



Q3'19e – Muted quarter ahead, downgrade to Hold

We expect a muted development in Q3e after the management flagged the lower end of its FY 2019e guidance range and the market environment has not turned into a positive direction since then. Global economic uncertainties should continue to weigh on business sentiment, mainly in the automotive business. We adjust our estimates (included merger related one-off costs). The current share price development decoupled clearly from First Sensor's operating development, as some investors are looking for higher compensation from TE. We do not rule out, that TE intends to increase its stake in First Sensors (c.72% of the shares were tendered), which would allow some further upside for shareholders. Long-term perspectives with TE should be much brighter for First Sensor. Due to increased long-term estimates, our TP moves from EUR 28.80 to EUR 32.50. However, given the downside potential of c.8%, we downgrade the shares from Buy to Hold.

Q3e – Almost unchanged revenues and declining profits

We expect a similar development in Q3e as in the last quarter. The revenue development in Q3e should be muted due to global economic uncertainties. In addition, burdening facts from Q2 like destocking and project delays at customer side are not expected to have fully disappeared, in our view. Bear in mind, that order intake in Q2 was down by 20% yoy and 7% yoy in H1. Consequently, we forecast lower earnings and margins. For the adj. EBIT (w/o TE related costs), we estimate EUR 3.6m and an adj. EBIT margin of 8.9% (-240 bps yoy). The ongoing merger with TE should lead to further one-off costs (H1: EUR 4m), which is why First Sensor is expected to distinguish between reported and adj. earnings. At Q2 reporting, the management specified its guidance and flagged the lower end of its guidances ranges for revenue and margin.

EURm	2017	2018	2019e	2020e	2021e
Revenues	148	155	161	176	195
EBITDA	20	21	17	26	29
EBIT	11	12	6	16	18
EPS	0.40	0.72	0.27	0.96	1.12
EPS adj	0.25	0.70	0.82	0.96	1.12
DPS	0.16	0.20	0.20	0.20	0.20
EV/EBITDA	12.5	11.2	22.5	14.3	12.3
EV/EBIT	23.3	19.5	65.5	23.5	20.0
P/E adj	86.1	30.4	43.0	36.7	31.3
P/B	2.75	2.49	4.07	3.74	3.41
ROE (%)	5.3	8.8	3.1	10.6	11.4
Div yield (%)	0.7	0.9	0.6	0.6	0.6
Net debt	23	19	17	10	2

Source: Pareto

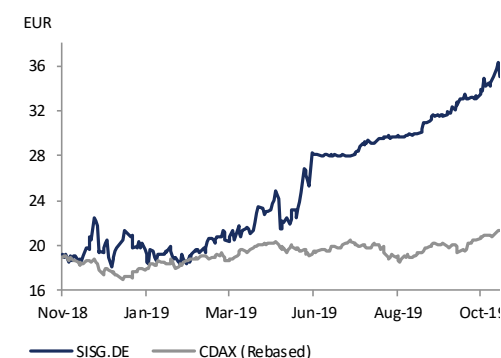
Target price (EUR)	33
Share price (EUR)	35

Forecast changes	2019e	2020e	2021e
%			
Revenues	(4)	(2)	2
EBITDA	(32)	1	7
EBIT adj	(8)	(1)	4
EPS reported	(69)	2	9
EPS adj	(6)	2	9

Source: Pareto

Ticker	SISG.DE, SIS GR
Sector	Hardware & Equipment
Shares fully diluted (m)	10.2
Market cap (EURm)	359
Net debt (EURm)	17
Minority interests (EURm)	1
Enterprise value 19e (EURm)	377
Free float (%)	60

Performance



Source: Factset

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Analysts

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Preview Q3'19e

The results for Q3e are due on November 14th 2019.

