

Sampo

Company report

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This report is a summary translation of the report “Väkevä startti vuoteen” published on 05/10/2023 at 8:15 pm.

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res.**

A strong start to the year

Sampo's year got off to a flying start and the Q1 report was excellent in all respects. We have revised our estimates slightly upwards, but the big picture remains unchanged. We expect Sampo to continue to deliver cautious earnings growth and an abundant dividend stream. We revise Sampo's target price to EUR 47.0 (was EUR 46) as a result of a slightly higher sum of the parts. The stock appears to be correctly priced on all valuation methods and we reiterate our Reduce recommendation, with the expected return relying largely on the dividend.

Q1 report was good in all respects

Sampo's profit before taxes was EUR 359 million, slightly above the consensus estimate of EUR 342 million (Inderes: 335 MEUR). This is especially thanks to If P&C, whose performance was again excellent. If P&C's premium income continued its strong growth of 6.1% adjusted for exchange rate movements, driven by price increases. The combined ratio also developed more favorably than expected, reaching 82.4% in Q1. Due to the strong profitability development, the insurance service result exceeded our and consensus expectations (217 MEUR vs. 194 consensus). Following the strong performance in the first half of the year, If P&C also updated its combined ratio guidance to 82-84% (previously below 85%). The change was surprisingly large, and we see it indicating that the company considers the market situation favorable for the rest of the year. The development of Hastings was twofold. The company has not been able to fully pass on claims cost inflation in the prices of its products, but growth was very strong (+39%).

Topdanmark's results were already known after the company published its Q1 report earlier. In turn, Mandatum is currently reported as a discontinued operation.

Only minor estimate revisions following the Q1 report

We have made only minor upward revisions to our estimates due to higher investment income. We estimate that Sampo's normal earnings level under the current structure is EUR 2.5-2.8 per share (previously EUR 2.4-2.6). Given the fierce performance of the businesses, there is no reason to expect major corrections at this level. A key forecast risk is still related to a deterioration in the earnings mix as rising investment income increases the likelihood of declining insurance services earnings through increased competitive pressure. In connection with the Q1 report, the company announced that it will sell its PE investments in Saxo and Enento to Manadatum as part of the demerger. This makes sense for Sampo, as the company can unwind some of its PE investments quickly. We have kept our estimate of excess capital unchanged (around EUR 2/share), and it remains quite conservative. We expect the company to unwind this capital gradually as capital is released from PE investments. Our estimates for the base dividend are unchanged and we expect steady dividend growth.

The expected return based on dividends is not attractive enough

Our view on the SOTP of Sampo has increased marginally to around EUR 47 (was EUR 46) due to changes in the values of PE investments and the cash position of the parent company. The values of the operational components are unchanged. The value still relies heavily on If, which accounts for around 70% of the total Group value. The share's earnings-based valuation doesn't still look especially attractive (P/E 2023- 2024e 16-18x), especially given the elevated interest rates that depress acceptable valuations across the board. In relative terms, Sampo is also priced in line with its main peers (Tryg & Gjensidige). In our view, the expected return on the share relies heavily on dividend yield, which is over 5% on average for the next few years. We no longer consider this to be sufficient compensation, especially as investors are also bearing the risk of falling multiples as interest rates rise.

Recommendation

Reduce

(previous Reduce)

EUR 47.00

(previous EUR 46.00)

Share price:

46.15



Key figures

	2022	2023e	2024e	2025e
PTP	1924	1476	1585	1659
growth-%	-39%	-23%	7%	5%
Net Income	1426	1050	1150	1209
EPS (adj.)	3.71	2.42	2.73	2.89
Osinko/osake	2.60	2.90	2.00	2.10

P/E (adj.)	13.1	19.1	16.9	15.9
P/B	2.8	2.6	2.6	2.5
Dividend yield-%	5.3 %	6.3 %	4.2 %	4.5 %
Osinko/tulos-%	70%	120%	73%	73%

