

## Delticom (DEX GY) | Retail

May 14, 2024

### Q1/24: Solid start, but H2 execution critical to meet guidance

Delticom reported Q1/24 results yesterday. Gross Merchandise Volume (GMV) and top-line were +24% yoy. Regionally, EU revenues increased +27% yoy, while non-EU expanded +10% yoy. We note that the favourable top-line development was accelerated by strong sales and pre-sales with both private as well as commercial end customers. We believe that the relatively warm temperatures, especially in February and March, in part, contributed to this. Also, gross margin came in 50bps lower yoy despite inventories -17% yoy, which may also hint at a certain degree of promotional activity and pull-forward effects. FY24 guidance, calling for EUR450-470mn and an operating EBITDA of EUR19-21mn, was confirmed. To meet FY24 guidance at the lower end, Delticom needs to post -11% yoy top-line growth along with an operating EBITDA of EUR18.18mn, implying a 5.1% margin, in Q2-Q4. Importantly, the first quarter has a comparatively minor importance for the full-year, as it typically represents the transition from the winter to summer tire business. In our view, while top-line guidance may seem undemanding, the FY24 performance will be largely dependent on the winter tire business in Q4. Given that the strong winter tire business of Q4/23 is unlikely to repeat itself and Continental (Hold, PT: EUR74; covered by Pál Skirta) having flagged limited visibility on tire demand, we remain on the sidelines for now.

**Risks to our rating:** 1) stronger than expected sales acceleration as online penetration expands more rapidly and 2) weaker macro

**Valuation:** We continue to value Delticom using a peer multiple approach (PT: EUR3.70)

| Fundamentals (in EUR m) <sup>1</sup> | 2021 | 2022 | 2023 | 2024e | 2025e | 2026e |
|--------------------------------------|------|------|------|-------|-------|-------|
| Sales                                | 585  | 509  | 476  | 460   | 476   | 490   |
| EBITDA                               | 17   | 15   | 21   | 19    | 21    | 23    |
| EBIT                                 | 7    | 4    | 12   | 12    | 12    | 13    |
| EPS adj. (EUR)                       | 0.46 | 0.19 | 0.54 | 0.48  | 0.51  | 0.57  |
| DPS (EUR)                            | 0.00 | 0.00 | 0.00 | 0.00  | 0.00  | 0.00  |
| BVPS (EUR)                           | 2.49 | 2.68 | 3.21 | 3.69  | 4.20  | 4.77  |
| Net Debt incl. Provisions            | 51   | 71   | 48   | 46    | 42    | 27    |
| Ratios <sup>1</sup>                  | 2021 | 2022 | 2023 | 2024e | 2025e | 2026e |
| EV/EBITDA                            | 8.6  | 7.0  | 3.9  | 5.1   | 4.4   | 3.5   |
| EV/EBIT                              | 20.7 | 25.0 | 7.0  | 8.0   | 7.9   | 6.0   |
| P/E adj.                             | 14.1 | 12.4 | 4.1  | 7.3   | 6.8   | 6.2   |
| Dividend yield (%)                   | 0.0  | 0.0  | 0.0  | 0.0   | 0.0   | 0.0   |
| EBITDA margin (%)                    | 2.9  | 2.9  | 4.3  | 4.1   | 4.5   | 4.7   |
| EBIT margin (%)                      | 1.2  | 0.8  | 2.4  | 2.6   | 2.5   | 2.7   |
| Net debt/EBITDA                      | 3.0  | 4.7  | 2.3  | 2.4   | 2.0   | 1.2   |
| PBV                                  | 2.6  | 0.9  | 0.7  | 0.9   | 0.8   | 0.7   |

<sup>1</sup>Sources: Bloomberg, Metzler Research

**Hold**  **unchanged**

**Price\*** **EUR 3.50**

**Price target** **EUR 3.70 (3.90)**

\* XETRA trading price at the close of the previous day unless stated otherwise in the Disclosures

|                                       |      |
|---------------------------------------|------|
| Market Cap (EUR m) <sup>1</sup>       | 52   |
| Enterprise Value (EUR m) <sup>1</sup> | 98   |
| Free Float (%) <sup>1</sup>           | 53.0 |

