

Aroundtown SA

Germany / Real Estate
 Frankfurt Stock Exchange
 Bloomberg: AT1 GR
 ISIN: LU1673108939

Q3'24 results

RATING
BUY

PRICE TARGET
€ 4.20

Return Potential 34.1%
 Risk Rating Medium

NOT JUST THE SAME OL' STORIES

Nine month reporting featured a good operating performance but also a few positive surprises. Results were led by 3% LFL rental growth that now has AT tracking towards the upper end of its FFO 1 guide (€290m to €320m). Management's tenor has brightened significantly since YE23, thanks to (1) a revamped balance sheet; (2) encouraging trends from all asset classes, including upside from the hotel portfolio; and (3) further signs that the downcycle is nearing an end. The landlord has also launched an app to address flexible workplace trends and is jumping into the PropTech arena with two VC partners to launch an accelerator. AT won't guide on 2025 until YE24 reporting, but building blocks are in place for a good year—particularly if the transaction market picks up. We remain Buy-rated on AT with a €4.2 TP (old: €4.0).

Not just the same ol' stories Net rent and earnings were close to FBe. September reporting featured another good operational performance. This was spearheaded by good LFL growth across all asset classes that helped offset ongoing disposal effects. AEBITDA even beat the prior year comp at €758m (+1%). Other key topics on the earnings call touched on: (1) early stage plans to potentially convert existing office stock—particularly in Frankfurt and Berlin—into service apartments or data centres; (2) German office attendance (Big 7: 72%) outpacing the EU (60%) and American hubs (NYC: 37%) as corporates continue to order their rank and file back to the office (see note of 24 September); (3) the unveiling of its new ATworld app designed to promote workspace flexibility and unlock network effects for office and hotel tenants, while B2C solutions are in the works; (4) joining forces with Fifthwall and noa, two top PropTech VCs, to launch a new accelerator that can leverage AT's sizable portfolio and expertise to foster innovations; (5) an even more confident tone regarding the improved capital structure; and (6) optimism that 2025 revaluations could turn positive for the first time in two years as yield expansion winds down; and (5) a positive outlook for. . . (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2020	2021	2022	2023	2024E	2025E
Rental income (€m)	1,003.0	1,085.7	1,222.1	1,192.8	1,173.7	1,213.2
Y/Y growth	31.0%	8.2%	12.6%	-2.4%	-1.6%	3.4%
Adj. EBITDA (€m)	944.1	974.9	1,002.3	1,002.9	1,009.0	1,052.0
Net income (€m)	906.4	1,078.1	-457.1	-2,426.4	-058.8	978.0
EPRA NTA (€m)	11,186.9	11,564.0	10,135.2	8,058.7	7,684.8	8,152.9
EPRA NTAPS (€)	9.5	10.2	9.3	7.4	7.0	7.4
DPS (€)	0.22	0.23	0.00	0.00	0.21	0.19
FFO 1* (€m)	357.8	353.2	362.7	330.6	315.9	278.6
FFOPS 1* (€)	0.27	0.30	0.33	0.30	0.28	0.25
Liquid assets (€m)	3,260.7	3,240.3	2,709.4	3,026.0	3,524.8	1,692.4

RISKS

Risks include, but are not limited to, unfavourable interest rate developments, unfavourable macroeconomic developments, and the departure of key personnel.

COMPANY PROFILE

Aroundtown SA is a specialist real estate company focused on investing in and managing value-add properties primarily located in the German/ Netherlands real estate markets.

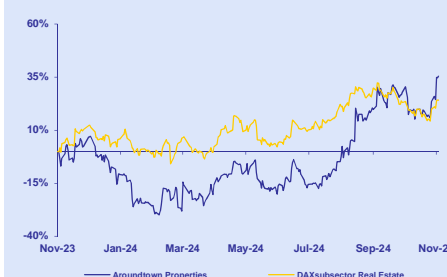
MARKET DATA

As of 29 Nov 2024

Closing Price	€ 3.13
Shares outstanding	1537.02m
Market Capitalisation	€ 4,813.95m
52-week Range	€ 1.62 / 3.13
Avg. Volume (12 Months)	3,260,842

