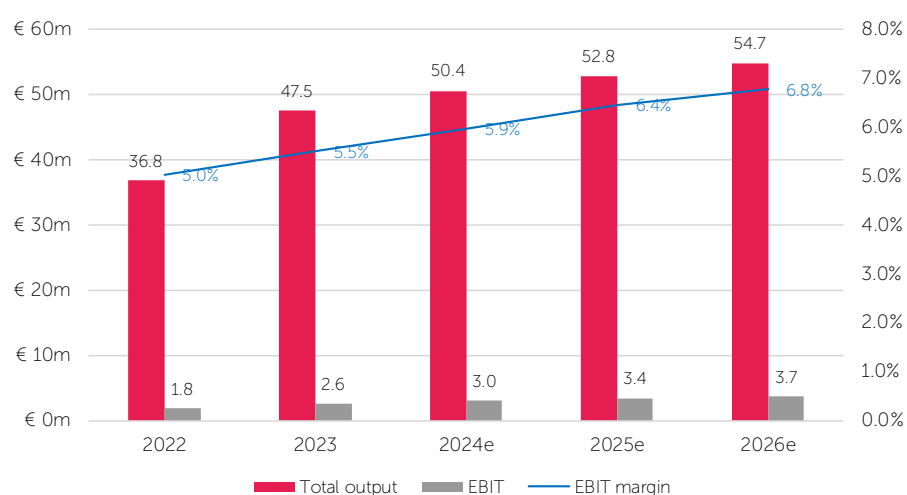
Its cash flow from operating activities strongly improved from EUR 1.7m (FY 2022) to EUR 4.4m, mainly a result of improved working capital management. The cash flow from investing activities rose from EUR -0.8m to EUR -3.0m in FY 2023 and reflects payments for investments in intangible assets and property, plant and equipment. Its cash flow from financing activities amounted to EUR -0.9m (FY 2022: EUR -1.8m) and reflects the redemption of financial loans as well as interest payments in both years.

Key aspects concerning the profit and loss statement, balance sheet and cash flows

Growth of total output and EBIT ahead

- Profit and loss statement: Daldrup is a leading provider of drilling and environmental services in the DACH region. We conservatively forecast one-digit total output growth to reflect rising demand for geothermal energy; additionally, we assume margin improvements based on cost-degression effects and rising sales volume.

Total output, EBIT and margins

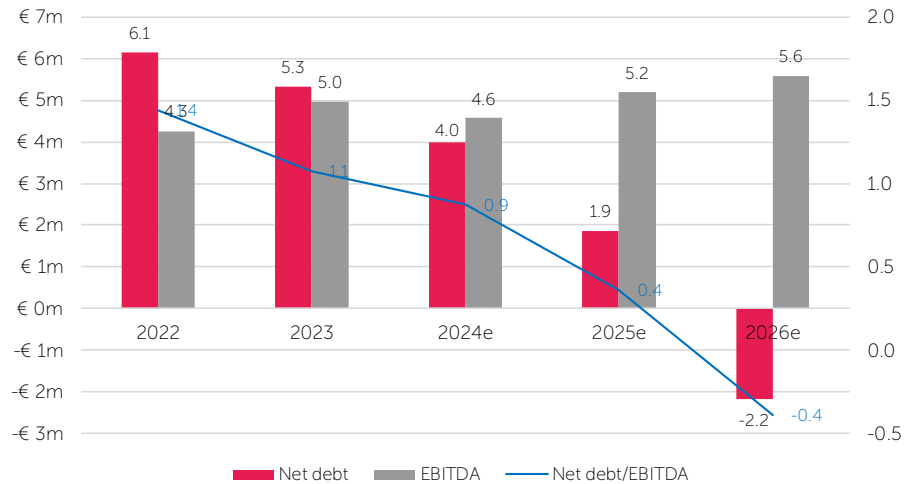


Source: Daldrup, Quirin Privatbank

2024e: net debt/EBITDA: 0.9x

- Balance sheet (1): In FY 2023, Daldrup’s net debt/EBITDA ratio was very low at 1.1x. Following continuously rising earnings and higher cash position – the ratio should improve further.