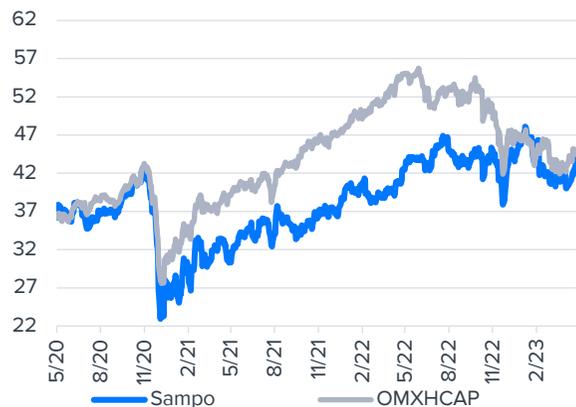
Source: Inderes

Guidance

(Improved)

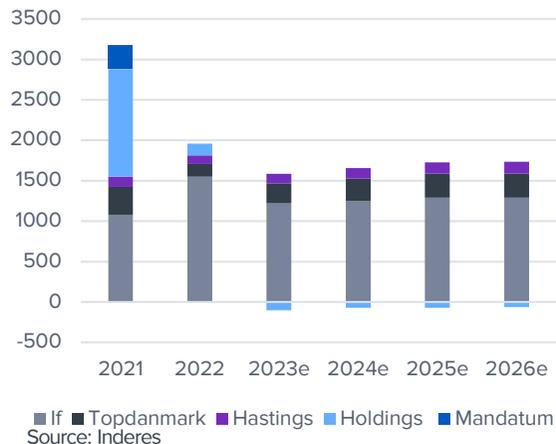
Sampo Group's P&C insurance operations are expected to achieve underwriting margins that meet the annual targets set for 2021-2023. At group level, the target is a combined ratio of less than 86%, and If P&Cs target is less than 85%. Hastings targets an operating ratio of below 88%. With the strong performance in Q1, If P&C's 2023 combined ratio is expected to be 82-84%.

Share price



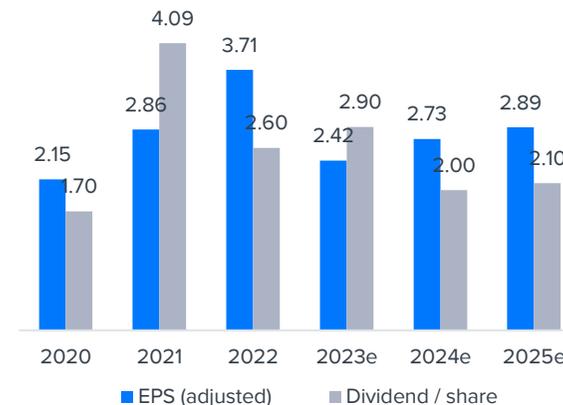
Source: Millstream Market Data AB

Sampo's PTP breakdown (MEUR)



■ If ■ Topdanmark ■ Hastings ■ Holdings ■ Mandatum
Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Profitable growth in insurance activities
- Capital released from non-core business activities
- Higher interest rates would improve investment income
- Topdanmark acquisition
- Other M&A transactions



Risk factors

- Rising interest rates could weaken technical results and depress insurance companies' acceptable multiples
- Tightening competition in the Nordic insurance market

Valuation	2023e	2024e	2025e
Share price	46.1	46.1	46.1
Number of shares, millions	508.3	496.7	491.4
Market cap	23170	23170	23170
P/E (adj.)	19.1	16.9	15.9
P/E	19.1	16.9	15.9
P/B	2.6	2.6	2.5
Payout ratio (%)	118.5 %	72.5 %	72.6 %
Dividend yield-%	6.3 %	4.2 %	4.5 %

Source: Inderes

A strong start for the year

Sampo reported a stronger-than-expected Q1 result on Wednesday. This is thanks to If P&C in particular, whose business developed excellently as the competitive situation remained stable in its key markets. The group's profit before taxes was EUR 359 million.

If P&C's performance continued to be stronger than expected

If P&C's premium income continued its strong growth of 6.1% adjusted for currency exchange effects. Growth continued to be driven mainly by price increases. According to the company, the inflation rate for claims costs was around 4-5%, so the price increases seem to continue to pass through effectively as If P&C's personal insurance churn rate remains at the level of recent years. This supports our view that the competitive situation in the Nordic insurance market is still relatively calm.