Multiples	2023	2024E	2025E
P/FFO 1	10.4	11.1	12.6
P/NTA	3.0	4.0	5.0
FFO 1 Yield	9.7%	9.0%	7.9%
Div. Yield	0.0%	6.7%	6.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2024

Liquid Assets	€ 3,259.6m
Investment Properties	€ 24,016.4m
Total Assets	€ 32,963.8m
Current Liabilities	€ 2,839.3m
EPRA NTA	€ 7,807.5m
Total Equity	€ 14,530.3m

SHAREHOLDERS

Treasury shares*	29.0%
Avisco Group / Vergoport	15.0%
Stumpf Capital	10.0%
Free Float	46.0%

* 12% held through TLG Immo AG, voting rights suspended



. . . hotels owing to frothy corporate and international travel. AT-brass again refrained from making a call on the dividend, preferring to wait on YE24 valuation results and leverage KPIs for a final decision.

Q3 REPORTING HIGHLIGHTS

Net rental income like-for-like (LFL) was +3.0%—in-place rent +2.7%; occupancy +0.3%—at the end of the period. The hotel segment led LFL performance at +4.0% with three recently repositioned hotels coming back online in Q3, followed by residential at +3.7%. Office (+2.0% LFL) continues to benefit from CPI-indexation as well as rent reversion helping buffer against still sluggish economic activity, whereas the systemic residential supply and demand imbalance is unchanged—great for landlords, terrible for renters. Meanwhile, AT's hotel portfolio now harbours around €60m in rent upside to harness over the coming years after a spate of successful repositionings.

Headline KPI's remain steady AT has sold some €1.4bn in properties since the start of 2023, which offset the good LFL performance in 9M/24. The net effects led to a 1% decline in Q3 rental income (NRI), but AEBITDA and bottom line FFO 1 edged 2% higher Y/Y. The latter is occasioned by this year's reshuffling of AT's debt and perpetual note portfolios, which helped absorb the rise in financing costs and perpetual note attributions.

Table 1: Third quarter results vs FBe and prior year comp

All figures in EURm	Q3/24	Q3/24E	variance	Q3/23	variance	9M/24	9M/23	variance
Rental income	387	386	0%	394	-2%	1,158	1,210	-4%
Net rent	295	294	0%	299	-1%	883	895	-1%
AEBITDA	256	253	1%	251	2%	758	748	1%
Margin	87%	86%	-	84%	-	86%	84%	-
FFO 1	82	79	3%	80	2%	236	255	-8%
FFOPS 1 (€)	0.08	0.08	3%	0.07	13%	0.22	0.23	-4%

Source: First Berlin Equity Research; Aroundtown

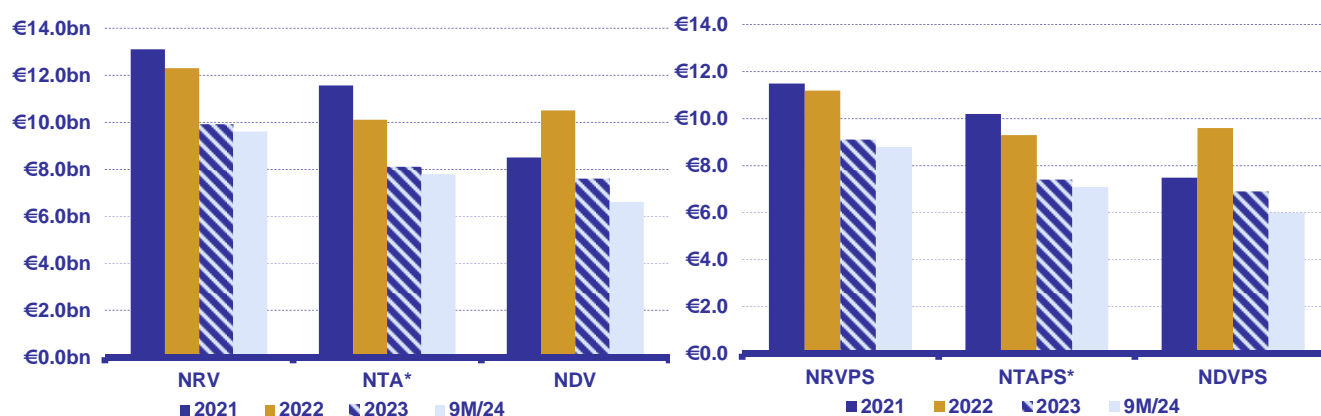
On a nine month basis, headline KPIs performed in step with Q3 figures. Despite the drop-off in net rent, AEBITDA topped the prior year comp, thanks to operational improvements. FFO 1 was 8% lower Y/Y during the January-to-September period, owing to the aforementioned financing costs. FFO 2 tallied €266m in 9M vs €327m in the prior year period. AT has signed ~€630m in disposals YTD and closed some €440m at a ~2% premium to BV resulting in a capital gain of €7m. Management hinted at a still sizable disposal pipeline but only if the price is right. That said, we expect the landlord to remain a net seller in 2025 as it strains to optimise leverage KPIs.

