

M1 Kliniken AG

Germany / Healthcare Facilities & Services
 Frankfurt
 Bloomberg: M12 GR
 ISIN: DE000A0STSQ8

Q1/22
 update

RATING
BUY

PRICE TARGET
€ 14.00

Return Potential 114.1%
 Risk Rating High

BEAUTY BUSINESS LOOKS RESILIENT

First quarter KPIs showed further evidence that M1's Beauty operations continue to run unhampered despite the deteriorating macro-environment that now mixes red-hot inflation and rising interest rates with recessionary fears and lingering pandemic effects. Q1 Beauty segment sales topped €13.8m (Q1/21: €13.0m) spurred by 89k treatments (+9% Y/Y). EBIT for German clinics reached the targeted 15% to 20% margin corridor, while international centres showed a 43% annualised uptick in treatments to >10k. Group turnover fell some 21% on an annualised basis to €64m, due to the deemphasised high volume Specialty Pharma wholesale activities of the Haemato AG subsidiary. Full year audited figures confirmed preliminary results, and we remain Buy-rated on M1 with a €14 price target.

Injectables business looks resilient in building economic storm M1 has added another 4 beauty centres to its network YTD bringing the total to 50 with international expansion moving to the focal point. The company continues to see strong pent up demand for beauty treatments after another winter of pandemic restrictions and hassles. Plus, the injections business should remain resilient in the face of high inflation and tighter budgets. Germans are increasingly obsessed with their appearance and willing to shell out a portion of their budget for rejuvenation work. By comparison, Brazilians, who are much poorer but renowned for beauty-obsession, subject themselves to around 500k injectable treatments per annum. Although we see some risk of shrinking wallets in M1's core markets compromising treatment growth, there is evidence to support optimism.

What else has changed? We have reset our Haemato forecasts that drive the Trade segment to reflect the company's portfolio optimisation that now emphasises the higher margin Lifestyle & Aesthetics (L&A) business. Specialty Pharma wholesale historically contributed high sales volumes but low gross margins, and growth has been quite choppy over the years. We have therefore stripped out planned growth for Specialty Pharma from. . . (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2019	2020	2021	2022E	2023E	2024E
Revenue (€m)	77.22	159.59	314.61	298.63	330.58	367.65
Y-o-y growth	18.4%	106.7%	97.1%	-5.1%	10.7%	11.2%
EBITDA (€m)	11.35	8.89	17.82	18.51	23.54	30.22
EBITDA margin	14.7%	5.6%	5.7%	6.2%	7.1%	8.2%
Net income (€m)	9.73	6.83	8.90	7.18	9.98	13.26
EPS (diluted) (€)	0.56	0.37	0.45	0.37	0.51	0.68
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-8.71	12.65	15.90	18.16	13.32	18.34
Net gearing	-9.7%	7.5%	-10.8%	-19.6%	-23.5%	-28.6%
Liquid assets (€m)	9.10	21.96	37.87	29.15	37.84	50.91

RISKS

Risks include, but are not limited to the ability to retain management and key medical staff, legal and market risks.

COMPANY PROFILE

M1 Kliniken AG is a provider of aesthetic medical procedures at competitive prices. The company is headquartered in Berlin and controls an extensive network of ~50 beauty clinics across Germany, continental Europe, the UK, and Australia. The company also operates a pharmaceutical trade and parallel import business through its Haemato AG subsidiary.

MARKET DATA

As of 06 Jun 2022

Closing Price	€ 6.54
Shares outstanding	19.64m
Market Capitalisation	€ 128.47m
52-week Range	€ 6.14 / 11.30
Avg. Volume (12 Months)	17,144

Multiples	2021	2022E	2023E
P/E	14.4	17.9	12.9
EV/Sales	0.5	0.5	0.5
EV/EBITDA	8.7	8.4	6.6
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2021

Liquid Assets	€ 37.90m
Current Assets	€ 110.20m
Intangible Assets	€ 60.40m
Total Assets	€ 198.10m
Current Liabilities	€ 43.40m
Shareholders' Equity	€ 139.90m

SHAREHOLDERS

MPH Healthcare AG	69.1%
Free Float	30.9%



. . . our model and increased our growth targets for the L&A segment, which greatly outperformed our 2021 targets. These adjustments result in near-term reductions in turnover and profit from Haemato, but this downside is more than compensated with a higher margin structure that kicks in around 2024 / 2025.

