

EQUITY RESEARCH

INTRED
ANALYSIS FOCUS

BUY, TP of 21.7€
Up/Downside: +63%

The web is growing!

Intred is an Italian telecom operator that provides ultra-broadband services to businesses and consumers in Lombardy. By focusing on proprietary fibre optic lines, the company is able to generate EBITDA margins greater than 40%, focusing on isolated areas often neglected by larger operators.

Fibre optic network: a deficit with European neighbours

The fibre network in Italy is clearly lagging behind its European neighbours. The current national infrastructure is largely dominated by the latest generation technology, to the extent that FTTH connections represent only 12.3% of the overall infrastructure, compared to the OECD average of 32.1%. This deficit is an opportunity for Italian telecoms. Indeed, the curve is comparable to the situation in France in 2014, i.e. a delay of 4/5 years.

Several advantages...

In order to reduce this deficit, by developing Italy's infrastructure and digitalisation, an envelope of 6.7 billion euros of investments will be deployed. More specifically, these funds should promote the deployment of very high speed and 5G networks, targeting socio-economic drivers such as schools, hospitals and transport corridors.

...to support a CAGR growth of 2021 - 2026 of +13.4%

We expect Intred to redirect CAPEX funds - initially intended for other services such as Broadband, Voice & Data, and FWA - to the deployment of its most innovative service: FTTH. With the acquisition of major contracts, such as Bando Scuole (x2), Intred has all the cards in hand to rapidly expand its fibre network in its target area. In 2022, we estimate that Intred will generate a +19.1% increase in revenues to reach €49m.

An attractive valuation

Our Buy recommendation is confirmed with a slightly lowered TP of €21.7 (vs. €21.9) following the update of our comparable multiples and market parameters. The stock is currently trading at 10.7x EV/EBITDA FY2022, representing an attractive entry point for a company with a long-term value asset base and a growing user base.

Key data

Price (€)	13.3
Industry	Telecommunications
Ticker	ITD-IT
Shares Out (m)	15.865
Market Cap (m €)	211.0
Average trading volumes (k shares / day)	5.300
Next event	H1 results - 04/08/22

Ownership (%)

DM Holding	60.4
First Capital S.p.A.	9.4
Free float	30.2

EPS (€)	12/22e	12/23e	12/24e
Estimates	0.56	0.62	0.68
Change vs previous estimates (%)	-16.22	-6.10	-4.66

Performance (%)	1D	1M	YTD
Price Perf	0.4	-7.0	-29.6
Rel FTSE Italy	-2.1	-6.6	-11.3



TP ICAP Midcap Estimates	12/21	12/22e	12/23e	12/24e	Valuation Ratio	12/22e	12/23e	12/24e
Sales (m €)	41.2	49.1	54.8	61.7	EV/Sales	4.5	4.1	3.7
Current Op Inc (m €)	11.8	12.4	13.6	15.0	EV/EBITDA	10.7	9.6	8.5
Current op. Margin (%)	28.6	25.2	24.7	24.3	EV/EBIT	17.7	16.6	15.0
EPS (€)	0.54	0.56	0.62	0.68	PE	23.7	21.6	19.5
DPS (€)	0.06	0.06	0.06	0.07				
Yield (%)	0.5	0.4	0.5	0.5				
FCF (m €)	7.2	-12.7	-5.6	1.6				

Consensus FactSet - Analysts:3	12/22e	12/23e	12/24e
Sales	49.1	53.8	60.5
EBIT	14.0	14.2	15.7
Net income	10.6	10.4	11.3

Analyst
Filippo Migliorisi
filippo.migliorisi@tpicap.com
33149241801



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Description

Intred, founded in 1996, is a telecommunications and internet services operator that manages their own fiber optic network infrastructure. Headquartered in Brescia, the company provides broadband, ultra-broadband, mobile, fixed line, cloud and complementary services to businesses and consumers.

As its inception, Intred operated primarily as a reseller, relying on the network infrastructure of other operators such as Telecom Italia. In 2010, the group radically changed their business model by building its own fiber network in Brescia. This investment had an immediate impact on the group's revenues and profitability (EBITDA >40%). Since 2010, Intred has invested more than €64M in the deployment of its network, which by the end of March 2022 reaches over 8,000km in Lombardy.

SWOT Analysis

Strengths

- High profitability (>40% EBITDA margin), negative net debt and excellent revenue visibility (>90% recurring);
- A proprietary fiber optic network;
- High barriers to entry (investments, reputation, know-how etc);
- A local presence in a rich and promising area.

Weaknesses

- A medium-sized company compared to the major telecom competitors;
- Substantial investments to sustain growth.