Price (in EUR)<sup>1</sup>



| Performance (in %) <sup>1</sup> | 1m   | 3m   | 12m  |
|---------------------------------|------|------|------|
| Share                           | 65.1 | 47.7 | 97.2 |
| Rel. to Prime All Share         | 58.6 | 34.7 | 70.7 |

| Changes in estimates (in %) <sup>1</sup> | 2024e | 2025e | 2026e |
|--|-------|-------|-------|
| Sales                                    | 0.0   | 0.0   | 0.0   |
| EBIT                                     | -0.0  | 0.0   | 0.0   |
| EPS                                      | 4.9   | -4.9  | -8.9  |

#### Sponsored Research



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# company note

## Q1/24 results: gross margin contracts, while outlook is confirmed

### Headline results

Delticom reported final Q1/24 yesterday. Gross Merchandise Volume and top-line were both +24% yoy. Regionally, the EU business expanded +27% yoy, whereas Non-EU division achieved +10% yoy. Top-line benefited from sales and pre-sales in both private as well as commercial end customers in light of relatively warm temperatures in February and March. We note that Q1 tends to be less important in relation to the whole year, as it typically represents the transition from winter to summer tires. The development of the FY will be largely dependent on the winter tire business in Q4. With the release, Delticom confirmed its FY24 guidance, which calls for sales at EUR450-470mn and an operating EBITDA between EUR19-21mn.

### Sales

Q1 sales expanded by +24% yoy to EUR96.7mn, which was driven by growth in both the European and Non-European markets. While EU business increased to EUR83.3mn, +27% yoy, the non-EU division's sales grew to EUR13.4mn, +10% yoy. Delticom also benefited from strong sales and pre-sales with both private as well as commercial end customers in light of warm temperatures in Feb. and Mar.

### Gross profit margin

We are surprised that gross margin decreased to 20.5%, -50bps yoy despite lower inventories, which were -17% yoy. Ideally, the cleaner inventory levels should have contributed to less markdowns and thus improved pricing.

### EBITDA

EBITDA improved to EUR0.65mn, implying a 0.67% margin, +162bps yoy.

### Guidance for FY24

Guidance for FY24 was confirmed. Delticom expects sales in the corridor of EUR450-470mn and an operating EBITDA of EUR19-21mn.

#### Q1/24 figures for Delticom

|                            | Q1/24        | Q1/23        | Chg.          |
|----------------------------|--------------|--------------|---------------|
| <b>GMV</b>                 | <b>119,2</b> | <b>96,2</b>  | <b>24%</b>    |
| <b>Sales</b>               | <b>96,7</b>  | <b>78,0</b>  | <b>24%</b>    |
| <b>Gross profit</b>        | <b>26,3</b>  | <b>24,5</b>  | <b>7%</b>     |
| <i>Gross profit margin</i> | <i>22,0%</i> | <i>22,5%</i> | <i>-50bps</i> |
| <b>EBITDA</b>              | <b>0,65</b>  | <b>-0,74</b> | <b>188%</b>   |
| <i>EBITDA margin</i>       | <i>0,7%</i>  | <i>-0,9%</i> | <i>162bps</i> |
| <b>EBIT</b>                | <b>-1,59</b> | <b>-2,94</b> | <b>46%</b>    |
| <i>EBIT margin</i>         | <i>-1,6%</i> | <i>-3,8%</i> | <i>210bps</i> |
| <b>Net income</b>          | <b>-1,4</b>  | <b>-2,3</b>  | <b>39%</b>    |
| <b>EPS</b>                 | <b>-0,10</b> | <b>-0,16</b> | <b>38%</b>    |
| <b>Inventories</b>         | <b>69,8</b>  | <b>84,4</b>  | <b>-17%</b>   |

Source: Metzler Research

# company note

## FY24 outlook vs. consensus

As a reminder, Delticom calls for sales in the ballpark of EUR450-470mn and an operating EBITDA between EUR19-21mn for FY24. Translating this into actual forecasts, Bloomberg consensus is marginally above the mid-point (EUR461.67mn), while expecting Delticom to come in slightly below the lower end of the operating EBITDA guidance (EUR18.76mn).

