



# euromicron AG

## Cash-flow weakness remains a concern

22/05/2018

<b>Hold</b>	(Hold)
<b>7.00 EUR</b>	(8.50 EUR)

Close 17/05/2018	7.16 EUR
Bloomberg: EUCA GY	WKN: A1K030
Sector	Technology

### Share price performance

52 week high	8.94 EUR
52 week low	6.80 EUR
Compared to	Prime All Share
YTD	-14.2%
1 month	-2.5%
12 months	-12.8%



### Share data

EV (m EUR; 2018)	145.6
Market Cap (m EUR)	51.4
No. of shares (m)	7.2
Free float	100.0%

### Next event

Quarterly Results	09/08/2018
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### Change in model

	Sales	EBITDA	EPS
2018e	-4.2%	-24.8%	-122.9%
2019e	-4.2%	-15.4%	-39.5%
2020e	-5.3%	-10.3%	-7.7%

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See end of document for disclaimer.

Euromicron started the new business year with a rather poor performance in Q1. The company needs to make material progress in order to meet the full-year guidance. We have lowered our price target along with our sales and earnings estimates.

### INVESTMENT CASE STILL FRAGILE

The company has been undergoing extensive restructuring for several years and various measures have still not been completed. The focus remains on streamlining the organisational structure and pushing business activities in defined growth markets. The order book increased in five out of the last six quarters, but sales, EBITDA and FCF momentum is still disappointing. This may put the full-year guidance under pressure. We are still concerned about the trend in leverage (YE 2018e: 7x EBITDA, down from 9x at the end of 2017). Given the expected slow recovery of free cash flows, we doubt that the € 25 m redemption planned for January 2020 can be carried out without a material sale of assets. Asset sales, however, could harm the future sales and EBITDA performance.

### CATALYSTS AHEAD

- Operating trend: Markets are expecting a growing order book and a sustainable return to positive quarterly EBITDA.
- Guidance: Meeting the full-year guidance will be important following several profit warnings in recent years. We see risk to the downside after a weak start to 2018 and further restructuring needs ahead.
- Refinancing/passive M&A: We believe that the company is actively evaluating asset sales. Such measures may solve refinancing needs but could also result in lower profitability for the remaining entity.

### VALUATION LEAVES NO UPSIDE

Our valuation of Euromicron is based on a DCF model. Following adjustments to our revenue and earnings estimates, we arrive at a fair value for the stock of € 7.00.

in m EUR	2016	2017	2018e	2019e	2020e
Sales	325.3	332.9	347.5	359.6	369.6
EBITDA	7.4	9.5	13.2	17.4	20.8
EBITDA margin	2.3%	2.9%	3.8%	4.8%	5.6%
Net financial debt	74.2	88.9	92.1	93.3	91.5
Free cash flow	-14.9	-15.0	-3.5	-1.5	1.7
EPS (in EUR)	-1.76	-0.53	-0.08	0.41	0.81
DPS (in EUR)	0.00	0.00	0.00	0.00	0.00
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
EV/sales	0.4	0.4	0.4	0.4	0.4
EV/EBITDA	16.0	15.7	11.0	8.4	7.0
P/E	-3.3	-15.4	-84.5	17.5	8.8

Source: Company information, Bankhaus Lampe Research estimates

DCF delivers a fair value of € 7.00

### DCF IS OUR KEY VALUATION TOOL

Our key valuation tool is a DCF model based on our estimates for the operating performance of the company's individual operating units (segments).

We assume a risk-free rate of 1% and an equity risk premium of 6.5%. In combination with a beta of 1.45 (taking account of the still-poor FCF growth, competitive challenges and an unfinished restructuring programme), we calculate a WACC of 6.0%. Our DCF assumptions lead us to a fair value for the share of € 7.00.