Opportunities

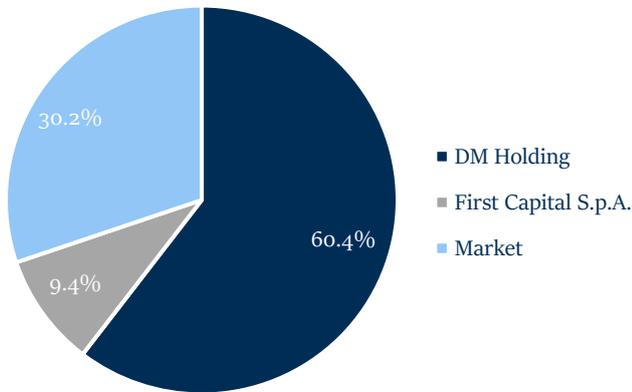
- Constant network deployment through Infratel contract to cover more than 4,000 schools;
- Massive Italian government stimulus package (>€40bn for digitalisation);
- A large addressable market with a pool of 800k businesses and 4.5M households;
- Exponential adoption of FTTH in Italy, which is lagging behind in fiber deployment.

Threats

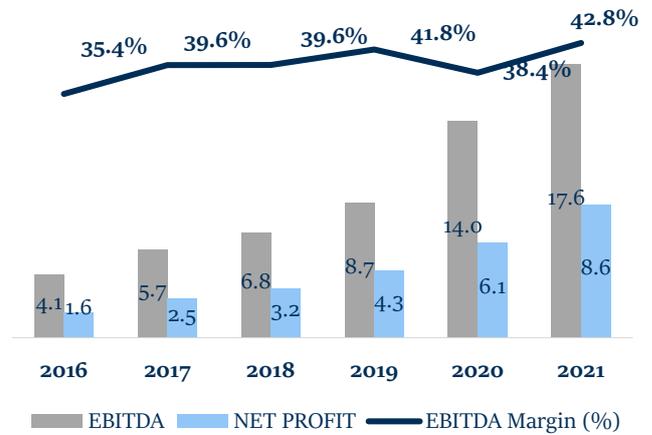
- Tightening of the regulatory framework;
- Competition from 5G as an alternative connection method;
- Changes in the National Recovery Plan.

The Essentials

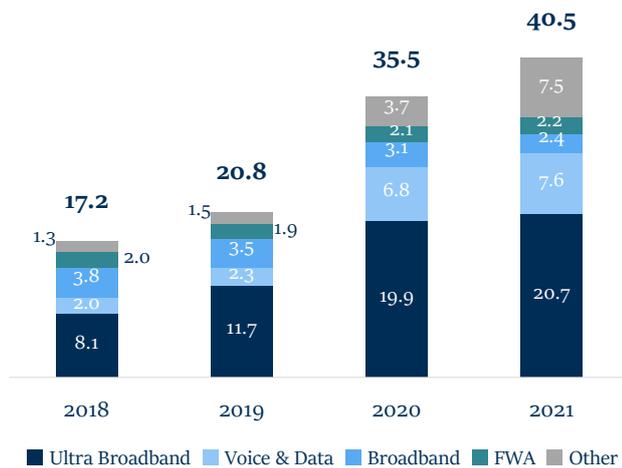
Shareholder structure



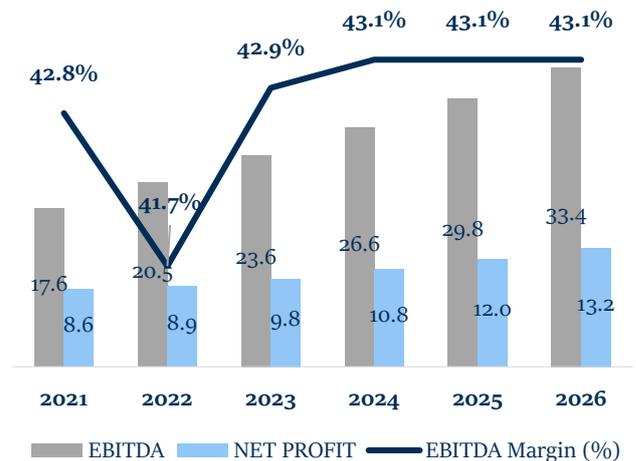
Group EBITDA and Net Profit (2017 – 2021)



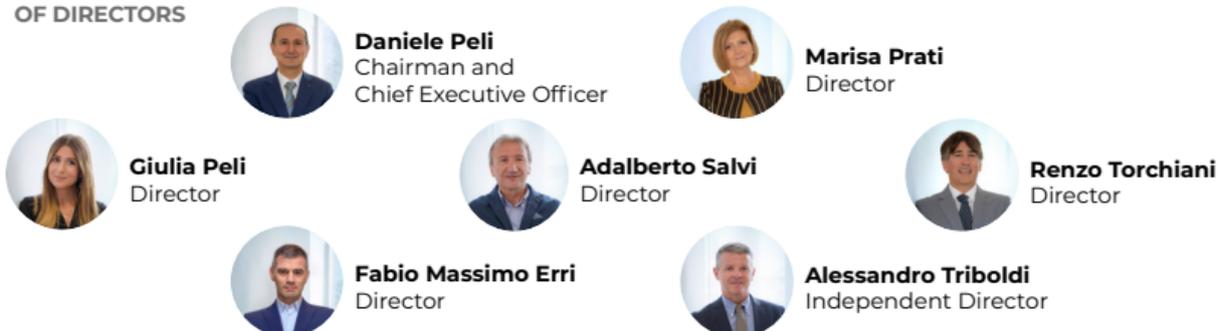
Revenue breakdown (2018 – 2021)