Exhibit 1: Preview Q3/9m 2019e

EUR m	Q3 2019e	Q3 2018	% yoy	9M 2019e	9M 2018	% yoy
Revenues	40.9	40.8	0%	122.2	115.1	6%
Industrial	22.0	20.7	7%	65.6	57.8	14%
Medical	9.1	9.5	-5%	27.7	25.8	7%
Mobility	9.8	10.5	-7%	28.9	31.5	-8%
EBITDA	4.8	6.9	-31%	14.3	15.4	-7%
EBITDA margin	11.7%	17.0%	-533 BP	11.7%	13.4%	-165 BP
Adjusted EBIT margin	3.6	4.6	-21%	10.4	8.6	20%
Adjusted EBIT margin	8.9%	11.3%	-238 BP	8.5%	7.5%	137 BP
EBT	1.7	4.2	-60%	4.9	7.4	-34%
EBT margin	4.1%	10.4%	-628 BP	4.0%	6.4%	-234 BP
Net income	1.2	3.4	-66%	3.8	5.7	-34%

Source: First Sensor, Pareto Securities Research

Exhibit 2: FY 2019e guidance vs. PAsE

	FY 2018	Guidance FY 2019e	Pareto	Delta*
Revenues	155	160-170	161	0.6%
% yoy			3.7%	
Adjusted EBIT	12.2	13.6	13.8	1.2%
Adjusted EBIT margin	7.9%	8.5%-9.5%	8.6%	5 BP
* compared to the lower end of the ranges				

Source: First Sensor, Pareto Securities Research

Estimates changes

Given the deterioration of the overall economic situation and the respective effects on customer's order behaviour, First Sensor specified its guidance for FY 2019e. The management now expects to end up at the lower end of the respective guidance ranges. First Sensors guides revenues in the range of EUR 160m to EUR 170m and adj. EBIT margin in the range of 8.5% to 9.5%.

Exhibit 3: Changes to our estimates

	2019e			2020e			2021e		
	Old	New	Chg.	Old	New	Chg.	Old	New	Chg.
Revenues	167.0	160.9	-3.7%	179.0	176.2	-1.6%	192.0	194.9	1.5%
Adjusted EBIT	14.9	13.8	-7.7%	15.9	15.7	-0.8%	17.3	18.1	4.3%
Adjusted EBIT margin	8.9%	8.6%	-37 BP	8.9%	8.9%	7 BP	9.0%	9.3%	24 BP
EBT	13.0	3.9	-70.2%	14.0	13.8	-0.9%	15.5	16.2	4.8%
Net result	8.9	2.7	-69.3%	9.6	9.8	1.9%	10.6	11.5	8.5%

Source: Pareto Securities Research

First Sensor argues that customers with higher sales contribution in previous years are now destocking, while other customers are shifting projects for an unpredictable period of time.

To reflect the specified guidance, we downgrade our estimates for revenue and adj. EBIT in FY 2019e by 4% and 8%, respectively. However, on reported base, our estimates cut is more severe due to the one-off costs in conjunction with the TE takeover. We forecast for FY 2019e the one-off costs to amount to EUR 8m, after EUR 4.4m already occurred in H1 2019.

We also slightly lowered our estimates for FY 2020e as we assume that the order behaviour of customers to change rather slowly and to take some time to show positive effects.

Valuation

We continue to derive our TP based on our DCF model. Our TP moves from EUR 28.80 to EUR 32.50, as higher long-term expectations outweigh the negative impact from the lowered short-term estimates.

