

JUNE 05, 2023

IPO Note

IKIO LIGHTING LIMITED (IKIO)**NOT RATED**

(Note: All the information in this note is taken from RHP)

(For private circulation only)

Offer Details

The offer comprises the fresh issue and the Offer for Sale (OFS). The fresh issue comprises of aggregating up to Rs350 cr by the company and the OFS comprises up to 90,00,000 equity shares by the selling shareholders. The price band is in the range of Rs.270-285/share.

Objects of the offer

Offer for Sale – The company will not receive any proceeds from the Offer for Sale. The selling shareholders will be entitled to their respective portion of the proceeds of the Offer for Sale after deducting their proportion of the offer related expenses and relevant taxes thereon.

Fresh Issue – The company proposes to utilise the net proceeds towards funding the following objects: 1. Repayment/ prepayment, in full or part, of certain borrowings availed by the company and its subsidiaries on consolidated basis (Rs50 cr); 2. Investment in its wholly owned subsidiary, IKIO Solutions Private Limited, for setting up a new facility at Noida, Uttar Pradesh (Rs212.3 cr); and 3. general corporate purposes.

In addition, the company expects to receive the benefits of listing of the equity shares on the stock exchanges including enhancement of the company's visibility, brand image among its existing and potential customers and creation of a public market for their equity shares in India.

Details of the offer

Particulars	Details
Price band (Rs/share)	270-285
Opening date of the Issue [^]	6th June, 2023
Closing date of the issue	8th June, 2023
No. of shares pre-issue (nos. lakhs)	650
Fresh Issue (nos. lakhs)*	123
Offer for sale (nos. lakhs)*	90
No. of shares post-issue (nos. Lakhs)*	773
Fresh Issue size (Rs Cr)*	350
Offer for sale size (Rs Cr)*	257
Issue size (Rs Cr)*	607
Face Value (Rs/ share)	10
Bid Lot	52 Equity share & in multiple of 52 equity share thereafter
Book Building	
QIBs (Including Anchor)	50%
Non-Institutional	15%
Retail	35%
Book Running Lead managers (BRLM)	Motilal Oswal Investment Advisors Limited
Registrar to the issue	KFin Technologies Limited

Source: Company's RHP, * Based on upper price band; [^]The Anchor Investor Bidding Date shall be one Working Day prior to the Bid/Offer Opening Date

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Shareholding Pattern (%)

	Pre-Issue	Post-Issue ^A
Promoter and Promoter Group	100.0	72.5
Public and Others	0.0	27.5
Total (%)	100.0	100.0

Source: Company's RHP, ^ABased on upper price band

Shareholding of Promoters and members of Promoter Group

Name of the Shareholder	No. of Equity Shares	% of pre-Offer equity share capital
Promoters (A)	64,999,142	100
Hardeep Singh	38,999,142	60.0
Surmeet Kaur	26,000,000	40.0
Promoter Group (B)	520	0
Ishween Kaur	260	0.0
Harjeet Singh	260	0.0
Total (A) + (B)	64,999,662	100

Source: Company's RHP

Details of Offer for Sale by Selling Shareholders

Name of selling Shareholders	No. of Equity Shares held pre-Offer	No. of Equity Shares offered	No. of Equity Shares held post-Offer #
Hardeep Singh	38,999,142	Up to 6,000,000	32,999,142
Surmeet Kaur	26,000,000	Up to 3,000,000	23,000,000
Total	64,999,142	Up to 9,000,000	55,999,142

Source: Company's RHP; # Subject to finalization of Basis of Allotment, and assuming transfer of all Offered Shares