Clinic expansion on track M1 has opened another 4 M1 Beauty centres YTD with new premises in London-Westfield and Glasgow in the UK, Brisbane in Australia, and one in its home market in Wolfsburg. We reckon the company can push the number to 58 by YE22 and factor in a 2022 weighted average of 50 centres for our model.

Table 1: First quarter segment performance

	Unit	Beauty	Trade*	M1 Kliniken
Revenue	€m	13.8	49.7	63.5
EBIT	€m	1.7	1.1	2.8
Margin	%	12.3	2.2	4.4

*Haemato results adjusted for eliminations

Source: First Berlin Equity Research; M1 Kliniken

The Beauty segment, which accounts for M1's injectables business and other minimally invasive procedures showed 6% Y/Y topline growth to €13.8m (Q1/21: €13.0m); Beauty EBIT tallied €1.7m including €2.1m from the mature German facilities and €-0.4m for the international centres with the loss owing to the expected start-up costs.

Trade segment Haemato's earnings KPIs were encouraging with Q1 EBIT of €2.0m (Q1/21: €2.4m) accompanied by a 37 basis point Y/Y uptick in margin to 3.6%. The company did not break out results for its Lifestyle & Aesthetics segment but the high margin suggests the business contributed strongly to the overall Haemato performance.

ANNUAL REPORT HIGHLIGHTS

Table 2: 2021 results vs FBe and prior year

EURm	2021	2021E	Variance	2020	Variance
Revenue	315	314	0%	160	97%
Beauty	53	50	6%	37	41%
Trade ¹	262	264	-1%	122	114%
EBITDA	18	16	10%	9	100%
Margin	5.7%	5.2%	-	5.6%	-
EBIT	12	11	10%	4	n.a.
Margin	3.8%	3.5%	-	2.8%	-
Beauty	7	6	18%	3	118%
Trade ¹	5	5	1%	1	329%

*Haemato results adjusted for eliminations

Source: First Berlin Equity Research; M1 Kliniken

Beauty segment After a slow start to 2021 when pandemic countermeasures prompted M1 to limit bookings for vaccinated clients at its German clinics, booking momentum accelerated in H2 resulting in record treatment numbers. A strong Q4 showed the resiliency of the injectables business during the Omicron wave. Performance at the international centres was hampered by stricter lockdowns through April—particularly in the UK and Australia—but showed a strong pick-up later in 2021.



Trade segment Haemato reported 20% annualised sales growth to €285m (2020: €238m) including a €220m contribution from the insurance-financed Specialty Pharma operations and €65m from the self-paid Lifestyle & Aesthetics (L&A) activities. The latter is significant given its higher profitability. Gross profit totalled €30.7m for the year and beat our target by 7%, thanks to the higher than expected €22m contribution (34% margin) from the L&A segment.

Table 3: Financial highlights

in EURm	2021	2020	Variance
Liquid assets	37.9	22.0	73%
Interest bearing debt	22.9	27.3	-16%
Net debt / (net cash)	-15.0	5.3	-
Intangible assets	60.4	38.3	58%
Total assets	198.1	188.7	5%
Shareholders' equity	139.9	115.3	21%
Equity ratio	71%	61%	-

Source: First Berlin Equity Research; M1 Kliniken

Capital structure features high equity component The balance sheet total climbed to €198m (2020: €189m). M1 exited the year with a net cash position after Haemato issued shares for €14.5m in proceeds. The equity ratio climbed to 71% on the back of the positive net income result for the year and the new Haemato equity. Lower working capital requirements also allowed the company to pare down debt last year.

Table 4: Cash flow development

in EURm	2021	2020	Variance
Operating cash flow	15.7	9.5	65%
Cash flow from investments	0.2	3.1	-94%
Free cash flow	15.9	12.6	-
Conversion rate	89%	142%	-
Cash flow from financing	4.0	0.4	961%
Net cash flow	19.9	13.0	54%

Source: First Berlin Equity Research; M1 Kliniken

Net operating cash flow tallied ~€15.7m, thanks to the positive net result and good working capital management. Investments remained low and were offset by the partial sale of a subsidiary, meaning FCF amounted to €15.9m leading to an 89% EBITDA conversion ratio.



UPDATED OUTLOOK

Near-term targets down; mid-term projections up Haemato's Lifestyle & Aesthetics segment sales overshot our 2021 targets by a wide margin—€65m vs FBe of €40m. We have thus accelerated our growth forecasts for this segment in our model, which boosts the overall gross margin for Haemato helping offset our lowered revenue targets. These revisions impact M1's Trade segment.