Exhibit 4: DCF model

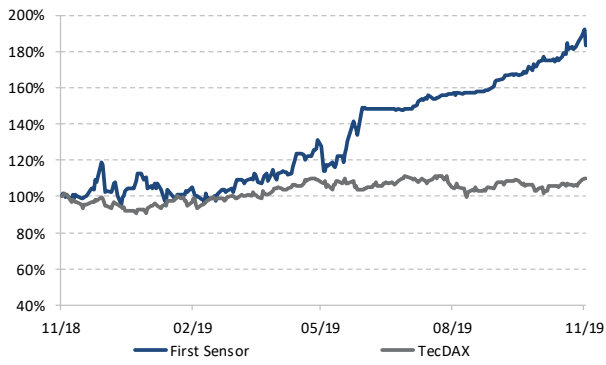
EUR m	Phase I					Phase II					Phase III	
	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e		
Revenues	161	176	195	218	242	267	292	317	342	366		
growth rate	3.7%	9.5%	10.6%	12.0%	11.0%	10.2%	9.4%	8.6%	7.8%	7.0%		
EBIT	6	16	18	22	25	28	30	32	35	37		
EBIT margin	3.6%	8.9%	9.3%	9.9%	10.4%	10.3%	10.3%	10.2%	10.1%	10.0%		
Tax	-1.6	-4.4	-5.1	-6.0	-7.1	-7.7	-8.4	-9.0	-9.7	-10.1		
Tax rate	28%	28%	28%	28%	28%	28%	28%	28%	28%	28%		
Depr. & Amort.	11.0	10.2	11.3	12.7	14.1	12.9	12.7	13.1	13.7	14.2		
% of sales	6.8%	5.8%	5.8%	5.8%	5.8%	4.8%	4.4%	4.1%	4.0%	3.9%		
Capex	-8.0	-8.8	-9.2	-9.8	-10.4	-11.0	-11.8	-12.7	-13.6	-14.5		
% of sales	5.0%	5.0%	4.7%	4.5%	4.3%	4.1%	4.0%	4.0%	4.0%	4.0%		
Change in WC & P	-1.2	-2.7	-3.3	-2.5	-1.4	-1.5	-1.6	-1.7	-1.9	-2.0		
% of sales	0.7%	1.5%	1.7%	1.1%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%		
Free Cash Flow	5.9	10.0	11.8	15.9	20.4	20.2	20.9	21.9	23.1	24.4	466.6	
growth rate	nm	69.8%	17.9%	34.4%	28.2%	-0.8%	3.3%	4.8%	5.5%	5.4%	2.5%	
Present Value FCF	5.8	9.2	10.1	12.6	14.9	13.7	13.2	12.8	12.5	12.3	234.7	
PV Phase I		53				Risk free rate	3.50%		Targ. equity ratio	80%		
PV Phase II		64				Premium Equity	5.00%		Beta	1.1		
PV Phase III		235				Premium Debt	2.00%		WACC	7.80%		
Enterprise value		352				Sensitivity		Growth in phase III				
- Net Debt (Cash)		19						1.5%	2.0%	2.5%	3.0%	3.5%
- Pension Provisions		0				7.02%		33.2	35.6	38.6	42.3	47.0
- Minorities & Peripherals		1				7.41%		30.7	32.8	35.2	38.2	42.0
+ MV of financial assets						WACC	7.80%	28.6	30.3	32.4	34.9	37.9
- Paid-out dividends for last FY		0				8.19%		26.7	28.2	29.9	32.0	34.5
+/- Other EV items						8.58%		25.0	26.3	27.8	29.5	31.6
Equity value		331										
Number of shares		10.2										
Value per share (€)		32.4										
Current Price (€)		35.1										
Upside		-8%										

Source: Pareto Securities Research

The shares continue to outperform the market, despite deteriorating operative development and dampened outlook by the management. We consider the recent strong performance to be mainly related to investors' expectations to receive a higher compensation from TE in a further offer. We do not expect that in any time soon but would not rule out higher compensations in the future.