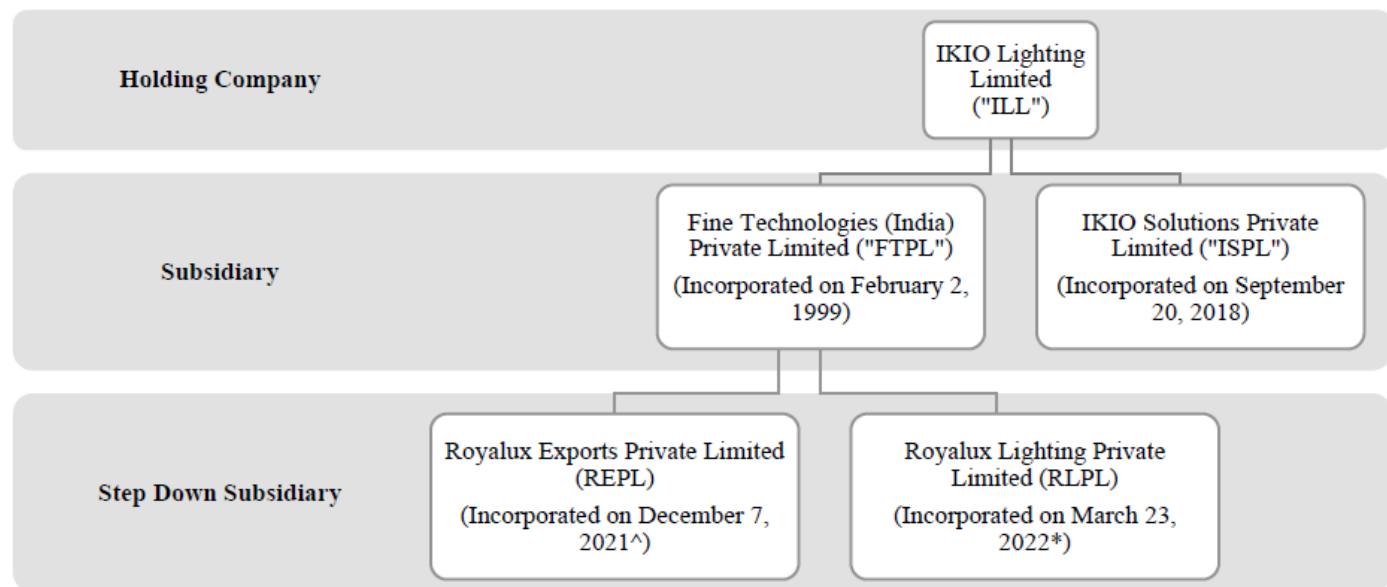
Business Overview

IKIO is an Indian manufacturer of light emitting diode ("LED") lighting solutions. The company is primarily an original design manufacturer ("ODM") and design, develop, manufacture and supply products to customers who then further distribute these products under their own brands. The company also works with its customers to develop, manufacture and supply products that are designed by the customers. IKIO's products are categorised as (i) LED lighting; (ii) refrigeration lights; (iii) ABS (acrylonitrile butadiene styrene) piping; and (iv) other products. The company's LED lighting offerings focus on the premium segment and include lighting, fittings, fixtures, accessories and components. IKIO provides lighting solutions (lights, drivers and controls) to commercial refrigeration equipment suppliers under its refrigeration light segment. The company also manufactures an alternative to polyvinyl chloride ("PVC") piping called ABS piping that is primarily used by their US customers for plumbing applications in the recreational vehicles ("RVs") that they fit out. In addition, IKIO manufactures and assemble other products including fan regulators that are designed by its clients; light strips, moulding, and other components and spares. The company's equipment and systems are used in various industries and products, including residential, industrial and commercial lighting.

IKIO's largest customer is Signify Innovations India Limited, erstwhile Philips Electronics India Limited ("Signify (Philips)"), which according to Frost & Sullivan in Fiscal 2022 had a 50% market share in India's functional decorative lighting category (including LED spotlights, LED downlights and cove lights) and a 10% market share in India's true-blue decorative lighting segment (including chandeliers, wall lights, pendants, outdoor lights). (Source: F&S Report, March 2023). In addition to Signify (Philips), the company has a diversified customer base across all their other product segments across industry sectors and

geographies which include Western Refrigeration Private Limited, Panasonic Life Solutions India Private Limited and Novateur Electrical & Digital Systems Private Limited. IKIO has four manufacturing facilities with one located in the SIDCUL Haridwar industrial park in Uttarakhand and three in Noida in the National Capital Region. In the nine months ended December 31, 2022 and in Fiscal 2022, Fiscal 2021 and Fiscal 2020, the company's R&D expenses on a consolidated restated basis were Rs122.5 lakh, Rs83.8 lakh, Rs61.3 Lakh, and Rs90.0 lakh, respectively, which formed 0.50%, 0.38%, 0.38% and 0.64%, respectively, of the company's consolidated restated revenue from operations.