Group EBITDA and Net Profit estimates (2021 – 2026)



THE BOARD OF DIRECTORS



THE MANAGEMENT

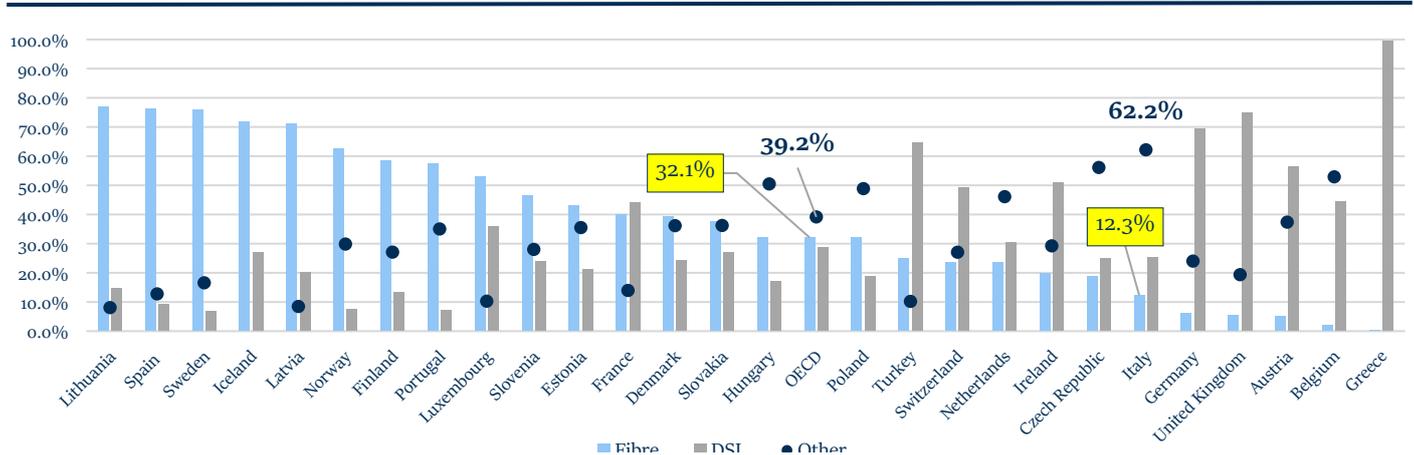


Source: Intred

Bridging the gap with European neighbours...

The Italian National Broadband Strategy Plan aims to develop a nationwide network to create a public telecom infrastructure in line with the objectives of the European Digital Agenda. The Ministry of Economic Development is implementing the measures defined for the national strategy also through its in-house company Infratel Italia S.p.A., which has the task of handling the country's infrastructure programs, in particular with regard to the development of the very high-speed network and public Wi-Fi connection services within the framework of the Italian ultra-high-speed strategy.

Fixed network: different types of lines by country – June 2021 (%)



Sources : OECD, TP ICAP Midcap

This strategy aims to close the infrastructure-market gap in certain areas of the country, taking Northern Europe as a reference point. European neighbours such as Lithuania, Spain and Sweden have fixed network infrastructures that are largely dominated by fibre connections (over 70%). On the other hand, in June 2021, Italy had only 12.3% of its infrastructure made up of fibre connections, a significant gap compared to its European peers and to the OECD average (32.1%). **This is undoubtedly an important growth opportunity for Italian operators. As a reminder, Intred aims to become the main player in rural areas, extending its fibre network throughout Lombardy.** It should be noted that, with the aim of rapidly developing Italy's infrastructure and digitalisation, 6.7 billion euros of bold investments are supporting the deployment of very high speed and 5G networks, targeting socio-economic drivers such as schools, hospitals and transport corridors:

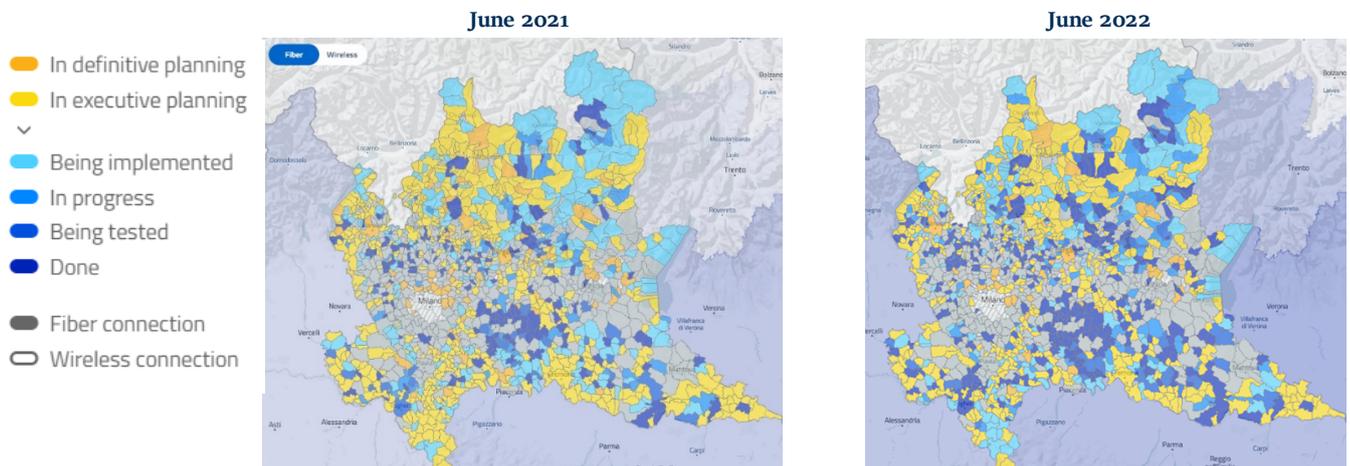
'Italia a 1 Giga'	Aims to provide at least 1 Gbit/s download and 200 Mbit/s uplink connectivity in grey and black Next Generation Access (NGA) areas.
'Italia 5G'	Involves investments to deploy 5G mobile infrastructure in NGA areas: 5G corridors, to support EU efforts to spread fibre and 5G-based technologies along European transport corridors, facilitating the introduction of autonomous driving and new 5G value-added services; 5G-ready extra-urban roads, to deploy fibre backhaul on provincial and extra-urban roads and ensure their readiness for 5G.
'Connected Schools'	Project to provide schools with state-of-the-art connectivity (at least 1 Gbps) supplying approximately 9000 school buildings currently not covered by the existing national school plan.
'Connected health care facilities'	Project to cover approximately 12,000 hospitals and health facilities (connectivity of at least 1 Gbps and up to 10 Gbps).
'Connected smaller islands'	Provide adequate connectivity to 18 small islands through submarine fibre optic cables.

Source: DESI, 2021

... focusing on FTTH and FTTC connections

Infratel S.p.A.'s tenders are undoubtedly improving the current infrastructure of the national fixed network. Since December 2020, the market has been redirecting investments initially dedicated to FWA ("Fixed Wireless Access") and copper connections towards FTTH ("Fibre to the Home") and FTTC ("Fibre to the Cabinet"), the latter two gaining more and more market share. Copper and FWA connections are still needed in Italy, especially in less developed rural areas.

Fibre works in Lombardy (June 2021 vs June 2022)

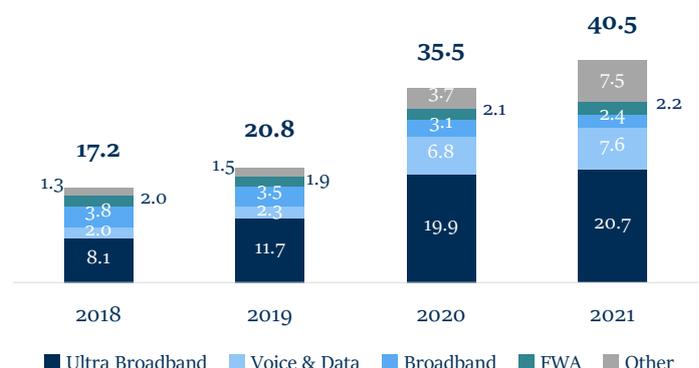


Sources : « Ministero dello Sviluppo Economico »

During the Covid-19 pandemic, Intred experienced a surge in fibre subscriptions, triggered by the sudden increase in demand for broadband connections. This phenomenon was also noticed among existing customers. In fact, the group's revenues rose by +70% in 2020 (also including QCOM acquisition), to EUR 36 million. Ultra-Broadband revenues reached EUR 19.9 million in 2020 (+70% vs. 2019), on the other hand, Broadband revenues decreased by -15% compared to the previous year to reach EUR 3 million, **which shows the trend to improve connection speeds**. This trend also manifested itself in 2021, as Broadband revenues decreased by -19% compared to the previous year.

Average download time (DSL/cable vs fibre) and distribution of Intred revenues – in €M (2018 – 2021)