Our Beauty numbers dip modestly in 2023. This is occasioned by a more conservative calculation for the average number of clinics to better reflect the timing and lower year 1 contributions of new clinics.

Table 5: Changes to FBe and target price

	old	new	revision	upside	dividend yield	total return
Price target (€)	14.0	14.0	0.0%	85.3%	5.2%	90.5%
All figures in € '000						
	2022E			2023E		
	old	new	revision	old	new	revision
Revenue ¹	353,937	298,633	-15.6%	424,301	330,577	-22.1%
Beauty revenue	59,974	59,409	-0.9%	71,199	67,126	-5.7%
Trade revenue ¹	320,951	263,462	-17.9%	385,142	290,144	-24.7%
Gross profit	61,562	56,300	-8.5%	73,496	65,327	-11.1%
Margin (%)	17.4%	18.9%	-	17.3%	19.8%	-
EBIT	16,054	11,674	-27.3%	20,071	16,383	-18.4%
Margin (%)	4.5%	3.9%	-	4.7%	5.0%	-
¹ after eliminations						

Source: First Berlin Equity Research estimates



VALUATION

Reiterate Buy rating and €14 target price We have also upped the risk-free rate in our cost of equity estimate to 1.0% in order to reflect the current spike in German bond yields. The higher cost of equity negates the aforementioned mid-term higher profitability stemming from our recalibrated Haemato forecasts.

A booming injectable-cosmetics industry underpins our optimism for continued strong business momentum at the M1. While we are not bold enough to call the company's Beauty operations *recession-proof*, we do think the business is resilient and will benefit from pent up demand that should be able to weather some of the macroeconomic storm. In our view, the share price offers excellent upside at current levels, and we remain Buy-rated on M1 with a €14 target price.

All figures in EUR '000	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Sales	298,633	330,577	367,651	404,880	437,088	463,696	482,696	496,335
NOPLAT	8,755	12,287	16,438	21,877	25,911	29,790	32,634	34,006
(+) depreciation & amortisation	6,832	7,156	8,303	8,123	8,266	8,036	7,201	7,076
(=) Net operating cash flow	15,588	19,443	24,742	30,000	34,177	37,826	39,835	41,082
(-) Total investments (CAPEX and WC)	-2,476	-11,797	-12,798	-12,344	-11,888	-10,571	-10,248	-9,736
(-) Capital expenditures	-7,855	-8,494	-9,365	-8,879	-8,802	-8,009	-8,271	-8,319
(-) Working capital	5,379	-3,303	-3,433	-3,465	-3,086	-2,562	-1,977	-1,417
(=) Free cash flows (FCF)	13,112	7,646	11,943	17,656	22,289	27,255	29,587	31,346
PV of FCF's	12,431	6,593	9,365	12,591	14,455	16,075	15,870	15,291

All figures in EUR '000		Terminal EBIT margin							
		7.7%	8.2%	8.7%	9.2%	9.7%	10.2%	10.7%	
PV of FCFs in explicit period	117,084	7.0%	20.20	21.68	23.17	24.65	26.13	27.62	29.10
PV of FCFs in terminal period	184,744	8.0%	16.48	17.62	18.76	19.90	21.04	22.18	23.32
Enterprise value (EV)	301,828	9.0%	13.83	14.73	15.63	16.53	17.43	18.33	19.24
+ Net cash / - net debt	15,061	10.0%	11.84	12.57	13.29	14.02	14.75	15.48	16.21
+ Investments / minority interests	-41,497	11.0%	10.29	10.89	11.49	12.09	12.69	13.29	13.89
Shareholder value	275,391	12.0%	9.05	9.55	10.05	10.55	11.05	11.55	12.05
Fair value per share in EUR	14.00	13.0%	8.04	8.46	8.88	9.30	9.72	10.14	10.57

	WACC	Terminal growth rate							
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	
Cost of equity	10.7%	7.0%	19.98	21.28	22.81	24.64	26.89	29.71	33.34
Pre-tax cost of debt	4.5%	8.0%	16.76	17.66	18.69	19.89	21.32	23.03	25.13
Tax rate	25.0%	9.0%	14.32	14.97	15.69	16.53	17.49	18.61	19.94
After-tax cost of debt	3.4%	10.0%	12.41	12.89	13.42	14.02	14.70	15.48	16.37
Share of equity capital	90.0%	11.0%	10.88	11.24	11.64	12.08	12.58	13.14	13.78
Share of debt capital	10.0%	12.0%	9.62	9.90	10.21	10.55	10.92	11.34	11.80
WACC	10.0%	13.0%	8.58	8.80	9.04	9.30	9.59	9.90	10.25