Corporate Structure



Source - Company's RHP

IKIO, on September 10, 2022 through a share purchase agreement amongst ISPL, Hardeep Singh, Ishween Kaur (collectively "ISPL's Shareholders") and IKIO, and a share purchase agreement amongst FTPL, Hardeep Singh, Surmeet Kaur (collectively, FTPL's Shareholders) and IKIO dated September 10, 2022; became the holding company of FTPL and ISPL.

Company's Products

LED lighting - IKIO commenced its LED lighting business in Fiscal 2012. The company produces LED lights, fittings, fixtures, accessories, LED strip lights, individual LED rechargeable bulbs and RV lights for customers in this segment as an ODM. The company's key customers in this product category are Signify (Philips), Rlux RV LLC and Zenergy Inc. IKIO's products are innovated, developed, and manufactured ingeniously to compete with international markets on quality, delivery and pricing.

ABS piping - IKIO commenced its ABS piping business in Fiscal 2022. ABS piping is an alternative to PVC piping, which consists of pipes made of a thermoplastic resin that have traditionally been used as drainpipes and water supply line due to their shock resistance and strength, as well as their resistance to temperature fluctuations and decay. The company produces ABS piping for customers in this segment as an ODM. IKIO's key customers in ABS Piping are Rlux RV LLC and Zenergy Inc., who supply to Forest River Inc. (a subsidiary of Berkshire Hathaway).

Refrigerator LED lighting - The company commenced their refrigerator LED lighting business in Fiscal 2016. IKIO produces refrigerator LED lighting for customers in this segment as an ODM. The company's key customers in

refrigerator LED lighting are Voltas Limited, Frigoglass India Private Limited and Western refrigeration Private Limited.

Other Products

IKIO offers a suite of other products separately as well as in conjunction from their LED, refrigeration and ABS piping products such as fan regulator and switch products. One of the company's promoters, Hardeep Singh, commenced IKIO's fan regulator switches business in Fiscal 1999. The company produces fan regulators and switches for customers in this segment under ODM and assembly business models. IKIO's key customers in this product category are Honeywell, Anchor Panasonic, Le-grand and Signify (Philips). Additionally, the company manufactures and assemble light strips, mouldings and fittings, as well as other component parts that are utilized among their other product offerings.

Key Managerial Personnel

Name	Designation	Background
Hardeep Singh	Chairman and Managing Director	He is the founder and one of the Promoter of the company. He has been associated with the company since its inception. He has completed his Higher Secondary Education and has more than two decades of experience in the manufacturing of television kits, electronic components and LED lighting. He oversees the overall functions of the company and is responsible for overseeing the strategic growth initiatives and expansion plans
Surmeet Kaur	Whole-time Director	She is one of the Promoters of the company. She holds a bachelors' degree in Arts (Honours) from University of Delhi. She has been associated with the company since inception and is responsible for management of Human Resources.
Sanjeet Singh	Whole-Time Director	He holds a bachelor's degree in Commerce from University of Delhi. He has been associated with the company since February 1, 2019. He oversees the overall operations of the company.
Subhash Chand Agrawal	Chief Financial Officer	He holds a bachelor's degree in Science from Agra University. He is a qualified Chartered Accountant and a fellow member of ICAI. He has been associated with the company since February 15, 2022. He has over 22 years of experience as Chartered Accountant. Previously, he was working with Yamuna Insutech Private Limited, Seil Sugar Limited, FIL Industries Limited, Qippo Telecom Private Limited, Tower Vision India Private Limited, Essel Green Mobility Limited, Footwear (Klick) India Private Limited and Lars Medicare India Limited. He is currently responsible for finance and accounts in the company.
Sandeep Kumar Agarwal	Company Secretary and Compliance Officer	He holds a bachelor's degree in Science from Chowdhary Charan Singh University. He holds a master's degree in Commerce from Chowdhary Charan Singh University. Also, he holds a master's degree in Business Administration from U.P. Rajarshi Tandon Open University. He is a qualified Company Secretary. He has been associated with the company since February 19, 2022. He has over 15 years of experience. Previously, he was working with Geo Enpro Petroleum Limited, Orissa Stevedores Limited and HLS Asia Limited. He is currently responsible for Secretarial and Legal Compliance work in the company.