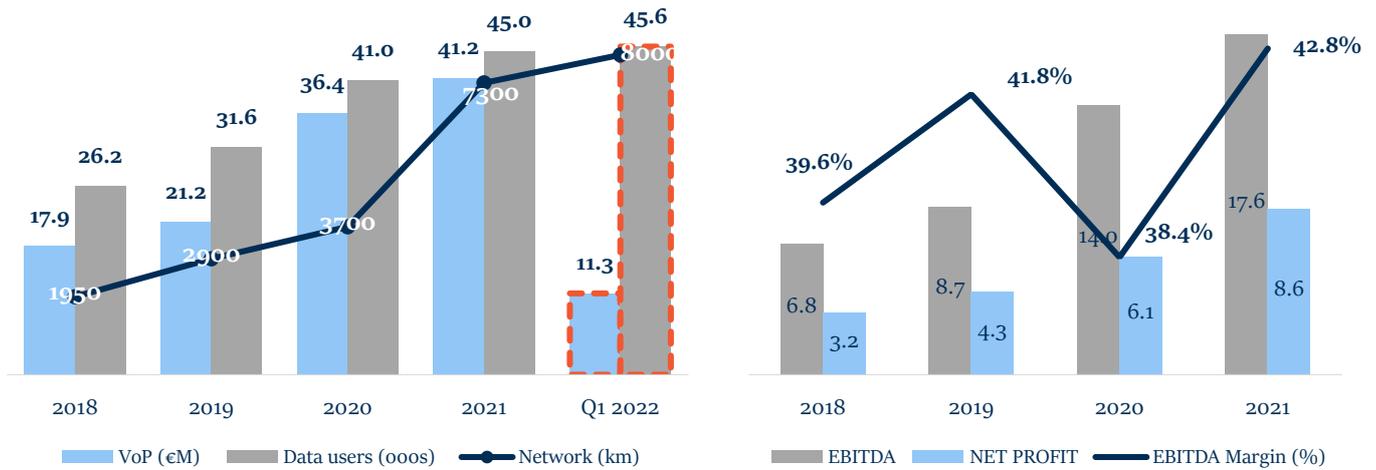
File Downloaded	Average download times					
	DSL speed			Fibre speed		
	1 Mbps	5 Mbps	20 Mbps	100 Mbps	300 Mbps	1 Gbps
Song (4 min)	33 sec	6 sec	3 sec	Instant	Instant	Instant
Video clip (5 min)	4 min	50 sec	26 sec	2.5 sec	Instant	Instant
TV show (45 min)	27 min	5.5 min	3 min	16 sec	5.3 sec	1.5 sec
Movie (2 hours)	3.5 hrs	42 min	21 min	1.5 min	30 sec	8 sec



Sources : OFCOM, Intred, TP ICAP Midcap

The more extensive the fibre network, the greater the chance for small rural areas to connect to a fixed fibre network. **Thanks to the two Bando Scuole contracts won by Intred in February 2021 and May 2022, the group has significantly increased its network from 3700 km in 2020 to 8000 km in Q1 2022.** As a reminder, once the network is installed (with the 'Bando Scuole'), Intred has the freedom to sell DSL connectivity lines to B2B and B2C customers along the way. This greatly increases their reach, and the users along each line, thus increasing their margins.

Development of VoP (€M), users (in thousands), network (in km) and EBITDA margin (in %)



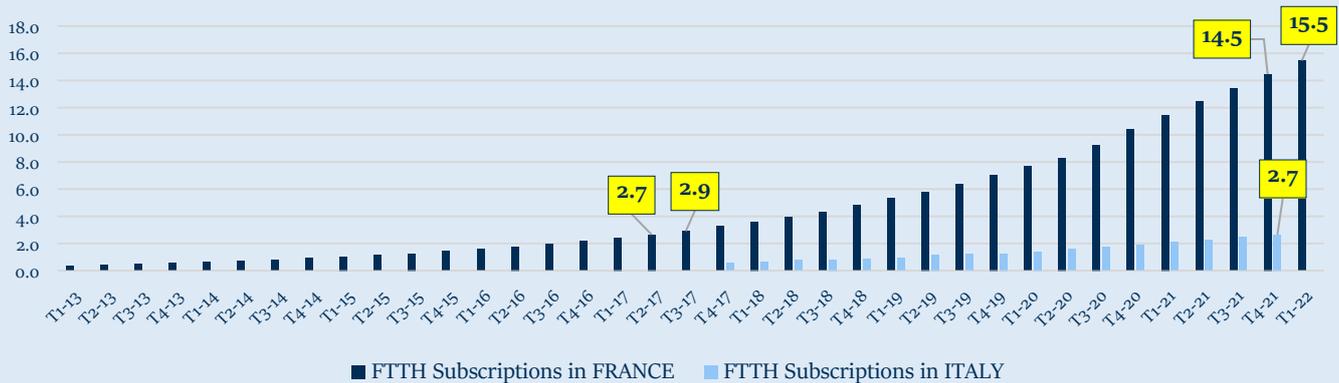
Sources : Intred, TP ICAP Midcap

The best solution to obtain high upload and download speeds for customers in "remote" areas is to opt for FTTC connections: a fibre optic connection with the final copper connection line. FTTC solutions are the most feasible given the current state of the Italian infrastructure. The use of copper lines for a given section offers great manoeuvrability, as they are less cumbersome to implement, both operationally and financially.