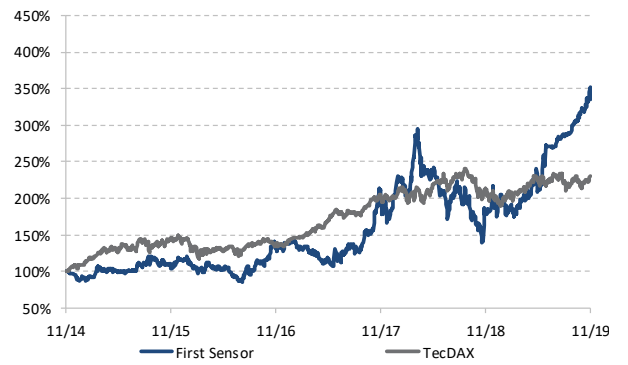
However, after having reached c. 72% of total shares, TE and First Sensor should now be concentrated on the closing of the merger, which is expected at mid-2020 at the latest. Final approvals from Germany and the US are yet not received. However, we do not have major anti-trust concerns.

Exhibit 5: SIS shares vs. TecDAX (12 months)



Source: FactSet, Pareto Securities Research

Exhibit 6: SIS shares vs. TecDAX (5 years)



Source: FactSet, Pareto Securities Research

PROFIT & LOSS (fiscal year) (EURm)	2014	2015	2016	2017	2018	2019e	2020e	2021e
Revenues	124	138	150	148	155	161	176	195
EBITDA	14	11	19	20	21	17	26	29
Depreciation & amortisation	(9)	(10)	(9)	(9)	(9)	(11)	(10)	(11)
EBIT	4	1	10	11	12	6	16	18
Net interest	(2)	(2)	(1)	(3)	(2)	(2)	(2)	(2)
Other financial items	-	-	-	-	-	-	-	-
Profit before taxes	2	(1)	9	7	10	4	14	16
Taxes	(1)	(0)	(3)	(3)	(3)	(1)	(4)	(5)
Minority interest	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Net profit	0	(2)	6	4	7	3	10	11
EPS reported	0.02	(0.17)	0.57	0.40	0.72	0.27	0.96	1.12
EPS adjusted	0.02	(0.19)	0.62	0.25	0.70	0.82	0.96	1.12
DPS	-	-	-	0.16	0.20	0.20	0.20	0.20
BALANCE SHEET (EURm)	2014	2015	2016	2017	2018	2019e	2020e	2021e
Tangible non current assets	36	35	33	36	39	40	42	43
Other non-current assets	52	50	49	49	47	43	40	36
Other current assets	42	47	48	49	54	55	59	64
Cash & equivalents	15	22	24	26	29	31	38	46
Total assets	145	153	154	160	168	169	179	190
Total equity	72	71	77	82	89	90	97	107
Interest-bearing non-current debt	41	47	44	32	44	48	48	48
Interest-bearing current debt	3	8	5	16	4	-	-	-
Other Debt	29	28	28	29	32	32	33	35
Total liabilities & equity	145	153	154	160	168	169	179	190
CASH FLOW (EURm)	2014	2015	2016	2017	2018	2019e	2020e	2021e
Cash earnings	8	(2)	15	14	16	11	15	16
Change in working capital	2	6	(1)	2	0	1	3	3
Cash flow from investments	(2)	(5)	(5)	(13)	(10)	(8)	(9)	(9)
Cash flow from financing	(3)	10	(6)	0	(3)	(2)	(2)	(2)
Net cash flow	3	7	2	2	3	3	7	8
CAPITALIZATION & VALUATION (EURm)	2014	2015	2016	2017	2018	2019e	2020e	2021e
Share price (EUR end)	9.8	12.4	14.5	21.8	21.3	35.1	35.1	35.1
Number of shares end period	10	10	10	10	10	10	10	10
Net interest bearing debt	30	33	24	23	19	17	10	2
Enterprise value	128	160	173	246	238	377	371	362
EV/Sales	1.0	1.2	1.2	1.7	1.5	2.3	2.1	1.9
EV/EBITDA	9.5	14.1	8.9	12.5	11.2	22.5	14.3	12.3
EV/EBIT	31.5	-	17.3	23.3	19.5	65.5	23.5	20.0
P/E reported	-	-	25.6	53.8	29.4	-	36.7	31.3
P/E adjusted	-	-	23.5	86.1	30.4	43.0	36.7	31.3
P/B	1.4	1.8	1.9	2.8	2.5	4.1	3.7	3.4
FINANCIAL ANALYSIS & CREDIT METRICS	2014	2015	2016	2017	2018	2019e	2020e	2021e
ROE adjusted (%)	0.2	-	8.4	3.2	8.4	9.3	10.4	11.2
Dividend yield (%)	-	-	-	0.7	0.9	0.6	0.6	0.6
EBITDA margin (%)	10.9	8.3	12.9	13.3	13.7	10.4	14.7	15.1
EBIT margin (%)	3.3	0.9	6.7	7.2	7.9	3.6	8.9	9.3
NIBD/EBITDA	2.19	2.90	1.26	1.16	0.92	1.01	0.40	0.06
EBITDA/Net interest	5.66	4.76	15.31	5.77	11.54	8.92	13.68	15.95