### Outlook 2024

| EURmn                   | Low          | Mid          | High         |
|-------------------------|--------------|--------------|--------------|
| <b>Sales 2023</b>       | <b>475,7</b> | <b>475,7</b> | <b>475,7</b> |
| Sales growth rep.       | -5,4%        | -3,3%        | -1,2%        |
| <b>Sales 2024 impl.</b> | <b>450,0</b> | <b>460,0</b> | <b>470,0</b> |
| BB consensus, 13.05     | <b>461,7</b> | <b>461,7</b> | <b>461,7</b> |
| Delticom vs BB          | -2,5%        | -0,4%        | 1,8%         |
| <b>Operating EBITDA</b> | <b>19,0</b>  | <b>20,0</b>  | <b>21,0</b>  |
| Operating EBITDA margin | 4,2%         | 4,3%         | 4,5%         |
| BB consensus, 13.05     | <b>18,8</b>  | <b>18,8</b>  | <b>18,8</b>  |
| Delticom vs BB          | 1,2%         | 6,6%         | 11,9%        |

Source: Metzler Research, Bloomberg

## What Delticom needs to deliver to meet FY24 guidance

After having translated Delticom's guidance into actual forecasts in the outlook chart above, we calculate the level of Group sales and operating EBITDA required in Q2-Q4 to deliver on the lower end of the FY24 guidance.

On top-line, this would imply EUR450mn in sales and an operating EBITDA of EUR19mn for the full-year. Given what we have seen in Q1/24, reaching the lower end of Delticom's FY24 guidance would require -11% yoy reported sales growth, while operating EBITDA would need to come in at EUR18.18mn, implying a 5.1% margin, throughout Q2-Q4.

While top-line guidance seems undemanding, we are mindful that Delticom does not expect a comparably strong winter tire demand this year as seen in Q4/23.

**What is required in Q2-Q4 to deliver on the lower, mid and upper range of the FY24 guidance?**

| EURmn                     | Q1/24 | Low    |       | Mid    |       | High   |       |
|---------------------------|-------|--------|-------|--------|-------|--------|-------|
|                           |       | Q2-Q4E | FY24E | Q2-Q4E | FY24E | Q2-Q4E | FY24E |
| Sales                     | 97    | 353    | 450   | 363    | 460   | 373    | 470   |
| Sales growth rep. yoy     | 24,0% | -11,2% | -5,4% | -8,6%  | -3,3% | -6,1%  | -1,2% |
| Operating EBITDA          | 0,82  | 18,18  | 19,00 | 19,18  | 20,00 | 20,18  | 21,00 |
| Operating EBITDA margin % | 0,8%  | 5,1%   | 4,2%  | 5,3%   | 4,3%  | 5,4%   | 4,5%  |

Source: Metzler Research

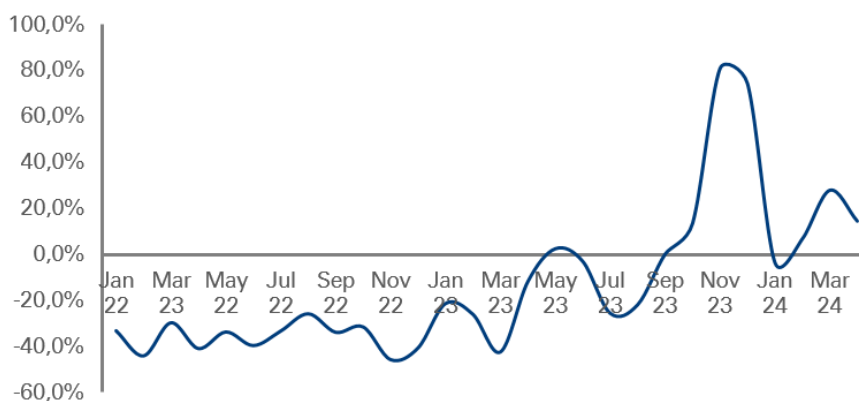
## Valuation

We continue to value Delticom using a peer multiple approach. Our multiple valuation includes Polish tire company Oponeo, which is currently trading at a EV/EBITDA for FY25 of 9.0x. In our view, a certain discount for Delticom is applicable. First, Delticom is currently in a transition phase as it is moving toward a platform business. Second, the company remarked that it does not expect a similarly strong winter tire business in FY24 as seen in FY23. Third, we believe that visibility on tire demand is currently limited, as flagged by Continental (Hold, PT EUR74; covered by Pál Skirta), which would explain the cautious FY24 guidance. Fourth, the operating EBITDA outlook of EUR19-21mn suggests a certain degree of operational deleverage should lower volumes materialise. Thus, we apply a 25% discount. This drives our price target of EUR3.70.

## Google trends indicate improving momentum

We note that momentum at Delticom is accelerating, albeit coming from a low base. According to our traffic analysis, which is based on Google Trends, searches for Delticom were +10% yoy in Q1/24 yoy (vs. Q1/23: -30% yoy). While this development is encouraging, it must be seen whether this will translate into sustainable purchase intent given that warm temperatures in February and March spurred demand for summer tires.

