

# Tecnotree

## Company report

5/31/2021 07:50



Joonas Korkiakoski  
+358 40 182 8660  
joonas.korkiakoski@inderes.fi

✓ Inderes corporate customer

This report is a summary translation of the report "Tuloskasvua horisontissa" published on 05/31/2021 at 7:50 am

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# Earnings growth on the horizon

We reiterate our Buy recommendation and raise our target price to EUR 1.00 (previously EUR 0.92) reflecting the upside in the valuation. The demand drivers of Tecnotree's products are healthy and the company's own competitiveness or investment ability should not restrict its ability to jump on growth opportunities. We still consider the share's valuation to be unjustifiably low and the offered return/risk ratio to be highly attractive.

## Geographical positioning generates a lot of opportunities

The growth rate of Tecnotree's target market is estimated to be over 10% p.a. in coming years. We believe the growth is based on two main drivers: 1) operators' earnings moving from traditional communication solutions to completely new digital services, and 2) cloud transformation of system solutions. Geographical growth in turn is expected to be strongest in developing economic areas in light of the rapid population growth and digitalization in these areas, as well as the changing business needs of operators. The technical requirements for BSS solutions of operators operating in developing countries are high because ARPU in these areas is typically low and operators' own earning powers require both large customer masses, as well as scalable and flexible management systems. Considering this background and proven technological competitiveness we consider Tecnotree's geographical positioning both sensible and a choice that generates interesting business opportunities in the long term.

## No changes in estimates

Tecnotree has provided no guidance for the full year due to the still acute COVID pandemic situation and the risks related to its development. The beginning of the year was excellent for the company and in our view the operating landscape has not weakened over the past month. Thus, we have not made changes to our short- or longer-term estimates. This year, we expect Tecnotree's net sales to grow by 17% to EUR 61.5 million driven by backloaded income from previously signed deals, and good progress in new sales. We expect operating profit to rise to EUR 23.7 million pulled by net sales growth, its scalability, and targeted growth investments. Considering the good growth outlook of the industry and Tecnotree's own competitiveness we expect profitable growth to continue in coming years. The key risks related to earnings development are still related to 1) cyclicity of customers' investments, 2) instability on developing markets (incl. repatriating cash flow), 3) top level structure of the customer portfolio, and 4) the success of own investments.

## Double-digit return expectation

P/E ratios for 2021 and 2022 based on our estimates are 14x and 12x, while the corresponding EV/EBIT ratios are 10x and 8x. The levels are low in absolute terms and they do not, in our opinion, consider the company's current performance nor longer-term potential sufficiently. The value indicated by our DCF model, the 0.9x PEG ratio relative to our earnings growth expectations in coming years, and the framework provided by the narrow peer group also indicate a modest valuation. The return expectation consisting of the upside in valuation multiples and expected earnings growth is, in our opinion, still almost double compared to the COE requirement. Thus, the return/risk ratio also remains highly attractive.

## Recommendation

### Buy

(previous Buy)

### EUR 1.00

(previous EUR 0.92)

### Share price:

0.86



## Key indicators

	2020	2021e	2022e	2023e
Net sales	52.8	61.5	68.2	72.8
growth %	12 %	17 %	11 %	7 %
EBIT adjusted	19.3	23.7	28.3	30.4
EBIT % adjusted	36.6 %	38.5 %	41.5 %	41.8 %
Net profit	13.6	17.4	20.6	22.1
EPS (adjusted)	0.05	0.06	0.07	0.08

P/E (adjusted)	13.6	14.0	11.8	11.0
P/B	9.7	6.5	4.2	3.0
P/Cash flow	33.3	24.3	14.1	12.2
EV/EBIT (adjusted)	10.2	10.1	7.8	6.7
EV/EBITDA	9.7	9.3	7.1	6.1
EV/Sales	3.7	3.9	3.3	2.8

Source: Inderes

## Guidance

(Unchanged)

