



# Deutsche EuroShop AG

## CONSERVATIVE PROPERTY VALUATION

Buy – Price target 36.00 EUR

(Hold – Price target 34.00 EUR)

24/03/2014

Close 20/03/2014 (ETR) 31.29 EUR  
 Bloomberg DEQ GY  
 WKN 748020  
 Sector Real Estate

**Share price performance**

52 week high 34.48 EUR  
 52 week low 29.45 EUR  
 Compared to MDAX  
 YTD -0.4 %  
 1 month -1.6 %  
 3 months -2.6 %  
 12 months -21.9 %

**Share data:**

EV (m EUR; 2014) 3,292  
 Market Cap (m EUR) 1,688  
 No. of shares (m) 53.9  
 Free float 81.7%  
 Trading vol. Ø (m EUR) 2.6

**Major shareholders:**

Familie Otto 15.9 %  
 BlackRock 3.0 %  
 Hertie Stiftung 3.0 %  
 - -  
 - -

**Next event:**

Annual Results 25/04/2014

**Change in model:**

	Sales	EBIT	EPS
13e	-0.3%	0.7%	49.0%
14e	---	0.7%	-0.2%
15e	---	0.7%	-1.7%

We have upgraded Deutsche EuroShop shares to BUY with a price target of EUR 36.00. The operating results were in line with our expectations, but the company reported property appreciation without fundamentally altering what is a very conservative valuation method in our view.

**OPERATIONS IN LINE WITH EXPECTATIONS**

The operating profit corresponded perfectly to our expectations and the guidance was also mostly in line with our estimates for 2014 and 2015.

**PRELIMINARY RESULTS FOR 2013**

Deutsche EuroShop [EUR m]	FY 2013	BHL		% yoy
		FY 2013e	FY 2012	
Rental income	165.9	137.6	117.0	18.1%
EBIT	120.5	164.3	120.5	>100%
EBIT margin	88.2%	87.2%	85.1%	0,9 PP
FFO	113.3	112.6	86.4	>100%
FFO margin	60.3%	59.7%	48.5%	0,9 PP
Net profit (after min.)	173.0	116.1	122.5	41.2%
NAVpS(€)	30.59	29.37	28.53	7.2%
FFOpS [€]	2.10	2.09	1.66	26.5%

Source: Unternehmen, Bankhaus Lampe Research

**OPERATING PROFIT GROWING MODERATELY**

EuroShop issued the following guidance for 2014 and 2015:

- Rental income to increase in 2014 to EUR 198–201 m (BHLe EUR 201 m) and in 2015 to EUR 202–205 m (BHLe EUR 204.3 m).
- EBIT to improve in 2014 to EUR 174–177 m (BHLe EUR 177.3 m) and in 2015 to EUR 177–180 m (BHLe EUR 180.2 m).
- Profit before tax (before valuation) to increase in 2014 to EUR 120–123 m (BHLe EUR 121 m) and in 2015 to EUR 125–128 m (BHLe EUR 125.4 m).
- FFO per share to improve in 2014 to EUR 2.14–2.18 (BHLe EUR 2.16) and in 2015 to EUR 2.20–2.24 (BHLe EUR 2.21).

**CONSERVATIVE VALUATION**

The valuation method remains very conservative. For instance, the company reduced its discount rate by 2 bp to 6.65% and applied an initial net yield of 5.97% (-1 bp). Dresden, the Rhein-Neckar Centre and Wolfsburg were the shopping centres with the greatest property appreciation.

in m EUR	2012	2013e	2014e	2015e	2016e
Sales	211.2	188.0	201.1	204.3	207.5
FFO	86.4	113.0	116.3	119.1	124.6
FFO margin	40.9%	60.1%	57.8%	58.3%	60.1%
Net financial debt	1,490	1,438	1,374	1,310	1,242
Free cash-flow	-111.8	168.4	104.2	107.8	115.0
EPS (in EUR)	2.37	3.21	1.96	1.90	1.84
DPS (in EUR)	1.20	1.25	1.30	1.35	1.40
Dividend yield	3.8%	3.9%	4.2%	4.3%	4.5%
EV/Sales	16.5	17.9	16.4	15.9	15.4
EV/EBIT	19.2	20.4	18.6	18.0	17.4
Price Earnings ratio (P/E)	13.3	9.9	16.0	16.5	17.0

Source: Company information, Bankhaus Lampe Research

Dr. Georg Kanders, Analyst  
 Telephone: +49 (211) 4952-718  
 georg.kanders@bankhaus-lampe.de

Please note the disclaimer & disclosures at the end of this publication.