After reporting a €593m reduction in property valuations in Q2, no revaluations were undertaken in Q3. The landlord reiterated plans to have the entire portfolio reassessed for 2024 reporting, which will also factor into the dividend decision. AT brass are cautiously optimistic that the worst of devaluations is in the rear-view mirror and that future yield expansion will be driven more by positive operational momentum than write downs.

Portfolio value at €2,438 / m² (YE23: €2,421 / m²) Once again AT made no material acquisitions in the September quarter. In-place rent stood at €10.9 / m² at the end of Q3 vs €10.7 / m² at YE23, while the portfolio vacancy rate remained steady at 7.6%. Annualised net rent tallied €1,147m at the end of the reporting period. The portfolio currently has rent reversionary potential of ~25% to be captured over the mid- to long-term with a host of good operational drivers in place.



Figure 2: EPRA BPR reporting



*Reclassified in Dec. 2022 to exclude real estate transfer tax

Source: First Berlin Equity Research; Aroundtown

NTAPS remained steady Q/Q at €7.1, thanks to the €176m net result generated by operations and also the absence of any revaluation write-downs during the July-to-September period.

Table 2: Financial position highlights

All figures in EURm	9M/24	2023	variance
Cash and liquid assets	3,260	3,026	8%
Investment property	24,016	24,632	-3%
Total assets	32,964	33,559	-2%
Total financial debt	14,384	14,242	1%
Total equity	14,530	15,150	-4%
Equity ratio	44%	45%	-
EPRA NTA	7,808	8,059	-3%
Unencumbered asset ratio	72%	74%	-
Loan-to-Value (LTV)	44%	43%	-

Source: First Berlin Equity Research; Aroundtown

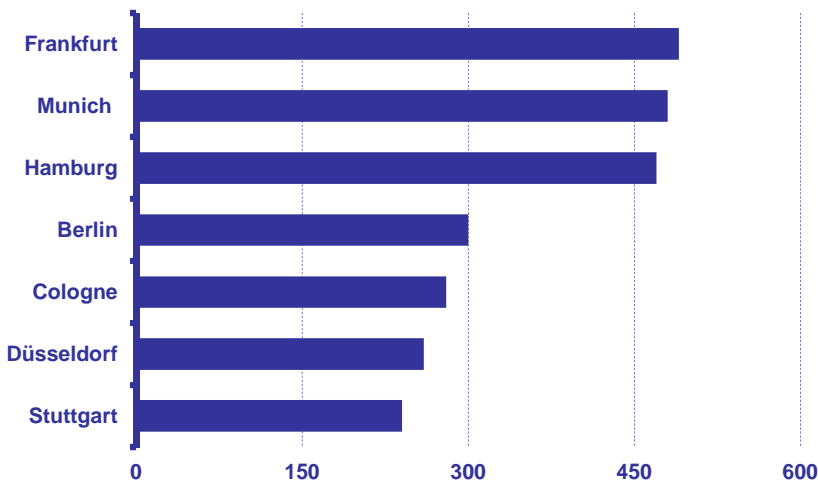
Balance sheet KPIs stable The LTV was 44% at the end of September—just below management’s internal 45% LTV guide, but further disposals and repayments of vendor loans should help compress the KPI back down in the coming quarters. The net debt / EBITDA and interest coverage (ICR) ratios stood at 11.0x and 4.0x respectively at the end of the September quarter