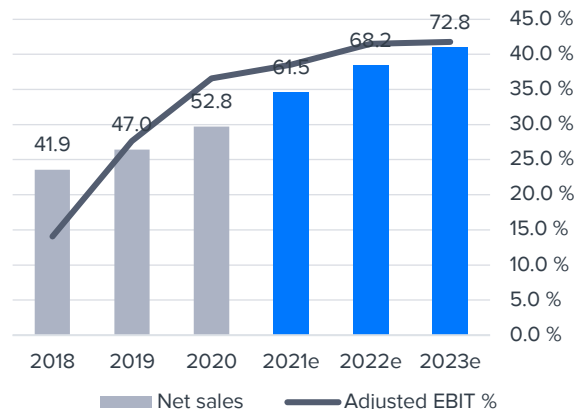
Tecnotree refrains from giving any guidance for the time being.

## Share price



Source: Thomson Reuters

## Revenue and EBIT %



Source: Inderes

## Earnings per share



Source: Inderes



### Value drivers

- Long-term growth outlook is good
- The company's business model is scalable and cost efficient
- Increasing recurring income flow
- Product portfolio is technologically competent



### Risk factors

- Customer portfolio is highly concentrated
- Failure in product development work and reading the industry
- Weakening of a cost-efficient operating model
- Political and legislative threats in emerging countries
- Repatriating cash flow



### Valuation

- With the actual result, multiples are moderate
- In our opinion the valuation does not sufficiently consider the company's current performance and potential
- Share is priced below its fair value
- Still clear upside in valuation multiples
- Annual earnings expectation nearly double compared to the COE requirement

**MCAP**  
**243**  
EUR million

**EV**  
**239**  
EUR million

**EV/EBIT**  
**10x**  
2021e

**P/E (adjusted)**  
**14x**  
2021e

# No changes in estimates

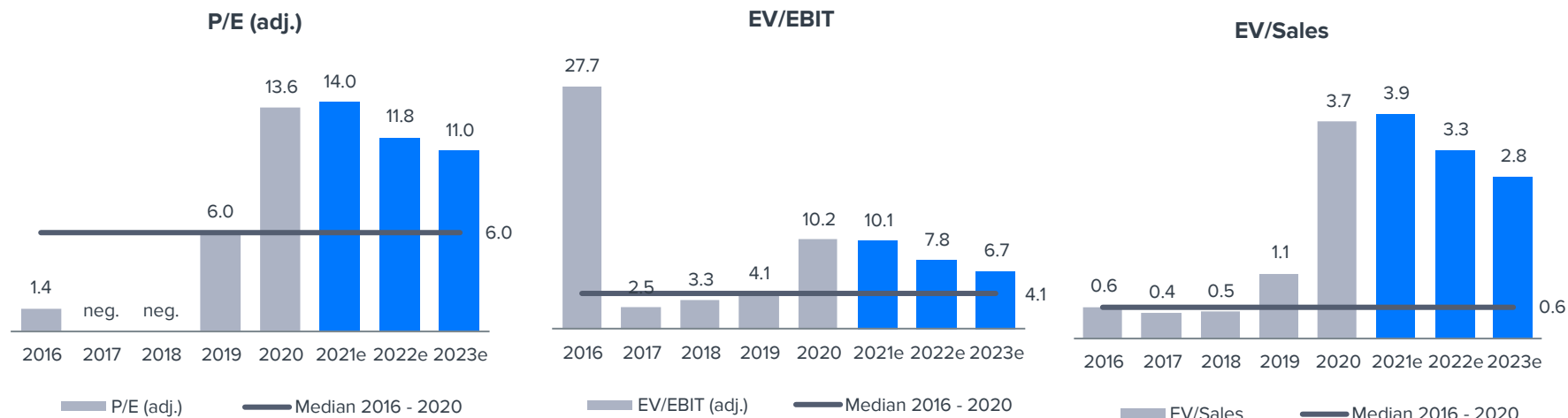
Estimate revisions	2021e	2021e	Change	2022e	2022e	Change	2023e	2023e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	61.5	61.5	0%	68.2	68.2	0%	72.8	72.8	0%
EBITDA	25.6	25.6	0%	31.3	31.3	0%	33.4	33.4	0%
EBIT (exc. NRIs)	23.7	23.7	0%	28.3	28.3	0%	30.4	30.4	0%
EBIT	23.7	23.7	0%	28.3	28.3	0%	30.4	30.4	0%
PTP	22.9	22.9	0%	27.4	27.4	0%	29.5	29.5	0%
EPS (excl. NRIs)	0.06	0.06	0%	0.07	0.07	0%	0.08	0.08	0%
DPS	0.00	0.00		0.00	0.00		0.00	0.00	

