

July 10, 2021

Zomato is one of the leading food service platforms in India in terms of value of food sold as of March 31, 2021. It was initially launched as “DC Foodiebay Online Services Pvt Ltd” in January 2010. During FY21, 3.21 crore average monthly active users visited the platform. It is currently present in 525 cities in India with 389,932 active restaurant listings. It also has footprints across 23 countries outside India. Over the past 12 years, it has grown from food discovery platform to a food service platform with four major segments **1) Food delivery (B2C)** - The company is a leader as per RedSeer, **2) Dining out (B2C)** - Provides tools for restaurant owners to acquire customers, **3) Hyperpure (B2B)** - Started in 2019, it provides ingredients and kitchen products to restaurant partners and **4) Zomato Pro** - It is a paid membership programme which unlocks flat percentage discounts for its customers.

A \$110 billion opportunity in next five years: (₹ 7.7 lakh crore)

Restaurant food or food service contribute only 8-9% of food consumption market vs. 54%, 58% for US, China, respectively. According to Redseer, India has an addressable food service market of \$65 billion (₹ 4.5 lakh crore), set to grow to ₹ 7.7 lakh crore in 2025 as millennials depend less on home cooked food/kitchen set-up with rising disposable incomes and spending.

Zomato - Strong consumer brand in India

The company’s campaigns, community and content has created a strong consumer brand in India. In FY21, 68% of their new customers were acquired organically and not through any paid advertisements. The company will continue to invest in their branding activities to increase their brand awareness and leverage its current capabilities into expanding other related businesses like grocery, fitness and nutraceutical segment.

Focus on unit economics and growth

Significant investments in marketing and promotions to accelerate customer adoption of food delivery in the past has resulted in customers returning to their platform for repeat purchases. With higher scale of operations, ad spends as percentage of revenue has reduced over time leading to improved unit economics.

Key risk & concerns

- Competition from **Amazon, DotPe, IRAI**, cloud kitchen firms (**Rebel Foods**) and quick service restaurants (**QSRs**)
- Zomato expects costs to increase over time alongside losses as it will invest in growing its business

Priced at FY20 EV/sales of 17.9x at upper price band

Zomato is yet to turn profitable. However, this new-age digital platform offers strong growth potential, which at present is evolving on the back of favourable macroeconomics, changing demographic profile, rising adoption of tech infrastructure. Hence, we recommend **SUBSCRIBE** to this IPO.



Particulars	
Issue details	
Issue Opens	14th July 2021
Issue Closes	16th July 2021
Issue Size (₹ crore)	~ ₹9350 crore
Fresh Issue	~ ₹9000 crore
OFS	~ ₹350 crore
Price Band	₹72-76
Market Lot	195
Face Value	₹ 1

Post Issue implied market cap		
	₹ crore	\$ Billion
At lower price band	56,959.0	7.6
At higher price band	59,623.4	8.0

Shareholding		
Shareholding %		
	Pre-issue	Post-issue
Promoters	NA	NA
Public	95.8%	96.4%
Employee Trust	4.2%	3.6%
Total	100%	100%

Objects of issue	
Object of the Issue	₹ crore
For organic & Inorganic growth initiatives	6,750
General purpose	To be finalised

Research Analyst

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Key Financial Summary

₹ crore	FY18	FY19	FY20	FY21	CAGR FY18-21
Revenue	465.6	1,312.9	2,605.0	1,993.8	62.4
EBIDTA	(92.9)	(2,243.2)	(2,304.4)	(467.2)	NA
EBIDTA margin	-19.9%	-170.9%	-88.5%	-23.4%	
Net Profit	(107.4)	(1,009.9)	(2,385.3)	(816.4)	NA
EPS (₹) (Post issue)	(0.1)	(1.2)	(3.0)	(1.0)	
EV/Sales	100.0	35.5	17.9	23.3	
Mcap/Sales	128.1	45.4	22.9	29.9	
RoCE (%)	-10.0	-89.0	-339.6	-7.5	
RoE (%)	-8.6	-37.1	-333.5	-10.0	

Industry Overview – Market opportunity

A \$110 billion opportunity in next five years: (₹7.7 lakh crore)

The food consumption market was at \$670 billion (₹ 46.9 lakh crore) in 2019 most of which was driven by home cooked food. Restaurant food or food service contributed only 9-10% of the food consumption market. This is substantially low compared to global economies like the US and China, which have ~47-50% and 42-45% contribution from food services, respectively.

According to RedSeer, as of 2019, there is a large total addressable food services market opportunity of US\$65 billion (₹ 4.6 trillion) growing at 9% per annum to US\$110 billion (₹ 7.7 trillion) in 2025 with highly under-penetrated restaurant food-eating behaviour today. However, due to Covid-19, the size of the food services market opportunity reduced to US\$32-35 billion (₹ 2.2–2.5 trillion). While food services in India are highly under-penetrated, it is likely to grow steadily, taking share away from home cooked food. Growth is expected to be driven by changing consumer behaviour, reduced dependence of millennials on home-cooked food/kitchen set-up, increasing consumer disposable income & spending and higher adoption among smaller cities.