The landlord exited the quarter with around €3.3bn in cash and liquid assets. In addition to the well-discussed bond and perpetual note issuances in 2024 (see note of 30 August), AT has also raised roughly €325m in bank debt so far this year. Management sounded confident in AT’s ability to cover and lengthen the remaining maturities with its revamped balance sheet. YTD bond buybacks and redemptions tallied €710m and €445m respectively, and the company repurchased shorter-term bonds at a small discount through tender offers in Q3.



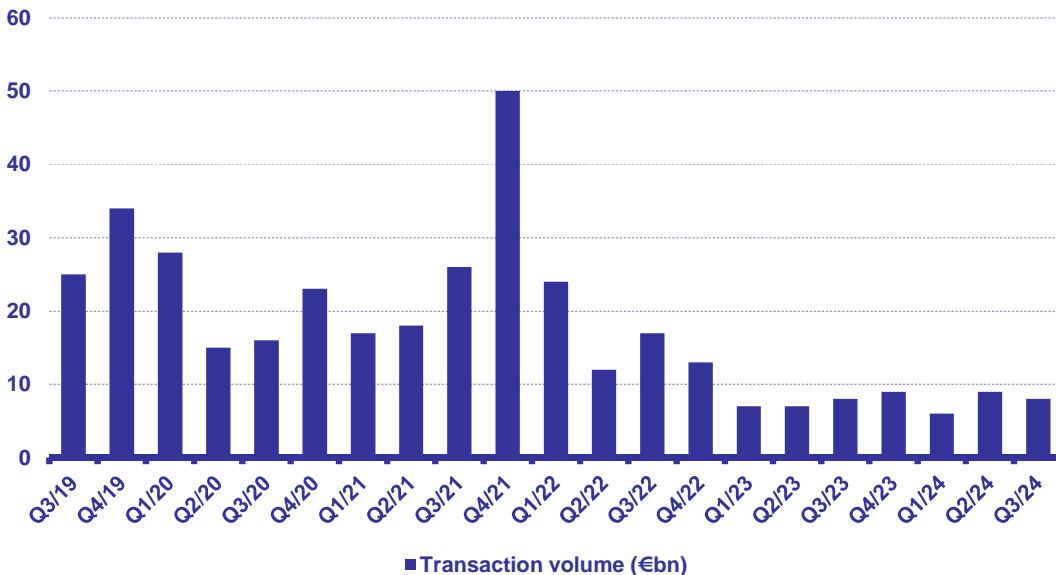
Transaction markets not quite there yet The property market recovery "remains arduous" according to JLL (Jones Lang LaSalle), a global property services outfit. In the first nine months of 2024, the German real estate investment market registered a transaction volume of around €23.4bn. This represents a 5% increase on the previous year period but is down a whopping 56% vs the 9M/22 comp.

Figure 1: German office transaction volume 9M/24 (in €m)



Source: First Berlin Equity Research; JLL October 2024

Figure 2: German property transaction volume development



Source: First Berlin Equity Research; JLL October 2024

But the mood is improving. JLL recently polled investors about European property markets. More than half of respondents said they expect the situation in Europe to improve over the next six months. Only 23% felt this way at the end of 2023. Plus, Germany should be one of the first markets to pick up, thanks to its high liquidity and transparency. Although the first round of rate cuts by the ECB and Fed has yet to positively impact the markets, we reckon this is only a matter of time. The all-important 5 year swap is near a two-year low of 2.2% after peaking last October just north of 3.5%. These trends should also help prod sidelined property investors into action.



