

Recommendation:

BUY (BUY)

Risk:

MEDIUM (Medium)

Price Target:

EUR 9.00 (10.20)

21 April 2011

Solid growth in the core business

- Yesterday, Geratherm Medical AG published financial figures for FY10. Sales increased by 18% to EUR 17.0m (PY: EUR 14.4m; CBSRe: EUR 18.5m). Growth was driven primarily by Geratherm's Healthcare Diagnostics division which made up the largest part of revenues (FY10: EUR 15.6m; +20% y-o-y). Dynamic growth was also experienced in the Medical Warming Systems segment, which contributed EUR 0.56m to revenues in FY10 (+25.4% y-o-y). However, with the FDA approvals received in FY10, Geratherm's management anticipates an even more aggressive growth in the coming fiscal years. The Cardio/Stroke and Respiratory segments showed lower than expected revenues. Although the atrial fibrillation analyses completed by apoplexy increased by 39.3% to 10,581 analyses during FY10, revenues lowered by -27% to EUR 0.26m. Similarly, the Respiratory segment generated lower than expected revenues of EUR 0.59m (FY09: 0.61m).
- Although operational development within the Healthcare Diagnostics and Medical Warming Systems segments coincided with our estimates, the Cardio/Stroke and Respiratory segments emerged slower than we had anticipated. Consequently, we reduce our sales estimates for FY11E from EUR 23.4m to EUR 20.0m. For FY12E and FY13E we assume sales of EUR 23.2m (EUR 29.2m) and EUR 26.4m (EUR 35.6m) respectively.
- Gross profit increased to EUR 10.6m in FY10, corresponding to a gross margin of roughly 60%. EBIT came in at EUR 2.4m, 5% higher compared to the previous year (CBSRe: EUR 3.1m). The EBIT-margin decreased from 14.9% to 13.2% (CBSRe: 15.8%), reflecting unusually high depreciation amounts caused by amortizations of intangible assets and the introduction of new products as well as the amortization of invested capital due to above-average investments made at the Geschwenda location.
- Accordingly, we reduce our EBIT estimate for FY11E from EUR 3.75m to EUR 2.8m, implying an EBIT-margin of 13.3%. For FY12E and FY13E, our EBIT projections go down from EUR 4.6m to EUR 3.3m and from EUR 5.5m to EUR 3.9m respectively. This translates into an EBIT-margin increasing from 13.7% in 2012E to 14.2% in 2013E.
- We reiterate our BUY recommendation but reduce our price target to EUR 9.00 per share. The price target reduction is attributable to overoptimistic estimates for Geratherm's Cardio/Stroke and Respiratory segments on our part. For Geratherm's core business we are still full of confidence.

Key data

Y/E 31.12., EUR m	2009	2010	2011E	2012E	2013E
Sales	14.4	17.0	20.0	23.2	26.4
Total sales	15.0	17.8	20.9	24.2	27.6
Gross profit	8.7	10.6	12.0	14.2	16.2
EBIT	2.2	2.4	2.8	3.3	3.9
Net income	2.6	2.5	3.5	4.0	4.0
EPS	0.60	0.55	0.70	0.80	0.81
CPS	0.60	0.09	0.61	0.70	0.59
EPS in EUR	0.60	0.55	0.70	0.80	0.81
Gross profit margin	57.9%	59.7%	57.5%	58.5%	58.6%
EBIT margin	14.9%	13.2%	13.3%	13.7%	14.2%
EV/EBIT	15.7	14.9	12.6	10.6	8.9
P/E	14.6	14.9	10.9	9.6	9.5

Source: Geratherm Medical AG, CBS Research AG

Share price (dark) vs. TecDAX



Source: CBS Research AG, Bloomberg

Change	2011E		2012E		2013E	
	new	old	new	old	new	old
Sales	20.0	23.4	23.2	29.2	26.4	35.6
EBIT	2.8	3.7	3.3	4.6	3.9	5.5
EPS	0.70	0.90	0.80	1.00	0.81	0.92

www.geratherm.com

WKN: 549562

Reuters: GMEG.DE

Sector: Healthcare-Products

ISIN: DE0005495626

Bloomberg: GME GY

Short company profile

Geratherm is an internationally operating medical technology company. The company produces temperature and blood pressure monitors.