Exhibit 1: Comparison of India, US and China market

Comparison of India, US and China markets (2019)

	Unit	 India	 US	 China
Population	billion	1.36	0.33	1.43
Access to Internet / Population	%	43%	88%	63%
Online Food Delivery Market	\$ billion	4.2	21	90
Restaurant Food / Food Consumption	%	10%	54%	58%
Online Food Delivery Users	million	45-55	90-120	430-470
Online Food Delivery Users / Access to Internet	%	9%	36%	50%
<small>(Computed on basis of mid-point of ranges)</small>				

Source(s): Redseer analysis, assumes 1 US\$ = INR 70 and 1 US\$ = RMB 6.5

Source: RHP, ICICI Direct Research

Exhibit 2: Comparison of India, US and China market

Comparison of India, US and China markets (2020)

	Unit	 India	 US	 China
Population	billion	1.38	0.33	1.44
Access to Internet / Population	%	49%	94%	68%
Online Food Delivery Market	\$ billion	2.9	49	110
Restaurant Food / Food Consumption	%	8-9%	47-50%	42-45%
Online Food Delivery Users	million	50-55	100-125	500-550
Online Food Delivery Users / Access to Internet	%	8%	38%	53%
<small>(Computed on basis of mid-point of ranges)</small>				

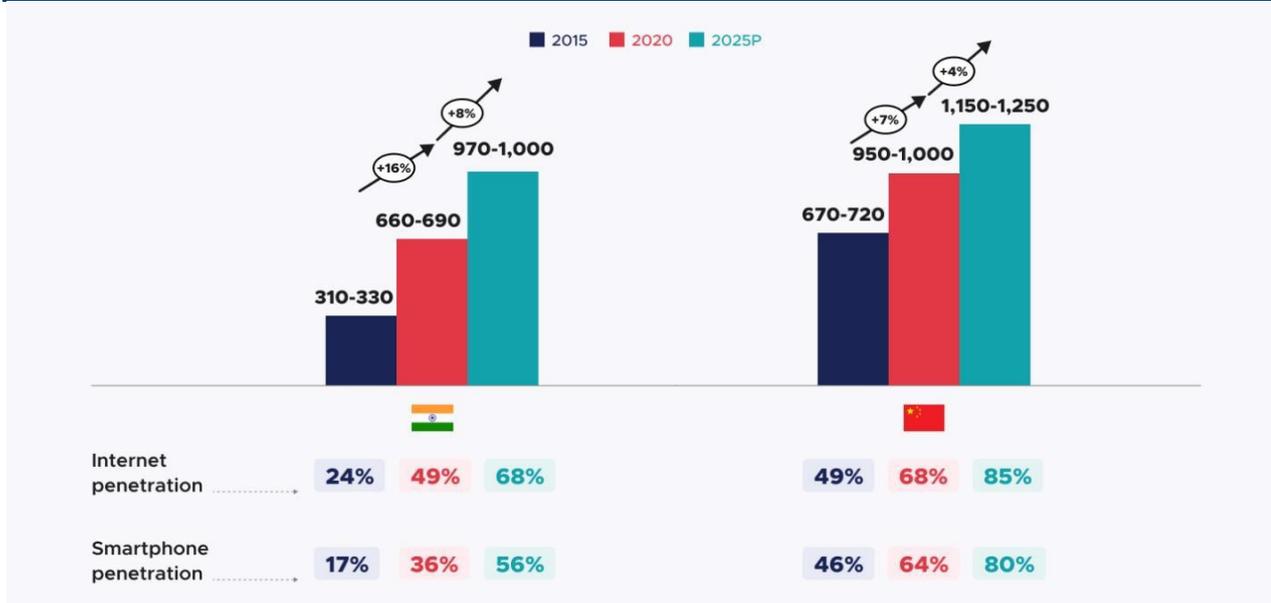
Source(s): Redseer analysis, assumes 1 US\$ = INR 70 and 1 US\$ = RMB 6.5