**Delticom Google Searches (Jan 22- April 24) - Worldwide**



Source: Metzler Research, Google Trends

# company note

**Our view on Delticom - structural drivers intact, but executional evidence required for re-rating**

Although Delticom delivered solid earnings in Q1, we remain on the sidelines for now. Naturally, increased propensity to consume, fuelled by potential real wages increases in Europe, imply upside risk to our estimates for FY24. Looking ahead beyond FY24, as OEMs are increasingly driving omni-channel, thus allowing their customers to buy vehicles both online and offline, this may lead to a relatively higher share of consumers buying tires online. However, up until material evidence of the aforementioned trends, and given the reliance on a strong Q4 to meet the FY24 guidance, Delticom remains a 'show me' story to us.

# company note

## Key Data

### Company profile

CEO: Andreas Prüfer

CFO: Thomas Loock

Hanover, Germany

Delticom is Europe's leading online tire retailer. The company operates >300 online shops and sales platforms in >70 countries worldwide, including ReifenDirekt and Tirendo. The customer can choose between home delivery and delivery to one of ca. 38.000 service partners worldwide.

### Major shareholders

Prüfer/Binder (50.04%)

### Key figures

| P&L (in EUR m)                             | 2021        | %            | 2022        | %             | 2023        | %            | 2024e        | %            | 2025e        | %           | 2026e        | %            |
|--|-------------|--------------|-------------|---------------|-------------|--------------|--------------|--------------|--------------|-------------|--------------|--------------|
| <b>Sales</b>                               | <b>585</b>  | <b>8.2</b>   | <b>509</b>  | <b>-13.0</b>  | <b>476</b>  | <b>-6.6</b>  | <b>460</b>   | <b>-3.3</b>  | <b>476</b>   | <b>3.4</b>  | <b>490</b>   | <b>3.0</b>   |
| <b>EBITDA</b>                              | <b>17</b>   | <b>13.7</b>  | <b>15</b>   | <b>-12.2</b>  | <b>21</b>   | <b>37.6</b>  | <b>19</b>    | <b>-7.5</b>  | <b>21</b>    | <b>12.1</b> | <b>23</b>    | <b>7.5</b>   |
| EBITDA margin (%)                          | 2.9         | 5.1          | 2.9         | 0.9           | 4.3         | 47.3         | 4.1          | -4.3         | 4.5          | 8.4         | 4.7          | 4.4          |
| <b>EBIT</b>                                | <b>7</b>    | <b>31.8</b>  | <b>4</b>    | <b>-40.2</b>  | <b>12</b>   | <b>172.7</b> | <b>12</b>    | <b>5.8</b>   | <b>12</b>    | <b>-2.5</b> | <b>13</b>    | <b>11.2</b>  |
| EBIT margin (%)                            | 1.2         | 21.8         | 0.8         | -31.2         | 2.4         | 191.9        | 2.6          | 9.4          | 2.5          | -5.7        | 2.7          | 8.0          |
| <b>Financial result</b>                    | <b>-2</b>   | <b>23.6</b>  | <b>-1</b>   | <b>50.7</b>   | <b>-1</b>   | <b>-32.1</b> | <b>-2</b>    | <b>-51.0</b> | <b>-1</b>    | <b>49.5</b> | <b>-1</b>    | <b>-17.2</b> |
| <b>EBT</b>                                 | <b>5</b>    | <b>91.0</b>  | <b>3</b>    | <b>-35.6</b>  | <b>10</b>   | <b>218.7</b> | <b>10</b>    | <b>-0.3</b>  | <b>11</b>    | <b>7.2</b>  | <b>12</b>    | <b>10.6</b>  |
| Taxes                                      | -2          | 56.4         | 0           | 119.9         | 2           | 470.6        | 3            | 43.3         | 3            | 7.2         | 4            | 10.6         |
| Tax rate (%)                               | -37.7       | n.a.         | 11.7        | n.a.          | 20.9        | n.a.         | 30.0         | n.a.         | 30.0         | n.a.        | 30.0         | n.a.         |
| Net income                                 | 7           | -0.8         | 3           | -58.7         | 8           | 185.4        | 7            | -11.8        | 8            | 7.2         | 8            | 10.6         |
| Minority interests                         | 0           | -53.7        | 0           | -100.0        | 0           | n.a.         | 0            | n.a.         | 0            | n.a.        | 0            | n.a.         |
| <b>Net Income after minorities</b>         | <b>7</b>    | <b>0.2</b>   | <b>3</b>    | <b>-58.3</b>  | <b>8</b>    | <b>185.4</b> | <b>7</b>     | <b>-11.8</b> | <b>8</b>     | <b>7.2</b>  | <b>8</b>     | <b>10.6</b>  |
| Number of shares outstanding (m)           | 15          | 18.6         | 15          | 0.0           | 15          | 0.0          | 15           | 0.0          | 15           | 0.0         | 15           | 0.0          |