VALUATION MODEL

Maintain Buy rating We have adjusted FBe to account for the good operational performance booked in Q3. Management now expect FFO 1 to land near the top of the guided range (€290m to €320m). Our recalibrated estimates call for FFO 1 of €316m this year. As we have contended since the pandemic, there will be no office Armageddon, as the remote work fad continues to fade. AT even has excellent opportunities to repurpose some of its workplace stock (data centres, service apartments). The landlord also plans to leverage its knowledge and trove of data in the PropTech arena. Meanwhile, the previously beleaguered hotel segment could surprise over the coming quarters after AT noted embedded €60 in RI upside. Our target price moves to €4.2 (old: €4.0).

Table 2: DCF model

All figures in EURm	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
AEBITDA	1,009	1,052	1,098	1,138	1,175	1,213	1,252	1,290
(-) Tax	-121	-126	-132	-137	-141	-146	-150	-155
(=) Net operating cash flow	888	926	967	1,001	1,034	1,067	1,101	1,135
(-) Total investments (CapEx and WC)	-133	-592	-533	-414	-429	-448	-452	-469
(-) Capital expenditures	0	-575	-511	-396	-413	-430	-434	-452
(-) Working capital	-133	-16	-22	-18	-17	-17	-18	-17
(=) Free cash flows (FCF)	755	334	434	588	604	619	650	666
PV of FCF's	752	317	392	506	496	484	484	473

All figures in EUR '000	WACC	Terminal growth rate							
		1.7%	1.8%	1.9%	2.0%	2.1%	2.2%	2.3%	
PV of FCFs in explicit period	6,890	4.4%	7.0	7.6	8.2	8.9	9.7	10.5	11.4
PV of FCFs in terminal period	13,602	4.6%	5.5	6.0	6.5	7.1	7.7	8.4	9.2
Enterprise value (EV)	20,492	4.8%	4.1	4.6	5.0	5.5	6.1	6.6	7.3
+ Net cash / - net debt (2023)	-15,923	5.0%	3.0	3.4	3.8	4.2	4.6	5.1	5.6
+ Investments / minority interests	0	5.2%	2.0	2.3	2.6	3.0	3.4	3.8	4.2
Shareholder value	4,569	5.4%	1.1	1.4	1.7	2.0	2.3	2.6	3.0
Fair value per share in EUR	4.2	5.6%	0.3	0.5	0.8	1.0	1.3	1.6	2.0

	WACC	Terminal AEBITDA margin							
		89.9%	90.9%	91.9%	92.9%	93.9%	94.9%	95.9%	
Cost of equity	6.9%	4.4%	7.8	8.2	8.6	8.9	9.3	9.7	10.1
Pre-tax cost of debt	3.0%	4.6%	6.1	6.4	6.8	7.1	7.4	7.8	8.1
Tax rate	12.0%	4.8%	4.6	4.9	5.2	5.5	5.8	6.1	6.5
After-tax cost of debt	2.6%	5.0%	3.4	3.6	3.9	4.2	4.5	4.7	5.0
Share of equity capital	45.0%	5.2%	2.3	2.5	2.8	3.0	3.3	3.5	3.8
Share of debt capital	55.0%	5.4%	1.3	1.5	1.7	2.0	2.2	2.4	2.7
WACC	5.0%	5.6%	0.4	0.6	0.8	1.1	1.3	1.5	1.7

*Please note our model runs through 2038 and we have only shown the abbreviated version for formatting purposes; perpetual notes included in net debt for DCF purposes