The FTTH situation in Italy: a comparison with France

The period 2020 - 2030 has been defined by many as the "Digital Decade", during which various government institutions are striving to provide gigabit coverage for all households and 5G connection in all populated areas (source: DESI, 2021). FTTH connectivity is undoubtedly the best solution in terms of quality (up to 100 Mbps connection speed) and sustainability (lowest operational cost and a lifespan of over 20 years). The graph below illustrates the difference between FTTH subscriptions in France and Italy. Overall, **Italy is about 4/5 years behind France - in terms of connections - as the trend is comparable to the situation in France in 2014.**

FTTH Subscriptions: France vs Italy (in millions)



Source : AGCOM, ARCEP, TP ICAP Midcap

This represents an important opportunity for telecom operators in Italy. Due to the gap with European peers, the PNRR (National Recovery Plan) aims to innovate and enrich the current digital infrastructure ("Digital Transformation Plan"), paving the way for a strong recovery.

Competitive environment: a market leading position

Since the deregulation of the telecoms sector at the end of the 1990s, a number of players have emerged on the market offering internet, fixed and mobile services via the leasing of the incumbents' network infrastructures, such as Telecom Italia (TIM) and Fastweb. The latter have established themselves throughout the territory via solid network infrastructures and offer a wide range of services. Today, the large operators are focusing on the larger cities, which offer a wider customer base (B2B and B2c). **On the other hand, small local operators have an advantage as a "first mover", especially in rural areas, which the large operators neglect.**

Local operators with proprietary fibre optic network infrastructure

Company	Region	Sales - 2021	EBITDA margin	Offer	Coverage
INTRED	Lombardy (Brescia, Bergamo, Milano...)	40.5 M€	42.8%	Fibre, landlines, Voice & Data Residential & Business	Fibre optic network of 8 000 km 45 600 customers
ACANTHO	Emilia Romagna	75.9 M€	n.a.	Fibre, landlines, Voice & Data Residential & Business	Fibre optic network of 4 200 km
Planetel	Bergamo, Verona, Brescia, Mantua	22 M€	23.4%	Fibre, landlines, Voice & Data Residential & Business	Fibre optic network of 1 880 km 30 600 customers
Mynet	Veneto, Lombardy, Trento	15 M€*	25%*	Fibre, landlines, Voice & Data Residential & Business	Fibre optic network of 27 000 km
interplanet	Vicenza, Veneto	7 M€*	24%*	Fibre, landlines, Voice & Data Residential & Business	Fibre optic network of 16 500 km (target)
terrecablate	Tuscany	6 M€*	n.a.	Fibre, landlines, Voice & Data Residential & Business	Fibre optic network of 750 km

*2020

Sources: Companies, TP ICAP Midcap

The table above shows the main direct competitors in terms of size and first mover strategy. It is important to note that not all operators are primarily focused on fibre networks. **FWA (5G) connections represent an alternative to fibre connections, but are not a major threat to Intred given the difference in connection quality (see next chapter).**

Positioning of local operators: with a fibre network (left) and with a FWA network (right)



Sources: Companies, TP ICAP Midcap

Fibre vs 5G: a comparison

The main competitor to fibre networks is the 5G connection. Both technologies are cutting-edge and offer reliable connection speeds to the customers concerned. So what is the main difference? For rural areas in Italy, 5G connections have an advantage because they are less difficult to install from an operational point of view. However, 5G cannot compete with the overall quality and durability of fibre connections, which leads businesses to look for FTTH or FTTC solutions, given their higher upload and download speeds.

Fibre optic vs 5G

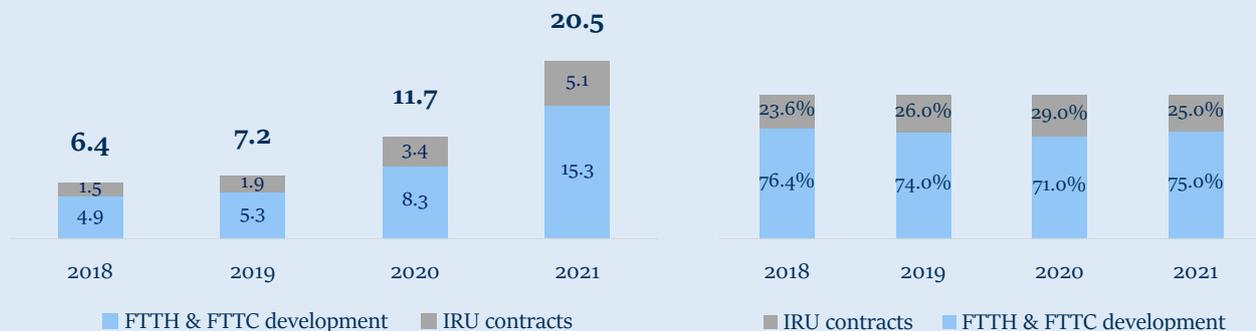
	Fibre	5G
Technology	Light to transmit data through optic cable	Fifth generation mobile wireless system
Speed	Up to 100 Gbps	20 Gbps download and 10 Gbps upload
Reach	Up to 70 km without losing signal	Less than 200 m
Response time	Faster	Slower
Cost to end user	Higher	Lower
Installation cost	Higher	Lower
Operational cost	Much lower than 5G	Up to 5x fibre cost