Source: Company's RHP

Strengths

Poised to capture growth of LED market

With a proven operational and financial track record, the company is well-positioned to capitalize on opportunities provided by the tailwinds in the LED lighting market driven in part by governmental policies for energy saving and environment protection and importantly, the increasing awareness and adoption of LED lighting versus incandescent lighting. The company's comprehensive LED lighting offering allows them to offer its customers attractive manufacturing solutions for their products as well as the company's own product designs as part of its ODM business model. The company's number of LED lighting products manufactured has grown by 41.82% from 660 in Fiscal 2020 to 936 in Fiscal 2022, and IKIO is continuously expanding its portfolio. IKIO manufactured 1,189 LED lighting products in the nine months ended December 31, 2022. As on December 31, 2022, March 31, 2022 and March 31, 2021 and March 31, 2020, the company had total annual installed capacity of LED Lights of 206.3 lakh pieces, 203.1 lakh pieces, 171.3 Lakh pieces and 111.lakh pieces, respectively.

Diverse product basket with focus on high-margin areas

As an ODM, the company offers its products in four segments: (i) LED lighting; (ii) refrigeration lights; (iii) ABS piping; and (iv) other product. This wide range of products helps the company capture a larger wallet share of its customers. The company's LED lighting offering focuses on the premium segment and includes lighting, fittings, fixtures, accessories, and components. IKIO also provides lighting solutions (lights, drivers and controls) to commercial refrigeration equipment suppliers under its refrigeration lights segment. In addition, IKIO manufactures ABS piping which is an alternative to PVC that is primarily used by its US customers for plumbing applications in the RVs that they fit out. IKIO currently manufactures more than 753 SKUs for its largest customer, Signify (Philips) in India. In addition, the company is in negotiations with some of its existing customers to supply its LED home lighting products to their international supply chain. IKIO also manufactures interior refrigerator lighting solutions (lights, drivers and controllers) which are sold to commercial refrigeration equipment suppliers such as Western Refrigeration. The company's diverse product offering allows them to cater to the increasing requirements of its customers, and, more importantly, the company is able to supply a larger portion of the products needed by its customers in their project engagements.

Long-term relationships with leading industry customers

In the nine months ended December 31, 2022 and in Fiscal 2022, Fiscal 2021 and Fiscal 2020, the company provided its products to approximately 900 domestic customers and 16 international customers. One of the company's promoters, Hardeep Singh, has a 10-year long relationship with Signify (Philips). IKIO has been increasing the number of SKUs that they manufacture for Signify (Philips) from 225 in Fiscal 2018 to 412 in Fiscal 2020 to 608 in Fiscal 2022 to 753 in the nine months ended December 31, 2022. IKIO has a history of high customer retention. In the nine months ended December 31, 2022 and in Fiscal 2022, the company derived approximately 85.49% and 93.56%, respectively, of its consolidated restated revenues from operations from repeat customers (defined as customers from which the company has had revenues in the past three fiscal years). IKIO enjoyed relationships of over three years with seven out of these top ten customers. In addition, the company is building an international customer base, primarily in the United States.

Strong focus on R&D

IKIO's R&D department focuses on product designing, tools and mould designing, electronic circuit designing and prototype designing. The company's R&D department independently develops ODM designs and verifies and develops OEM designs received from customers and converts such designs into deliverable products by improving the designs, recommending suitable raw materials and testing of trial products. The R&D team also aims to provide solutions through automation to improve manufacturing efficiency on the existing products, reduce production costs and assists its customers by providing design and engineering support. The company focusses on activities to support its customers including concept sketching, design refinement, generating optional features and testing. This enables the company to address its consumers' diverse needs, introduce new and innovative products in the market, enhance existing products with emerging technologies, and optimize costs across its products through value analysis and value engineering.