*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	2019	2020	2021	2022E	2023E	2024E
Revenues	77,217	159,591	314,610	298,633	330,577	367,651
Cost of goods sold	-45,611	-122,807	-259,305	-242,333	-265,250	-289,675
Gross profit	31,606	36,784	55,305	56,300	65,327	77,976
Personnel expenses	-12,622	-16,685	-22,129	-21,800	-24,195	-28,474
Other operating expenses	-7,913	-11,866	-16,232	-16,593	-18,921	-20,887
Other operating income	283	655	879	599	1,328	1,606
EBITDA	11,354	8,888	17,823	18,506	23,539	30,221
Depreciation & amortisation	-3,402	-4,483	-5,688	-6,832	-7,156	-8,303
Operating income (EBIT)	7,952	4,405	12,135	11,674	16,383	21,918
Net financial result	3,045	-2,248	963	-1,009	-1,110	-1,221
Other financial results	1,768	6,622	1,327	1,300	1,352	1,406
Pre-tax income (EBT)	12,765	8,779	14,425	11,965	16,625	22,103
Tax result	-3,036	-1,352	-3,545	-2,991	-4,156	-5,526
Minority interests	0	-602	-1,975	-1,795	-2,494	-3,315
Net income / loss	9,729	6,825	8,905	7,179	9,975	13,262
Diluted EPS (in €)	0.56	0.37	0.45	0.37	0.51	0.68
Ratios						
Gross margin	40.9%	23.0%	17.6%	18.9%	19.8%	21.2%
EBITDA margin	14.7%	5.6%	5.7%	6.2%	7.1%	8.2%
EBIT margin	10.3%	2.8%	3.9%	3.9%	5.0%	6.0%
Net margin	12.6%	4.3%	2.8%	2.4%	3.0%	3.6%
Tax rate	23.6%	15.4%	24.6%	25.0%	25.0%	25.0%
Expenses as % of revenues						
Personnel costs	16.3%	10.5%	7.0%	7.3%	7.3%	7.7%
Other operating expenses	10.2%	7.4%	5.2%	5.6%	5.7%	5.7%
Depreciation & amortisation	4.4%	2.8%	1.8%	2.3%	2.2%	2.3%
Y-Y Growth						
Revenues	18.4%	106.7%	97.1%	-5.1%	10.7%	11.2%
Operating income	22.7%	-44.6%	175.5%	-3.8%	40.3%	33.8%
Net income/ loss	46.7%	-29.8%	30.5%	-19.4%	38.9%	32.9%



BALANCE SHEET

All figures in EUR '000	2019	2020	2021	2022E	2023E	2024E
Assets						
Current assets, total	59,317	122,406	110,195	97,156	111,050	129,549
Cash and cash equivalents	9,098	21,960	37,868	29,150	37,842	50,907
Short-term investments	23,626	32,184	18,155	18,700	19,261	19,838
Receivables	22,243	20,480	16,308	17,991	19,953	22,382
Inventories	1,520	42,327	35,202	28,574	31,171	33,513
Other current assets	2,830	5,455	2,662	2,742	2,824	2,909
Non-current assets, total	33,498	66,336	87,916	88,939	90,276	91,338
Property, plant & equipment	15,990	15,763	15,267	16,760	18,500	19,835
Goodwill & other intangibles	8,455	38,328	60,393	59,922	59,520	59,247
Financial assets	8,971	12,003	12,003	12,003	12,003	12,003
Other assets	82	242	253	253	253	253
Total assets	92,815	188,741	198,111	186,095	201,326	220,887
Shareholders' equity & debt						
Current liabilities, total	14,431	58,070	43,417	26,634	29,224	32,031
Short-term debt	2,376	25,536	18,432	0	0	0
Accounts payable	7,778	15,841	12,845	13,280	14,534	15,873
Accruals	1,940	3,506	3,821	4,203	4,623	5,086
Other current liabilities	2,337	13,187	8,319	9,151	10,066	11,073
Long-term liabilities, total	10,163	15,353	14,791	10,585	10,757	10,933
Long-term debt	84	5,027	4,375	0	0	0
Other liabilities	994	1,569	2,289	2,295	2,302	2,309
Minority interests	0	29,565	44,877	46,672	49,166	52,481
Shareholders' equity	68,222	85,754	95,026	102,205	112,180	125,442
Total consolidated equity and debt	92,815	188,741	198,111	186,095	201,326	220,887
Ratios						
Current ratio (x)	9.6	7.9	4.1	2.1	2.5	3.6
Quick ratio (x)	9.1	7.6	4.0	1.4	1.7	2.6
Net debt/(net cash)	-14,473	-25,234	-6,638	8,603	-15,061	-29,150
Net debt / EBITDA	-0.6	1.0	-0.8	-1.6	-1.6	-1.7
Net gearing	-21.2%	-29.4%	-7.0%	8.4%	-13.4%	-23.2%
Equity ratio	73.5%	61.1%	70.6%	80.0%	80.1%	80.5%
Book value per share (in €)	3.9	4.4	4.8	5.2	5.7	6.4
Return on equity (ROE)	14.3%	8.0%	9.4%	7.0%	8.9%	10.6%



