

## Masterflex (MZX GY) | Industrial Technology

November 09, 2023

### Well prepared for a potential downturn

Masterflex again reported a very solid performance for the last three months. The 16.2% EBIT-margin in Q3/23 marks a new record and exceeds last years Q3 margin by almost 400bps. The profitability increase is all the more impressive as group sales (EUR26.3m) remained 2.4% behind Q3/22. The further establishment of price increases, the finalized restructuring process of its last ailing business (aerospace) and a mix-tailwind helped the margin expansion. Masterflex currently enjoys a longer order-lead time than usual and a well-filled order book. This appears to reflect some initial re-stocking among its customers. The constant diversification of its customer portfolio to reduce the dependence on cyclical industries payed off as it also increased the exposure to less price-sensitive businesses (e.g. MedTech). It may also provide some protection against a severe drop in industrial orders during a potential recession in upcoming months. Finally, managements indication to present a new mid-term outlook in the course of the next months, next to its existing sales target for 2030, indicates a greater focus on its core business and a lesser attention on m&a.

**Valuation:** MZX recent, rather disappointing share-price trend certainly is no adequate reflection of its operational track-record. The general aversion towards small-caps and the absence of any public takeover offer for the group are possible reasons behind. Structural changes within Masterflex suggest it to be substantially more profitable through the next cycle vs the last one. We retain our earnings scenario and remain buyers of the shares.

Fundamentals (in EUR m) <sup>1</sup>	2020	2021	2022	2023e	2024e	2025e
Sales	72	79	100	104	113	123
EBITDA	7	10	16	18	21	23
EBIT	2	5	11	12	15	16
EPS adj. (EUR)	0.08	0.35	0.81	0.80	0.98	1.06
EBIT (adj)	3.2	5.8	11.4	12.0	14.6	16.4
DPS (EUR)	0.08	0.12	0.00	0.25	0.30	0.33
BVPS (EUR)	4.26	4.64	5.37	6.19	7.21	8.27
Net Debt incl. Provisions	17	15	16	13	8	5
Ratios <sup>1</sup>	2020	2021	2022	2023e	2024e	2025e
EV/EBITDA	9.8	7.6	5.8	5.4	4.4	3.9
EV/EBIT	30.8	14.5	8.4	8.1	6.3	5.5
P/E adj.	67.8	18.7	10.1	11.0	8.9	8.2
Dividend yield (%)	1.4	1.9	0.0	2.9	3.4	3.8
EBITDA margin (%)	10.2	13.0	16.4	17.4	18.4	18.8
EBIT margin (%)	3.2	6.8	11.4	11.6	12.9	13.3
Net debt/EBITDA	2.4	1.5	1.0	0.7	0.4	0.2
PBV	1.3	1.4	1.5	1.4	1.2	1.1

<sup>1</sup>Sources: Bloomberg, Metzler Research

**Buy**



**unchanged**

**Price\***

**EUR 8.76**

**Price target**

**EUR 13.50 (unchanged)**

\* XETRA trading price at the close of the previous day unless stated otherwise in the Disclosures

Market Cap (EUR m) <sup>1</sup>	84
Enterprise Value (EUR m) <sup>1</sup>	97
Free Float (%) <sup>1</sup>	100.0

Price (in EUR)<sup>1</sup>



Performance (in %) <sup>1</sup>	1m	3m	12m
Share	1.9	-6.8	3.1
Rel. to SDAX	0.7	-2.1	-3.7

Changes in estimates (in %) <sup>1</sup>	2023e	2024e	2025e
Sales	0.0	0.0	0.0
EBIT	0.0	0.0	0.0
EPS	0.0	0.0	0.0

### Sponsored Research



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# company note

## **Well prepared for a potential downturn**

### **Very solid Q3 by all means**

Masterflex again reported a very solid performance for the last three months. The 16.2% EBIT-margin in Q3/23 marks a new record and exceeds last years Q3 margin by almost 400bps. The profitability increase is all the more impressive as group sales (EUR26.3m) remained 2.4% behind Q3/22. The further establishment of price increases, the finalized restructuring process of its last ailing business (aerospace) and a mix-tailwind helped the margin expansion. Masterflex currently enjoys a longer order-lead time than usual and a well-filled order book.