Established infrastructure with backward integration

The company has developed the proficiency to produce many of the components used in their manufacturing processes with its in-house tool room capabilities that have modern machines, moulds and tools. Except for the diodes and resistors used in the company's LED lighting products, all mechanical components are manufactured by IKIO. In line with its focus to provide end-to-end product solutions and to develop better control on its supply chain and improve its margins, the company has backward integrated its major manufacturing processes. IKIO has developed in-house capabilities so that it manufactures all mechanical components in-house (save diodes and resistors). The company's backward integration includes – 1. Automatic surface mounted machines for placing diodes and other components on circuit boards; 2. Automatic metal cutting and shaping machines; 3. Automatic powder coating on fixtures; 4. Injection moulding including machines, moulds and tools; and 5. LED light assembly lines, manual insertion, checking and final packing.

Strategies

Expand into new product lines

IKIO proposes to utilise the net proceeds towards the expansion and growth of its current manufacturing facilities, as well as through the construction of its new manufacturing facility by its subsidiary, ISPL. This expanded capacity will help the company expand the output of its current portfolio of products, and more importantly, help them to break into new markets with additional product offerings. In the past 12-24 months, the company has designed, developed and commenced commercial production and sale of:

- i) **ABS pipes:** The company's R&D team developed its ABS pipe offerings that comply with the requirements of the U.S. Occupational Safety and Hazard Administration (OSHA), a key requirement for their use in the United States.
- ii) **Solar energy solutions:** The company is working on a solar energy solution for one of its customers and currently offer solar panels, that can be retrofitted to commercial and recreational trailers to provide electricity.
- iii) **Accessories:** In order to its customers to source more of their requirements from the company rather than multiple vendors, IKIO is increasing its offering of accessories that can be used in a variety of situations. For instance, the company is in the process of launching dog latches, switches and other small accessories for its US based customers that fit out RVs.
- iv) **Other products:** IKIO is in the process of developing, and in some cases in the process of launching, small rechargeable appliances such as rechargeable fans, rechargeable LED lamps as well as rechargeable lithium ion batteries for use in consumer durables.

Expand manufacturing capacities for their existing and new product lines

According to Frost & Sullivan, the Indian LED lighting market is expected to grow by a CAGR of 12.2% from an estimated market size of Rs21,702 cr in Fiscal 2022 to a projected market size of Rs33,800 cr from Fiscal 2023 to Fiscal 2026. (Source: F&S Report, March 2023). To capture this projected market growth, the company is looking to expand its capacity for LED home lighting. Accordingly, the company has acquired a parcel of land located in Noida, where it intends to construct a new manufacturing facility of approximately 500,000 square feet. The estimated total project cost for this new manufacturing facility is Rs262.875 cr, which is expected to be funded out of the net proceeds.

Diversify customer base and expand across geographies

IKIO plans to continue expand their ODM business to new international markets. The company intends to focus their expansion on North American markets and gradually expand to the European and South East Asian markets. In company's opinion, these markets offer them the ability to market its premium LED offerings. The company intends to achieve this expansion by employing dedicated sales and marketing teams whose primary focus will be on business development in international markets, particularly, in its focus geographies. IKIO will also look for new partners in their focus markets to establish a local presence, and, in certain markets, it may establish subsidiaries or local offices. Further, the company will also leverage their relationships with marquee customers like Signify (Phillips), Honeywell, Frigoglass and Western Refrigeration to showcase the quality of their product offerings and its ability to provide their services globally.