Small net debt/EBITDA ratio, continuously to fall over the next years

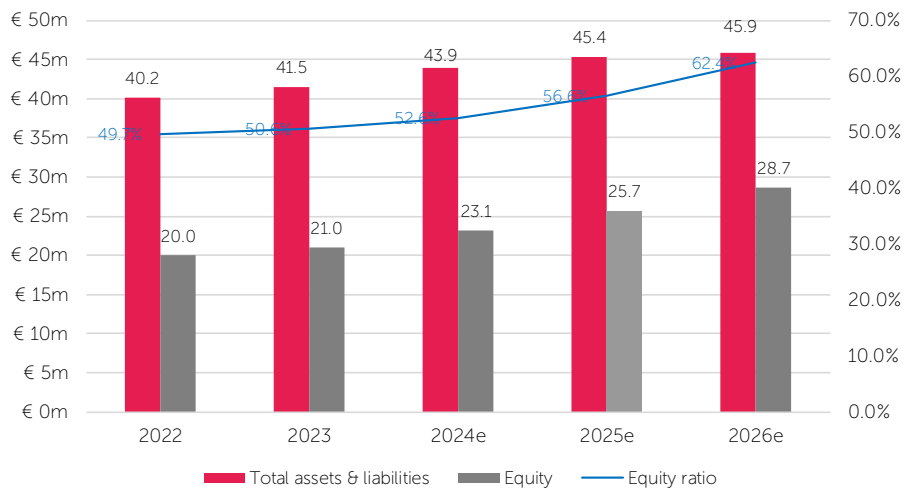


Source: Daldrup, Quirin Privatbank

2024e: equity ratio 52%

- Balance sheet (2): Last year Daldrup’s equity ratio was over the 50% hurdle. We expect rising earnings and that profits are retained (no dividend payments); the ratio should therefore improve further.

Equity ratio to rise further

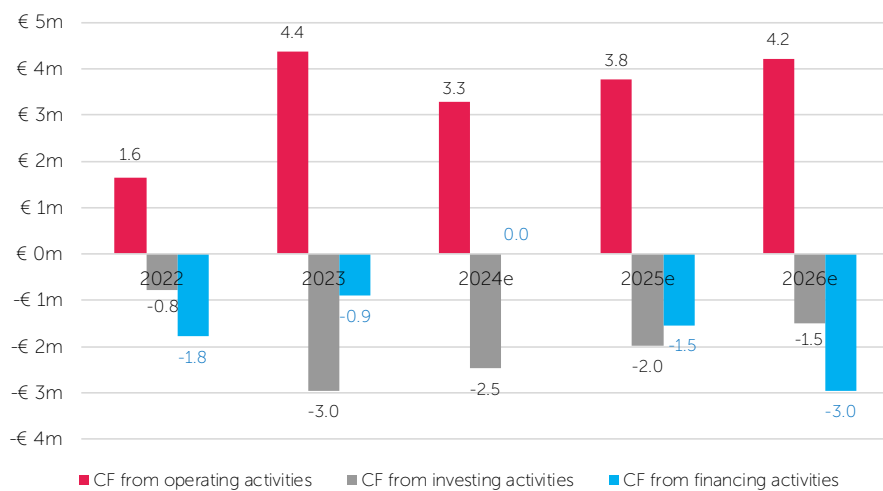


Source: Daldrup, Quirin Privatbank

CF from operating activities to finance capex

- Cash flow statement: In our model we assume that Daldrup is to generate positive cash flows from operating activities. – which is also reflected in higher earnings estimates in our P&L forecast.
Cash flow from financing activities: We have basically not assumed any increase in liabilities or equity, rather smaller repayments of liabilities in the mid-term. Cash flow from investing activities is to be financed from CF from operating activities in our model.

Cash flows



Source: Daldrup, Quirin Privatbank

SWOT

Strengths

- Daldrup has a market leading position in a market with high growth potentials. Additionally, they already established long-term relationships with its clients. Even during economic difficulties, they did not suffer from project cancellations. For the past few years, they always had full order books and utilized all their project capacities.
- The business model and the company's expertise fit perfectly into a niche that has huge upside potential and not that many specialized competitors.
- The company addresses global mega trends such as the energy transition, sustainability and securing constant energy supply.