This appears to reflect some initial re-stocking among its customers. The constant diversification of its customer portfolio to reduce the dependence on cyclical industries payed off as it also increased the exposure to less price-sensitive businesses (e.g. MedTech). It may also provide some protection against a severe drop in industrial orders during a potential recession in upcoming months.

### **Masterflex may gain market share**

Looking into monthly production figures from the German plastics- and fluid-handling sectors, overall industrial output in July and August of the running year remained below Q2/22 levels. Adding figures from the European tube sector to the equation to arrive at a proxy production figure for Masterflex underlying sector provides the same picture. Production in that industry in the two respective months is down 6.5% y/y while Masterflex Q3 sales declined by 2.4% vs Q2/22.

For sure, revenue figures contain a certain price/mix tailwind and thus function only as a rough guess for the actual underlying volume development. However, as price increases were not specifically strong in Q3, it appears that Masterflex expanded its market position in Europe over recent months.

## **M&A may lose some relevance – for now**

During the Q3 call management indicated the presentation of a new mid-term outlook in the course of upcoming months, next to its existing plans to double the group in size by 2030 and thereby to achieve EUR200m sales (FY23e: EUR103.6m). The layout of a new group perspective for 2026/2027 is a part of the budgeting process for 2024. Earlier in the year, non-organic growth and even the perspective to be a takeover candidate itself seem to have played a greater role on the agenda than today.

### **Back to (core-) business**

If a taking private or any other takeover bid for the hose-maker would still be pending, we would not expect management to deal with how Masterflex would develop as an independent corporation over coming years. Keeping the inflationary background in mind and tighter financial hurdles for any m&a action, the apparent re-focus on the core business could also be a consequence of the macro-economic development over recent months.

# company note

Masterflex Q3 indicates outperformance vs the broader sector



Source: Bloomberg, Metzler Research

# company note

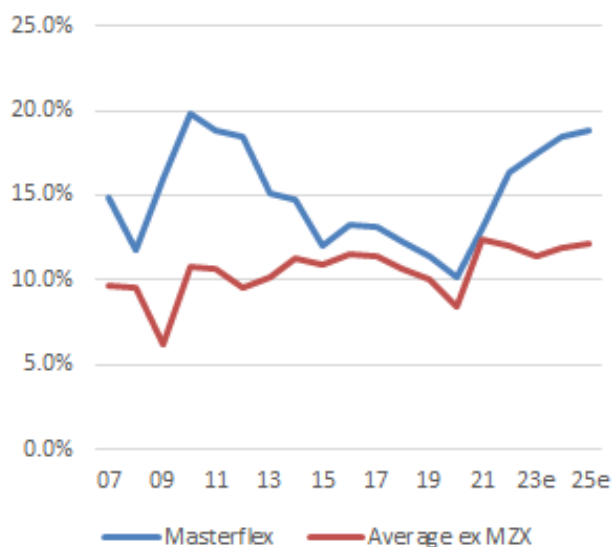
## Valuation

Masterflex is on a steady margin-expansion path since 2020. Q3/23 was the best quarter in the groups recent history. The exposure to highly cyclical end-markets has been steadily lowered while the exposure to highly-concentrated (aerospace) low-cyclical (Food, MedTech) or sectors with structural growth (Rail) has been steadily expanded. Adding a finalized group restructuring process and higher average sales per employee, there are many reasons to believe structural profitability of the group has changed. Next to its realized EBIT-margin expansion, group plans to double in size in the coming seven years imply decent top-line growth with sales CAGR close to 10% .