CASH FLOW STATEMENT

All figures in EUR '000	2019	2020	2021	2022E	2023E	2024E
Net income	9,729	7,427	10,880	8,974	12,469	16,577
Depreciation and amortisation	3,402	4,483	5,644	6,832	7,156	8,303
Tax expense	3,016	1,352	3,545	2,991	4,156	5,526
Other adjustments	-4,067	-4,213	-1,150	-1,300	-1,352	-1,406
Net interest result	261	417	437	1,009	1,110	1,221
Operating cash flow	12,341	9,466	19,356	18,506	23,539	30,221
Changes in working capital	-12,034	-595	-3,650	6,138	-2,440	-2,450
Tax paid	-5,677	-726	-30	-2,991	-4,156	-5,526
Net operating cash flow	-5,370	9,538	15,686	21,653	16,943	22,245
CapEx	-1,346	-1,446	-1,335	-4,793	-4,972	-5,316
Other investments and disposals	-2,071	4,390	1,069	1,300	1,352	1,406
Interest income	81	172	479	0	0	0
Cash flow from investing	-3,336	3,116	213	-3,493	-3,620	-3,909
Free cash flow	-8,706	12,654	15,899	18,160	13,323	18,335
Debt financing, net	-65	4,043	-4,219	-22,807	0	0
Equity financing, net	0	0	14,485	0	0	0
Paid dividend	-5,250	-129	-1,658	0	0	0
Interest expense	-3	-335	-506	-1,009	-1,110	-1,221
Redemption rights	-2,261	-3,201	-4,075	-3,062	-3,522	-4,050
Cash flow from financing	-7,579	378	4,027	-26,878	-4,631	-5,270
Consolidation adjustments	0	-4,175	0	0	0	0
Net cash flow	-16,285	8,857	19,913	-8,718	8,691	13,065
Cash, start of the year	25,383	9,098	21,960	37,868	29,150	37,842
Cash, end of the year	9,098	21,960	37,868	29,150	37,842	50,907
EBITDA/share (in €)	0.65	0.48	0.91	0.94	1.20	1.54
Y-Y Growth						
Operating cash flow	100.0%	-23.3%	104.5%	-4.4%	27.2%	28.4%
Free cash flow	n.m.	n.m.	25.6%	14.2%	-26.6%	37.6%
EBITDA/share	52.0%	-26.3%	89.7%	3.8%	27.2%	28.4%

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Anschrift:

First Berlin Equity Research GmbH
Mohrenstr. 34
10117 Berlin
Germany

Vertreten durch den Geschäftsführer: Martin Bailey

Telefon: +49 (0) 30-80 93 9 680

Fax: +49 (0) 30-80 93 9 687

E-Mail: info@firstberlin.com

Amtsgericht Berlin Charlottenburg HR B 103329 B

UST-Id.: 251601797

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First Berlin Equity Research GmbH

Authored by: Ellis Acklin, Senior Analyst

All publications of the last 12 months were authored by Ellis Acklin.

Company responsible for preparation: First Berlin Equity Research GmbH, Mohrenstraße 34, 10117 Berlin

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Person responsible for forwarding or distributing this financial analysis: Martin Bailey

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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.

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RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	2 December 2021	€6.98	Buy	€14.00
2	31 March 2022	€7.22	Buy	€14.00
10	Today	€6.54	Buy	€14.00

INVESTMENT HORIZON

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UPDATES

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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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