INCOME STATEMENT

All figures in EURm	2020	2021	2022	2023	2024E	2025E
Net rent	1,003	1,086	1,222	1,193	1,174	1,213
Operating and other income	177	238	388	410	375	394
Rental and operating income (RI)	1,180	1,323	1,610	1,603	1,548	1,607
Capital gains, property revaluations & other	769	810	-497	-3,218	-670	489
Result from equity-accounted investees	196	193	6	-150	-45	6
Property OpEx	-443	-533	-695	-638	-550	-568
Other income	0	0	0	0	0	0
Administration & other OpEx	-51	-57	-63	-65	-62	-63
Operating income (EBIT)	1,652	1,737	361	-2,468	222	1,471
Net financial result	-201	-180	-185	-230	-233	-289
Other financial expenses	-168	-162	-194	-14	-34	0
Impairment of goodwill	0	0	-404	-137	0	0
Pre-tax income (EBT)	1,283	1,394	-422	-2,849	-45	1,182
Tax expense	-89	-100	-117	-120	-121	-126
Deferred tax	-287	-216	82	543	107	-78
Tax result	-377	-316	-35	423	-14	-204
Comprehensive net income	906	1,078	-457	-2,426	-59	978
Minority interests	165	330	70	-592	-51	119
Perpetual notes	90	106	118	153	201	215
Net income to owners	652	642	-645	-1,988	-209	644
Basic EPS (€)	0.50	0.55	-0.58	-1.82	-0.19	0.57
AEBITDA	944	975	1,002	1,003	1,009	1,052
Ratios						
AEBITDA before JV contributions (NRI)	77.5%	80.2%	77.2%	79.3%	80.9%	81.5%
FFO 1 margin (NRI)	35.7%	32.5%	29.7%	27.7%	26.9%	23.0%
Expenses as % of revenues						
Property OpEx	37.5%	40.3%	43.2%	39.8%	35.5%	35.3%
Administration & other OpEx	4.3%	4.3%	3.9%	4.0%	4.0%	3.9%
YY Growth						
Net rent	31.0%	8.2%	12.6%	-2.4%	-1.6%	3.4%
Operating income	-23.4%	5.1%	-79.2%	n.m.	n.m.	564.2%
Adjusted EBITDA	22.2%	3.3%	2.8%	0.1%	0.6%	4.3%
Net income/ loss	-50.2%	-1.5%	n.m.	n.m.	n.m.	n.m.
Funds from Operations (FFO)						
AEBITDA before JV contribution	777	871	944	946	949	989
Finance expense	-201	-180	-185	-230	-233	-289
Tax expense	-89	-100	-117	-120	-121	-126
Minority adjustment	-36	-82	-136	-126	-129	-131
Other adjustments	9	7	5	5	5	5
Perpetual attribution	-90	-106	-118	-153	-201	-215
FFO 1 before JV contribution	371	409	392	320	270	232
JV FFO 1 contributions	107	69	46	43	46	46
Extraordinary provision for uncollected rents	-120	-125	-75	-33	0	0
FFO 1	358	353	363	331	316	279
FFOPS 1 (€)	0.27	0.30	0.33	0.30	0.28	0.25



BALANCE SHEET

All figures in EURm	2020	2021	2022	2023	2024E	2025E
Assets						
Current assets, total	4,781	5,529	4,856	4,692	5,278	3,290
Cash and cash equivalents	2,692	2,873	2,305	2,641	3,095	1,260
Short-term investments	454	376	313	506	578	581
Receivables	617	1,219	1,168	1,008	1,103	1,145
Other current assets	141	28	138	127	102	105
Assets held for sale	877	1,033	931	410	400	200
Non-current assets, total	26,241	33,854	32,492	28,868	28,172	29,375
Property, plant & equipment	877	1,849	1,508	1,379	1,383	1,387
Investment properties	21,172	29,116	27,981	24,632	23,970	25,235
Equity accounted investees	3,177	1,223	1,292	1,087	1,042	964
Other LT assets	1,014	1,667	1,711	1,769	1,776	1,789
Total assets	31,022	39,383	37,347	33,559	33,450	32,665
Shareholders' equity & debt						
Current liabilities, total	1,074	1,607	1,289	1,539	3,205	2,826
Short-term debt	181	544	123	420	2,106	1,683
Accounts payable	435	621	666	672	633	658
Provisions & other current liabilities	458	442	500	448	466	485
Long-term liabilities, total	14,364	18,620	18,235	16,870	15,713	14,761
Long-term debt	11,680	15,026	14,573	13,822	12,745	11,685
Deferred tax liabilities	2,026	2,766	2,662	2,107	1,999	2,077
Other LT liabilities	659	828	999	942	970	999
Minority interests	2,025	3,875	3,490	2,750	2,698	2,817
Shareholders' equity	13,558	15,281	14,333	12,400	11,834	12,261
Total consolidated equity and debt	31,022	39,383	37,347	33,559	33,450	32,665
Ratios						
ICR (x)	4.3	4.9	4.9	4.0	4.0	3.6
Net debt / adj. EBITDA (x)	11.1	14.2	12.8	11.9	11.9	11.8
Equity ratio	50.2%	48.6%	47.7%	45.1%	43.4%	46.2%
Financial leverage	63.4%	80.8%	84.3%	90.5%	95.7%	95.2%
EPRA NTA	11,187	11,564	10,135	8,059	7,685	8,153
EPRA NTAPS (€)	9.5	10.2	9.3	7.4	7.0	7.4
Net debt	8,598	12,344	12,087	11,216	11,325	11,676
Return on equity (ROE)	6.7%	7.1%	-3.2%	-19.6%	-0.5%	8.0%
Loan-to-value (LTV)	34%	39%	40%	43%	45%	45%