### Discount vs the peers is tough to understand

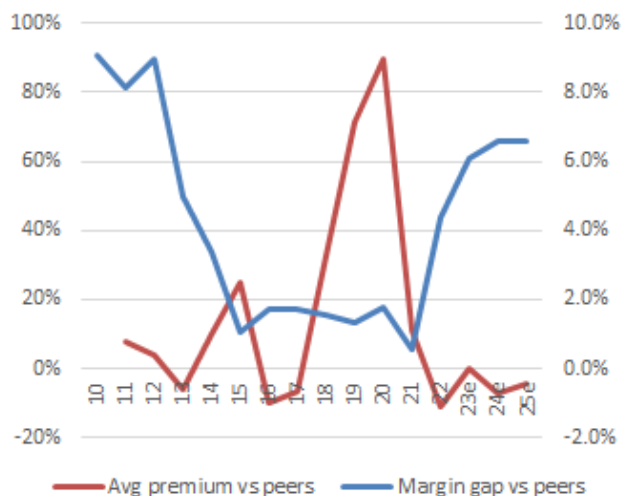
The rather disappointing share-price development over recent months seems to be more related to a general aversion of investments into small-caps and the absence of any take-over bid for the group, which might have been the dominant reason for some investments into MZX shares earlier in the year. Given Masterflex encouraging fundamental perspectives and its superior profitability vs the peers, we consider the peer-group discount of 7.0% on our FY24 estimates as unjustified and continue to be buyers of the shares.

Masterflex EBITDA margin trails above peer levels ...



Source: Bloomberg, Metzler Research

... still MZX shares trade at a discount



Source: Bloomberg, Metzler Research

# company note

## German peer group

P/E	16	17	18	19	20	21	22	23e	24e	25e
Masterflex	15.6	17.4	22.9	21.7	63.6	20.0	9.8	11.6	9.4	8.7
Deutz	-	47.0	7.4	7.0	-	23.2	10.4	6.0	6.1	5.1
Krones	18.9	19.5	17.0	13.8	-	25.6	19.4	13.3	11.25	9.7
Jungheinrich	19.9	22.3	18.7	8.3	25.4	15.3	13.2	9.0	9.2	8.3
Ringmetall	12.9	14.8	14.2	17.6	20.8	10.2	8.7	11.9	9.3	7.9
<b>AVG ex MZX</b>	<b>18.9</b>	<b>20.9</b>	<b>15.6</b>	<b>11.1</b>	<b>23.1</b>	<b>19.3</b>	<b>11.8</b>	<b>10.5</b>	<b>9.2</b>	<b>8.1</b>
Premium/discount	-17%	-17%	47%	97%	176%	4%	-17%	1%	2%	7%
<b>Ev/Ebitda</b>	<b>16</b>	<b>17</b>	<b>18</b>	<b>19</b>	<b>20</b>	<b>21</b>	<b>22</b>	<b>23e</b>	<b>24e</b>	<b>25e</b>
Masterflex	8.2	9.8	10.6	8.6	9.4	8.0	5.7	5.6	4.7	4.1
Deutz	3.9	6.6	3.2	2.2	-	5.9	5.0	3.2	3.2	3.0
Krones	8.1	9.4	9.2	6.5	16.1	9.0	8.4	6.7	5.8	5.1
Jungheinrich	8.7	9.4	8.8	5.2	9.0	7.1	6.9	6.3	6.2	5.8
Ringmetall	15.6	10.0	9.8	9.8	9.0	6.3	5.0	6.3	5.3	4.6
<b>AVG ex MZX</b>	<b>8.4</b>	<b>9.4</b>	<b>9.0</b>	<b>5.9</b>	<b>9.0</b>	<b>6.7</b>	<b>6.0</b>	<b>6.3</b>	<b>5.5</b>	<b>4.8</b>
Premium/discount	-2%	4%	18%	46%	4%	19%	-5%	-1%	-16%	-16%