**UPGRADE TO BUY**

We have upgraded Deutsche EuroShop to BUY. Our price target derives from our valuation model, which is based on implicit valuation reserves in the real estate assets. The increase in the price target is due to the higher NAV and an additional adjustment of EUR 1.11 for the dividend-adjusted NAV for 2015 (EUR 32.90 + EUR 5.30 dividend adjustment + EUR 1.11 premium). The latter will probably correspond to a 10 bp lower initial net yield on the real-estate valuation. Based on our estimates for 2015, we consider a comparatively low risk premium of 6% to be justified for the company given Deutsche EuroShop's still-conservative property valuation methods, the high quality of its real estate portfolio and the company's solid balance sheet.

## KEY FIGURES

## Deutsche EuroShop AG – Profit &amp; Loss Account

in m EUR	2012		2013e		2014e		2015e		2016e	
Sales	211.2	100.0%	188.0	100.0%	201.1	100.0%	204.3	100.0%	207.5	100.0%
year on year	11.2%		-11.0%		7.0%		1.6%		1.6%	
Cost of Sales	0,0	-	0,0	-	0,0	-	0,0	-	0,0	-
year on year	0,0%		0,0%		0,0%		0,0%		0,0%	
Gross profit	211.2	100.0%	188.0	100.0%	201.1	100.0%	204.3	100.0%	207.5	100.0%
year on year	11.2%		-11.0%		7.0%		1.6%		1.6%	
Sales and marketing	-11.3	-5.3%	-9.5	-5.1%	-10.1	-5.0%	-10.2	-5.0%	-10.4	-5.0%
year on year	40.7%		-15.6%		6.4%		1.1%		1.6%	
General and administration	-10.5	-5.0%	-8.3	-4.4%	-8.8	-4.4%	-8.9	-4.4%	-9.0	-4.4%
year on year	2.1%		-21.5%		6.3%		1.0%		1.6%	
Research and development	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
year on year	---		---		---		---		---	
Other operating result	-8.4	-4.0%	-4.8	-2.5%	-4.9	-2.4%	-5.0	-2.4%	-5.1	-2.4%
year on year	40.6%		-43.2%		1.7%		2.1%		2.0%	
EBITDA	181.0	85.7%	165.5	88.0%	177.3	88.2%	180.2	88.2%	183.1	88.2%
year on year	9.3%		-8.6%		7.2%		1.6%		1.6%	
Depreciation	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
year on year	0.0%		0.0%		0.0%		0.0%		0.0%	
EBITA	181.0	85.7%	165.4	88.0%	177.3	88.2%	180.2	88.2%	183.1	88.2%
year on year	9.3%		-8.6%		7.2%		1.6%		1.6%	
Amortisation of goodwill	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
year on year	---		---		---		---		---	
Amortisation of intangible assets	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
year on year	---		---		---		---		---	
EBIT	181.0	85.7%	165.4	88.0%	177.3	88.2%	180.2	88.2%	183.1	88.2%
year on year	9.3%		-8.6%		7.2%		1.6%		1.6%	
Financial result	-85.4	-40.4%	-34.1	-18.2%	-56.2	-28.0%	-54.7	-26.8%	-52.0	-25.1%
year on year	8.0%		-60.0%		64.7%		-2.7%		-4.9%	
Income on ordinary activities	95.6	45.3%	131.3	69.8%	121.1	60.2%	125.5	61.4%	131.0	63.1%
year on year	10.5%		37.3%		-7.8%		3.6%		4.4%	
Extraordinary income/loss	8.5	4.0%	56.3	30.0%	16.7	8.3%	10.1	4.9%	0.0	0.0%
year on year	-79.7%		>100%		-70.4%		-39.7%		---	
EBT	104.1	49.3%	187.6	99.8%	137.8	68.5%	135.6	66.4%	131.0	63.1%
year on year	-18.9%		80.2%		-26.6%		-1.6%		-3.3%	
Taxes	19.0	9.0%	-14.7	-7.8%	-32.1	-16.0%	-33.0	-16.2%	-31.8	-15.3%
year on year	---		---		>100%		2.8%		-3.8%	
Tax rate	-18.2%		7.8%		23.3%		24.4%		24.2%	
Net income from cont. operations	123.1	58.3%	173.0	92.0%	105.7	52.6%	102.5	50.2%	99.3	47.8%
year on year	31.8%		40.5%		-38.9%		-3.0%		-3.2%	
Net income from discount. operations	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
year on year	---		---		---		---		---	
Minority interest	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Net income (adj.)	123.1	58.3%	173.0	92.0%	105.7	52.6%	102.5	50.2%	99.3	47.8%
year on year	31.8%		0,0%		-38.9%		-3.0%		-3.2%	
No. of shares	53.9		53.9		53.9		53.9		53.9	
EPS (in EUR)	2.37		3.21		1.96		1.90		1.84	