#### DCF model

euromicron AG DCF model (EUR m)	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	Terminal Value
EBIT	5.2	9.6	12.9	13.2	13.6	13.9	14.3	14.6	14.8
EBIT Non-Operating / FD	0	0	0	0	0	0	0	0	0
EBIT Industrial Business	5.2	9.6	12.9	13.2	13.6	13.9	14.3	14.6	14.8
Taxes	-1.6	-2.9	-3.9	-4.0	-4.1	-4.2	-4.3	-4.4	-4.4
<b>NOPAT</b>	<b>3.6</b>	<b>6.7</b>	<b>9.0</b>	<b>9.3</b>	<b>9.5</b>	<b>9.7</b>	<b>10.0</b>	<b>10.2</b>	<b>10.3</b>
+ Depreciation	8.0	7.8	7.9	8.1	8.3	9.0	9.7	10.5	13.0
- Capex	-9.2	-10.4	-11.4	-11.7	-12.0	-12.3	-12.6	-12.9	-13.0
+/- Change in working capital	-1.8	-1.9	-0.8	-0.8	-0.8	-0.8	-0.9	-0.9	-0.9
+/- Other cash items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net Cashflow</b>	<b>0.6</b>	<b>2.2</b>	<b>4.8</b>	<b>4.9</b>	<b>5.0</b>	<b>5.6</b>	<b>6.3</b>	<b>6.9</b>	<b>9.5</b>
Discounting period in years	0.6	1.6	2.6	3.6	4.6	5.6	6.6	7.6	8.6
<b>WACC</b>	<b>6.0%</b>								
<b>Present value</b>	<b>0.6</b>	<b>2.0</b>	<b>4.1</b>	<b>4.0</b>	<b>3.8</b>	<b>4.1</b>	<b>4.3</b>	<b>4.4</b>	<b>113.9</b>

#### Calculation of fair value per share

Sum of all present values	141
thereof Terminal Value	81%
+ Operating Segment Financial Assets	0.2
- Minorities	-0.6
- Pension provisions	-1.5
- Net financial debt (cash) of operations	-88.9
<b>Fair operating value</b>	<b>50</b>
Bookvalue non-operating assets	0
<b>Equity Value</b>	<b>50</b>
Holding discount	0%
<b>Fair equity value</b>	<b>50</b>
No. of shares [in mio.]	7.2

#### WACC model

Risk-free rate	1.00%
Equity risk premium	6.5%
Beta	1.45
<b>Expected return on investment</b>	<b>10.4%</b>
Cost of debt	5.20%
Tax rate	30.0%
<b>Cost of debt after taxes</b>	<b>3.64%</b>

**Fair value per share [in €] 7.00**

Source: BHL estimates

## Sensitivity of fair value per share

		TV growth				
		0.0%	0.5%	1.0%	1.5%	2.0%
Beta	1.1	7.9	9.8	12.1	15.2	19.1
	1.3	5.9	7.4	9.3	11.6	14.6
	1.5	4.2	5.5	7.0	8.8	11.1
	1.7	2.8	3.8	5.0	6.5	8.3
	1.9	1.5	2.4	3.4	4.6	6.1

Source: Company information, Bankhaus Lampe Research

A variation of the beta within a range of 1.1-1.9 and of the terminal growth within a range of 0% to 2% delivers a wide fair value range of € 1.50 to € 19.10.

## PEER-GROUP ANALYSIS

Suitable peers are hard to identify based on business model and size

It is hard to identify close peers to Euromicron that are stock market listed. We have built a group of largely mid-cap names with activities in system/IT integration and the development of IT/TC equipment.

euromicron AG	Price [in €]	EV/Sales 2018e	EV/Sales 2019e	EV/EBITDA 2018e	EV/EBITDA 2019e	PER 2018e	PER 2019e	P/FCF 2018e	P/FCF 2019e
<b>Peer group analysis</b>									
Bechtle AG	75.40	0.8	0.7	13.8	12.2	23.8	20.7	27.0	65.2
LEONI AG	53.82	0.4	0.4	5.8	5.2	11.9	10.3	527.4	43.8
ADVA AG Optical Networking	5.92	0.6	0.5	5.1	4.0	14.6	11.4		
QSC AG	1.61	0.8	0.7	7.1	6.6	42.3	25.1	6.8	11.8
HUBER+SUHNER AG	52.40	1.3	1.2	10.7	9.6	23.2	21.2	30.3	22.2
Belden Inc.	48.27	1.3	1.2	6.4	5.7	9.0	8.4	12.8	9.5
Caverion Oyj	7.19	0.4	0.4	13.0	9.1	30.8	17.8	17.4	13.0
Peer Group median		0.8	0.7	7.1	6.6	23.2	17.8	22.2	17.6
euromicron AG	7.26	0.4	0.4	11.1	8.5	---	17.8	-15.0	-35.6
Premium (+) / discount (-) in %		-45%	-40%	55%	28%	---	0%	-168%	-302%
Value per share [€]		23.62	20.78	0.02	2.79	---	7.27	---	---
Discount/Premium	0.0%								
Fair value per share [€]									10.90