The combined ratio also developed more favorably than expected, reaching 82.4% in Q1. This was the result of a lower-than-expected risk ratio, which fell to 61.5% from 63.4% in the comparison period. Adjusted

for weather and major claims, claims costs also fell from the previous year. Due to the strong profitability development, the insurance service result exceeded our and consensus expectations (217 MEUR vs. 194 consensus). Following the strong performance in the first half of the year, If P&C also updated its combined ratio guidance to 82-84% (previously below 85%). The change was surprisingly large, and we see it indicating that the company considers the market situation favorable for the rest of the year.

With the adoption of IFRS 9, investment income is fully reflected in If P&Cs result in the net financial result line. As a result of the adoption of IFRS 17, changes in the discount rate are now also reflected in the net financial result, whereas previously they were recognized as part of the loss ratio. In other respects, the adoption of the accounting standards had no material impact.

If P&C's Q1 net financial result was EUR 126 million, compared to the consensus expectation of EUR 110 million (Inderes 90), so If P&C's profit before taxes was also stronger than estimated at EUR 337 million.

No surprises in other segments

The development of Hastings was twofold. The company has not been able to fully pass on claims cost inflation to its product prices and as a result, Hastings' loss ratio rose to 66.1% (Q1'22: 55%), underlining what we believe is a key difference in the competitive tension between the UK and Nordic markets. However, the very strong growth in premiums written (+ 39%) partly offset the increase in expenses and the insurance service result remained at the level of the comparison period. However, profit before taxes decreased to EUR 20 million (Q1'22: 21) due to a change in the discount rate.

Topdanmark's results were already known after the company published its Q1 report earlier. In turn, Mandatum is currently reported as a discontinued operation. In group operations, the company made small write-downs in Enento and Nex with a negative impact of around EUR 40 million. Adjusted for this, the earnings beat would have been even more pronounced.

Estimates MEUR / EUR	Q1'22	Q1'23	Q1'23e	Q1'23e	Consensus		Difference (%)	2023e
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Profit before taxes	692	359	335	342	232	- 490	7%	1924
If	495	337	268	281	224	- 362	26%	1550
Topdanmark	15	63	69	58	42	- 94	-9%	157
Hastings	21	10	17	15	-5	- 29	-41%	0
Holdings	164	-45	-19	-16	-64	- 25	137%	253
EPS (rep.)	1.43	0.53	0.55	0.57	0.53	- 0.73	-4%	2.44

Source: Inderes & Vara (consensus)

Watch Sampo's Q1 management interview:



Estimates revised slightly upwards

Estimate revisions

- We have made significant changes to our estimates due to the impact of IFRS 9 and IFRS 17 accounting standards. In addition, we have removed Mandatum from operational result, and it is now only reflected in earnings per share. We note that Mandatum will be reflected in EPS after Q4'23, although the demerger is expected to take place in October 2023.
- At group level, estimate revisions remain relatively small and overall, we have revised our estimates upwards slightly, mainly due to investment income.
- We kept our estimate of extra profit distribution unchanged and expect an extra dividend of EUR 1 per share in spring 2024 and a new share buyback program of EUR 500 million. We note that this profit distribution is at least partly dependent on the PE exits, although this problem will be partially resolved when Saxo and Enento are sold to Mandatum. Even after these distributions, the company's balance sheet remains very strong and on the conference call, the company hinted at a reduction in solvency margins after the Mandatum split. Therefore, additional capital may be available for distribution at a later stage.

Operational earnings drivers:

- Sampo's performance has continued to improve due to higher earnings estimates and a decrease in the number of shares (buybacks). We believe the company's normal performance with the current structure is EUR 2.5-2.8 per share (incl. Mandatum, was EUR 2.4-2.6). The profit level has risen slightly, mainly due to investment income. This level is growing steadily driven by operational earnings growth and share buybacks, but there is no reason to expect higher level corrections.
- Following extra dividends and rearrangement of the balance sheet, Sampo's dividend capacity is very close to its EPS level.
- In our view, the key concern in terms of performance is the underwriting result, now that interest rates have risen to reasonable levels. We are skeptical about a situation where the recovery in investment income from rising interest rates would fully benefit companies in the sector and their earnings levels would thus again make an upward adjustment. Although a possible change in the earnings mix would hardly be reflected in the absolute earnings level, it would put pressure on the sector's elevated valuation multiples by reducing the predictability of earnings. However, in the big picture, we believe the sector has entered a period of permanently lower combined ratios and a return to the combined ratios of a decade ago is not to be expected.