Source: Inderes

# Valuation table

Valuation	2016	2017	2018	2019	2020	2021e	2022e	2023e	2024e
Share price	0.10	0.07	0.05	0.17	0.70	0.86	0.86	0.86	0.86
Number of shares, millions	122.6	122.6	136.6	235.3	274.6	282.6	282.6	282.6	282.6
Market cap	12	8.6	6.8	40	192	243	243	243	243
EV	33	24	19	53	198	239	222	203	182
P/E (adj.)	1.4	neg.	neg.	6.0	13.6	14.0	11.8	11.0	10.3
P/E	neg.	neg.	neg.	5.2	14.2	14.0	11.8	11.0	10.3
P/FCF	neg.	1.8	3.9	16.5	33.3	24.3	14.1	12.2	11.0
P/B	1.2	neg.	neg.	11.7	9.7	6.5	4.2	3.0	2.3
P/S	0.2	0.2	0.2	0.9	3.6	3.9	3.6	3.3	3.2
EV/Sales	0.6	0.4	0.5	1.1	3.7	3.9	3.3	2.8	2.4
EV/EBITDA	neg.	2.6	3.3	3.4	9.7	9.3	7.1	6.1	5.1
EV/EBIT (adj.)	27.7	2.5	3.3	4.1	10.2	10.1	7.8	6.7	5.6
Payout ratio (%)	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %

Source: Inderes



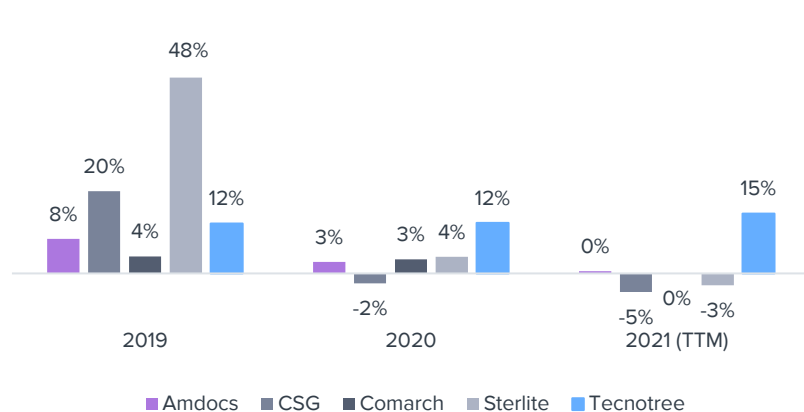
# Peer group valuation

Peer group valuation	Share price	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company		MEUR	MEUR	2021e	2022e	2021e	2022e	2021e	2022e	2021e	2022e	2021e	2022e	2021e
Amdocs Ltd	77.94	8382	8072	12.0	11.3	9.1	8.6	2.1	2.0	16.4	15.0	1.8	2.0	2.7
CSG Systems International Inc	44.48	1200	1318							13.7	13.4			
Comarch SA	242.00	433	367	9.4	9.1	6.2	5.9	1.0	0.9	17.6	17.1	2.1	2.1	29.5
Sterlite Technologies Ltd	249.60	1144	1396	23.7	12.6	14.9	9.6	2.6	1.8	37.7	19.0	0.8	1.6	5.1
<b>Tecnotree (Inderes)</b>	<b>0.86</b>	<b>243</b>	<b>239</b>	<b>10.1</b>	<b>7.8</b>	<b>9.3</b>	<b>7.1</b>	<b>3.9</b>	<b>3.3</b>	<b>14.0</b>	<b>11.8</b>	<b>0.0</b>	<b>0.0</b>	<b>6.5</b>
<b>Average</b>				<b>15.1</b>	<b>11.0</b>	<b>10.1</b>	<b>8.0</b>	<b>1.9</b>	<b>1.6</b>	<b>21.3</b>	<b>16.1</b>	<b>1.6</b>	<b>1.9</b>	<b>12.4</b>
<b>Median</b>				<b>12.0</b>	<b>11.3</b>	<b>9.1</b>	<b>8.6</b>	<b>2.1</b>	<b>1.8</b>	<b>17.0</b>	<b>16.0</b>	<b>1.8</b>	<b>2.0</b>	<b>5.1</b>
<b>Diff-% to median</b>				<b>-16%</b>	<b>-31%</b>	<b>2%</b>	<b>-18%</b>	<b>83%</b>	<b>85%</b>	<b>-18%</b>	<b>-26%</b>	<b>-100%</b>	<b>-100%</b>	<b>27%</b>