Source: FactSet (Peers), Bankhaus Lampe Research

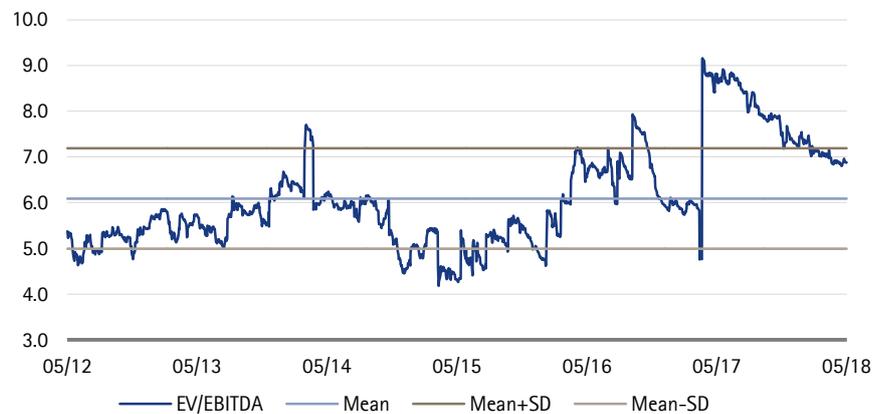
Comparing our expectations for Euromicron with the broker consensus (FactSet) for the seven peers listed above reveals a mixed pattern of overvaluation or undervaluation for Euromicron depending on the multiples or years. The median value of € 10.90 looks somewhat overdone due to the high contribution from sales multiples and the exclusion of negative P/FCF multiples.

Share is trading at historical peak levels in terms of EV/EBITDA

## HISTORICAL VALUATION

The share is still trading above the 5-year mean in terms of EV/EBITDA.

### Historical EV/EBITDA



Source: FactSet

New price target is € 7.00

Based on our updated DCF model, we arrive at a new price target of € 7.00. We believe that Euromicron's equity story offers a balance of risks and opportunities. Yet we still believe the company needs to return to sustainable growth and clearly positive FCFs before a higher valuation can be justified. As a result, we maintain our HOLD rating for the stock.

## MAIN RISKS TO OUR INVESTMENT CASE

- Upside risks:
  - A stronger-than-expected recovery of sales/earnings/FCFs could trigger a share price recovery.
  - Successful asset disposals at solid price points could solve the leverage issue and bring back strategic flexibility.
- Downside risks:
  - Ongoing pressure on FCFs could force fire sales of assets or trigger further restructuring or a capital increase.
  - The targeted growth segment of IOT solutions/services could come into an unpleasant sandwich position between in-house developed services of target customers and (platform) solutions offered by big IOT players.

## Changes in our estimates

€m	2018E old	2018E new	change	2019E old	2019E new	change	2020E old	2020E new	change
Revenues	358.8	347.5	-3.2%	358.8	359.6	0.2%	na	369.6	na
EBITDA	17.8	13.2	-25.7%	17.8	17.4	-1.9%	na	20.8	na
EBITDA margin	4.9%	3.8%		4.9%	4.8%		na	5.6%	na
EBIT	8.5	5.2	-38.6%	8.5	9.6	13.8%	na	12.9	na
Net income after minorities	2.7	-0.6		2.7	2.9	10.2%	na	5.8	na
EPS, reported (€)	0.37	-0.08		0.37	0.41	10.2%	na	0.81	na

Source: Bankhaus Lampe Research estimates

A valid market consensus is not available for Euromicron as the number of brokers covering the stock (3) is too low.

## Q1 REVIEW

## Weak start to 2018

Q1 fell short of our expectations for all P&L levels.