Share data:

Share price (last closing price, EUR):	7.66
Shares outstanding (m):	4.95
Market capitalisation (EURm):	37.92
Enterprise value (EURm):	35.04
Ø daily trading volume (3 m., no. of shares):	2,096

Performance data:

High 52 weeks (EUR):	9.10
Low 52 weeks (EUR):	6.52
Absolute performance (12 months):	-9%
Relative performance: (vs. TecDAX)	
1 month	-3.7%
3 months	-5.4%
6 months	-19.3%
12 months	-19.4%

Shareholders:

GMF Beteiligungs-beratung GmbH	52.0%
Freefloat	48.0%

Financial calendar:

1Q Results	25 May 2011
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Authors: **Enid Omerovic** (Analyst)
Igor Kim (Analyst)

Close Brothers Seydler Research AG

Phone: +49 (0) 69-977 84 56 0

Email: research@cbseydlerresearch.ag

www.cbseydlerresearch.ag

Appendix

	Weighting factor	Fair value per share (EUR)
Peer group valuation	25.0%	7.93
DCF valuation	75.0%	9.40
Fair value per share (EUR)		9.03

Peer group: Margins

Company name	EBITDA margin			EBIT margin			Net margin		
	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E
COVIDIEN PLC	26.7%	26.9%	27.9%	21.5%	22.4%	22.8%	16.7%	17.5%	18.2%
MEDISANA AG	5.5%	6.2%	6.6%	4.7%	5.5%	5.9%	2.4%	3.3%	3.7%
OMRON CORP	12.5%	13.3%	14.4%	7.9%	8.7%	10.0%	4.8%	5.5%	6.1%
DRAEGERWERK AG - PFD	11.2%	11.8%	12.3%	8.5%	9.0%	9.5%	4.2%	4.6%	5.1%
CARL ZEISS MEDITEC AG	16.3%	16.7%	16.8%	13.5%	13.9%	14.2%	8.5%	9.0%	9.4%
ALERE INC	27.7%	28.2%	27.4%	13.6%	14.7%	22.7%	11.4%	12.2%	12.5%
ECKERT & ZIEGLER STRAHLEN UN	25.7%	26.5%	28.8%	16.8%	17.6%	19.9%	9.3%	10.0%	11.7%
CAREFUSION CORP	22.0%	22.9%	23.7%	17.1%	17.8%	18.6%	10.2%	11.2%	12.0%
MEVIS MEDICAL SOLUTIONS AG	25.2%	27.7%	34.9%	-2.1%	1.6%	6.8%	-3.9%	-0.3%	6.7%
RESMED INC	28.3%	28.3%	28.2%	22.8%	23.4%	24.1%	18.4%	18.3%	18.5%
STRATEC BIOMEDICAL AG	22.2%	22.6%	22.8%	18.9%	19.6%	19.9%	14.3%	14.9%	15.3%
Average	20.3%	21.0%	22.2%	13.0%	14.0%	15.9%	8.8%	9.7%	10.8%
Median	22.2%	22.9%	23.7%	13.6%	14.7%	18.6%	9.3%	10.0%	11.7%

Peer Group: Multiples

Company name	EV / EBITDA			EV / EBIT			P / E		
	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E
COVIDIEN PLC	9.9	9.4	8.6	12.3	11.3	10.5	14.2	12.9	11.8
MEDISANA AG	9.1	7.3	6.3	10.7	8.2	7.0	16.5	11.5	9.1
OMRON CORP	6.3	5.7	5.0	10.0	8.6	7.2	15.9	n.a.	11.1
DRAEGERWERK AG - PFD	2.5	2.3	2.1	3.3	3.0	2.7	13.0	11.1	10.0
CARL ZEISS MEDITEC AG	7.7	7.1	6.7	9.3	8.6	7.9	19.0	16.8	15.2
ALERE INC	9.3	8.5	8.2	18.9	16.4	9.9	14.2	12.6	11.3
ECKERT & ZIEGLER STRAHLEN UN	5.0	4.6	4.0	7.7	7.0	5.9	13.9	12.3	10.0
CAREFUSION CORP	8.1	7.4	6.9	10.5	9.5	8.8	18.1	15.6	14.1
MEVIS MEDICAL SOLUTIONS AG	8.5	7.6	5.8	n.m.	n.m.	29.6	n.m.	n.m.	30.9
RESMED INC	13.0	11.4	9.9	16.1	13.7	11.6	22.5	20.0	17.1
STRATEC BIOMEDICAL AG	13.3	11.0	9.4	15.7	12.7	10.7	21.1	17.1	14.3
Average	8.4	7.5	6.6	11.4	9.9	10.2	16.8	14.4	14.1
Median	8.5	7.4	6.7	10.6	9.0	8.8	16.2	12.9	11.8