Sources : Three, TP ICAP Midcap

An advantage for Intred: IRU contracts

25% of the investments in 2021 were dedicated to the acquisition of Indefeasible Rights of Use (IRU) contracts with a duration of 15 to 22 years, for optical fibre or underground tunnels. These contracts are mainly acquired from large national operators, such as Telecom Italia (TIM) and FastWeb. Intred acquires such contracts in order to keep non-recurring implementation costs and reduce their time to market. **This is to counteract the rapid implementation of 5G technology in rural areas, as well as the cumbersome local bureaucratic procedures.**

CAPEX Development (in €M and %)



Source : Intred, TP ICAP Midcap

From the beginning, Intred's main objective was - and still is - to improve the fibre network. In fact, since their inception, more than €60m has been allocated to this objective alone. **IRU contracts, on the other hand, have been used as an instrument to be the 'first mover' in rural areas** (used for medium-long distances). Developing their network, combined with the use of IRU contracts, are at the heart of Intred's growth: a proven strategy.

Valuation

To determine the intrinsic value of Intred S.p.A., we used the discounted free cash flow (DCF) method. By modifying our estimates we obtain a **target price of €21.7** (compared to €21.9 previously), influenced by a revision of the risk-free rate (2.5% vs -0.4% previously).

A small change in our estimates

In light of the recent uncertainty in Italian politics, various observations have been made regarding the National Recover and Resilience Plan (PNRR). Given that Intred were awarded with their second *Bando Scuole* contract last June, we have revised our revenue estimates for 2022 to account for a potential delay in the contract. **Our revenue estimates for 2022 now lie at €49.1M (vs €50.1M previously), which in turn has decreased our EBITDA margin estimates to 41.7% (vs 42.8% previously).** This revision does not obscure our sentiment on the group's development for 2022, however is a merely a precautionary measure.

Group EBITDA and Net Profit Estimates (in €M and %)



Sources : Intred, TP ICAP Midcap

Valuation summary

VALUATION SUMMARY			
Sum of discounted FCF	36.7	Net debt	-5.4
Terminal Value	589.4	Provisions	1.6
TGR	3%	Minorities	0.0
Discounted TV	303.6		
Enterprise Value	340.3	Equity Value	344.1
# of shares (millions)		15.9	
TARGET PRICE =		21.7	
Potential upside		63%	

WACC Calculation			
Risk free rate (BTP 10Y)*	2.5%	Beta (re-levered)	0.3x
Size premium	2.0%	Market premium	8.0%
Cost of Equity		7.3%	
Interest rate	0.7%	Tax rate	27.9%
Cost of Debt		0.5%	
% equity	100%	% debt	0%
WACC =		7.3%	

*6 month average

		WACC				
		7.1%	7.2%	7.3%	7.4%	7.5%
TGR	2.0%	18.9	18.4	17.9	17.5	17.1
	2.5%	20.7	20.2	19.6	19.1	18.6
	3.0%	23.0	22.3	21.7	21.1	20.5
	3.5%	26.0	25.1	24.3	23.5	22.8
	4.0%	29.9	28.8	27.7	26.8	25.8

Sources: Intred, TP ICAP Midcap

DCF Method: Cash Flow statement

DCF (M€)	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Sales	49.1	54.8	61.7	69.1	77.3	86.1	95.3	105.0	115.0	125.4
Variation	21.4%	11.7%	12.5%	12.0%	11.9%	11.3%	10.7%	10.2%	9.6%	9.0%
EBITDA	20.5	23.6	26.6	29.8	33.4	37.1	41.1	45.3	49.6	54.1
Margin	41.7%	42.9%	43.1%	43.1%	43.1%	43.1%	43.1%	43.1%	43.1%	43.1%
D&A	(8.1)	(10.0)	(11.6)	(13.2)	(15.0)	(16.5)	(18.0)	(19.5)	(21.0)	(22.6)
% of sales	16.5%	18.2%	18.8%	19.1%	19.4%	19.1%	18.8%	18.6%	18.3%	18.0%
EBIT	12.4	13.6	15.0	16.6	18.3	20.7	23.1	25.8	28.6	31.5
Margin	25.2%	24.7%	24.3%	24.0%	23.7%	24.0%	24.3%	24.6%	24.9%	25.1%
Taxes	(3.5)	(3.8)	(4.2)	(4.6)	(5.1)	(5.8)	(6.5)	(7.2)	(8.0)	(8.8)
Tax rate	27.9%	27.9%	27.9%	27.9%	27.9%	27.9%	27.9%	27.9%	27.9%	27.9%
CAPEX	23.6	26.3	22.2	22.8	25.1	25.5	25.4	25.0	24.0	22.6
% of sales	48.0%	48.0%	36.0%	33.0%	32.5%	29.6%	26.7%	23.8%	20.9%	18.0%
ΔWC	4.6	(0.9)	(1.3)	(1.5)	(1.6)	(1.9)	(1.9)	(1.9)	(1.9)	(1.9)
% of sales	-9.3%	1.7%	2.2%	2.1%	2.1%	2.2%	2.0%	1.9%	1.7%	1.5%
FCF	(11.1)	(5.6)	1.6	3.8	4.7	7.8	11.2	15.1	19.5	24.6
Discounted FCF	(10.8)	(5.1)	1.3	3.0	3.5	5.3	7.1	8.9	10.8	12.7