Source: RHP, ICICI Direct Research

Internet penetration

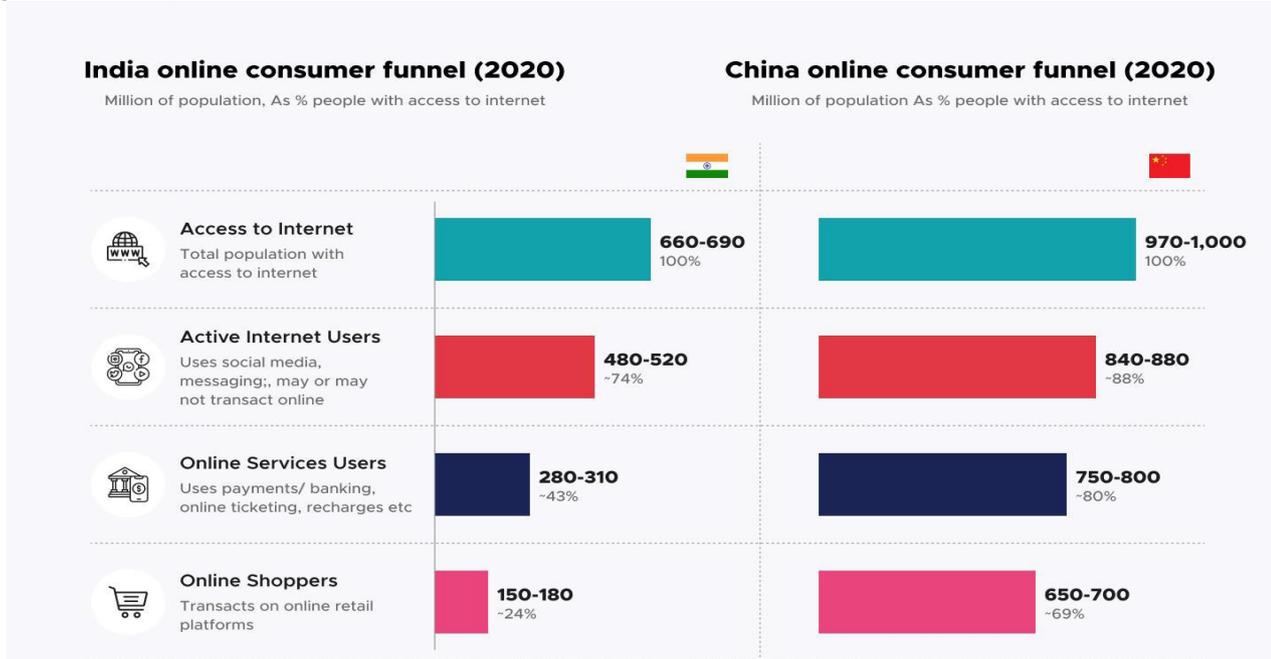
With the launch of Reliance Jio in 2016, data prices became affordable at less than US\$1 per GB and India’s internet adoption skyrocketed from 310-330 million internet users in 2015 to 660-690 million users in 2020. At the same time, there has been significant growth in adoption of smartphones, driven by availability of low-cost alternatives from local as well as global brands. Easy availability of smartphones, cheap data and high speed 4G connections have enabled Indians to embrace digital applications. However, compared to China, the digital penetration in India is still low and is expected to grow rapidly. It is likely to reach over 985 million users by 2025.

Exhibit 3: Internet users – India & China



Source: RHP, ICICI Direct Research

Exhibit 4: Analysis of population with access to internet – India & China



Source: RHP, ICICI Direct Research

Growth in urbanisation

As per World Bank estimates, 34-35% of India’s population (or ~470 million people), resided in urban towns and settlements in 2020. This is likely to increase to ~37-38% by 2025, as per United Nations Population Division estimates. This trend is expected to reflect in greater purchasing power in urban centres with stronger growth opportunities across industries.

Company background

Founded by Deepinder Goyal and Pankaj Chaddah in August 2008, Zomato was initially launched as Foodiebay. It gained instant media attention when Info Edge founder Sanjeev Bikhchandani offered to fund the company. Zomato is currently present in 525 cities in India and 23 countries outside India. Its technology platform connects **customers, restaurant partners and delivery partners**, serving their multiple needs. The company also provides restaurant partners with industry-specific marketing tools, which enable them to engage and acquire customers to grow their business while also providing a reliable and efficient last mile delivery service. It also operates a one-stop procurement solution, **Hyperpure**, which supplies high quality ingredients to restaurant partners.

Exhibit 5: Key operating and financial metrics

	Unit	Fiscal		
		2019	2020	2021
Average MAU	million	29.3	41.5	32.1
Average MTU	million	5.6	10.7	6.8
Active Food Delivery Restaurants (in the last month of the period)	#	94,286	143,089	148,384
GOV	₹ million	53,870.1	112,209.0	94,828.7
Y-o-Y Growth	%		108.3%	(15.5%)
Orders	million	191.0	403.1	238.9
Y-o-Y Growth	%		111.0%	(40.7%)
Total income	₹ million	13,977.17	27,427.39	21,184.24
Y-o-Y Growth	%		96.23%	(22.76%)
Adjusted EBITDA ⁽¹⁾	₹ million	(21,438.11)	(22,061.69)	(3,251.05)

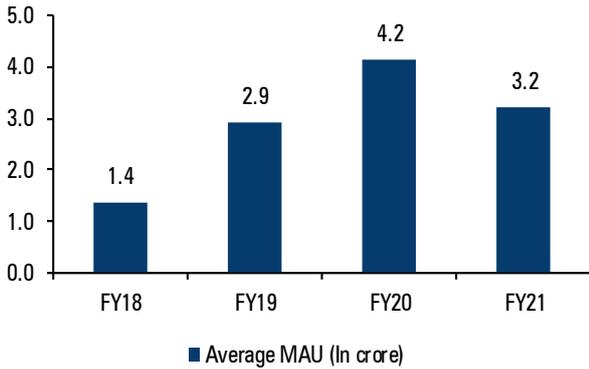
Source: RHP, ICICI Direct Research, (MAU= Monthly Active Users, MTU = Monthly Transacting users)

Over the past 12 years, it has grown from a food discovery platform to a food service platform with four major segments.