Continue to invest in R&D and expand its ODM business

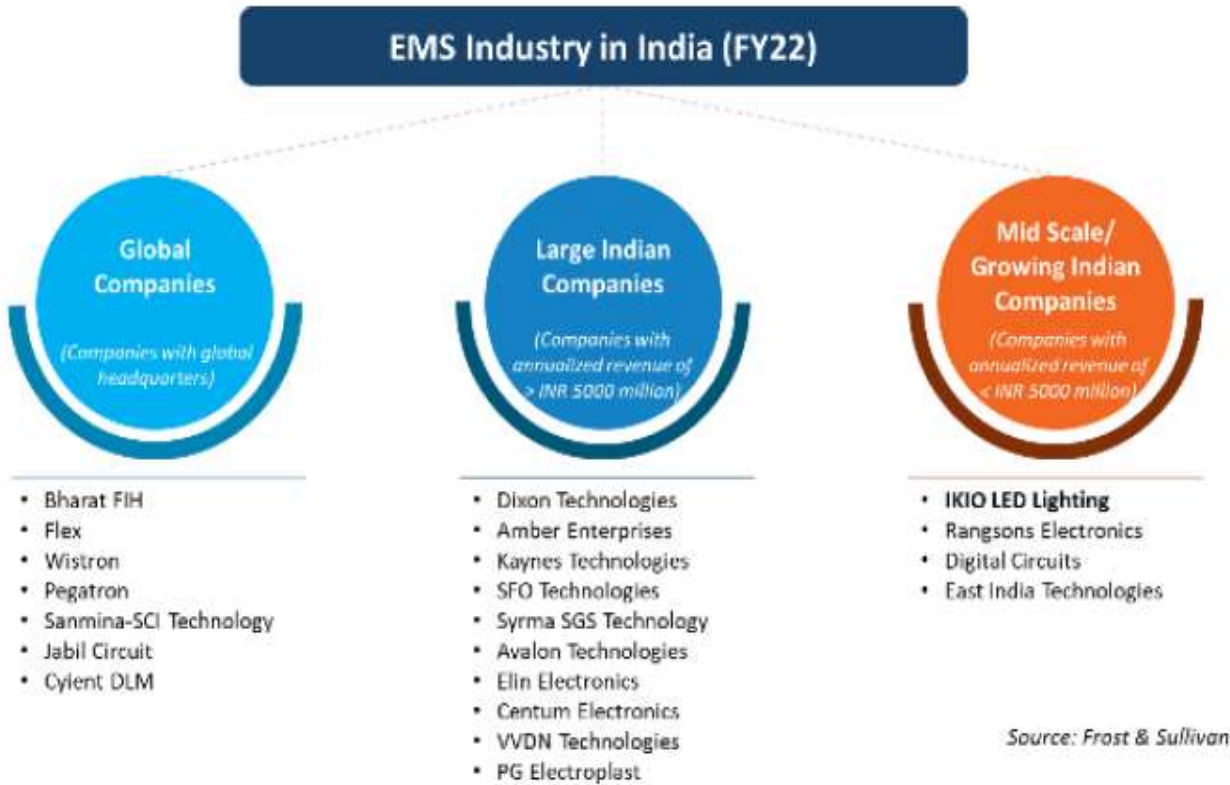
The company aims to continue to invest in its R&D initiatives to develop new products for their ODM customers and to enhance production and cost efficiencies of their customer's product suites. In addition, the company intends to expand their space for its R&D expansion, and it is actively looking to add employees to their R&D team. Through the company's focus on R&D and developing products with their customers, IKIO will be able to continually innovate its products in line with the demands of their customers as well as end-user preferences for better comfort, quality, performance and aesthetics in their products. Further, by developing products with its customers and by offering a broad range of products, the company is able to increase customer dependence on IKIO and position themselves as a preferred supplier.

Risk Factors

- The company is dependent on, and derives a substantial portion of its revenue from, a single customer, Signify Innovations India Limited, erstwhile Philips India, and over 85% of the company's revenue is derived from their top twenty customers on a restated basis and a proforma consolidated basis for the nine months ended December 31, 2022 and Fiscal 2022. In the nine months ended December 31, 2022 and in Fiscal 2022, Fiscal 2021 and Fiscal 2020, Signify Innovations India Limited accounted for 70.04%, 91.23%, 94.60% and 95.63%, respectively, of the company's restated revenue from operations.
- The company is dependent on, and derives a substantial portion of its revenue from, LED lighting products. Any reduction in orders from their LED lighting product line could have a material adverse effect on its business, results of operations and financial condition.
- IKIO sources raw materials from vendors in China, Singapore, Hong Kong and Taiwan. In the nine months ended December 31, 2022 and in Fiscal 2022, Fiscal 2021 and Fiscal 2020, the company's imported raw materials as a percentage of total raw materials purchased on a restated consolidated basis represented 49.82%, 48.44%, 53.93% and 34.67%, respectively, of which approximately 90.00% were imported from China. Any restriction on import of components or raw materials could have an adverse effect on the company's ability to deliver products to its customers, business and results of operations.