EURm, except EPS (EUR)	EBITDA			EBIT			EPS		
	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E
Geratherm Medical AG: Financial estimates CBS Research	3.4	4.0	4.4	2.8	3.3	3.9	0.70	0.80	0.81
Applied multiples: Peer group median	8.5	7.4	6.7	10.6	9.0	8.8	16.2	12.9	11.8
Enterprise value (derived)	28.8	29.2	29.4	29.5	29.9	34.6	-	-	-
+ Excess cash and marketable securities	5.5								
- Financial debt and minority interest	-2.6								
Market capitalization (derived)	31.7	32.1	32.3	32.4	32.8	37.4	56.3	51.2	47.1
Average	39.3								
Fair market capitalization	39.3								
Number of shares (m)	4.95								
Fair value per share (EUR)	7.93								

Source: CBS Research AG; Bloomberg

Discounted Cash Flow Model

EURm	PHASE 1			PHASE 2						PHASE 3	
	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	∞
Total sales	20.9	24.2	27.6	31.2	34.9	38.8	42.7	46.6	50.4	54.0	
YoY growth	17.4%	15.8%	14.0%	13.0%	12.0%	11.1%	10.1%	9.2%	8.2%	7.0%	
EBIT	2.8	3.3	3.9	4.5	4.9	5.5	6.0	6.6	7.1	7.6	
EBIT margin	13.3%	13.7%	14.2%	14.5%	14.1%	14.1%	14.1%	14.1%	14.1%	14.0%	
Income tax on EBIT (cash tax rate)	-0.2	-0.3	-0.8	-1.1	-1.4	-1.5	-1.7	-1.8	-2.0	-2.1	
Depreciation and amortisation	0.6	0.7	0.5	0.2	0.2	0.3	0.3	0.3	0.3	0.4	
Other non-cash items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Change in net working capital	-0.7	-1.0	-0.4	-0.5	-0.5	-0.5	-0.5	-0.6	-0.5	-0.6	
Net capital expenditure	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	
Free cash flow	2.0	2.3	2.8	2.7	2.9	3.3	3.8	4.1	4.6	4.8	
Present values	1.7	2.0	2.2	1.9	1.8	1.9	1.9	1.9	1.9	2.1	24.4
Present value Phase 1	5.9										
Present value Phase 2	13.4										
Present value Phase 3	24.4										
Total present value	43.7										
+ Excess cash/Non-operating assets	5.5										
- Financial debt	-2.6										
Fair value of equity	46.5										
Number of shares (m)	4.95										
Fair value per share (EUR)	9.40										

Risk free rate	3.50%	Target equity ratio	85.0%
Equity risk premium	6.00%	Beta (fundamental)	1.20
Debt risk premium	3.00%	WACC	9.80%
Tax shield	28.0%	Terminal growth	2.0%

Sensitivity analysis						
		Terminal growth (Phase 3)				
		1.0%	1.5%	2.0%	2.5%	3.0%
WACC	8.8%	10.05	10.45	10.91	11.43	12.05
	9.3%	9.39	9.72	10.10	10.53	11.04
	9.8%	8.80	9.08	9.40	9.76	10.18
	10.3%	8.27	8.51	8.78	9.09	9.44
	10.8%	7.80	8.01	8.24	8.50	8.79