Source: Company information, Bankhaus Lampe Research

## Deutsche EuroShop AG - Balance Sheet

Assets (in m EUR)	2012		2013e		2014e		2015e		2016e	
<b>Fixed assets</b>	<b>3,365</b>	<b>94.8%</b>	<b>3,339</b>	<b>98.4%</b>	<b>3,357</b>	<b>96.7%</b>	<b>3,368</b>	<b>96.5%</b>	<b>3,369</b>	<b>96.1%</b>
Property, plant and equipment	3,330	93.8%	3,021	89.0%	3,038	87.5%	3,048	87.3%	3,048	87.0%
Intangible assets	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Financial assets	34.7	1.0%	317.7	9.4%	318.7	9.2%	319.7	9.2%	320.7	9.2%
Other long-term assets	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
<b>Current assets</b>	<b>183.7</b>	<b>5.2%</b>	<b>55.7</b>	<b>1.6%</b>	<b>114.3</b>	<b>3.3%</b>	<b>123.1</b>	<b>3.5%</b>	<b>135.1</b>	<b>3.9%</b>
Inventories	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Accounts receivable	4.7	0.1%	2.5	0.1%	2.5	0.1%	2.5	0.1%	2.5	0.1%
Other current assets	11.5	0.3%	4.5	0.1%	4.5	0.1%	4.5	0.1%	4.5	0.1%
Securities	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Cash	167.5	4.7%	48.7	1.4%	107.3	3.1%	116.1	3.3%	128.1	3.7%
<b>Total assets</b>	<b>3,549</b>	<b>100.0%</b>	<b>3,395</b>	<b>100.0%</b>	<b>3,471</b>	<b>100.0%</b>	<b>3,491</b>	<b>100.0%</b>	<b>3,504</b>	<b>100.0%</b>

Equity and Liabilities (in m EUR)	2012		2013e		2014e		2015e		2016e	
<b>Shareholders' equity</b>	<b>1,606</b>	<b>45.3%</b>	<b>1,642</b>	<b>48.4%</b>	<b>1,697</b>	<b>48.9%</b>	<b>1,746</b>	<b>50.0%</b>	<b>1,789</b>	<b>51.0%</b>
Shareholders' equity (before minority)	1,322	37.2%	1,429	42.1%	1,467	42.3%	1,500	43.0%	1,526	43.6%
Minorities	284.2	8.0%	213.4	6.3%	229.6	6.6%	246.0	7.0%	262.7	7.5%
<b>Non-current liabilities</b>	<b>1,695</b>	<b>47.8%</b>	<b>1,588</b>	<b>46.8%</b>	<b>1,615</b>	<b>46.5%</b>	<b>1,592</b>	<b>45.6%</b>	<b>1,567</b>	<b>44.7%</b>
Pension provisions	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Other provisions	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Long-term financial debt	1,463	41.2%	1,348	39.7%	1,348	38.8%	1,298	37.2%	1,248	35.6%
Other long-term debt	231.8	6.5%	239.7	7.1%	267.1	7.7%	293.7	8.4%	319.1	9.1%
<b>Current liabilities</b>	<b>247.9</b>	<b>7.0%</b>	<b>164.6</b>	<b>4.8%</b>	<b>159.1</b>	<b>4.6%</b>	<b>153.6</b>	<b>4.4%</b>	<b>148.1</b>	<b>4.2%</b>
Short-term debt	194.1	5.5%	138.6	4.1%	133.1	3.8%	127.6	3.7%	122.1	3.5%
Other accruals short-term	37.3	1.1%	17.3	0.5%	17.3	0.5%	17.3	0.5%	17.3	0.5%
Accounts payable	2.3	0.1%	2.3	0.1%	2.3	0.1%	2.3	0.1%	2.3	0.1%
Other liabilities	14.1	0.4%	6.3	0.2%	6.3	0.2%	6.3	0.2%	6.3	0.2%
<b>Total equity and liabilities</b>	<b>3,549</b>	<b>100.0%</b>	<b>3,395</b>	<b>100.0%</b>	<b>3,471</b>	<b>100.0%</b>	<b>3,491</b>	<b>100.0%</b>	<b>3,504</b>	<b>100.0%</b>