Euromicron [€ m]	Q1 2018	BHL		% yoy	BHL Consensus		FY 2017	% yoy
		Q1 2018e	Q1 2017		FY 2018e	FY 2018e		
Sales	75.1	78.7	75.5	-0.6%	347	357	333	4.4%
Smart buildings	40.5	46.5	44.6	-9.0%	200	0	192	
Critical Infrastructures	29.1	25.2	24.2	20.1%	126	0	121	
Distribution	6.5	6.7	6.5	0.8%	24	0	24	
Central services / Eliminations	-1.1	0.2	0.2	-565.3%	-4	0	-4	
EBITDA	-1.0	0.2	-0.8	na	14	17	10	46.1%
EBITDA-margin	-1.4%	0.3%	-1.1%	-0.3 PP	4.0%	4.7%	2.9%	
Net income (after min.)	-3.5	-2.1	-2.8	na	0.1	0.0	-3.8	
EPS [€]	-0.50	-0.29	-0.39	na	0.01	0.31	-0.53	

Source: Company information, Bankhaus Lampe Research

# Key figures

## euromicron AG – Income statement

in m EUR	2016	2017	2018e	2019e	2020e
Sales	325.3	332.9	347.5	359.6	369.6
Own work capitalised	6.4	5.0	5.2	5.2	5.3
Total sales	331.7	337.9	352.7	364.8	374.9
Material expenses	-171.5	-172.4	-181.0	-184.1	-187.8
Personnel expenses	-109.1	-112.6	-112.2	-115.4	-117.5
Unusual or infrequent items	0.0	0.0	0.0	0.0	0.0
Other operating result	-43.8	-43.4	-46.2	-47.8	-48.8
EBITDA	7.4	9.5	13.2	17.4	20.8
Depreciation	9.6	8.4	8.0	7.8	7.9
EBITA	-2.3	1.1	5.2	9.6	12.9
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	-2.3	1.1	5.2	9.6	12.9
Financial result	-5.3	-4.6	-5.5	-5.4	-5.5
Income on ordinary activities	-7.6	-3.6	-0.3	4.2	7.4
Extraordinary income/loss	0.0	0.0	0.0	0.0	0.0
EBT	-7.6	-3.6	-0.3	4.2	7.4
Taxes	-4.8	0.0	0.0	-1.0	-1.3
Net income from cont. operations	-12.5	-3.5	-0.3	3.2	6.1
Net income from discount. operations	0.0	0.0	0.0	0.0	0.0
Minority interest	-0.2	-0.3	-0.3	-0.3	-0.3
Net income (adj.)	-12.7	-3.8	-0.6	2.9	5.8
No. of shares	7.2	7.2	7.2	7.2	7.2
EPS	-1.76	-0.53	-0.08	0.41	0.81

Source: Company information, Bankhaus Lampe Research estimates

	2016	2017	2018e	2019e	2020e
Gross margin	47.3%	48.2%	47.9%	48.8%	49.2%
EBITDA margin	2.3%	2.9%	3.8%	4.8%	5.6%
EBITA margin	-0.7%	0.3%	1.5%	2.7%	3.5%
EBIT margin	-0.7%	0.3%	1.5%	2.7%	3.5%
EBT margin	-2.3%	-1.1%	-0.1%	1.2%	2.0%
Net profit margin	-3.9%	-1.1%	-0.2%	0.8%	1.6%
Tax rate	-63.5%	1.3%	0.0%	23.7%	17.5%

Source: Company information, Bankhaus Lampe Research estimates

Growth rates yoy	2016	2017	2018e	2019e	2020e
Sales	-5.7%	2.3%	4.4%	3.5%	2.8%
EBITDA	6.5%	28.9%	38.8%	32.1%	19.5%
EBIT	-73.7%	---	>100%	85.4%	34.2%
EBT	-40.0%	-53.4%	-91.3%	---	75.6%
Net income (adj.)	-4.5%	-70.2%	-83.9%	---	99.0%
EPS	-4.5%	-70.2%	-83.9%	---	99.0%