Estimate revisions	2023e	2023e	Change	2024e	2024e	Change	2025e	2025e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
EBIT (exc. NRIs)	1747	1476	-16%	1820	1585	-13%	1835	1659	-10%
EBIT	1747	1476	-16%	1820	1585	-13%	1835	1659	-10%
If	1258	1222	-3%	1290	1249	-3%	1282	1293	1%
Topdanmark	251	246	-2%	265	276	4%	271	298	10%
Hastings	85	117	38%	101	132	31%	106	137	29%
Holdings	-93	-103	11%	-92	-72	-22%	-89	-69	-22%
Mandatum	246	0	-100%	255	0	-100%	265	0	-100%
PTP	1747	1476	-16%	1820	1585	-13%	1835	1659	-10%
EPS (adjusted)	2.49	2.44	-2%	2.65	2.73	3%	2.70	2.89	7%
Dividend / share	2.90	2.90	0%	2.00	2.00	0%	2.10	2.10	0%

Source: Inderes

Watch Sampo's Q1 earnings call:



Valuation remains neutral

The sum of the parts remains unchanged

Our view on the SOTP of Sampo has increased marginally to around EUR 47 (was EUR 46) due to changes in the values of PE investments and the cash position of the parent company. The values of the operational components are unchanged. The value still relies heavily on If, which accounts for around 70% of the total Group value. Drivers for higher than the current sum of the parts would be:

- Organic profit growth in insurance activities
- Synergies arising from Topdanmark acquisition
- Successful PE exits
- Other M&A transactions

In terms of earnings growth, we do not see a realistic path to significant earnings leap and the company's targets also indicate this. Thus, it is difficult for us to see a significant further increase in the share price from current levels without considerable new acquisitions, which are currently not on the company's agenda (excluding a possible subsequent takeover bid for Topdanmark).

Earnings-based valuation is neutral

The share's earnings-based valuation doesn't still look especially attractive (P/E 2023- 2024e 17-19x), especially given the elevated interest rates that depress acceptable valuations across the board. In relative terms, Sampo is also priced in line with its main peers (Tryg & Gjensidige).

As we believe that certain parts of Sampo (Mandatum & Hastings) should justifiably be valued below the multiples of high-quality Nordic insurance companies, the market currently gives If a premium valuation relative to key peers. We believe this is justified as the

company is undisputedly the best insurance company in the Nordic countries. However, it is difficult for us to come up with a justification for pricing Sampo as a whole at a premium to its peers, so the valuation seems neutral also in this respect.

We note that while we consider the separation of Mandatum to a listed company a smart strategic move, we do not expect it to raise Sampo's current valuation level, which is already in line with key peers. If the price after Mandatum's listing were higher than the one in our SOTP, this would naturally have a positive impact on our view of the company's value.

The dividend model also supports our view

Our DDM model (p. 11) indicates a value at around EUR 46 per share, considering the share buybacks that we forecast. Thus, the dividend model also supports our view of neutral pricing of the stock. We note that the level of the discount rate is still very low in absolute terms (WACC 6.7%), so a possible further rise in interest rates and a subsequent increase in the discount rate would significantly reduce the value indicated by the DDM.

Valuation seems neutral

Overall, we view Sampo's current valuation as fairly neutral and find it difficult to see any material upside to the multiples. Thus, in the coming years, the return to Sampo's shareholders will depend primarily on the dividend stream paid by the company, which will be abundant as the basic dividend grows and the rest of excess capital is returned. We do not consider the dividend stream to be sufficient compensation in the current interest rate environment, especially as investors also bear the risk of falling valuation multiples.