Weaknesses

- Basically, no recurring revenues due to the nature of project-based business models.
- So far only one-digit EBIT margins because of competitive pricing with other market participants and only limited project capabilities.
- Geothermal energy still receives relatively little attention in connection with the energy transition. The market is still quite small, and investors focus on the renewable energies.
- For the realization of drilling projects, the company relies on the assistance of subcontractors

Opportunities

- The market for geothermal energy enjoys rising demand and government subsidies. With the energy transition being made a clear goal of the European union and import dependencies by middle European countries made obvious. There is a clear shift to sustainable, renewable and local alternatives to extract energy and heat.
- There are also some political concepts to address the shortage of skilled workers and increase drilling capacities. Both would benefit Daldrup as one of the market leaders in providing drilling services with broad experience and a history of successfully implemented projects.
- Further cooperations and participations can strengthen Daldrup's market positioning even more. They already offer their clients services along the whole project implementation phase.
- So far, a Geothermal Strategy in the European Commission's Climate Target for 2040 is not officially included

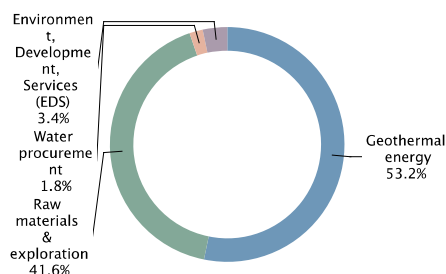
Threats

- With market growth Daldrup might face more experienced competitors from other drilling service sectors joining the geothermal energy market. Huge companies with a broad network can take a great market share.
- With worse financing conditions for companies and lower economic growth the ability and willingness of investors to carry out projects might decrease. In Germany, however, this is countered by public services (water, energy, final storage). For example, cities and municipalities must submit a heating plan by mid-2026, which will certainly result in numerous geothermal projects.
- Geothermal energy is still more expensive than traditional energy sources and bears higher acquisition cost, this deters price sensitive private consumers.

Company description

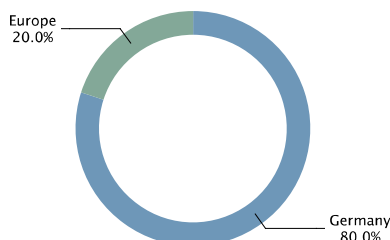
Daldrup & Söhne AG, with a company history of more than 75 years, is a specialised provider of drilling and environmental services and is positioned among the leading companies in Germany. Its activities are divided into the business areas Geothermal, Resources & Exploration, Water Extraction and Environment, Development & Services (EDS). In the Geothermal Energy business sector, drilling services are provided both for near-surface geothermal energy (especially geothermal probes for heat pumps), but above all also drilling services for deep geothermal energy of up to 6,000 m, in order to use the geothermal energy thus accessible for the generation of electricity and/or heat.

Revenues by segment 2023



Source: Company data

Revenues by region 2023



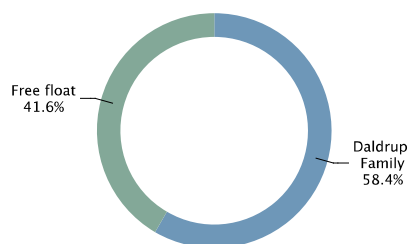
Source: Company data

Segment data (EUR m)

Revenues (growth in %)	2022	YOY	2023	YOY	2024e	YOY	2025e	YOY	2026e	YOY
Geothermal energy	14.5	-74.5%	26.1	80.0%	27.0	3.4%	28.0	3.7%	29.0	3.6%
Raw materials & exploration	18.0	9.8%	20.4	13.6%	19.0	-7.0%	18.5	-2.6%	18.5	0.0%
Water procurement	3.6	15.4%	0.9	-75.0%	2.0	122.2%	3.0	50.0%	3.8	26.7%
Environment, Development, Services (EDS)	2.1	34.6%	1.7	-20.9%	2.2	32.4%	2.3	4.5%	2.4	4.3%

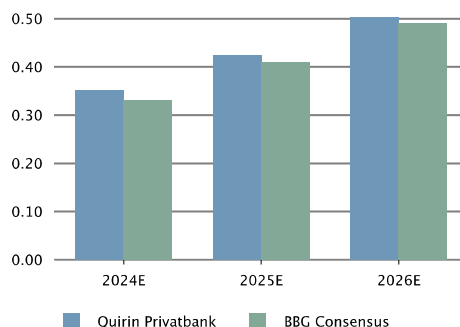
Source: Company data, Quirin Privatbank estimates

Shareholder structure



Source: Company data

EPS: Quirin Privatbank vs. consensus



Source: Quirin Privatbank Research, Bloomberg

Company guidance 2024

The Management Board of Daldrup expects, if business develops as planned, that it will generate total group revenues of around EUR 47m in FY 2024 and achieve a significantly higher EBIT margin of between 5% and 7% of total output from the operating business.