Multiples between 2007 and 2015										
P/E	07	08	09	10	11	12	13	14	15	
Masterflex	39.2	-	-	2.1	11.6	9.6	20.3	19.5	24.8	
Deutz	26.9	10.0	-	-	7.2	7.3	29.8	18.4	24.1	
Krones	21.4	14.3	8.9	28.0	27.7	28.3	25.4	18.2	22.7	
Jungheinrich	14.9	7.3	4.7	12.2	13.8	9.8	15.0	15.7	17.0	
Ringmetall	12.0			31.0	7.4	11.8		17.8	18.5	
<b>AVG ex MZX</b>	<b>18.2</b>	<b>10.0</b>	<b>6.8</b>	<b>28.0</b>	<b>10.6</b>	<b>10.8</b>	<b>25.4</b>	<b>18.0</b>	<b>20.6</b>	
Premium/discount	116%			-32%	9%	-1%	-20%	8%	21%	
<b>Ev/Ebitda</b>	<b>07</b>	<b>08</b>	<b>09</b>	<b>10</b>	<b>11</b>	<b>12</b>	<b>13</b>	<b>14</b>	<b>15</b>	
Masterflex	16.4	9.5	10.5	3.8	6.6	6.4	8.1	8.4	9.5	
Deutz	9.3	3.2	4.5	9.1	8.0	3.5	5.1	5.3	4.5	
Krones	9.2	7.9	4.0	11.0	6.7	5.9	9.3	8.2	9.7	
Jungheinrich	6.1	4.3	3.5	12.6	5.9	4.9	5.7	7.0	7.8	
Ringmetall	5.5			5.9	5.1	6.7	10.2	14.0	7.0	
<b>AVG ex MZX</b>	<b>7.6</b>	<b>4.3</b>	<b>4.0</b>	<b>10.0</b>	<b>6.3</b>	<b>5.4</b>	<b>7.5</b>	<b>7.6</b>	<b>7.4</b>	
Premium/discount	115%	120%	164%	-62%	6%	19%	8%	12%	29%	

	07	08	09	10	11	12	13	14	15	
<b>Premium/discount vs peers (P/E, Ev/Ebitda)</b>	<b>115.3%</b>			<b>7.6%</b>	<b>3.7%</b>	<b>-5.9%</b>	<b>9.9%</b>	<b>24.9%</b>		
	<b>16</b>	<b>17</b>	<b>18</b>	<b>19</b>	<b>20</b>	<b>21</b>	<b>22</b>	<b>23e</b>	<b>24e</b>	<b>25e</b>
	<b>-9.8%</b>	<b>-6.3%</b>	<b>32.5%</b>	<b>71.2%</b>	<b>89.8%</b>	<b>11.3%</b>	<b>-10.8%</b>	<b>0.0%</b>	<b>-7.0%</b>	<b>-4.2%</b>

Source: Bloomberg, Metzler Research

# company note

## Key Data

### Company profile

CEO: Dr. Andreas Bastin

CFO: Mark Becks

Gelsenkirchen

Masterflex Group is a specialist in the development and manufacture of sophisticated connector and hose systems made of high-performance plastics and fabrics for a wide range of applications in almost all industries.