Source: CBS Research AG

Geratherm Medical AG

Profit and loss account

	IFRS	EURm	2008	2009	2010	2011E	2012E	2013E
Sales			10.08	14.39	16.98	19.99	23.15	26.40
YoY growth			14.5%	42.7%	18.0%	17.7%	15.8%	14.0%
Change in inventory of semi-finished and finished products			-0.39	0.06	0.36	0.06	0.06	0.07
Other capitalized own work			0.33	0.06	0.00	0.38	0.44	0.50
Other operating income			0.33	0.53	0.45	0.45	0.52	0.60
Total sales			10.34	15.04	17.78	20.88	24.18	27.56
YoY growth			10.5%	45.4%	18.2%	17.4%	15.8%	14.0%
Cost of raw materials, consumables and goods for resale			-4.06	-6.09	-6.81	-8.40	-9.49	-10.82
Costs of purchased services			-0.24	-0.36	-0.48	-0.53	-0.58	-0.63
Gross profit			6.09	8.71	10.62	12.00	14.15	16.16
as % of Total sales			58.9%	57.9%	59.7%	57.5%	58.5%	58.6%
Personnel expenses			-2.56	-3.10	-3.90	-4.60	-5.56	-6.47
as % of Total sales			24.7%	20.6%	22.0%	23.0%	24.0%	24.5%
Amortization & Depreciation			-0.30	-0.37	-0.60	-0.63	-0.65	-0.50
as % of Total sales			2.9%	2.5%	3.3%	3.0%	2.7%	1.8%
Other operating expenses			-2.64	-3.01	-3.76	-4.00	-4.63	-5.28
as % of Total sales			25.5%	20.0%	20.0%	20.0%	20.0%	20.0%
EBIT			0.60	2.24	2.35	2.78	3.31	3.92
as % of Total sales			5.8%	14.9%	13.2%	13.3%	13.7%	14.2%
Net financial result			-3.50	0.56	0.98	1.01	1.03	1.07
as % of Total sales			-33.8%	3.7%	5.5%	4.8%	4.2%	3.9%
EBT			-2.90	2.80	3.34	3.78	4.34	4.99
as % of Total sales			-28.1%	18.6%	18.8%	18.1%	17.9%	18.1%
Income taxes			-0.12	-0.19	-0.79	-0.31	-0.37	-1.00
as % of EBT			4.0%	6.9%	23.7%	8.2%	8.6%	20.0%
EAT (Earnings after tax)			-3.02	2.60	2.55	3.47	3.96	3.99
as % of Total sales			-29.2%	17.3%	14.3%	16.6%	16.4%	14.5%
Results of the minority interests			-0.10	-0.08	-0.17	0.00	0.00	0.00
Results of the shareholders of the parent company			-2.92	2.68	2.71	3.47	3.96	3.99
as % of Total sales			-28.2%	17.8%	15.3%	16.6%	16.4%	14.5%
Shares outstanding (m), weighted			4.50	4.50	4.87	4.95	4.95	4.95
Basic earnings per share (EUR)			-0.65	0.60	0.55	0.70	0.80	0.81