- **Food delivery (B2C)** - The company is a leader in this segment as per RedSeer. It has seen a rapid growth with orders increasing by 13.2x from 3.06 crore in FY18 to 40.3 crore in FY20. However, it came down to 23.9 crore in FY21 due to Covid. The company has 1,69,802 delivery partners and 1,48,384 active food delivery restaurants
- **Dining out (B2C)** - Provides tools for restaurant owners to acquire customers. The company has 3,89,932 active restaurant listings on its platform and in FY21. Dining-out services were severely impacted by the Covid-19 pandemic in FY21 and the resultant lockdowns in the country
- **Hyperpure (B2B)** - Started in 2019, it provides ingredients and kitchen products to restaurant partners via direct sourcing from farmers. In March 2021, the company supplied to over 9,225 restaurant partners across six cities in India. Revenue from sale of traded goods, which includes revenue from Hyperpure operations, was ₹ 14.9 crore, ₹ 107.6 crore and ₹ 200.2 crore in FY19, FY20 and FY21, respectively
- **Zomato Pro** – It is a paid membership programme, which unlocks flat percentage discounts for its customers. It allows Pro Restaurant Partners to market themselves to a select audience. As of March 2021, it had 1.5 million Pro Members and over 25,443 Pro restaurant partners in India. Revenue from sale of subscription product, Zomato Pro for FY19, FY20 and FY21 was ₹ 56.2 crore, ₹ 87.9 crore and ₹ 57.5 crore, respectively.

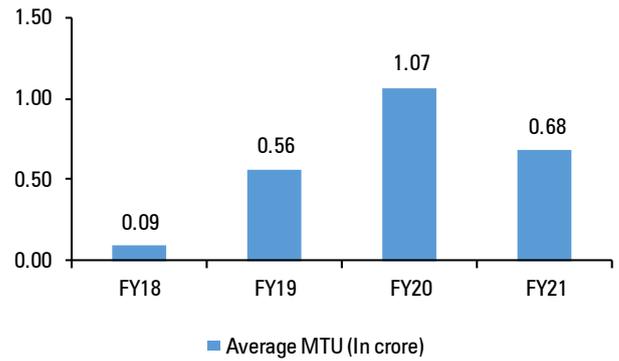
Business story in charts

Exhibit 1: Monthly active users (MAU) have grown at CAGR of 73% during FY18-20...



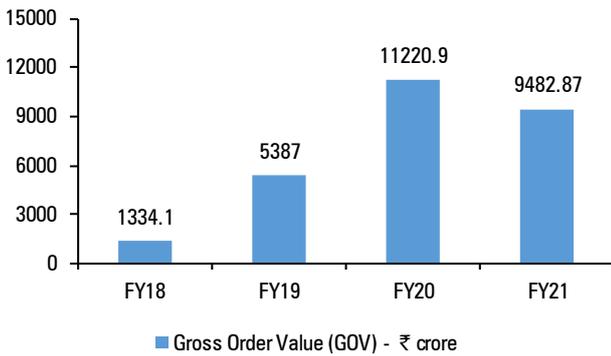
Source: Company, ICICI Direct Research

Exhibit 2:while monthly transacting users have grown exponentially from 9 lakh in FY18 to over 1 crore in FY20...



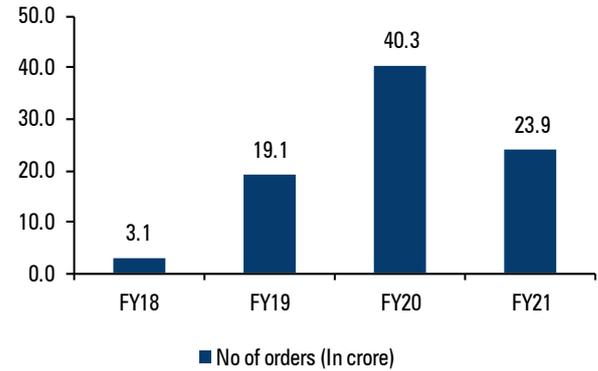
Source: Company, ICICI Direct Research

Exhibit 3: Sharp rise in gross order value (GOV)