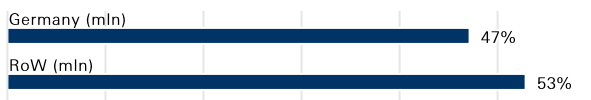
### Major shareholders

### Key figures

P&L (in EUR m)	2020	%	2021	%	2022	%	2023e	%	2024e	%	2025e	%
<b>Sales</b>	<b>72</b>	<b>-10.1</b>	<b>79</b>	<b>10.0</b>	<b>100</b>	<b>26.8</b>	<b>104</b>	<b>3.2</b>	<b>113</b>	<b>8.8</b>	<b>123</b>	<b>9.3</b>
<b>EBITDA</b>	<b>7</b>	<b>-20.0</b>	<b>10</b>	<b>40.2</b>	<b>16</b>	<b>60.2</b>	<b>18</b>	<b>9.8</b>	<b>21</b>	<b>15.1</b>	<b>23</b>	<b>11.6</b>
EBITDA margin (%)	10.2	-11.0	13.0	27.5	16.4	26.4	17.4	6.4	18.4	5.7	18.8	2.1
<b>EBIT</b>	<b>2</b>	<b>-48.6</b>	<b>5</b>	<b>128.9</b>	<b>11</b>	<b>113.0</b>	<b>12</b>	<b>5.7</b>	<b>15</b>	<b>21.0</b>	<b>16</b>	<b>12.6</b>
EBIT margin (%)	3.2	-42.8	6.8	108.1	11.4	68.0	11.6	2.4	12.9	11.2	13.3	3.0
<b>Financial result</b>	<b>-1</b>	<b>29.5</b>	<b>-1</b>	<b>17.1</b>	<b>-1</b>	<b>23.5</b>	<b>-1</b>	<b>-116.6</b>	<b>-1</b>	<b>-4.0</b>	<b>-2</b>	<b>-53.8</b>
<b>EBT</b>	<b>1</b>	<b>-56.2</b>	<b>5</b>	<b>222.1</b>	<b>11</b>	<b>135.4</b>	<b>11</b>	<b>-0.2</b>	<b>13</b>	<b>23.0</b>	<b>14</b>	<b>8.5</b>
Taxes	-1	23.0	-1	-106.6	-3	-131.2	-3	-5.0	-4	-23.0	-4	-8.5
Tax rate (%)	-43.8	n.a.	-28.1	n.a.	-27.6	n.a.	-29.0	n.a.	-29.0	n.a.	-29.0	n.a.
Net income	1	-67.2	3	312.1	8	137.1	8	-2.2	9	23.0	10	8.5
Minority interests	0	-100.0	0	n.a.	0	-100.0	0	n.a.	0	n.a.	0	n.a.
<b>Net Income after minorities</b>	<b>1</b>	<b>-68.4</b>	<b>3</b>	<b>314.5</b>	<b>8</b>	<b>135.8</b>	<b>8</b>	<b>-2.2</b>	<b>9</b>	<b>23.0</b>	<b>10</b>	<b>8.5</b>
Number of shares outstanding (m)	10	0.0	10	0.0	10	0.0	10	0.0	10	0.0	10	0.0
<b>EPS adj. (EUR)</b>	<b>0.08</b>	<b>-68.4</b>	<b>0.35</b>	<b>314.5</b>	<b>0.81</b>	<b>135.8</b>	<b>0.80</b>	<b>-2.2</b>	<b>0.98</b>	<b>23.0</b>	<b>1.06</b>	<b>8.5</b>
<b>DPS (EUR)</b>	<b>0.08</b>	<b>n.a.</b>	<b>0.12</b>	<b>50.0</b>	<b>0.00</b>	<b>-100.0</b>	<b>0.25</b>	<b>n.a.</b>	<b>0.30</b>	<b>20.0</b>	<b>0.33</b>	<b>10.0</b>
Dividend yield (%)	1.4	n.a.	1.9	n.a.	0.0	n.a.	2.9	n.a.	3.4	n.a.	3.8	n.a.
<b>Cash Flow (in EUR m)</b>	<b>2020</b>	<b>%</b>	<b>2021</b>	<b>%</b>	<b>2022</b>	<b>%</b>	<b>2023e</b>	<b>%</b>	<b>2024e</b>	<b>%</b>	<b>2025e</b>	<b>%</b>