Valuation	2023e	2024e	2025e
Share price	46.1	46.1	46.1
Number of shares, millions	508.3	496.7	491.4
Market cap	23170	23170	23170
P/E (adj.)	19.1	16.9	15.9
P/E	19.1	16.9	15.9
P/B	2.6	2.6	2.5
Payout ratio (%)	118.5 %	72.5 %	72.6 %
Dividend yield-%	6.3 %	4.2 %	4.5 %

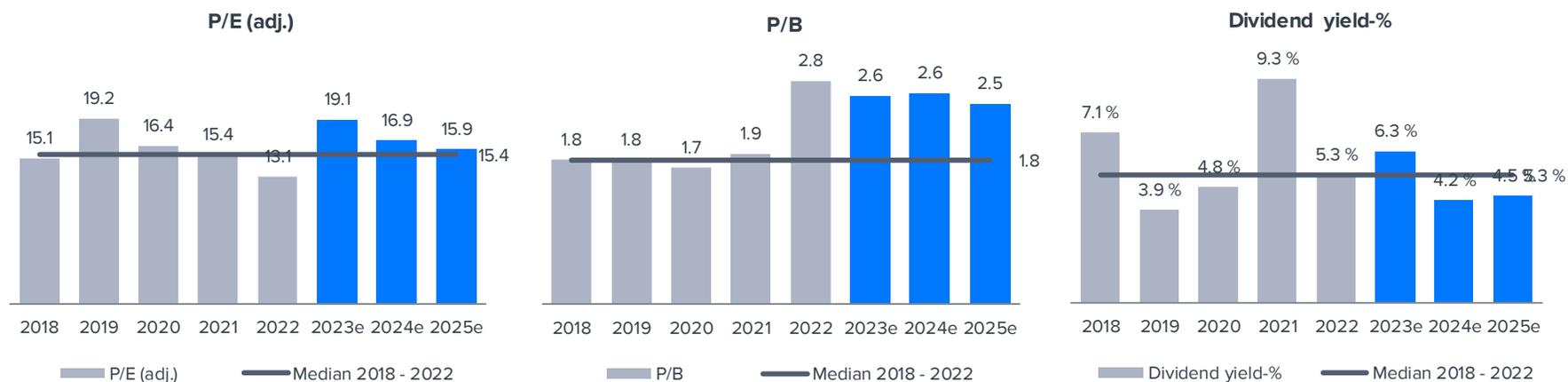
Source: Inderes

Sum of the parts	New	Old
If	16500	16500
Mandatum	2356	2356
Topdanmark	2058	2163
Hastings	1800	1800
Net debt (incl. other investments)	1118	878
Total (MEUR)	23832	23698
Per share(EUR)	46.8	46.1

Valuation table

Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price	40.4	38.9	35.3	44.1	48.8	46.1	46.1	46.1	46.1
Number of shares, millions	556.6	556.6	556.6	554.3	530.3	508.3	496.7	491.4	491.4
Market cap	22436	21609	19593	24109	25108	23170	23170	23170	23170
P/E (adj.)	15.1	19.2	16.4	15.4	13.1	19.1	16.9	15.9	15.8
P/E	13.3	19.2	>100	9.5	12.3	19.1	16.9	15.9	15.8
P/B	1.8	1.8	1.7	1.9	2.8	2.6	2.6	2.5	2.4
Payout ratio (%)	93.8 %	73.7 %	2484.5 %	87.3 %	63.5 %	118.5 %	72.5 %	72.6 %	90.0 %
Dividend yield-%	7.1 %	3.9 %	4.8 %	9.3 %	5.3 %	6.3 %	4.2 %	4.5 %	5.6 %

Source: Inderes



Peer group valuation

Peer group valuation Company	Market cap MEUR	P/E		Dividend yield-%		P/B 2023e
		2023e	2024e	2023e	2024e	
Tryg	13435	19.5	17.7	5.2	5.4	2.4
Gjensidige	7840	16.0	15.2	5.1	5.3	3.6
Topdanmark	4258	22.4	20.7	4.4	4.9	5.0
ALM	2586	28.2	18.9	5.6	7.0	1.4
Storebrand	3310	11.3	9.5	4.9	5.3	1.0
Admiral	7759	17.6	15.6	5.4	6.0	6.3
Direct Line	2368	9.0	6.5	7.3	10.5	0.9
Zurich Insurance Group	66639	12.4	11.5	5.8	6.2	2.5
Allianz	87015	9.1	8.3	5.6	6.0	1.5
Assicurazioni Generali	29587	9.3	8.6	6.4	6.8	1.5
Sampo (Inderes)	23170	19.1	16.9	6.3	4.2	2.6
Average		15.5	13.2	5.6	6.3	2.6
Median		14.2	13.3	5.5	6.0	2.0
Diff-% to median		35%	27%	15%	-29%	33%