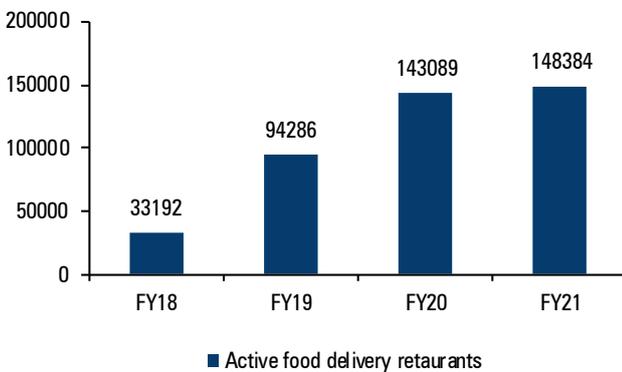
Source: Company, ICICI Direct Research

Exhibit 4: Trends in number of orders



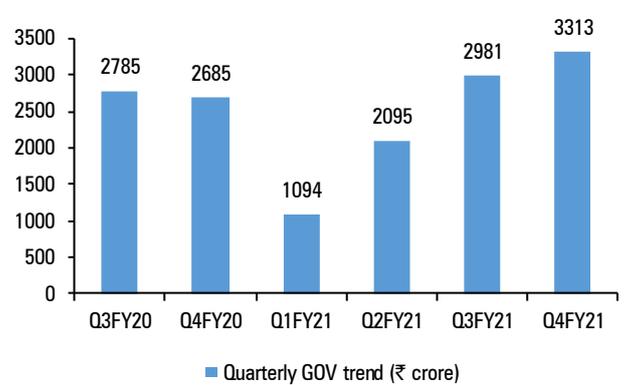
Source: Company, ICICI Direct Research

Exhibit 5: Active food delivery restaurants in March 2021



Source: Company, ICICI Direct Research

Exhibit 6: GOV recovers sharply from Q2FY21 onwards



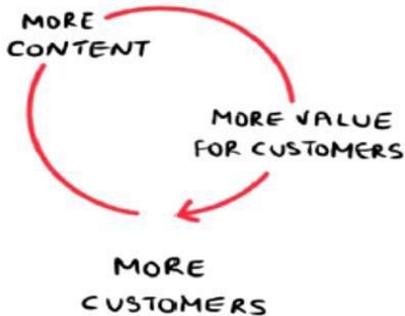
Source: Company, ICICI Direct Research

Investment Rationale

Strong network effects driven by unique content, transaction flywheels

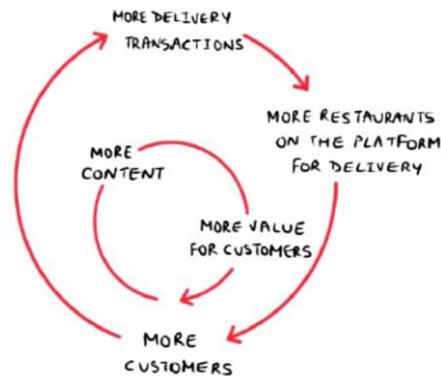
The **end-to-end food services approach** makes Zomato the most unique food services platform globally combining the offerings of **platforms** such as **Yelp** (lets user post reviews and rate business), **DoorDash** (online platform for food order and delivery) and **OpenTable** (restaurants table reservation) in a single mobile app. They collect and curate all structured content using a feet-on-street approach, aided by in-house developed technology, which helps them do this in a cost effective manner. Their **focus on content** attracts a large number of customers to their platform organically. Their customers value the rich content of the restaurant listings on their platform and further enhance the richness of the restaurant listing content by adding their own reviews and photos to the platform, which leads to a virtuous cycle of more new customer acquisitions. During FY21, 68% of new customers were acquired organically and not by paid advertisements.

Exhibit 5: Flywheel effect – stage I



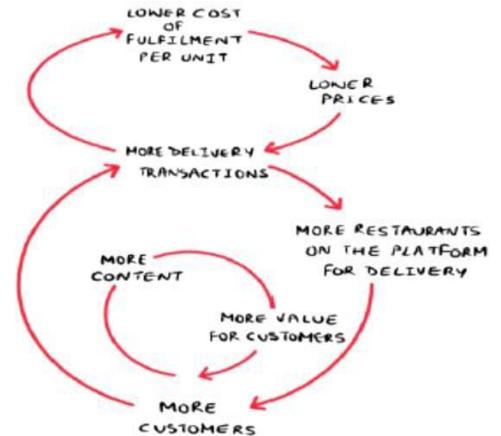
Source: RHP, ICICI Direct Research

Exhibit 5.1: Flywheel effect – State II



Source: RHP, ICICI Direct Research

Exhibit 5.2: Flywheel effect – Stage III



Source: RHP, ICICI Direct Research

These network effects increase the stickiness and loyalty of both customers and restaurant partners, creating an interlinked virtuous cycle. The chart below reflects the indexed growth in annual GOV by customer cohort, with each cohort representing customers who placed their first order on platform in a given fiscal year. For example, the cohort for FY18, which includes all customers who placed their first order on the platform in FY18, has collectively increased their spends on the platform to 2.4x over the past three years.