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Appendix A

Disclosure requirements pursuant to the Norwegian Securities Trading Regulations section 3-10 (2) and section 3-11 (1), letters a-b

The below list shows companies where Pareto Securities AS - together with affiliated companies and/or persons – own a portion of the shares exceeding 5% of the total share capital in any company where a recommendation has been produced or distributed by Pareto Securities AS.

Companies	No. of shares	Holdings in %	Companies	No. of shares	Holdings in %
Helgeland Sparebank	2,010,630	9.63%	SpareBank 1Østfold Akersl	1,140,010	9.20%
Pareto Bank ASA	13,672,650	19.57%	Sparebanken Vest	4,507,960	7.64%

Pareto Securities AS or its affiliates own as determined in accordance with Section 13(d) of the US Exchange Act, 1% or more of the equity securities of:

Companies	No. of shares	Holdings in %	Companies	No. of shares	Holdings in %
Helgeland Sparebank	2,010,630	9.63%	SpareBank 1Østfold Akersl	1,140,010	9.20%
Pareto Bank ASA	13,672,650	19.57%	Sparebanken Møre	305,239	3.09%
Selvaag Bolig ASA	2,172,147	2.32%	Sparebanken Sør	433,149	2.77%
SpareBank 1BV	1,650,920	2.62%	Sparebanken Vest	4,507,960	7.64%
SpareBank 1Nord-Norge	3,113,087	3.10%	Totens Sparebank	79,246	12.9%
SpareBank 1SMN	1,878,192	14.5%			

Pareto Securities AS may hold financial instruments in companies where a recommendation has been produced or distributed by Pareto Securities AS in connection with rendering investment services, including Market Making.

Please find below an overview of material interests in shares held by employees in Pareto Securities AS, in companies where a recommendation has been produced or distributed by Pareto Securities AS. "By material interest" means holdings exceeding a value of NOK 50 000.