Source: Company information, Bankhaus Lampe Research

## Deutsche EuroShop AG - Cash Flow Statement

in m EUR	2012	2013e	2014e	2015e	2016e
Net income (adj.)	123.1	173.0	105.7	102.5	99.3
Depreciation	0.0	0.0	0.0	0.0	0.0
Amortisation of goodwill & intangible assets	0.0	0.0	0.0	0.0	0.0
Change of provisions	22.3	-20.0	0.0	0.0	0.0
Other	-35.1	-68.3	-0.5	6.3	16.7
<b>Operating Cash-flow before changes in w/c</b>	<b>110.3</b>	<b>84.7</b>	<b>105.2</b>	<b>108.9</b>	<b>116.0</b>
Change in inventory	0.0	0.0	0.0	0.0	0.0
Change in accounts receivable	-1.2	2.2	0.0	0.0	0.0
Change in accounts payable	-1.2	0.0	0.0	0.0	0.0
Change in other working capital positions	-2.9	-0.8	0.0	0.0	0.0
<b>Operating Cash-flow</b>	<b>105.1</b>	<b>86.1</b>	<b>105.2</b>	<b>108.9</b>	<b>116.0</b>
Capex, excluding maintenance	-207.1	365.3	0.0	0.0	0.0
Payments for acquisitions	0.0	0.0	0.0	0.0	0.0
Financial investments	-9.7	-283.0	-1.0	-1.0	-1.0
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
<b>Cash-flow from investing activities</b>	<b>-216.9</b>	<b>82.3</b>	<b>-1.0</b>	<b>-1.0</b>	<b>-1.0</b>
<b>Free cash-flow</b>	<b>-111.8</b>	<b>168.4</b>	<b>104.2</b>	<b>107.8</b>	<b>115.0</b>
Capital measures	65.3	0.0	0.0	0.0	0.0
Increase/decrease in debt position	185.1	-170.5	-5.5	-55.5	-55.5
Purchase of own shares	0.0	0.0	0.0	0.0	0.0
Other financing Cash-flow	0.0	8.0	27.3	26.6	25.4
Dividend paid	-56.8	-64.7	-67.4	-70.1	-72.8
<b>Cash-flow from financing activities</b>	<b>193.6</b>	<b>-227.2</b>	<b>-45.6</b>	<b>-99.0</b>	<b>-103.0</b>
Increase/ decrease in liquid assets	81.8	-58.8	58.5	8.8	12.0
Effects of exchange rate changes	0.0	-46.5	0.0	0.0	0.0
Cash at beginning of period	72.3	154.1	48.7	107.3	116.1
Change in total cash and cash equivalents	81.8	-105.3	58.5	8.8	12.0
<b>Cash at end of period</b>	<b>154.1</b>	<b>48.7</b>	<b>107.3</b>	<b>116.1</b>	<b>128.1</b>