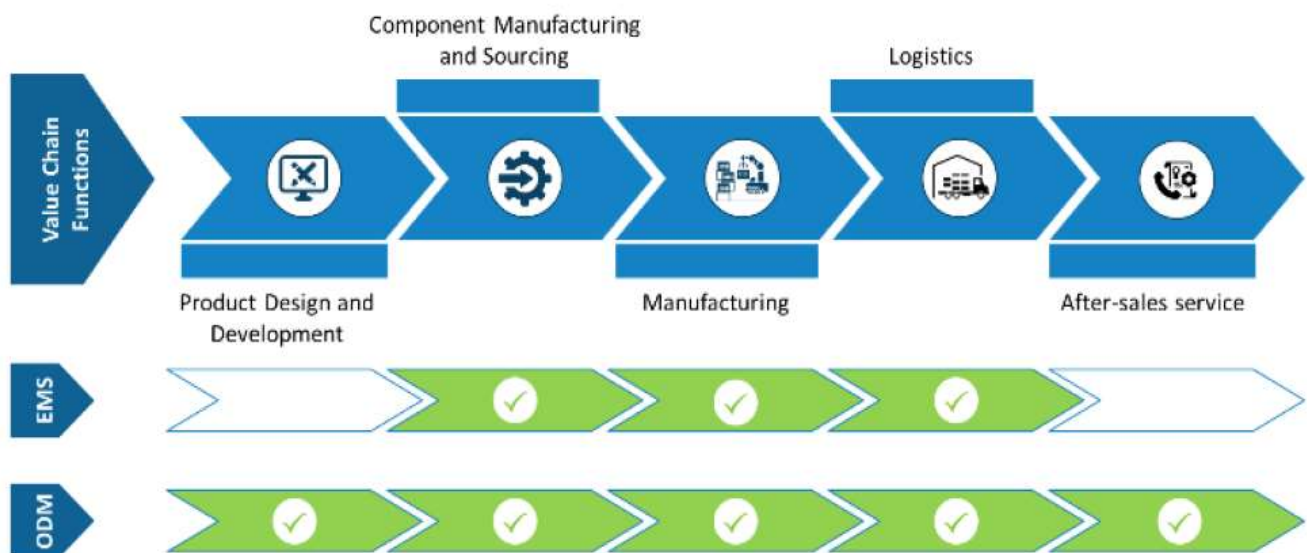
Annexures

Industry structure of EMS market in India



Source - Company's RHP

Business models of Indian EMS companies, FY22



Source: Frost & Sullivan

Source - Company's RHP

Breakdown of company's revenue from operations on a consolidated restated basis (by product category) Consolidated restated Fiscal Year Ended March 31

Category	FY20 *		FY21 *		FY22 *		9MFY23	
	Amount (Rs cr)	(% of Revenue from Operations)	Amount (Rs cr)	(% of Revenue from Operations)	Amount (Rs cr)	(% of Revenue from Operations)	Amount (Rs cr)	(% of Revenue from Operations)
LED Lighting	135	95.9	150	94.3	201	91.6	220	91.3
ABS Pipes	-	-	-	-	2	0.9	-	-
Refrigerator Lights	-	-	-	-	-	-	5	2.0
Others	6	4.1	9	5.7	17	7.5	16	6.8
Total revenue from operations	141	100.0	160	100.0	220	100.0	241	100.0