Company	Analyst holdings*	Total holdings	Company	Analyst holdings*	Total holdings	Company	Analyst holdings*	Total holdings
AF Gruppen	0	18,475	Helgeland Sparebank	0	4,127	SailMar	0	280
Aker	0	1,021	Höegh LNG	0	3,890	Sandnes Sparebank	0	23,832
Aker BP	0	8,560	Jæren Sparebank	0	500	Scatec Solar	0	35,635
AKVA Group	0	2,100	Komplett Bank	0	108,913	Schibsted ASA B Aksjer	0	453
Archer	0	38,730	Kongsberg Gruppen	0	34,051	Seadrill	0	11,722
Atlantic Sapphire	0	3,805	KWS	75	75	Selvaag Bolig	0	3,000
Avance Gas	0	4,580	Lerøy Seafood	0	4,880	SpareBank 1BV	0	17,700
Axactor	0	8,709	Magseis Fairfield	0	12,379	SpareBank 1Nord-Norge	0	26,500
BASF	270	270	Mowi	0	2,679	SpareBank 1Ringerike Hadr	0	500
Bonheur	0	48,485	NEXT Biometrics	0	10,976	SpareBank 1SMN	0	15,490
BRABank	0	137,1000	NORBIT	0	18,864	SpareBank 1SR-Bank	0	29,482
BWLPG	0	2,069	Nordic Semiconductor	0	6,000	Sparebank 1Østfold Akersl	0	450
DNB	0	31,295	Norsk Hydro	0	96,051	SpareBank 1Østlandet	0	2,891
DNO	0	39,1278	Northern Drilling	0	5,060	Sparebanken Sør	0	15,840
DNO Bull ETN	0	7,000	Norwegian Air Shuttle	0	66,467	Sparebanken Vest	0	1,900
Entra	0	31,627	Norwegian Energy Compan	0	300	Sparebanken Øst	0	1,500
Equinor	0	6,431	Ocean Yield	0	34,967	Stolt-Nielsen	0	40,400
Europris	0	14,750	Odfjell Drilling	0	2,244	Storebrand	0	5,565
Fjord1	0	51,250	Okeanis Eco Tankers	0	1,738	Subsea 7	0	1,162
Fjordkraft Holding	0	5,000	Orkla	0	19,864	Telenor	0	1911
Flex LNG	0	1,032	Panoro Energy	0	5,670	TGS-NOPEC	0	2,000
Frontline	0	11,730	Pareto Bank	0	1183,040	XXL	0	8,879
Gjensidige Forsikring	0	6,690	Pioneer Property	0	2,050	Yara International	0	12,475
Golden Ocean Group	0	1,744	Protector Forsikring	0	14,385	Zenterio	0	78,865
Grieg Seafood	0	970	REC Silicon	0	32,776			

This overview is updated monthly (last updated 15.10.2019).

*Analyst holdings refer to positions held by the Pareto Securities AS analyst covering the company.

Appendix B

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11, letters e-f, ref the Securities Trading Act Section 3-10

Overview over issuers of financial instruments where Pareto Securities AS have prepared or distributed investment recommendation, where Pareto Securities AS have been lead manager/co-lead manager or have rendered publicly known not immaterial investment banking services over the previous 12 months:

2020Bulkers	Genel Energy	Norwegian Air Shuttle
Avanzia Bank	Gfinity Plc	Nouveau Monde Graphite
African Petroleum	GG. St. Kongensgade 100 og 106	Ocean Yield
Agder Energi	Hafslund E-CO	OKEA
American Tanker	Herttha BSC GmbH	Okeanis Eco Tankers
Andfjord Salmon	HKN Energy Ltd	Oliga Group
APC Forsikringsmægler A/S	Hunter Group ASA	Panoro Energy
Belships ASA	Hörmann Industries	Pareto Bank
Bluewater Holding	Ice Group	Petroleum Geo-Services
BRAbank	Jactel AS	PetroTal
CentralNic Group	Klavness Ship Holding	Point Resources AS
DNO	LifeFit	Questa Energy
Dof Subsea	Lundin Petroleum	Rødovre Port Holding A/S
Eco Atlantic Oil and Gas	Magseis	Shamaran Petroleum
Euromicron AG	Monobank ASA	Sparebank 1 Østlandet
Exmar NV	Navig8	Stolt Nilsen
FFS Bidco	Navigator Holdings	TEMPTON Dienstleistungen
Filo Mining Corp	NGEX Resources	Union Maritime Limited
Flex LNG	Norbit ASA	Vantage Drilling
Floatel		

This overview is updated monthly (this overview is for the period 30.09.2018 – 30.09.2019).

Appendix C

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11(4)

Distribution of recommendations

Recommendation	% distribution
Buy	65%
Hold	31%
Sell	4%

Distribution of recommendations (transactions*)

Recommendation	% distribution
Buy	95%
Hold	5%
Sell	0%

* Companies under coverage with which Pareto Securities Group has on-going or completed public investment banking services in the previous 12 months

This overview is updated monthly (last updated 15.10.2019).