Source: Company information, Bankhaus Lampe Research

Deutsche EuroShop AG – Ratios					
	2012	2013e	2014e	2015e	2016e
<b>Per Share Data</b>					
EPS	2.37	3.21	1.96	1.90	1.84
Book value per share	29.77	30.44	31.45	32.36	33.16
Free Cash-flow per share	-2.07	3.12	1.93	2.00	2.13
Dividend per share	1.20	1.25	1.30	1.35	1.40
<b>Valuation ratios</b>					
EV/Sales	16.5	17.9	16.4	15.9	15.4
EV/EBITDA	19.2	20.4	18.6	18.0	17.4
EV/EBIT	19.2	20.4	18.6	18.0	17.4
Price Earnings ratio (P/E)	13.3	9.9	16.0	16.5	17.0
Price to book (total equity)	1.1	1.0	1.0	1.0	0.9
Dividend yield	3.8%	3.9%	4.2%	4.3%	4.5%
<b>Profitability ratios</b>					
EBITDA margin	85.7%	88.0%	88.2%	88.2%	88.2%
EBIT margin	85.7%	88.0%	88.2%	88.2%	88.2%
Net return on sales	58.3%	92.0%	52.6%	50.2%	47.8%
Return on capital employed (ROCE)	5.5%	5.3%	5.6%	5.7%	5.8%
<b>Productivity ratios</b>					
Capital turnover	15.9	17.8	16.7	16.5	16.2
Operating leverage	0.8	0.8	1.0	1.0	1.0
Sales per employee (in thousands)	35,205	31,331	33,509	34,045	34,591
EBIT per employee (in thousands)	30,170	27,572	29,547	30,033	30,511
Number of employees (in thousands)	0.0	0.0	0.0	0.0	0.0
<b>Financial ratios</b>					
Equity ratio	45.3%	48.4%	48.9%	50.0%	51.0%
Net financial debt	1,490	1,438	1,374	1,310	1,242
Net debt / Equity	92.8%	87.6%	81.0%	75.0%	69.4%
Interest cover	2.5	2.6	2.7	2.8	3.0
Net debt / EBITDA	8.23	8.69	7.75	7.27	6.78
Working Capital	2.4	0.2	0.2	0.2	0.2
Change Working Capital	2.4	-2.2	0.0	0.0	0.0
WC /sales	1.1%	0.1%	0.1%	0.1%	0.1%
Stocks in days of sales	0	0	0	0	0
Trade debtors in days of sales	8	5	5	5	4
Trade creditors in days of COGS/Material cost	4	5	4	4	4
Cash conversion cycle	4	0	1	1	0
Invest. (property/plant/equity) / Depreciation	10,356.80	-18,264.00	1.00	1.00	1.00
<b>Others</b>					
Sales CAGR (last 3 years)	18.3%	9.2%	1.9%	-1.1%	3.4%
EBIT CAGR (last 3 years)	17.8%	10.1%	2.3%	-0.2%	3.4%
Net income CAGR (last 3 years)	53.0%	28.3%	4.2%	-5.9%	-16.9%
Pay out ratio	50.6%	39.0%	66.4%	71.0%	76.1%
Free cash-flow	-111.8	168.4	104.2	107.8	115.0
Free cash flow yield	-6.6%	9.8%	6.2%	6.4%	6.8%

Source: Company information, Bankhaus Lampe Research

## Disclosures

### Analyst declaration

The relevant research analysts, as named on the front cover of this research report, certify that (a) all of the views expressed in this research report accurately reflect their personal views about the securities and companies mentioned in this research report; and (b) that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views expressed by them in this research report.

### Rating system

Shares are rated based upon analyst forecasts with regard to the performance of the share during a period of twelve months. The rating "Buy" within this general concept means that the share's forecast performance is at least 10%. "Hold" means a price movement in a bandwidth of 0% to 10%. "Sell" means that the share's forecast performance is negative.