Sources: Intred, TP ICAP Midcap

Current & Target Multiples	2022E	2023E	2024E	2025E	2026E
Sales	49.1	54.8	61.7	69.1	77.3
EV/Sales	4.3 x	3.8 x	3.4 x	3.0 x	2.7 x
<i>Target EV/Sales</i>	7.0 x	6.3 x	5.6 x	5.0 x	4.5 x
EBITDA	20.5	23.6	26.6	29.8	33.4
EV/EBITDA	10.3 x	8.9 x	7.9 x	7.0 x	6.3 x
<i>Target EV/EBITDA</i>	16.8 x	14.6 x	12.9 x	11.5 x	10.3 x
EBIT	12.4	13.6	15.0	16.6	18.3
EV/EBIT	17.0 x	15.5 x	14.0 x	12.7 x	11.5 x
<i>Target EV/EBIT</i>	27.8 x	25.4 x	22.9 x	20.7 x	18.8 x
Net Income	8.9	9.8	10.8	12.0	13.2
P/E	23.1 x	21.1 x	19.1 x	17.2 x	15.6 x
<i>Target P/E</i>	38.2 x	34.8 x	31.4 x	28.5 x	25.7 x

FINANCIAL DATA

Income Statement	12/19	12/20	12/21	12/22e	12/23e	12/24e
Sales	21.2	36.4	41.2	49.1	54.8	61.7
Changes (%)	18.5	71.7	13.3	19.1	11.7	12.5
Gross profit	12.0	20.5	24.7	28.7	32.5	36.6
% of Sales	56.5	56.3	59.8	58.5	59.3	59.3
EBITDA	8.7	14.0	17.6	20.5	23.6	26.6
% of Sales	41.1	38.4	42.8	41.7	42.9	43.1
Current operating profit	5.8	8.3	11.8	12.4	13.6	15.0
% of Sales	27.5	22.7	28.6	25.2	24.7	24.3
Non-recurring items	-0.1	-0.1	0.0	0.0	0.0	0.0
EBIT	5.8	8.1	11.8	12.4	13.6	15.0
Net financial result	-0.1	-0.1	-0.1	0.0	0.0	0.0
Income Tax	-1.5	-2.1	-3.3	-3.5	-3.8	-4.2
Net profit, group share	4.3	6.1	8.6	8.9	9.8	10.8
EPS	0.27	0.39	0.54	0.56	0.62	0.68
Financial Statement	12/19	12/20	12/21	12/22e	12/23e	12/24e
Goodwill	0.0	9.2	9.2	9.2	9.2	9.2
Tangible and intangible assets	26.1	33.4	48.1	63.5	79.9	90.5
Right of Use	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets	0.0	0.0	0.0	0.0	0.0	0.0
Working capital	-7.1	-9.3	-21.0	-16.4	-17.3	-18.7
Other Assets	0.1	0.1	0.2	0.2	0.2	0.2
Assets	19.1	33.5	36.5	56.5	71.9	81.2
Shareholders equity group	26.7	32.3	40.3	48.3	57.1	67.0
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
LT & ST provisions and others	0.6	1.6	1.6	0.0	0.0	0.0
Net debt	-8.1	-0.4	-5.4	8.2	14.7	14.2
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	19.1	33.5	36.5	56.5	71.9	81.2
Net debt excl. IFRS 16	-8.1	-0.4	-5.4	8.2	14.7	14.2
Gearing net	-0.3	-0.0	-0.1	0.2	0.3	0.2
Leverage	-0.9	-0.0	-0.3	0.4	0.6	0.5
Cash flow statement	12/19	12/20	12/21	12/22e	12/23e	12/24e
CF after elimination of net borrowing costs and taxes	7.1	12.7	14.2	17.0	19.8	22.4
Δ WCR	1.8	2.2	13.2	-6.1	0.9	1.3
Operating cash flow	8.9	14.9	27.4	10.9	20.7	23.8
Net capex	-7.2	-11.7	-20.5	-23.6	-26.3	-22.2
FCF	1.9	3.3	7.2	-12.7	-5.6	1.6
Acquisitions/Disposals of subsidiaries	0.0	-10.5	0.0	0.0	0.0	0.0
Other investments	0.0	-0.0	-0.0	0.0	0.0	0.0
Change in borrowings	-1.3	4.6	0.0	9.7	0.0	0.0
Dividends paid	-0.3	-0.5	0.0	-1.0	-0.9	-1.0
Repayment of leasing debt	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	1.3	0.0	0.0	0.0
Changes in exchange rates	0.0	0.0	0.0	0.0	0.0	0.0
Change in net cash over the year	0.1	-3.3	8.3	-3.9	-6.5	0.6
ROA (%)	22.6%	18.3%	23.6%	15.8%	13.6%	13.3%
ROE (%)	16.2%	18.9%	21.3%	18.5%	17.1%	16.2%

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