Profit & loss statement

Profit & loss statement (EUR m)	2022	YOY	2023	YOY	2024e	YOY	2025e	YOY	2026e	YOY
Sales	38.2	-51.1 %	49.1	28.6 %	50.2	2.2 %	51.8	3.2 %	53.7	3.7 %
Unfinished Goods	-1.4		-1.6		0.2		1.0		1.0	
Other own work capitalized	0.1		0.9		0.4		0.4		0.4	
Other operating earnings	1.1		1.8		2.1		2.2		2.2	
Cost of goods	13.4		21.3		21.8		22.4		23.3	
Gross profit	24.6		28.9		31.1		32.9		34.0	
Personnel expenses	10.0		10.3		10.5		10.9		11.3	
Depreciation	2.4		2.4		1.6		1.8		1.9	
Other operating expenses	10.4		13.6		16.0		16.8		17.2	
EBITDA	4.3	7.7 %	5.0	16.6 %	4.6	-7.9 %	5.2	13.5 %	5.6	7.9 %
EBITDA margin (%)	11.14		10.10		9.10		10.00		10.41	
EBIT	1.8	16.4 %	2.6	41.4 %	3.0	15.1 %	3.4	13.3 %	3.7	8.8 %
EBIT margin (%)	4.83		5.31		5.98		6.56		6.89	
Net interest	-0.7		-0.8		-0.8		-0.7		-0.4	
Income from Participations	0.0		0.0		0.0		0.0		0.0	
Net financial result	-1.0		-1.7		-0.7		-0.6		-0.4	
Exceptional items	0.0		0.0		0.0		0.0		0.0	
Pretax profit	0.9	8.6 %	0.9	7.3 %	2.3	138.4 %	2.8	22.0 %	3.3	20.3 %
Pretax margin (%)	2.31		1.93		4.50		5.32		6.17	
Taxes	0.0		0.1		0.2		0.2		0.3	
Tax rate (%)	3.51		5.70		6.78		7.85		8.93	
Earnings after taxes	0.9		0.9		2.1		2.5		3.0	
Minorities	0.0		0.0		0.0		0.0		0.0	
Group attributable income	0.9	8.9 %	0.9	4.9 %	2.1	135.7 %	2.5	20.6 %	3.0	18.9 %
No. of shares (m)	6.0		6.0		6.0		6.0		6.0	
Earnings per share (EUR)	0.14	8.9 %	0.15	4.9 %	0.35	135.7 %	0.42	20.6 %	0.50	18.9 %

Source: Company data, Quirin Privatbank estimates

Balance sheet

Balance sheet (EUR m)	2022	YOY	2023	YOY	2024e	YOY	2025e	YOY	2026e	YOY
Assets										
Cash and cash equivalents	3.1		3.6		4.6		5.2		5.4	
Accounts receivables	7.0		9.3		9.5		9.8		10.1	
Inventories	10.7		10.5		10.8		11.1		11.5	
Other current assets	8.6		7.5		7.5		7.5		7.5	
Tax claims	0.0		0.0		0.0		0.0		0.0	
Total current assets	29.5	35.3 %	31.1	5.4 %	32.6	4.8 %	33.8	3.8 %	34.8	2.8 %
Fixed assets	5.7		6.2		7.1		7.3		6.9	
Goodwill	0.0		0.0		0.0		0.0		0.0	
Other intangible assets	0.0		0.1		0.1		0.1		0.1	
Financial assets	5.0		4.0		4.0		4.0		4.0	
Deferred taxes	0.0		0.0		0.0		0.0		0.0	
Other fixed assets	0.0		0.0		0.0		0.0		0.0	
Total fixed assets	10.6	-36.8 %	10.4	-1.9 %	11.3	8.7 %	11.5	1.8 %	11.1	-3.5 %
Total assets	40.2	3.9 %	41.5	3.5 %	43.9	5.7 %	45.4	3.2 %	45.9	1.2 %
Equity & Liabilities										
Subscribed capital	6.0		6.0		6.0		6.0		6.0	
Reserves & other	36.4		16.0		16.0		16.0		16.0	
Revenue reserves	-22.4		-0.9		1.2		3.7		6.7	
Accumulated other comprehensive	0.0		0.0		0.0		0.0		0.0	
Shareholder's equity	20.0	4.9 %	21.0	5.2 %	23.1	10.0 %	25.7	11.0 %	28.7	11.8 %
Minorities	0.0		0.0		0.0		0.0		0.0	
Shareholder's equity incl. minorities	20.0	4.9 %	21.0	5.2 %	23.1	10.0 %	25.7	11.0 %	28.7	11.8 %
Long-term liabilities										
Pension provisions	0.0		0.0		0.0		0.0		0.0	
Financial liabilities	0.9		0.8		0.8		0.8		0.8	
Tax liabilities	0.0		0.0		0.0		0.0		0.0	
Other liabilities	2.4		1.5		1.6		1.6		1.7	
Total long-term debt	4.4	-18.2 %	5.1	15.7 %	5.2	1.9 %	5.3	2.7 %	5.5	3.1 %
Short-term debt										
Other provisions	0.0		0.0		0.0		0.0		0.0	
Trade payables	5.5		5.6		5.7		5.9		6.1	
Financial debt	6.8		6.9		6.9		5.4		2.4	
Other liabilities	1.6		2.0		2.0		2.1		2.2	
Total short-term debt	15.8	11.0 %	15.4	-2.1 %	15.6	1.2 %	14.4	-8.0 %	11.7	-18.3 %
Total equity & liabilities	40.2	3.9 %	41.5	3.5 %	43.9	5.7 %	45.4	3.2 %	45.9	1.2 %