### Explanation of valuation

Unless shown otherwise, the stated upside targets are based upon either a discounted flow-cash pricing or upon a comparison of the performance ratios of companies that the respective analyst considers to be comparable, or upon a combination of these two analyses. Analysts modify the result of this fundamental assessment to incorporate the potential trend in market sentiment. Shares are rated based upon analyst forecasts with regard to the performance of the share during a period of twelve months. The rating "Buy" within this general concept means that the share's forecast performance is at least 10%. "Hold" means a price movement in a bandwidth of 0% to 10%. "Sell" means that the share's forecast performance is negative. Unless shown otherwise, the stated upside targets are based upon either a discounted cash-flow pricing or upon a comparison of the performance ratios of companies that the respective analyst considers to be comparable, or upon a combination of these two analyses. Analysts modify the result of this fundamental assessment to incorporate the potential trend in market sentiment.

Overview of changes in our recommendations/price targets for Deutsche EuroShop AG in the previous twelve months.

Date of publication	Price at recommendation	Rating	Price target
15/11/2013	32.53 EUR	Hold	34.00 EUR
09/04/2013	30.75 EUR	Hold	33.00 EUR

The distribution of recommendations in our investments universe is currently as follows (date: 01/01/2014)

Rating	Basis: all analysed companies	Basis: companies with investment banking relationships
Buy	46.2%	60.0%
Hold	40.6%	20.0%
Sell	13.3%	20.0%
under review	0.0%	0.0%

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Company	Disclosure
Deutsche EuroShop AG	---

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Bankhaus Lampe KG, Jägerhofstraße 10, D-40479 Düsseldorf is responsible for this study.

Further information may be obtained from Bankhaus Lampe KG.

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**HEAD OF FINANCIAL MARKETS**

Leonhard Uphues  
Fon + 49 (0)211 4952-285  
leonhard.uphues@bankhaus-lampe.de

**EQUITY SALES**

Ulrich Klingmüller, CEFA  
Fon + 49 (0)211 4952-784  
ulrich.klingmueller@bankhaus-lampe.de

Yusuf Bilgic (London)  
Fon + 44 (0)203 405 4318  
yb@lampe-capital.com

André Gollmer  
Fon + 49 (0)211 4952-751  
andre.gollmer@bankhaus-lampe.de

Guido Rohlfing  
Fon + 49 (0)211 4952-832  
guido.rohlfing@bankhaus-lampe.de

**EQUITY SALES TRADING**

Nils Carstens  
Fon + 49 (0)211 4952-758  
nils.carstens@bankhaus-lampe.de

Kevin Chua (London)  
Fon + 44 (0)203 405 1038  
kc@lampe-capital.com

Matthias Rolke  
Fon + 49 (0)211 4952-755  
matthias.rolke@bankhaus-lampe.de

**INTERNATIONAL KBR FINANCE LLC (CHAPERONE OF BANKHAUS LAMPE KG IN THE US)**

Jörg Hagenbuch  
Fon + 1 212 218-7411  
jh@ikbrfinance.com

Kim Last  
Fon + 1 212 218-7412  
kl@ikbrfinance.com

**CAPITAL MARKET ANALYSIS**

Dr. Alexander Krüger  
Fon + 49 (0)211 4952-187  
alexander.krueger@bankhaus-lampe.de

**RESEARCH**

Christoph Schlienkamp, Investmentanalyst, DVFA  
Fon + 49 (0)211 4952-311  
christoph.schlienkamp@bankhaus-lampe.de

Marc Gabriel, CIIA, CEFA  
Fon + 49 (0)211 4952-313  
marc.gabriel@bankhaus-lampe.de

Dr. Karsten Iltgen  
Fon + 49 (0)211 4952-351  
karsten.iltgen@bankhaus-lampe.de

Andreas Schäfer, CFA  
Fon + 49 (0)211 4952-819  
andreas.schaefer@bankhaus-lampe.de

Neil Smith, ACA  
Fon + 49 (0)211 4952-478  
neil.smith@bankhaus-lampe.de

**RESEARCH & SALES SUPPORT**

Claus Kampermann  
Fon + 49 (0)211 4952-476  
claus.kampermann@bankhaus-lampe.de

Nicole Juskowiak  
Fon + 49 (0)211 4952-607  
nicole.juskowiak@bankhaus-lampe.de

Elke Röhling-Kampmann  
Fon + 49 (0)211 4952-635  
elke.roehling-kampmann@bankhaus-lampe.de