Exhibit 6: Indexed growth in annual GOV by customer cohort

GOV retention by cohorts - customers consistently increase their spend on our platform

Cohort	Y1	Y2	Y3	Y4	Y5
Fiscal 2017	1.0x	1.6x	2.2x	3.0x	2.9x
Fiscal 2018	1.0x	2.0x	2.7x	2.4x	
Fiscal 2019	1.0x	1.6x	1.1x		
Fiscal 2020	1.0x	0.7x			

Note: Our food delivery retention cohorts were adversely impacted in Fiscal 2021 due to Covid-19 pandemic

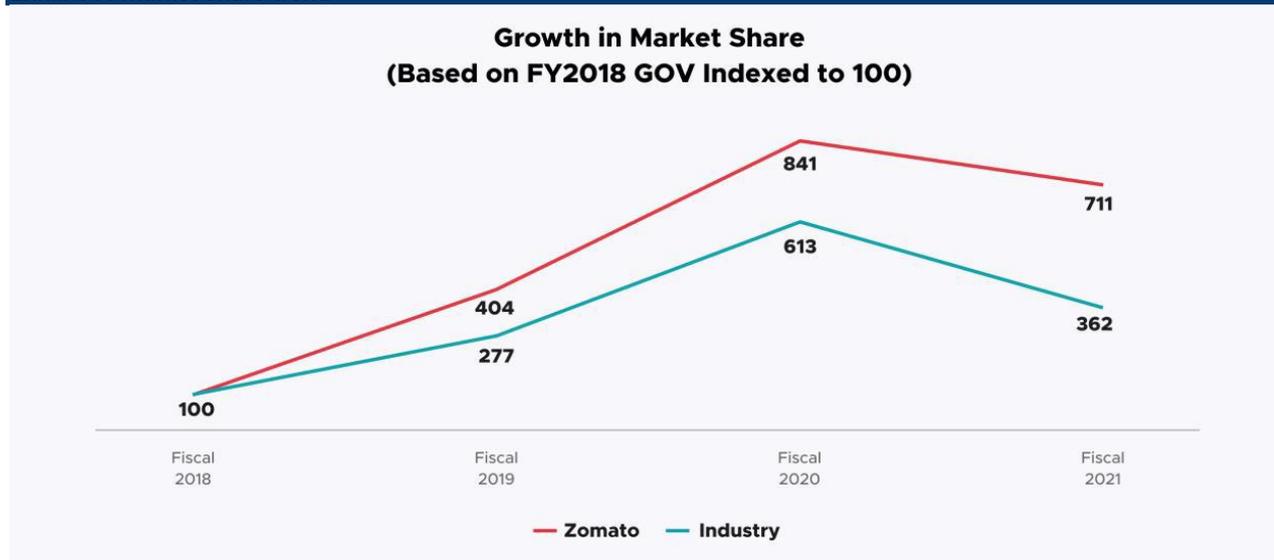
Source: RHP, ICICI Direct Research

Consistent gain in market share in competitive market

Food services is a competitive market in India comprising food delivery players like Zomato and Swiggy, cloud kitchens like Rebel Foods and branded food services players (including quick service restaurants like Dominos, McDonalds and Pizza Hut, among others). Food delivery players also compete with multiple other participants in the food services industry including restaurants, which own and operate their own delivery fleets, traditional offline ordering channels, such as take-out offerings and phone-based ordering, local publications, and other media, both online and offline where restaurants place their advertisements to attract customers.

In this competitive market, **Zomato has consistently gained market share over the last four years to become the category leader in the food delivery space in India** in terms of gross order value (GOV). The chart below represents year on-year growth of Zomato and the industry.

Exhibit 7: Market share trend

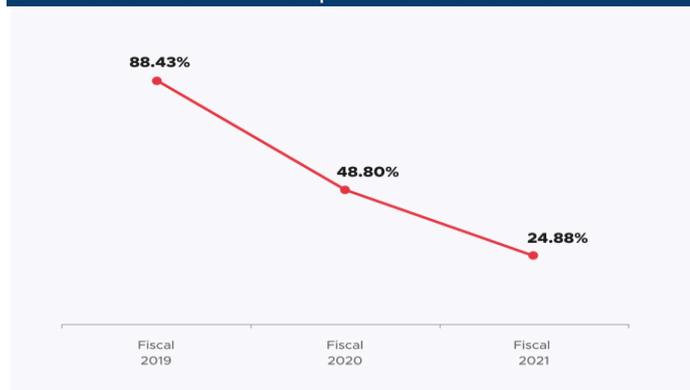


Source: RHP, ICICI Direct Research

Focus on unit economics

Zomato has made significant investments in marketing and promotions to accelerate customer adoption of food delivery and promote their brand. All these investments have resulted in customers coming back to their platform organically for repeat purchases. As a result, their advertisement and sales promotion expenses per order have reduced over time. Further, **with rapid growth in the business since 2019, the unit economics of the food delivery business has also improved consistently.**

Exhibit 8: Advertisement expenses as % of total income



Source: RHP, ICICI Direct Research

Exhibit 9: Unit economics of food delivery business

Particulars (₹)	FY20	FY21
Commission charges	43.6	62.8
Delivery charges	15.3	27.0
Delivery cost	(52.0)	(45.7)
Discounts	(21.7)	(8.3)
Other costs	(15.7)	(15.3)
Profit/ (Loss)	(30.5)	20.5