| <b>EPS adj. (EUR)</b>                      | <b>0.46</b> | <b>-15.5</b> | <b>0.19</b> | <b>-58.3</b>  | <b>0.54</b> | <b>185.4</b> | <b>0.48</b>  | <b>-11.8</b> | <b>0.51</b>  | <b>7.2</b>  | <b>0.57</b>  | <b>10.6</b>  |
| <b>DPS (EUR)</b>                           | <b>0.00</b> | <b>n.a.</b>  | <b>0.00</b> | <b>n.a.</b>   | <b>0.00</b> | <b>n.a.</b>  | <b>0.00</b>  | <b>n.a.</b>  | <b>0.00</b>  | <b>n.a.</b> | <b>0.00</b>  | <b>n.a.</b>  |
| Dividend yield (%)                         | 0.0         | n.a.         | 0.0         | n.a.          | 0.0         | n.a.         | 0.0          | n.a.         | 0.0          | n.a.        | 0.0          | n.a.         |
| <b>Cash Flow (in EUR m)</b>                | <b>2021</b> | <b>%</b>     | <b>2022</b> | <b>%</b>      | <b>2023</b> | <b>%</b>     | <b>2024e</b> | <b>%</b>     | <b>2025e</b> | <b>%</b>    | <b>2026e</b> | <b>%</b>     |
| <b>Gross Cash Flow</b>                     | <b>18</b>   | <b>49.7</b>  | <b>13</b>   | <b>-27.2</b>  | <b>22</b>   | <b>66.9</b>  | <b>14</b>    | <b>-35.7</b> | <b>17</b>    | <b>22.3</b> | <b>18</b>    | <b>6.4</b>   |
| <b>Increase in working capital</b>         | <b>1</b>    | <b>n.a.</b>  | <b>19</b>   | <b>n.a.</b>   | <b>-11</b>  | <b>n.a.</b>  | <b>8</b>     | <b>n.a.</b>  | <b>10</b>    | <b>n.a.</b> | <b>0</b>     | <b>n.a.</b>  |
| <b>Capital expenditures</b>                | <b>0</b>    | <b>-75.3</b> | <b>3</b>    | <b>568.6</b>  | <b>6</b>    | <b>115.2</b> | <b>3</b>     | <b>-42.5</b> | <b>3</b>     | <b>3.4</b>  | <b>3</b>     | <b>3.0</b>   |
| D+A/Capex (%)                              | 2579.4      | n.a.         | 414.4       | n.a.          | 162.9       | n.a.         | 214.3        | n.a.         | 285.7        | n.a.        | 285.7        | n.a.         |
| <b>Free cash flow (Metzler definition)</b> | <b>17</b>   | <b>-51.8</b> | <b>-8</b>   | <b>-149.1</b> | <b>27</b>   | <b>438.1</b> | <b>3</b>     | <b>-90.7</b> | <b>4</b>     | <b>47.4</b> | <b>15</b>    | <b>287.2</b> |
| Free cash flow yield (%)                   | 17.4        | n.a.         | -23.2       | n.a.          | 83.8        | n.a.         | 4.9          | n.a.         | 7.2          | n.a.        | 27.9         | n.a.         |
| Dividend paid                              | 0           | n.a.         | 0           | n.a.          | 0           | n.a.         | 0            | n.a.         | 0            | n.a.        | 0            | n.a.         |
| <b>Free cash flow (post dividend)</b>      | <b>16</b>   | <b>-55.6</b> | <b>-8</b>   | <b>-153.5</b> | <b>27</b>   | <b>415.9</b> | <b>3</b>     | <b>-90.4</b> | <b>4</b>     | <b>47.4</b> | <b>15</b>    | <b>287.2</b> |
| <b>Balance sheet (in EUR m)</b>            | <b>2021</b> | <b>%</b>     | <b>2022</b> | <b>%</b>      | <b>2023</b> | <b>%</b>     | <b>2024e</b> | <b>%</b>     | <b>2025e</b> | <b>%</b>    | <b>2026e</b> | <b>%</b>     |
| <b>Assets</b>                              | <b>217</b>  | <b>8.9</b>   | <b>195</b>  | <b>-10.2</b>  | <b>192</b>  | <b>-1.9</b>  | <b>151</b>   | <b>-21.4</b> | <b>153</b>   | <b>1.3</b>  | <b>155</b>   | <b>1.8</b>   |
| <b>Goodwill</b>                            | <b>0</b>    | <b>n.a.</b>  | <b>0</b>    | <b>n.a.</b>   | <b>0</b>    | <b>n.a.</b>  | <b>0</b>     | <b>n.a.</b>  | <b>0</b>     | <b>n.a.</b> | <b>0</b>     | <b>n.a.</b>  |
| <b>Shareholders' equity</b>                | <b>38</b>   | <b>156.6</b> | <b>40</b>   | <b>4.4</b>    | <b>48</b>   | <b>20.1</b>  | <b>55</b>    | <b>14.9</b>  | <b>62</b>    | <b>13.9</b> | <b>71</b>    | <b>13.5</b>  |
| Equity/total assets (%)                    | 17.5        | n.a.         | 20.3        | n.a.          | 24.9        | n.a.         | 36.3         | n.a.         | 40.9         | n.a.        | 45.6         | n.a.         |
| <b>Net Debt incl. Provisions</b>           | <b>51</b>   | <b>-42.1</b> | <b>71</b>   | <b>37.7</b>   | <b>48</b>   | <b>-31.6</b> | <b>46</b>    | <b>-5.3</b>  | <b>42</b>    | <b>-8.2</b> | <b>27</b>    | <b>-34.5</b> |
| thereof pension provisions                 | 0           | n.a.         | 0           | n.a.          | 0           | n.a.         | 0            | n.a.         | 0            | n.a.        | 0            | n.a.         |
| Gearing (%)                                | 134.9       | n.a.         | 177.9       | n.a.          | 101.4       | n.a.         | 83.6         | n.a.         | 67.4         | n.a.        | 38.9         | n.a.         |
| Net debt/EBITDA                            | 3.0         | n.a.         | 4.7         | n.a.          | 2.3         | n.a.         | 2.4          | n.a.         | 2.0          | n.a.        | 1.2          | n.a.         |