Source: Refinitiv / Inderes

Income statement

Income statement	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23e	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Premium income	9746	1863	2771	1848	1785	8267	1969	2078	2135	2034	8217	8655	9013	9329
If	4855	1222	2044	1081	1085	5432	1235	1322	1349	1320	5226	5435	5598	5766
Topdanmark	2694	312	343	334	318	1307	318	342	349	347	1357	1512	1571	1571
Hastings	830	329	384	433	382	1528	416	414	437	367	1634	1708	1844	1992
Mandatum	1367	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT (excl. NRI)	2190	664	769	341	12.0	1786	359	364	382	371	1476	1585	1659	1668
EBIT	3172	692	844	341	47.0	1924	359	364	382	371	1476	1585	1659	1668
If	1077	495	732	264	59	1550	337	288	300	297	1222	1249	1293	1293
Topdanmark	346	15	45	32	65	157	63	54	67	62	246	276	298	298
Hastings	127	21	25	54	7	107	10	40	34	33	117	132	137	142
Holdings	1331	164	39	-9	-48	146	-45	-18	-19	-21	-103	-72	-69	-65
Mandatum	291	0	0	0	0	0	0	0	0	0	0	0	0	0
PTP	3172	692	844	341	47.0	1924	359	364	382	371	1476	1585	1659	1668
Taxes	-423	-107	-62	-86	-129	-384	-91	-78	-82	-80	-331	-336	-348	-350
Minority interest	-181	-11	-20	-14	-69	-114	-26	-20	-26	-24	-96	-98	-101	-104
Net earnings	2568	773	563	241	530	2107	271	312	326	321	1229	1354	1421	1433
EPS (adj.)	2.86	1.37	0.92	0.46	0.93	3.71	0.53	0.61	0.64	0.64	2.44	2.73	2.89	2.92
EPS (rep.)	4.63	1.43	1.06	0.46	1.00	3.97	0.53	0.61	0.64	0.64	2.42	2.73	2.89	2.92

Balance sheet

Assets	2021	2022	2023e	2024e	2025e
Non-current assets	50970	33447	33469	33507	33545
Goodwill	0.0	0.0	0.0	0.0	0.0
Intangible assets	3794	3494	3529	3564	3599
Tangible assets	375	355	358	361	364
Associated companies	777	16.0	0.0	0.0	0.0
Other investments	26274	19635	19635	19635	19635
Other non-current assets	19711	9930	9930	9930	9930
Deferred tax assets	39.0	17.0	17.0	17.0	17.0
Current assets	10091	8587	8457	8317	8718
Inventories	0.0	0.0	0.0	0.0	0.0
Other current assets	2977	2272	2272	2272	2272
Receivables	2295	3242	2465	2596	2704
Cash and equivalents	4819	3073	3720	3448	3742
Balance sheet total	61061	42034	41926	41824	42263

Source: Inderes

Liabilities & equity	2021	2022	2023e	2024e	2025e
Equity	13464	9543	9435	9333	9772
Share capital	98.0	98.0	98.0	98.0	98.0
Retained earnings	9952	7784	7676	7574	8013
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	2738	1087	1087	1087	1087
Minorities	676	574	574	574	574
Non-current liabilities	45129	30435	30435	30435	30435
Deferred tax liabilities	855	514	514	514	514
Provisions	9.0	6.0	6.0	6.0	6.0
Long term debt	4346	0.0	0.0	0.0	0.0
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	39919	29915	29915	29915	29915
Current liabilities	2468	2056	2056	2056	2056
Short term debt	0.0	0.0	0.0	0.0	0.0
Payables	0.0	0.0	0.0	0.0	0.0
Other current liabilities	2468	2056	2056	2056	2056
Balance sheet total	61061	42034	41926	41824	42263