Source: Company information, Bankhaus Lampe Research estimates

## euromicron AG – Balance sheet

Assets (in m EUR)	2016	2017	2018e	2019e	2020e
Fixed assets	141.2	146.8	148.0	150.7	154.2
Property, plant and equipment	15.6	19.1	20.3	22.9	26.4
Intangible assets	124.7	127.2	127.2	127.2	127.2
Financial assets	0.5	0.2	0.2	0.3	0.3
Other long-term assets	0.4	0.3	0.3	0.3	0.3
Current assets	103.3	105.3	108.0	112.4	117.4
Inventories	28.4	31.5	34.7	37.9	39.0
Accounts receivable	58.9	61.5	63.8	66.0	67.9
Other current assets	9.3	7.4	7.7	8.0	8.2
Securities	0.0	0.0	0.0	0.0	0.0
Cash	6.8	5.0	1.8	0.5	2.4
Total assets	244.6	252.2	256.1	263.1	271.6
Equity and liabilities in m EUR					
Shareholders' equity	82.4	78.5	77.9	80.9	86.7
Shareholders' equity (before minority)	81.9	77.9	77.3	80.3	86.1
Minorities	0.5	0.6	0.6	0.6	0.6
Non-current liabilities	48.2	30.7	31.1	31.4	31.7
Pension provisions	1.4	1.4	1.5	1.5	1.6
Other provisions	1.7	1.8	1.8	1.9	1.9
Long-term financial debt	39.4	21.9	21.9	21.9	21.9
Other long-term debt	5.7	5.6	5.8	6.0	6.2
Current liabilities	114.0	142.9	147.1	150.9	153.3
Short-term debt	41.6	71.9	71.9	71.9	71.9
Other accruals short-term	1.9	2.0	2.0	2.1	2.2
Accounts payable	45.9	49.0	52.2	55.2	56.9
Other liabilities	24.7	20.0	20.9	21.6	22.2
Total equity and liabilities	244.6	252.2	256.1	263.1	271.6

Source: Company information, Bankhaus Lampe Research estimates

## euromicron AG – Balance sheet structure

Assets	2016	2017	2018e	2019e	2020e
Fixed assets	57.7%	58.2%	57.8%	57.3%	56.8%
Property, plant and equipment	6.4%	7.6%	7.9%	8.7%	9.7%
Intangible assets	51.0%	50.4%	49.7%	48.3%	46.8%
Current assets	42.3%	41.8%	42.2%	42.7%	43.2%
Inventories	11.6%	12.5%	13.6%	14.4%	14.4%
Accounts receivable	24.1%	24.4%	24.9%	25.1%	25.0%
Cash	2.8%	2.0%	0.7%	0.2%	0.9%
Equity and liabilities					
Shareholders' equity	33.7%	31.1%	30.4%	30.7%	31.9%
Non-current liabilities	19.7%	12.2%	12.1%	11.9%	11.7%
Pension provisions	0.6%	0.6%	0.6%	0.6%	0.6%
Long-term financial debt	16.1%	8.7%	8.6%	8.3%	8.1%
Current liabilities	46.6%	56.7%	57.4%	57.3%	56.4%
Short-term debt	17.0%	28.5%	28.1%	27.3%	26.5%
Accounts payable	18.8%	19.4%	20.4%	21.0%	21.0%

Source: Company information, Bankhaus Lampe Research estimates

## euromicron AG – Cash flow statement

in m EUR	2016	2017	2018e	2019e	2020e
Net income (adj.)	-12.7	-3.8	-0.6	2.9	5.8
Depreciation	9.6	8.4	8.0	7.8	7.9
Amortisation of goodwill & intangible assets	0.0	0.0	0.0	0.0	0.0
Change of provisions	-0.2	0.5	0.2	0.2	0.2
Other	1.2	-1.1	-0.1	0.0	0.0
Operating cash flow before changes in w/c	-2.0	4.0	7.6	10.9	13.9
Change in inventory	3.0	-3.8	-3.3	-3.2	-1.1
Change in accounts receivable	12.8	-2.4	-2.3	-2.2	-1.8
Change in accounts payable	-6.9	3.3	3.2	3.0	1.7
Change in other working capital positions	-17.4	-2.9	0.6	0.5	0.4
Operating cash flow	-7.4	-1.8	5.7	8.9	13.1
Capex, incl. capitalized R&D	-7.2	-13.5	-9.2	-10.4	-11.4
Payments for acquisitions	-0.6	0.0	0.0	0.0	0.0
Financial investments	0.2	0.3	0.0	0.0	0.0
Income from asset disposals	0.0	0.0	0.0	0.0	0.0
Income from financial investments	0.0	0.0	0.0	0.0	0.0
Cash flow from investing activities	-7.5	-13.2	-9.2	-10.4	-11.4
Free cash flow	-14.9	-15.0	-3.5	-1.5	1.7
Capital measures	0.0	0.0	0.0	0.0	0.0
Increase/decrease in debt position	11.7	13.9	0.0	0.0	0.0
Purchase of own shares	0.0	0.0	0.0	0.0	0.0
Other financing Cash-flow	-0.7	-0.8	0.2	0.2	0.2
Dividend paid	0.0	0.0	0.0	0.0	0.0
Cash flow from financing activities	11.0	13.1	0.2	0.2	0.2
Increase/ decrease in liquid assets	-3.9	-1.8	-3.2	-1.3	1.9
Effects of exchange rate changes	0.0	0.0	0.0	0.0	0.0
Cash at beginning of period	10.7	6.8	5.0	1.8	0.5
Change in total cash and cash equivalents	-3.9	-1.8	-3.2	-1.3	1.9
Cash at end of period	6.8	5.0	1.8	0.5	2.4