### ESG discussion

CO2 emissions caused by the transport of tires to the customers are significant. Delticom will further optimize its distribution with a focus on minimizing the mileage driven. In the long term, we expect a significant improvement in the environmental footprint of the Group due to the generally lower tailpipe and tire-related emissions as a result of the e-mobility transition, tighter regulation and further environmental advancements on the tire manufacturers' side.

Sources: Bloomberg, Metzler Research

# company note

## Disclosures

### Recommendation history

Recommendations for each financial instrument or issuer - mentioned in this document - published by Metzler in the past twelve months

| Date of dissemination   | Metzler recommendation * |         | Current price ** | Price target * | Author ***     |
|---|--------------------------|---------|------------------|----------------|----------------|
|   | Previous                 | Current |                  |                |                |
| <b>Issuer/Financial Instrument (ISIN): Continental (DE0005439004)</b> |                          |         |                  |                |                |
| 26.02.2024  | Hold                     | Hold    | 74.36 EUR        | 74.00 EUR      | Skirta, Pal    |
| 07.12.2023  | Hold                     | Hold    | 73.28 EUR        | 74.00 EUR      | Skirta, Pal    |
| 24.07.2023  | Sell                     | Hold    | 72.26 EUR        | 73.60 EUR      | Skirta, Pal    |
| <b>Issuer/Financial Instrument (ISIN): Delticom (DE0005146807)</b>    |                          |         |                  |                |                |
| 22.04.2024  | Hold                     | Hold    | 2.58 EUR         | 3.90 EUR       | Dennl, Felix   |
| 16.11.2023  | Hold                     | Hold    | 2.18 EUR         | 2.50 EUR       | Skirta, Pal    |
| 14.08.2023  | Hold                     | Hold    | 2.10 EUR         | 2.50 EUR       | Skirta, Pal    |
| 02.06.2023  | Hold                     | Hold    | 1.80 EUR         | 2.50 EUR       | Pieper, Jürgen |

\* Effective until the price target and/or investment recommendation is updated (FI/FX recommendations are valid solely at the time of publication)

\*\* XETRA trading price at the close of the previous day unless stated otherwise herein

\*\*\* All authors are financial analysts

### Delticom

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|      |  |
|------|--|
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|      |  |
|------|--|
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