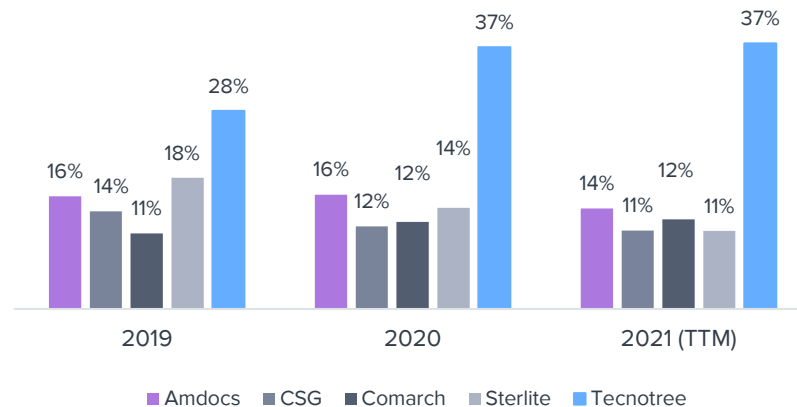
Source: Thomson Reuters / Inderes

NB: The market cap Inderes uses does not consider own shares held by the company

Development in net sales growth



Development of adjusted EBIT margins



# Income statement

Income statement	2019	Q1'20	Q2'20	Q3'20	Q4'20	2020	Q1'21	Q2'21e	Q3'21e	Q4'21e	2021e	2022e	2023e	2024e
<b>Revenue</b>	<b>47.0</b>	<b>9.8</b>	<b>14.2</b>	<b>14.6</b>	<b>14.2</b>	<b>52.8</b>	<b>11.2</b>	<b>16.6</b>	<b>17.4</b>	<b>16.4</b>	<b>61.5</b>	<b>68.2</b>	<b>72.8</b>	<b>77.1</b>
Konserni	47.0	9.8	14.2	14.6	14.2	52.8	11.2	16.6	17.4	16.4	61.5	68.2	72.8	77.1
<b>EBITDA</b>	<b>15.4</b>	<b>1.5</b>	<b>6.8</b>	<b>7.4</b>	<b>4.6</b>	<b>20.3</b>	<b>3.4</b>	<b>7.5</b>	<b>7.6</b>	<b>7.0</b>	<b>25.6</b>	<b>31.3</b>	<b>33.4</b>	<b>35.6</b>
Depreciation	-1.0	-0.4	-0.5	-0.5	-0.3	-1.7	-0.3	-0.5	-0.5	-0.5	-1.9	-3.0	-3.0	-3.3
<b>EBIT (excl. NRI)</b>	<b>13.0</b>	<b>2.3</b>	<b>5.8</b>	<b>6.9</b>	<b>4.3</b>	<b>19.3</b>	<b>3.1</b>	<b>7.0</b>	<b>7.1</b>	<b>6.5</b>	<b>23.7</b>	<b>28.3</b>	<b>30.4</b>	<b>32.3</b>
<b>EBIT</b>	<b>14.4</b>	<b>1.1</b>	<b>6.3</b>	<b>6.9</b>	<b>4.3</b>	<b>18.6</b>	<b>3.1</b>	<b>7.0</b>	<b>7.1</b>	<b>6.5</b>	<b>23.7</b>	<b>28.3</b>	<b>30.4</b>	<b>32.3</b>
Konserni	14.4	1.1	6.3	6.9	4.3	18.6	3.1	7.0	7.1	6.5	23.7	28.3	30.4	32.3
Net financial items	-2.6	-0.2	-0.9	-1.6	-0.2	-2.7	-0.2	-0.2	-0.2	-0.2	-0.8	-0.9	-0.9	-0.8
<b>PTP</b>	<b>11.8</b>	<b>1.0</b>	<b>5.5</b>	<b>5.3</b>	<b>4.2</b>	<b>15.9</b>	<b>2.9</b>	<b>6.8</b>	<b>6.9</b>	<b>6.3</b>	<b>22.9</b>	<b>27.4</b>	<b>29.5</b>	<b>31.5</b>
Taxes	-4.1	-0.4	-1.2	-0.9	0.1	-2.3	-0.5	-1.7	-1.7	-1.6	-5.5	-6.9	-7.4	-7.9
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net earnings</b>	<b>7.7</b>	<b>0.6</b>	<b>4.3</b>	<b>4.5</b>	<b>4.3</b>	<b>13.6</b>	<b>2.4</b>	<b>5.1</b>	<b>5.2</b>	<b>4.7</b>	<b>17.4</b>	<b>20.6</b>	<b>22.1</b>	<b>23.6</b>
<b>EPS (adj.)</b>	<b>0.03</b>	<b>0.01</b>	<b>0.01</b>	<b>0.02</b>	<b>0.02</b>	<b>0.05</b>	<b>0.01</b>	<b>0.02</b>	<b>0.02</b>	<b>0.02</b>	<b>0.06</b>	<b>0.07</b>	<b>0.08</b>	<b>0.08</b>
<b>EPS (rep.)</b>	<b>0.03</b>	<b>0.00</b>	<b>0.02</b>	<b>0.02</b>	<b>0.02</b>	<b>0.05</b>	<b>0.01</b>	<b>0.02</b>	<b>0.02</b>	<b>0.02</b>	<b>0.06</b>	<b>0.07</b>	<b>0.08</b>	<b>0.08</b>

Key figures	2019	Q1'20	Q2'20	Q3'20	Q4'20	2020	Q1'21	Q2'21e	Q3'21e	Q4'21e	2021e	2022e	2023e	2024e
<b>Revenue growth-%</b>	12.2 %	3.2 %	29.1 %	17.7 %	0.7 %	12.3 %	14.3 %	16.9 %	19.0 %	15.3 %	16.5 %	10.9 %	6.7 %	5.8 %
<b>Adjusted EBIT growth-%</b>	120.3 %	130.0 %	61.1 %	60.5 %	4.9 %	48.5 %	34.8 %	21.1 %	3.1 %	50.7 %	22.9 %	19.4 %	7.3 %	6.1 %
<b>EBITDA-%</b>	32.8 %	15.3 %	47.9 %	50.7 %	32.4 %	38.4 %	30.5 %	45.5 %	44.0 %	42.8 %	41.6 %	45.9 %	45.9 %	46.2 %
<b>Adjusted EBIT-%</b>	27.7 %	23.5 %	40.8 %	47.3 %	30.3 %	36.6 %	27.7 %	42.3 %	41.0 %	39.6 %	38.5 %	41.5 %	41.8 %	41.9 %
<b>Net earnings-%</b>	16.5 %	5.6 %	29.9 %	30.8 %	30.1 %	25.7 %	21.4 %	30.8 %	29.9 %	28.8 %	28.3 %	30.1 %	30.4 %	30.6 %