Source: Company data, Quirin Privatbank estimates

Financial key ratios

Key ratios	2022	2023	2024e	2025e	2026e
Per share data (EUR)					
EPS	0.14	0.15	0.35	0.42	0.50
Book value per share	3.3	3.5	3.9	4.3	4.8
Free cash flow per share	0.3	0.7	0.5	0.6	0.7
Dividend per share	0.00	0.00	0.00	0.00	0.00
Valuation ratios					
EV/Sales	1.42	1.09	1.04	0.97	0.86
EV/EBITDA	12.8	10.8	11.4	9.7	8.2
EV/EBIT	29.5	20.6	17.4	14.7	12.5
P/E	46.6	67.1	22.9	19.0	16.0
P/B	2.0	2.9	2.1	1.9	1.7
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Growth					
Sales growth (%)	-51.1	28.6	2.2	3.2	3.7
EBITDA growth (%)	7.7	16.6	-7.9	13.5	7.9
EBIT growth (%)	16.4	41.4	15.1	13.3	8.8
EPS growth (%)	8.9	4.9	135.7	20.6	18.9
Profitability ratios					
EBITDA margin (%)	11.1	10.1	9.1	10.0	10.4
EBIT margin (%)	4.8	5.3	6.0	6.6	6.9
Net margin (%)	2.2	1.8	4.2	4.9	5.6
ROCE (%)	7.6	10.0	10.6	11.0	10.8
Financial ratios					
Total equity (EUR m)	20.0	21.0	23.1	25.7	28.7
Equity ratio (%)	49.7	50.6	52.6	56.5	62.4
Net financial debt (EUR m)	6.1	5.3	4.0	1.9	-2.2
Net debt/Equity	0.5	0.5	0.5	0.6	0.6
Interest cover	2.2	3.0	3.5	4.4	7.0
Net debt/EBITDA	1.4	1.1	0.9	0.4	-0.4
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Working Capital (EUR m)	13.7	15.7	17.0	19.5	23.0
Working capital/Sales	0.36	0.32	0.34	0.38	0.43

Source: Company data, Quirin Privatbank estimates

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6. The responsible analyst named in this report disclosed a draft of the analysis set forth in this Research Document to the company that is the subject of this Research Document for fact reviewing purposes and changes were made to this Research Document before publication
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The levels of change expressed in each rating categories are:

BUY > +10%

HOLD <=-10% and < = +10%

SELL > -10%.

Analyst certification

Ralf Marinoni, financial analyst, hereby certifies that all of the views expressed in this report accurately reflect my personal views about any and all of the subject securities or issuers discussed herein. In addition, I hereby certify that no part of my compensation was, is, or will be, directly or indirectly related to the specific recommendations or views expressed in this research report, nor is it tied to any specific investment banking transaction performed by the Bank or its affiliates.

Price and Rating History (last 12 months)

Date	Price target-EUR	Rating	Initiation
22.07.2024	11.00	Buy	22.07.2024

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Competent supervisory authority

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