Source: Company, ICICI Direct Research

Key Risks

Competition

According to the RedSeer, in India, Zomato competes with other food delivery companies, such as Swiggy, chain restaurants that have their own online ordering platforms, such as Pizza Hut, McDonalds and Dominos, cloud kitchens like Rebel Foods, other restaurants that own and operate their own delivery fleets and companies that provide point of sale solutions and restaurant delivery services. Further, demand for a food delivery platform is highly sensitive to a range of factors, including, delivery charges charged by delivery partners, incentives given to delivery partners and the commissions charged to restaurant partners. New restaurants and existing restaurant partners may choose competitors if they charge lower commissions, marketing or other fees, if restaurant partners do not find company's marketing and promotional services effective.

Emergence of new disrupters

Food delivery platforms do not share customer data with restaurants. Hence, i) restaurants find it difficult to create patronage and ii) food delivery platforms charge a high fee (over 22% take rate), which significantly impacts profitability. In order to address the issue of consumer data and high commissions, some restaurants are working with SaaS platforms such as **DotPe** and **Thrive** to create seamless ordering systems.

History of losses, likely higher spending, going forward

The company expects its costs to increase over time while losses may continue given significant investments expected towards growing business. Higher advertising and sales promotion costs may continue, going forward, to attract customers and restaurant partners to the platform, developing platform, including expanding platform's offerings, developing or acquiring new platform features and services, expanding into new markets in India, and expanding delivery partner network.

Management organisation chart

Board of Directors



Kaushik Dutta

Chairman,
Independent Director
Founder - TARI, ex - PwC India



Aparna Popat Ved

Independent Director
Professional Badminton Player,
ex - Olympian



Gunjan Tilakraj Soni

Independent Director
CEO - Zalora Group, ex - Myntra,
McKinsey & Co.



Namita Gupta

Independent Director
Founder - Airveda,
ex - Facebook, Microsoft



Sutapa Banerjee

Independent Director
ex - Ambit Capital, ABN Amro



Deepinder Goyal

Executive Director
Founder, MD & CEO



Douglas Feagin

Non Executive Director
SVP - Ant Group,
ex - Goldman Sachs



Sanjeev Bikhchandani

Non Executive Director
Founder - Info Edge

Management Team



Gunjan Patidar

Co-founder and Chief
Technology Officer
11+ years with Zomato



Akriti Chopra

Co-founder and Chief
People Officer
9+ years with Zomato



Daminee Sawhney

Head of Human
Resources
8+ years with Zomato



Surobhi Das

Head of Customer
Experience
8+ years with Zomato



Gaurav Gupta

Co-founder and Head
of Supply
6+ years with Zomato



Akshant Goyal

Chief Financial Officer
4+ years with Zomato



Rahul Ganjoo

Head of Food Delivery
3+ years with Zomato



Mohit Gupta

Co-founder and Head of
New Businesses
3+ years with Zomato



Sandhya Sethia

Company Secretary and
Compliance Officer
2+ years with Zomato



Damini Bhalla

General Counsel
<1 year with Zomato

Sorted by tenure at Zomato

Details of shareholders holding over 1% or more of paid-up capital of company before IPO

Name of the Shareholders	Shares held (In cr)	% of pre-offer equity share capital
Info Edge	124.4	18.7%
Uber BV	61.2	9.2%
Alipay Singapore	55.9	8.4%
Antfin Singapore	55.0	8.3%
Internet Fund	40.2	6.0%
SCI Growth Investments	40.1	6.0%
Deepinder Goyal	36.9	5.5%
Foodiebay Employees ESOP Trust	28.0	4.2%
D1 Master Capital Partners	25.5	3.8%
MacRitchie Investments	24.5	3.7%
Dunearn Investments	17.1	2.6%
Kora Investments I LLC	17.0	2.5%
VY Investments	16.8	2.5%
Kora Holdings II	14.5	2.2%
VYC20	13.9	2.1%
Delivery Hero SE	10.7	1.6%
Sequotia Capital	8.8	1.3%
Glade Brook Private Investors	8.7	1.3%
Total	599.3	90.0%

Source: RHP, ICICI Direct Research

Financial summary

Exhibit 10: Profit and loss statement				
₹ crore				
₹ crore	FY18	FY19	FY20	FY21
Revenue	465.6	1,312.9	2,605.0	1,993.8
Other Income	21.0	85.1	138.0	124.6
Total Income	486.6	1,398	2,743	2,118
% Growth		187%	96%	-23%
RM Cost	-	16.6	108.9	191.9
Employee cost	290.5	600.8	798.9	740.8
Other cost	268.0	2,938.7	4,001.6	1,528.3
Total Operating cost	558.5	3,556.1	4,909.4	2,461.0
EBIDTA	(92.9)	(2,243)	(2,304)	(467)
EBIDTA %	-20%	-171%	-88%	-23%
Finance Cost	6.3	8.7	12.6	10.1
Depreciation	29.1	43.1	84.2	137.7
PBT before exceptionals	(107.4)	(2,209.8)	(2,263.3)	(490.4)
Exceptional Items	-	(1,199.9)	122.0	324.8
PBT	(107.4)	(1,009.9)	(2,385.3)	(815.1)
Tax	-	-	-	1.3
PAT	(107.4)	(1,009.9)	(2,385.3)	(816.4)
Minority Interest	(3.2)	(45.3)	(18.4)	(3.6)
Attributable PAT	(104.1)	(964.7)	(2,366.9)	(812.8)