Source: Inderes

# Balance sheet

Assets	2019	2020	2021e	2022e	2023e
<b>Non-current assets</b>	<b>6.8</b>	<b>7.3</b>	<b>9.1</b>	<b>10.6</b>	<b>12.1</b>
Goodwill	0.0	0.0	0.0	0.0	0.0
Intangible assets	3.0	5.3	7.5	8.8	10.1
Tangible assets	2.4	0.5	0.6	0.8	1.0
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	0.0	0.0	0.0	0.0	0.0
Other non-current assets	0.8	1.0	1.0	1.0	1.0
Deferred tax assets	0.6	0.5	0.0	0.0	0.0
<b>Current assets</b>	<b>30.1</b>	<b>43.3</b>	<b>57.0</b>	<b>73.9</b>	<b>92.7</b>
Inventories	0.0	0.0	0.0	0.0	0.0
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	26.7	35.3	40.6	43.7	45.1
Cash and equivalents	3.4	8.0	16.4	30.3	47.5
<b>Balance sheet total</b>	<b>36.8</b>	<b>50.6</b>	<b>66.1</b>	<b>84.6</b>	<b>105</b>

Source: Inderes

Liabilities & equity	2019	2020	2021e	2022e	2023e
<b>Equity</b>	<b>3.6</b>	<b>19.9</b>	<b>37.5</b>	<b>58.1</b>	<b>80.2</b>
Share capital	1.3	1.3	1.3	1.3	1.3
Retained earnings	5.2	18.7	36.2	56.7	78.9
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	-3.1	-0.2	0.0	0.0	0.0
Minorities	0.2	0.0	0.0	0.0	0.0
<b>Non-current liabilities</b>	<b>21.8</b>	<b>18.8</b>	<b>16.0</b>	<b>12.7</b>	<b>10.0</b>
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0
Long term debt	13.5	12.4	10.6	8.0	6.0
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	8.3	6.4	5.4	4.7	4.0
<b>Current liabilities</b>	<b>11.5</b>	<b>12.0</b>	<b>12.6</b>	<b>13.8</b>	<b>14.6</b>
Short term debt	0.5	1.0	1.5	1.5	1.5
Payables	9.4	11.0	11.1	12.3	13.1
Other current liabilities	1.5	0.0	0.0	0.0	0.0
<b>Balance sheet total</b>	<b>36.8</b>	<b>50.6</b>	<b>66.1</b>	<b>84.6</b>	<b>105</b>



# DCF calculation

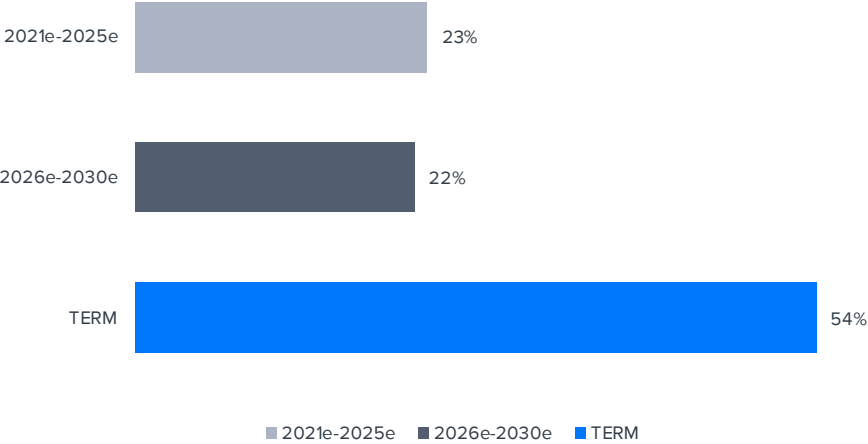
DCF model	2020	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	TERM
EBIT (operating profit)	18.6	23.7	28.3	30.4	32.3	33.5	35.5	36.9	38.4	38.6	39.4	
+ Depreciation	1.7	1.9	3.0	3.0	3.3	3.9	4.0	4.1	4.2	4.2	4.3	
- Paid taxes	-3.2	-5.0	-6.9	-7.4	-7.9	-8.2	-8.7	-9.1	-9.4	-9.5	-9.8	
- Tax, financial expenses	-0.4	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	0.0	
+ Tax, financial income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Change in working capital	-8.1	-5.2	-1.9	-0.6	-0.3	-0.3	-0.2	-0.4	-0.4	0.0	-0.7	
Operating cash flow	12.9	15.2	22.4	25.2	27.2	28.7	30.4	31.4	32.6	33.1	33.1	
+ Change in other long-term liabilities	-1.9	-1.0	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.5	0.0	
- Gross CAPEX	-3.6	-4.2	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-4.3	
Free operating cash flow	7.4	10.0	17.2	20.0	22.0	23.5	25.2	26.2	27.4	28.1	28.8	
+/- Other	-1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	5.8	10.0	17.2	20.0	22.0	23.5	25.2	26.2	27.4	28.1	28.8	396
Discounted FCFF		9.5	14.9	15.8	15.9	15.5	15.3	14.5	13.8	13.0	12.2	167
Sum of FCFF present value		308	298	283	267	251	236	221	206	192	179	167