DDM calculation

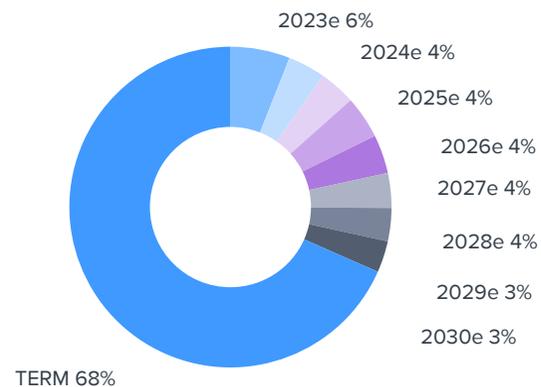
DDM valuation (MEUR)	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	TERM
Sampo's result	1229	1354	1421	1433	1397	1349	1378	1406	1406
Sampo's dividend	1457	982	1031	1290	1257	1215	1240	1266	24594
Payout ratio	119%	73%	73%	90%	90%	90%	90%	90%	
Dividend growth-%	8.9 %	8.9 %	-32.6 %	5.0 %	25.1 %	-2.5 %	-3.4 %	2.1 %	2.0 %
Disc. dividend	1392	876	857	1000	908	818	779	741	15948
Disc. cumulative dividend	23320	21928	21052	20195	19195	18287	17469	16690	15948

Equity, DDM	23320
Per share EUR	46.4

Cost of capital

Risk-free interest	2.5%
Market's risk premium	4.8%
Company Beta	1.00
Liquidity premium	0.0%
Cost of equity	7.3%
WACC-%	6.7%

Cash flow breakdown



Summary

Income statement	2020	2021	2022	2023e	2024e	Per share data	2020	2021	2022	2023e	2024e
Premium income	8412	9746	8267	8217	8655	EPS (reported)	0.07	4.63	3.97	2.42	2.73
Profit before taxes	380	3172	1924	1476	1585	EPS (adj.)	2.15	2.86	3.71	2.42	2.73
Net profit	38	2568	2107	1229	1354	Dividend / share	1.70	4.10	2.60	2.90	2.00
Extraordinary items	-1161	982	138	0	0	Book value / share	20.5	23.1	16.9	17.4	17.6
Balance sheet	2020	2021	2022	2023e	2024e	If P&C key figures	2020	2021	2022	2023e	2024e
Balance sheet total	56529	61061	42034	41926	41824	Premium income	4589	4772	5024	5226	5435
Equity capital	12258	13464	9543	9435	9333	Premium income growth-%	4.6 %	6.0 %	5.3 %	4.0 %	4.0 %
ROE-%	0.3 %	21.2 %	19.4 %	13.8 %	15.4 %	Investment income	90	174	278	584	501
						Combined ratio-%	82.1 %	81.3 %	86.6 %	82.8 %	82.9 %
						Risk ratio-%	60.7 %	59.9 %	65.0 %	61.4 %	61.7 %
						Cost ratio-%	21.5 %	21.4 %	21.6 %	21.4 %	21.2 %

Source: Inderes

Disclaimer and recommendation history

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
3/17/2020	Buy	30.00 €	23.83 €
4/30/2020	Buy	34.00 €	30.85 €
5/7/2020	Accumulate	33.00 €	30.40 €
6/16/2020	Buy	34.00 €	30.40 €
8/6/2020	Buy	35.00 €	30.30 €
10/9/2020	Buy	38.00 €	35.20 €
11/5/2020	Buy	38.00 €	34.14 €
1/20/2021	Buy	38.00 €	35.28 €
2/12/2021	Buy	41.00 €	36.04 €
2/25/2021	Buy	41.00 €	36.95 €
4/7/2021	Buy	43.00 €	39.23 €
5/6/2021	Buy	44.00 €	39.85 €
8/5/2021	Buy	45.00 €	42.39 €
9/24/2021	Buy	46.00 €	43.35 €
11/4/2021	Accumulate	48.00 €	46.73 €
12/9/2021	Accumulate	48.00 €	44.09 €
2/10/2022	Accumulate	49.00 €	45.35 €
5/5/2022	Accumulate	48.00 €	45.85 €
5/23/2022	Accumulate	44.00 €	41.76 €
8/4/2022	Accumulate	46.00 €	43.71 €
10/27/2022	Reduce	46.00 €	46.67 €
11/3/2022	Reduce	46.00 €	44.32 €
2/13/2023	Reduce	46.00 €	45.50 €
5/11/2023	Reduce	47.00 €	46.15 €



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