<b>Gross Cash Flow</b>	<b>7</b>	<b>-19.7</b>	<b>9</b>	<b>34.0</b>	<b>0</b>	<b>-100.0</b>	<b>15</b>	<b>n.a.</b>	<b>17</b>	<b>13.4</b>	<b>19</b>	<b>12.3</b>
<b>Increase in working capital</b>	<b>4</b>	<b>n.a.</b>	<b>-3</b>	<b>n.a.</b>	<b>0</b>	<b>n.a.</b>	<b>-0</b>	<b>n.a.</b>	<b>-3</b>	<b>n.a.</b>	<b>-3</b>	<b>n.a.</b>
<b>Capital expenditures</b>	<b>-2</b>	<b>20.8</b>	<b>-3</b>	<b>-72.6</b>	<b>0</b>	<b>100.0</b>	<b>-4</b>	<b>n.a.</b>	<b>-5</b>	<b>-3.7</b>	<b>-4</b>	<b>4.4</b>
D+A/Capex (%)	-284.8	n.a.	-162.7	n.a.	n.a.	n.a.	-138.1	n.a.	-137.5	n.a.	-157.1	n.a.
<b>Free cash flow (Metzler definition)</b>	<b>9</b>	<b>108.1</b>	<b>3</b>	<b>-65.4</b>	<b>0</b>	<b>-100.0</b>	<b>10</b>	<b>n.a.</b>	<b>10</b>	<b>-7.1</b>	<b>11</b>	<b>20.8</b>
Free cash flow yield (%)	17.0	n.a.	5.1	n.a.	0.0	n.a.	12.1	n.a.	11.3	n.a.	13.6	n.a.
Dividend paid	-1	n.a.	-1	-14.3	0	100.0	-2	n.a.	-3	-20.0	-3	-10.0
<b>Free cash flow (post dividend)</b>	<b>10</b>	<b>123.2</b>	<b>4</b>	<b>-60.0</b>	<b>0</b>	<b>-100.0</b>	<b>13</b>	<b>n.a.</b>	<b>12</b>	<b>-2.0</b>	<b>15</b>	<b>18.3</b>
<b>Balance sheet (in EUR m)</b>	<b>2020</b>	<b>%</b>	<b>2021</b>	<b>%</b>	<b>2022</b>	<b>%</b>	<b>2023e</b>	<b>%</b>	<b>2024e</b>	<b>%</b>	<b>2025e</b>	<b>%</b>
<b>Assets</b>	<b>76</b>	<b>-6.4</b>	<b>79</b>	<b>3.8</b>	<b>90</b>	<b>13.8</b>	<b>92</b>	<b>1.7</b>	<b>98</b>	<b>6.8</b>	<b>105</b>	<b>7.1</b>
<b>Goodwill</b>	<b>9</b>	<b>0.0</b>	<b>9</b>	<b>0.0</b>	<b>9</b>	<b>0.0</b>	<b>10</b>	<b>10.9</b>	<b>11</b>	<b>9.8</b>	<b>12</b>	<b>8.9</b>
<b>Shareholders' equity</b>	<b>41</b>	<b>-1.7</b>	<b>45</b>	<b>8.9</b>	<b>52</b>	<b>15.6</b>	<b>60</b>	<b>15.4</b>	<b>70</b>	<b>16.5</b>	<b>80</b>	<b>14.8</b>
Equity/total assets (%)	54.1	n.a.	56.7	n.a.	57.6	n.a.	65.3	n.a.	71.3	n.a.	76.5	n.a.
<b>Net Debt incl. Provisions</b>	<b>17</b>	<b>-24.6</b>	<b>15</b>	<b>-12.7</b>	<b>16</b>	<b>4.6</b>	<b>13</b>	<b>-20.2</b>	<b>8</b>	<b>-36.7</b>	<b>5</b>	<b>-32.0</b>
thereof pension provisions	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.
Gearing (%)	42.3	n.a.	33.9	n.a.	30.7	n.a.	21.2	n.a.	11.5	n.a.	6.8	n.a.
Net debt/EBITDA	2.4	n.a.	1.5	n.a.	1.0	n.a.	0.7	n.a.	0.4	n.a.	0.2	n.a.