**BANKHAUS LAMPE RESEARCH**

Jägerhofstraße 10 | 40479 Düsseldorf | research@bankhaus-lampe.de | Fon + 49 (0)211 4952-678 | Fax + 49(0)211 4952-49

**HEAD OF EQUITY**

Ralf Menzel  
Fon + 49 (0)211 4952-282  
ralf.menzel@bankhaus-lampe.de

Frank Albrecht  
Fon + 49 (0)211 4952-830  
frank.albrecht@bankhaus-lampe.de

Charlotte Craigie (London)  
Fon + 44 (0)203 405 3299  
cc@lampe-capital.com

Frank Habbig  
Fon + 49 (0)211 4952-868  
frank.habbig@bankhaus-lampe.de

Carla dos Santos Reichert  
Fon + 49 (0)211 4952-786  
carla.reichert@bankhaus-lampe.de

Nils Christoph Becker  
Fon + 49 (0)211 4952-869  
nils.christoph.becker@bankhaus-lampe.de

Tim Deemann  
Fon + 49 (0)211 4952-955  
tim.deemann@bankhaus-lampe.de

Bill Dixon  
Fon + 1 212 218-7414  
bd@ikbrfinance.com

Quinn Raftery  
Fon + 1 212 218-7413  
qr@ikbrfinance.com

Dr. Ulrike Rondorf  
Fon + 49 (0)211 4952-401  
ulrike.rondorf@bankhaus-lampe.de

Theresa Dick  
Fon +49 (0)211 4952-289  
theresa.dick@bankhaus-lampe.de

Michael Gorny  
Fon + 49 (0)211 4952-969  
michael.gorny@bankhaus-lampe.de

Dr. Georg Kanders, Investmentanalyst DVFA  
Fon + 49 (0)211 4952-718  
georg.kanders@bankhaus-lampe.de

Alexandra Schlegel  
Fon + 49 (0)211 4952-328  
alexandra.schlegel@bankhaus-lampe.de

Wolfgang Specht, CEFA  
Fon + 49 (0)211 4952-637  
wolfgang.specht@bankhaus-lampe.de

Stephanie Berghaeuser  
Fon + 49 (0)211 4952-678  
stephanie.berghaeuser@bankhaus-lampe.de

Ian Pulham  
Fon + 49 (0)211 4952-713  
ian.pulham@bankhaus-lampe.de

Nicole Reckin  
Fon + 49 (0)211 4952-128  
nicole.reckin@bankhaus-lampe.de

Justin Barnebeck  
Fon + 49 (0)211 4952-753  
justin.barnebeck@bankhaus-lampe.de

Mary Foster (London)  
Fon + 44 (0)203 405 1039  
mf@lampe-capital.com

Peter Lohren  
Fon + 49 (0)211 4952-782  
peter.lohren@bankhaus-lampe.de

Brigitte Vigener  
Fon + 49 (0)211 4952-834  
brigitte.viegenger@bankhaus-lampe.de

John Blackley (London)  
Fon + 44 (0)203 405 3298  
jb@lampe-capital.com

Silke Neubauer  
Fon + 49 (0)211 4952-221  
silke.neubauer@bankhaus-lampe.de

Per Hallgren (New York, IKBR)  
Fon + 1 212 218 7415  
ph@ikbrfinance.com

**EQUITY STRATEGY**

Dr. Ralf Zimmermann  
Fon + 49 (0)211 4952-841  
ralf.zimmermann@bankhaus-lampe.de

Heiko Feber  
Fon + 49 (0)211 4952-413  
heiko.feber@bankhaus-lampe.de

Sebastian Hein, CIIA, CEFA  
Fon + 49 (0)211 4952-606  
sebastian.hein@bankhaus-lampe.de

Christian Ludwig, CFA  
Fon + 49 (0)211 4952-126  
christian.ludwig@bankhaus-lampe.de

Gordon Schönell, CIIA, CEFA  
Fon + 49 (0)211 4952-455  
gordon.schoenell@bankhaus-lampe.de

Nadine Goertz Campbell  
Fon + 49 (0)211 4952-104  
nadine.goertz@bankhaus-lampe.de

Sandra Rath  
Fon + 49 (0)211 4952-242  
sandra.rath@bankhaus-lampe.de