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
₹ crore				
₹ crore	FY18	FY19	FY20	FY21
PBT	(107.4)	(1,009.9)	(2,385.3)	(815.1)
Add				
Depreciation	29.1	43.1	84.2	137.7
Finance costs	6.3	8.7	12.6	10.1
Other	(0.5)	(944.8)	163.7	369.5
CFO before WC changes	(72.4)	(1,902.9)	(2,124.7)	(297.8)
Changes in WC	7.6	187.9	13.1	(738.7)
Cash from operations	(64.8)	(1,715.0)	(2,111.6)	(1,036.5)
Tax paid	4.6	27.7	32.0	(18.6)
Net CFO	(69.3)	(1,742.6)	(2,143.6)	(1,017.9)
Purchase of Assets	(5.3)	(45.1)	(21.3)	(4.8)
Other investments	(822.6)	(1,241.6)	1,731.4	(5,249.7)
Other	7.3	13.3	25.2	10.9
Net CF from investments	(820.6)	(1,273.4)	1,735.2	(5,243.6)
Proceeds from equity/CCCP	970.0	2,264.4	391.6	6,608.3
Repayment of leased liability	(20.2)	(20.8)	(30.9)	(20.4)
Others	(8.5)	885.7	(1.8)	(186.0)
Net CF from Financing	941.3	3,129.4	358.9	6,401.9
Net increase/(decrease)	51.4	113.4	(49.5)	140.3

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
₹ crore				
₹ crore	FY18	FY19	FY20	FY21
Non Current Assets	264.6	441.0	1,637.0	4,553.0
Fixed Assets	24.2	132.0	103.4	83.8
Intangibles	166.9	257.8	1,488.0	1,455.3
Other Financial Assets	68.7	19.4	10.5	3,006.3
Non-current Assets	4.7	31.8	35.0	7.6
Current Assets	1,109.9	2,971.8	1,263.4	4,150.5
Inventories	0.0	2.1	3.7	2.1
Investments	819.7	2,137.3	323.9	2,137.3
Trade Receivables	26.1	70.3	123.1	70.3
Cash & Bank	208.1	238.7	359.9	238.7
Other Current Assets	56.1	523.4	452.7	1,702.1
Total Assets	1,374.5	3,412.9	2,900.4	8,703.5
Equity	1,210.5	2,599.4	709.8	8,098.7
Equity Share Capital	0.03	0.03	0.03	0.03
Instruments in equity nature	174.4	243.7	252.4	454.9
Other Equity	1,036.1	2,355.6	457.4	7,643.8
Minority Interest	8.4	(31.4)	(6.5)	(5.7)
Non-Current Liabilities	19.0	138.8	1,476.2	92.8
Current Liabilities	136.5	706.1	720.8	517.7
Borrowings	0.0	0.0	0.0	0.0
Trade Payables	67.4	376.2	267.7	307.7
Other Current Liabilities	69.1	329.9	453.2	210.0
Total Liabilities	1,374.4	3,412.9	2,900.3	8,703.5

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
Year end March	FY18	FY19	FY20	FY21
EPS	(0.16)	(1.45)	(3.55)	(1.22)
EPS (Post issue)	(0.13)	(1.23)	(3.02)	(1.04)
BV	1.5	3.3	0.9	10.3
Cash per share	0.3	0.3	0.5	0.3
EBIDTA Margin (in %)	-19.9	-170.9	-88.5	-23.4
PAT Margin (in %)	-22.1	-72.2	-87.0	-38.5
RoE (in %)	-8.6	-37.1	-333.5	-10.0
RoCE (in%)	-10.0	-89.0	-339.6	-7.5
PE (Post issue)	NA	NA	NA	NA
EV/EBITDA	(501.23)	(20.75)	(20.20)	(99.63)
EV/Sales	100.0	35.5	17.9	23.3
Mcap/Sales	128.1	45.4	22.9	29.9
Debt/Equity	0.00	0.00	0.00	0.00
Debt/Ebitda	(0.00)	(0.00)	(0.00)	(0.00)
Current Ratio	8.1	4.2	1.8	8.0
Quick ratio	1.7	0.4	0.7	0.6
Debtor Days	20.4	19.6	17.2	12.9
Creditor Days	52.8	104.6	37.5	56.3
Inventory days	-	-	-	-

Source: Company, ICICI Direct Research, Calculated

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