### Structure

#### Sales by region (mln) 2022



Sources: Bloomberg, Metzler Research

# company note

## Disclosures

### Recommendation history

Recommendations for each financial instrument or issuer - mentioned in this document - published by Metzler in the past twelve months

Date of dissemination	Metzler recommendation *		Current price **	Price target *	Author ***
	Previous	Current			
<b>Issuer/Financial Instrument (ISIN): Jungheinrich (DE0006219934)</b>					
20.07.2023	Buy	Buy	32.84 EUR	42.00 EUR	Bauer, Stephan
<b>Issuer/Financial Instrument (ISIN): Krones (DE0006335003)</b>					
16.10.2023	Buy	Buy	92.00 EUR	135.00 EUR	Bauer, Stephan
01.08.2023	Buy	Buy	109.60 EUR	135.00 EUR	Bauer, Stephan
19.07.2023	Buy	Buy	111.40 EUR	135.00 EUR	Bauer, Stephan
23.02.2023	Buy	Buy	111.40 EUR	120.00 EUR	Bauer, Stephan
19.01.2023	Buy	Buy	107.00 EUR	120.00 EUR	Bauer, Stephan
<b>Issuer/Financial Instrument (ISIN): Masterflex (DE0005492938)</b>					
14.08.2023	Buy	Buy	9.30 EUR	13.50 EUR	Neuberger, Alexander
11.05.2023	Buy	Buy	11.40 EUR	14.50 EUR	Neuberger, Alexander
21.03.2023	Buy	Buy	8.88 EUR	12.50 EUR	Neuberger, Alexander
14.03.2023	Buy	Buy	9.18 EUR	12.50 EUR	Neuberger, Alexander
05.12.2022	Buy	Buy	9.10 EUR	11.00 EUR	Neuberger, Alexander

\* Effective until the price target and/or investment recommendation is updated (FI/FX recommendations are valid solely at the time of publication)

\*\* XETRA trading price at the close of the previous day unless stated otherwise herein

\*\*\* All authors are financial analysts

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		Transport, Utilities/Renewables	
	Stephan Bauer	Industrial Technology	4363
	Felix Dennl	E-Commerce, Retail	239
	Oliver Frey	Software, Technology, Telecommunications	4360
	Alexander Neuberger	Industrial Technology, Small/Mid Caps	4366
	Jochen Schmitt	Financials, Real Estate	4359
	Thomas Schulte-Vorwick	Basic Resources	234
	Pál Skirta	Mobility	525
	Uwe Hohmann	Equity Strategy	366
	Eugen Keller	Head of FI/FX Research	329
	Juliane Rack	FI/FX Strategy	1748
	Sebastian Sachs	FI/FX Strategy	526
	Stoyan Toshev	FI/FX Strategy	528
Equities	Mustafa Ansary	Head of Equities	351
		Head of Equity Sales	
Sales	Eugenia Buchmüller		238
	Hugues Jaouen		4173
	Alexander Kravkov		4172
	Gerard O'Doherty		4189
	Jasmina Schul		1766
	Markus Tozman		4174
Trading	Sven Knauer	Head of Equity Trading	245
	Elyaz Dust		248
	Kirsten Fler		246
	Stephan Schmelzle		247
	Thomas Seibert		228
Corporate Solutions	Dr. Karsten Iltgen	Head of Corporate Solutions	510
	Stephan Averdung		514
	Thomas Burkart		511

# company note

	Christoph Hirth		513
	Adrian Takacs		512
Fixed Income (FI)	Sebastian Luther	Head of Fixed Income	688
FI Sales	Minush Nori	Head of Fixed Income Sales	689
	Silke Amelung		289
	Claudia Ruiu		683
	Simon Tabath		280
FI Trading/ALM	Burkhard Brod	Head of ALM	659
	Bettina Koch		291
	Susanne Kraus		658
	Christian Bernhard	Head of Fixed Income Trading	266
	Dirk Lagler		685
Foreign Exchange (FX)	Özgür Atasever	Head of Foreign Exchange	281
FX Sales	Tobias Martin	Head of FX Sales & Trading	614
	Steffen Völker		293
FX Trading	Rainer Jäger		276
	Andreas Zellmann		610
Currency Management	Dominik Müller	Head of Currency Management	274
CM Advisory	Achim Walde	Head of Advisory	275
	Jens Rotterdam		282
CM Operations	Simon Wesch	Head of Operations	350
	Tessa Feller		1696
	Florian Konz		1773
	Sergii Piskun	Senior Quantitative Analyst	237