Source - Company's RHP; * Consolidated restated Fiscal Year Ended March 31

Financials

Restated Financial Statement of Assets and Liabilities

Y/E March (Rs. In Crores)	FY20	FY21	FY22	9MFY23
Assets				
Non-current assets				
Property, plant and equipment	15.0	15.4	16.8	30.3
Intangible assets	0.1	0.1	0.0	0.0
Right of use of assets	-	-	0.3	33.9
Capital work-in-progress	-	-	-	21.5
Goodwill	-	-	-	0.5
Financial assets				
- Other financial assets	0.1	0.1	0.2	1.0
Deferred tax assets (net)	0.1	0.4	0.4	0.7
Non-Current Tax asset (Net)	0.0	0.2	0.2	0.1
Other non-current assets	0.0	0.1	0.9	2.2
Total Non-current assets	15	16	19	90
Current Assets				
Inventories	16.9	31.6	56.2	125.4
Financial assets				
- Trade receivables	4.6	15.6	26.0	73.2
- Cash and cash equivalents	6.6	0.2	0.7	1.3
- Bank balances other than cash and cash equivalents	0.0	0.0	-	1.2
- Others	0.1	0.1	0.1	0.4
Other current assets	7.3	10.3	10.8	29.5
Total Current Assets	36	58	94	231
Total Assets	51	74	113	321
Equity and Liabilities				
Equity				
Equity share capital	0.1	0.1	25.0	65.0
Other equity	27.6	48.3	51.4	61.6
Total equity	28	48	76	127
Liabilities				
Non-current liabilities				
Financial liabilities				
- Borrowings	2.7	2.1	1.1	21.0
- Lease liabilities	-	-	0.2	7.7
Provisions	0.4	0.5	0.8	2.1
Deferred tax liabilities (Net)	-	-	-	-
Total Non-current liabilities	3	3	2	31
Current liabilities				
Financial Liabilities				
- Borrowings	5.1	2.9	14.7	115.3
- Lease liabilities	-	-	0.1	1.3
- Trade Payables	13.9	17.5	14.0	30.8
- Other financial liabilities	1.1	1.6	3.1	8.6
Other current liabilities	0.3	1.0	0.4	4.8
Provisions	0.0	0.2	0.4	0.3
Current Tax Liabilities (Net)	-	-	1.3	2.8
Total Current liabilities	20	23	34	164
Total Equity and Liabilities	51	74	113	321

Source: Company's RHP

Restated Financial Statement of Profit and Loss

Y/E March (Rs. In Crores)	FY20	FY21	FY22	9MFY23
Income				
Revenue from Operations	141	160	220	241
Other Income	0	0	1	2
Total income	141	160	221	243
Expenses				
Cost of materials consumed	95	105	152	159
Change in inventories	(1)	1	(7)	(1)
Employee benefits expenses	16	19	26	21
Finance costs	2	1	1	3
Depreciation and amortisation expenses	2	2	2	3
Other expenses	4	4	8	12
Total Expenses	119	132	183	197
Profit before Tax	22	28	38	47
Tax expense:				
Current tax	6	7	10	12
Deferred tax charge/(credit)	(0)	(0)	(0)	0
Related to earlier years	0	-	0	(0)
Profit after tax	16	21	28	35
Total other comprehensive income	(0)	0	0	0
Total comprehensive income for the period / year	16	21	28	35
Diluted earnings per share (in Rs.)	6.4	8.2	11.2	5.3

Source: Company's RHP

Restated Financial Statements of Cash Flows Statements

Y/E March (Rs. In Crores)	FY20	FY21	FY22	9MFY23
Net cash generated from/(used in) operating activities	13	(0)	(5)	20
Net cash used in investing activities	(4)	(3)	(5)	(41)
Net cash generated from financing activities	(5)	(3)	10	20
Net (decrease) / increase in cash and cash equivalents	5	(6)	0	(2)
Cash and Cash equivalents at beginning of the period / year	2	7	0	3
Cash and Cash equivalents at end of the period / year	7	0	1	1
Change in Cash and Cash equivalents	5	(6)	0	(2)

Source: Company's RHP

RATING SCALE (PRIVATE CLIENT GROUP)

Definitions of ratings

BUY	– We expect the stock to deliver more than 15% returns over the next 12 months
ADD	– We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	– We expect the stock to deliver -5% - +5% returns over the next 12 months
SELL	– We expect the stock to deliver < -5% returns over the next 12 months
NR	– Not Rated. Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
SUBSCRIBE	– We advise investor to subscribe to the IPO.
RS	– Rating Suspended. Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
NA	– Not Available or Not Applicable. The information is not available for display or is not applicable
NM	– Not Meaningful. The information is not meaningful and is therefore excluded.
NOTE	– Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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Disclosure/Disclaimer

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