Source: CBS Research AG; Geratherm Medical AG

Geratherm Medical AG

Balance sheet

	IFRS	EURm	2008	2009	2010	2011E	2012E	2013E
Assets								
Noncurrent assets			2.81	3.36	3.98	3.78	3.54	3.44
as % of total assets			18.6%	14.8%	14.8%	13.2%	11.5%	10.4%
Development costs			0.92	0.92	0.67	0.42	0.17	0.00
Software			0.05	0.04	0.04	0.03	0.02	0.01
Goodwill			0.08	0.08	0.08	0.08	0.08	0.08
Land, land rights and buildings			1.27	1.20	1.13	1.05	0.98	0.90
Technical equipment and machinery			0.30	0.73	1.25	1.34	1.37	1.43
Other equipment, factory and office equipment			0.15	0.15	0.26	0.29	0.35	0.45
Construction in process			0.04	0.23	0.57	0.57	0.57	0.57
Current assets			9.59	16.67	20.89	23.47	26.90	29.25
as % of total assets			63.7%	73.6%	77.5%	82.1%	87.2%	88.4%
Trade receivables			1.98	2.36	3.20	3.72	4.17	4.68
Tax receivables			0.06	0.10	0.33	0.33	0.33	0.33
Other assets			0.10	0.32	0.53	0.53	0.53	0.53
Inventories			3.08	2.82	4.80	5.04	5.80	5.92
Securities			2.99	5.36	6.50	6.50	6.50	6.50
Cash and cash equivalents			1.37	5.70	5.52	7.35	9.56	11.28
Deferred taxes			2.66	2.63	2.09	1.34	0.40	0.40
as % of total assets			17.7%	11.6%	7.8%	4.7%	1.3%	1.2%
Total assets			15.06	22.65	26.96	28.59	30.84	33.09
Shareholders' equity and liabilities								
Shareholders' equity			12.65	17.67	20.52	22.11	24.10	26.11
as % of total equity and liabilities			84.0%	78.0%	76.1%	77.3%	78.1%	78.9%
Subscribed capital			4.50	4.50	4.95	4.95	4.95	4.95
Capital reserves			7.57	7.57	10.58	10.58	10.58	10.58
Other reserves			0.53	5.60	5.09	6.58	8.57	10.59
Minority interests			0.05	0.00	-0.10	0.00	0.00	0.00
Noncurrent Liabilities			0.92	3.07	2.75	2.75	2.75	2.75
as % of total equity and liabilities			6.1%	13.6%	10.2%	9.6%	8.9%	8.3%
Liabilities to banks			0.00	2.00	1.50	1.50	1.50	1.50
Accrued investment subsidies			0.52	0.61	0.73	0.73	0.73	0.73
Other long-term liabilities			0.41	0.47	0.52	0.52	0.52	0.52
Current Liabilities			1.49	1.91	3.69	3.73	3.99	4.23
as % of total equity and liabilities			9.9%	8.4%	13.7%	13.0%	12.9%	12.8%
Liabilities to banks			0.67	0.44	1.13	1.13	1.13	1.13
Payments on accounts			0.00	0.08	0.24	0.24	0.24	0.24
Trade payables			0.36	0.71	1.13	1.16	1.42	1.66
Tax liabilities			0.04	0.15	0.45	0.45	0.45	0.45
Other short-term liabilities			0.42	0.53	0.75	0.75	0.75	0.75
Total equity and liabilities			15.06	22.65	26.96	28.59	30.84	33.09

Source: CBS Research AG; Geratherm Medical AG

Geratherm Medical AG

Cash flow statement

	IFRS	EURm	2008	2009	2010	2011E	2012E	2013E
Net income			-3.02	2.60	2.55	3.47	3.96	3.99
Depreciation and amortization			0.30	0.37	0.60	0.63	0.65	0.50
Decrease in deferred taxes			0.10	0.04	0.53	0.75	0.94	0.00
Income from security trading			-0.49	-1.16	-1.18	-1.18	-1.18	-1.20
Loss from valuation of securities			4.02	0.50	0.05	0.05	0.05	0.05
Increase/decrease in Inventories			-0.15	0.26	-1.98	-0.24	-0.76	-0.13
Increase/decrease in trade receivables			-0.03	-0.65	-1.28	-0.52	-0.46	-0.51
Change in current liabilities and other liabilities			-0.30	0.59	1.04	0.03	0.26	0.24
Increase in accrued investment subsidies			-0.04	0.09	0.12	0.00	0.00	0.00
Increases/decreases in other costs affecting income/expenses			0.09	0.06	-0.03	0.00	0.00	0.00
Cash flow from operating activities			0.47	2.71	0.43	3.00	3.48	2.94
Cash outflow for investments in fixed assets			-0.72	-0.83	-1.22	-0.42	-0.41	-0.40
Monies received based on financial assets			1.00	2.73	0.16	1.13	1.13	1.15
Cash outflow based on financial assets			-0.99	-2.09	-3.21	0.00	0.00	0.00
Profit and loss from revaluation of securities			0.00	0.00	1.92	0.00	0.00	0.00
Cash flow from investing activities			-0.72	-0.19	-2.36	0.71	0.72	0.75
Increase in loan liabilities			0.67	1.77	0.19	0.00	0.00	0.00
Inflow from long-term liabilities			0.15	0.06	0.06	0.00	0.00	0.00
Dividend payments			-1.35	0.00	-1.98	-1.98	-1.98	-1.98
Dividend payout to minorities			-0.01	-0.02	0.00	0.00	0.00	0.00
Cash inflow from minority interests			0.07	0.00	0.02	0.10	0.00	0.00
Net incoming payment from capital increase			0.00	0.00	3.46	0.00	0.00	0.00
Cash flow from financing activities			-0.47	1.81	1.75	-1.88	-1.98	-1.98
Total change in cash and cash equivalents			-0.71	4.33	-0.18	1.83	2.22	1.71
Cash and cash equivalents at the start of the period			2.08	1.37	5.70	5.52	7.35	9.56
Cash and cash equivalents at the end of the period			1.37	5.70	5.52	7.35	9.56	11.28