CASH FLOW STATEMENT

All figures in EURm	2020	2021	2022	2023	2024E	2025E
Net income	906	1,078	-457	-2,426	-59	978
Depreciation & amortisation	4	16	21	18	17	18
Capital gains, property revaluations & other	-769	-810	497	3,218	670	-489
Profit share from equity accounted investees	-196	-193	-6	150	45	-6
Goodwill impairment	0	0	404	137	0	0
Shared based payment in a subsidiary	3	6	5	5	0	0
Net finance expenses	369	343	379	245	267	289
Tax result	377	316	35	-423	14	204
Operating cash flow	694	755	879	923	954	994
Changes in working capital	-36	-57	-27	-54	-144	-27
Provisions for other liabilities	-3	-4	-2	-5	26	27
Dividend received	43	24	35	19	0	84
Tax paid	-83	-93	-97	-111	-121	-126
Net operating cash flow	616	626	788	772	715	951
CapEx/ intangibles	-36	23	-26	-16	-21	-22
Disposal / investment in investment properties, net	1,427	1,179	556	575	0	-575
Acquisition / disposals of subsidiaries	0	0	0	0	0	0
Proceeds from investments in financial assets	-377	-124	-121	50	-57	14
Cash flow from investing	1,014	1,078	409	608	-78	-584
Debt financing, net	-493	-1,320	-629	-338	608	-1,482
Equity financing, net	0	0	0	0	0	0
Payments for own shares	-1,001	-444	-255	0	0	0
Share buy-back in a subsidiary	0	-270	0	0	0	0
Dividends paid	-22	-252	-169	0	0	-231
Other financing activities	94	-120	-506	-499	-558	-201
Net paid financing expenses	-212	-201	-204	-214	-233	-289
Cash flow from financing	-1,634	-2,607	-1,764	-1,052	-182	-2,203
Net cash flows	-5	-903	-567	329	454	-1,835
Assets held for sale - cash	-3	-2	-6	9	0	0
Fx effects	-1	16	5	-2	0	0
Cash & equivalents from TLG	509	1070	0	0	0	0
Cash, start of the year	2,192	2,692	2,873	2,305	2,641	3,095
Cash, end of the year	2,692	2,873	2,305	2,641	3,095	1,260
FFO 1 before JV contribution	371	409	392	320	270	232
FFO 1	358	353	363	331	316	279
FFOPS 1 (€)	0.27	0.30	0.33	0.30	0.28	0.25

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UST-Id.: 251601797

Ggf. Inhaltlich Verantwortlicher gem. § 6 MDStV

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The production of this recommendation was completed on 2 December 2024 at 13:56

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

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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.

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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	29 September 2015	€3.40	Buy	€5.70
2...56	↓	↓	↓	↓
57	2 June 2023	€0.96	Buy	€3.50
58	4 September 2023	€1.51	Buy	€3.50
59	4 December 2023	€2.24	Buy	€3.30
60	4 April 2024	€1.88	Buy	€3.40
61	12 April 2024	€1.79	Buy	€3.40
62	30 May 2024	€2.06	Buy	€3.50
63	30 August 2024	€2.24	Buy	€3.60
64	24 September 2024	€2.75	Buy	€4.00
65	Today	€3.13	Buy	€4.20

INVESTMENT HORIZON

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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/>

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