Source: Company information, Bankhaus Lampe Research estimates

## euromicron AG – Ratios

	2016	2017	2018e	2019e	2020e
<b>Per Share Data</b>					
EPS	-1.76	-0.53	-0.08	0.41	0.81
Book value per share	11.48	10.94	10.86	11.27	12.08
Free Cash-flow per share	-2.08	-2.09	-0.48	-0.20	0.24
Dividend per share	0.00	0.00	0.00	0.00	0.00
<b>Valuation ratios</b>					
EV/Sales	0.4	0.4	0.4	0.4	0.4
EV/EBITDA	16.0	15.7	11.0	8.4	7.0
EV/EBIT	-51.8	135.7	28.0	15.3	11.2
P/E	-3.3	-15.4	-84.5	17.5	8.8
Price to book (total equity)	0.5	0.7	0.7	0.6	0.6
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Profitability ratios</b>					
EBITDA margin	2.3%	2.9%	3.8%	4.8%	5.6%
EBIT margin	-0.7%	0.3%	1.5%	2.7%	3.5%
Net return on sales	-3.9%	-1.1%	-0.2%	0.8%	1.6%
Return on capital employed (ROCE)	-1.4%	0.6%	3.0%	5.5%	7.1%
<b>Productivity ratios</b>					
Capital turnover	56.1%	57.3%	55.9%	55.5%	55.2%
Operating leverage	0.7	1.5	-3.7	-0.9	-0.3
Sales per employee (in thousands)	180,322	181,619	186,521	193,044	198,414
EBIT per employee (in thousands)	0	599	2,787	5,168	6,938
Number of employees (in thousands)	1.8	1.8	1.9	1.9	1.9
<b>Financial ratios</b>					
Equity ratio	33.7%	31.1%	30.4%	30.7%	31.9%
Net financial debt (in m EUR)	74.2	88.9	92.1	93.3	91.5
Net debt / Equity	90.1%	113.2%	118.2%	115.4%	105.5%
Interest cover	-0.4	0.2	0.9	1.8	2.4
Net debt / EBITDA	10.06	9.36	6.98	5.36	4.39
Working Capital (in m EUR)	41.3	44.0	46.4	48.8	49.9
Change in working capital (in m EUR)	-21.7	2.6	2.4	2.4	1.2
WC /sales	12.7%	13.2%	13.3%	13.6%	13.5%
Stocks in days of sales	32	35	37	39	39
Trade debtors in days of sales	66	67	67	67	67
Trade creditors in days of COGS/Material cost	51	54	55	56	56
Cash conversion cycle	47	48	49	50	49
Invest. (property/plant/equity) / Depreciation	74.3%	160.3%	115.0%	133.3%	144.3%
<b>Others</b>					
Sales CAGR (last 3 years)	-0.4%	-1.3%	0.3%	3.4%	3.6%
EBIT CAGR (last 3 years)	-174.5%	-54.2%	-184.4%	-261.7%	127.5%
Net income CAGR (last 3 years)	145.0%	-213.9%	-64.2%	-161.4%	-215.6%
Pay-out ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Free cash flow (in m EUR)	-14.9	-15.0	-3.5	-1.5	1.7
Free cash flow yield	-35.6%	-25.8%	-6.8%	-2.8%	3.3%

Source: Company information, Bankhaus Lampe Research estimates

# Disclaimer

The creation of this recommendation was finalised on 18/05/2018 01:37 PM (CEST) and first published on 22/05/2018 07:01 AM (CEST).

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Overview of changes in our recommendations/price targets in the previous twelve months for: euromicron AG (EUCA GY), Close (17/05/2018): 7.16 EUR, Analyst: Wolfgang Specht (Analyst).

Date of publication	Price at recommendation	Rating	Price target
02/08/2017	8.57 EUR	Hold	8.50 EUR

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Company	Disclosure
euromicron AG	---

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22 May 2018

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