Source: CBS Research AG; Geratherm Medical AG

Research



Schillerstrasse 27 - 29
60313 Frankfurt am Main

Phone: +49 (0)69 – 977 8456-0

Roger Peeters Member of the Board	+49 (0)69 -977 8456- 12 Roger.Peeters@cbseydlerresearch.ag	Kristina Kardum	+49 (0)69 -977 8456- 21 Kristina.Kardum@cbseydlerresearch.ag
Martin Decot	+49 (0)69 -977 8456- 13 Martin.Decot@cbseydlerresearch.ag	Igor Kim	+49 (0)69 -977 8456- 15 Igor.Kim@cbseydlerresearch.ag
Rabeya Khan	+49 (0)69 -977 8456- 10 Rabeya.Khan@cbseydlerresearch.ag	Manuel Martin	+49 (0)69 -977 8456- 16 Manuel.Martin@cbseydlerresearch.ag
Ralf Marinoni	+49 (0)69 -977 8456- 17 Ralf.Marinoni@cbseydlerresearch.ag	Marcus Silbe	+49 (0)69 -977 8456- 14 Marcus.Silbe@cbseydlerresearch.ag
Enid Omerovic	+49 (0)69 -977 8456- 19 Enid.Omerovic@cbseydlerresearch.ag	Veysel Taze	+49 (0)69 -977 8456- 18 Veysel.Taze@cbseydlerresearch.ag

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Schillerstrasse 27 – 29
60313 Frankfurt am Main

Phone: +49 (0)69 – 9 20 54-400



25 Dowgate Hill
London EC4R 2GA

Raimar Bock Head of Sales	+49 (0)69 -9 20 54-115 Raimar.Bock@cbseydler.com	Rüdiger Eich (Germany, Switzerland)	+49 (0)69 -9 20 54-119 Ruediger.Eich@cbseydler.com
Henriette Domhardt (Germany)	+49 (0)69 -9 20 54-137 Henriette.Domhardt@cbseydler.com	Klaus Korzilius (Austria, Benelux, Germany)	+49 (0)69 -9 20 54-114 Klaus.Korzilius@cbseydler.com
Uwe Gerhardt (Germany, Switzerland)	+49 (0)69 -9 20 54-168 Uwe.Gerhardt@cbseydler.com	Markus Laifle (Execution)	+49 (0)69 -9 20 54-120 Markus.Laifle@cbseydler.com
Stefan Krewinkel (Execution, UK)	+49 (0)69 -9 20 54-118 Stefan.Krewinkel@cbseydler.com	Janine Theobald (Austria, Benelux, Germany)	+49 (0)69 -9 20 54-106 Janine.Theobald@cbseydler.com
Bruno de Lencquesaing (Benelux, France)	+49 (0)69 -9 20 54-116 Bruno.deLencquesaing@cbseydler.com		

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22.11.2010	BUY (BUY)	EUR 8.16	EUR 10.20 (EUR 10.20)
21.04.2011	BUY (BUY)	EUR 7.66	EUR 9.00 (EUR 10.20)

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Graurheindorferstraße 108

53117 Bonn

and

Lurgiallee 12

60439 Frankfurt

 **Close Brothers Seydler**
Research AG

Schillerstrasse 27 - 29

60313 Frankfurt am Main

www.cbseydlerresearch.ag

Tel.: 0049 - (0)69 - 97 78 45 60