Appendix D

This section applies to research reports prepared by Pareto Securities AB.

Disclosure of positions in financial instruments

The beneficial holding of the Pareto Group is 1 % or more of the total share capital of the following companies included in Pareto Securities AB's research coverage universe: None

The Pareto Group has material holdings of other financial instruments than shares issued by the following companies included in Pareto Securities AB's research coverage universe: None

Disclosure of assignments and mandates

Overview over issuers of financial instruments where Pareto Securities AB has prepared or distributed investment recommendation, where Pareto Securities AB has been lead manager or co-lead manager or has rendered publicly known not immaterial investment banking services over the previous twelve months:

Azelio	Green Landscaping Holding	Mentice AB	Sedana Medical
Bionvent	IRRAS AB	Pledpharma AB	ShaM aran Petroleum
Climeon	Jetpak Top Holding AB		

Members of the Pareto Group provide market making or other liquidity providing services to the following companies included in Pareto Securities AB's research coverage universe:

Cavotec	Saltängen Property Invest	Sedana Medical	Tethys Oil
Cibus Nordic Real Estate	SciBase Holding	ShaM aran Petroleum	Vostok Emerging Finance
Isofol Medical			

Members of the Pareto Group have entered into agreements concerning the inclusion of the company in question in Pareto Securities AB's research coverage universe with the following companies: None

Member of the Pareto Group is providing Business Management services to the following companies:

Bosjö Fastigheter AB	Bråviken Logistik	Halmslätten	Mälårasen
Bonäsudden	Delarka	Logistri	Sydsvenska Hem

Members of the Pareto Group have entered into agreements concerning the inclusion of the company in question in Pareto Securities AB's research coverage universe with the following companies: None
This overview is updated monthly (last updated 05.11.2019).

Appendix E

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11, letter d, ref the Securities Trading Act Section 3-10

Designated Sponsor

Pareto Securities acts as a designated sponsor for the following companies, including the provision of bid and ask offers. Therefore, we regularly possess shares of the company in our proprietary trading books. Pareto Securities receives a commission from the company for the provision of the designated sponsor services.

2G Energy *	Freenet	MAX Automation SE	SCOUT24
Aixtron *	Gesco *	Merkur Bank	Siemens Healthineers AG
Baywa	GFT Technologies *	MLP *	SMT Scharf AG *
Biotest *	Gigaset *	MOBOTIX AG	Surteco Group *
Brenntag	Heidelberg Pharma *	OVB Holding AG	Szygy AG *
CORESTATE Capital Holding S.A.	Hypoport AG	Procredit Holding *	TAKKT AG
Daldrup & Söhne	init	PSI SOFTWARE AG *	Vapiano
Demire	Intershop Communications AG	PWO *	va-Q-tec *
Epigenomics AG*	Leifheit	RIB Software *	Viscom *
Euromicron AG *	Logwin *	S&T AG *	windeln.de
Eyemaxx Real Estate	Manz AG *	Schaltbau Holding AG	

* The designated sponsor services include a contractually agreed provision of research services.

Appendix F

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11, letter g, ref the Securities Trading Act Section 3-10

Sponsored Research

Pareto Securities has entered into an agreement with these companies about the preparation of research reports and—in return—receives compensation.

Adler Modemaerkte	Eyemaxx Real Estate	Intershop Communications AG	OHB SE
Baywa	First Sensor	Leifheit	OVB Holding AG
BB Biotech	Godewind Immobilien AG	MAX Automation SE	Schaltbau Holding AG
comdirect	Hypoport AG	Merkur Bank	Siegfried Holding AG
Daldrup & Söhne	init	MOBOTIX AG	Vapiano

This overview is updated monthly (last updated 15.10.2019).