Enterprise value DCF	308
- Interesting bearing debt	-13.4
+ Cash and cash equivalents	8.0
-Minorities	0.0
-Dividend/capital return	0.0
Equity value DCF	302
Equity value DCF per share	1.07

Wacc	
Tax-% (WACC)	25.0 %
Target debt ratio (D/(D+E))	10.0 %
Cost of debt	3.0 %
Equity Beta	1.15
Market risk premium	4.75%
Liquidity premium	2.75%
Risk free interest rate	2.0 %
Cost of equity	10.2 %
Weighted average cost of capital (WACC)	9.4 %

Source: Inderes

Cash flow distribution



# Summary

Income statement	2018	2019	2020	2021e	2022e	Per share data	2018	2019	2020	2021e	2022e
Revenue	41.9	47.0	52.8	61.5	68.2	EPS (reported)	0.00	0.03	0.05	0.06	0.07
EBITDA	5.9	15.4	20.3	25.6	31.3	EPS (adj.)	0.00	0.03	0.05	0.06	0.07
EBIT	5.3	14.4	18.6	23.7	28.3	OCF / share	0.04	0.02	0.05	0.05	0.08
PTP	4.4	11.8	15.9	22.9	27.4	FCF / share	0.01	0.01	0.02	0.04	0.06
Net Income	-0.5	7.7	13.6	17.4	20.6	Book value / share	-0.05	0.01	0.07	0.13	0.21
Extraordinary items	-0.6	1.4	-0.7	0.0	0.0	Dividend / share	0.00	0.00	0.00	0.00	0.00
Balance sheet	2018	2019	2020	2021e	2022e	Growth and profitability	2018	2019	2020	2021e	2022e
Balance sheet total	28.6	36.8	50.6	66.1	84.6	Revenue growth-%	-24%	12%	12%	17%	11%
Equity capital	-6.5	3.6	19.9	37.5	58.1	EBITDA growth-%	-37%	161%	32%	26%	22%
Goodwill	0.0	0.0	0.0	0.0	0.0	EBIT (adj.) growth-%	-40%	120%	48%	23%	19%
Net debt	12.9	10.6	5.4	-4.3	-20.8	EPS (adj.) growth-%	-97%	-3598%	82%	20%	18%
Cash flow	2018	2019	2020	2021e	2022e	EBITDA-%	14.1 %	32.8 %	38.4 %	41.6 %	45.9 %
EBITDA	5.9	15.4	20.3	25.6	31.3	EBIT (adj.)-%	14.1 %	27.7 %	36.6 %	38.5 %	41.5 %
Change in working capital	4.3	-6.6	-8.1	-5.2	-1.9	EBIT-%	12.6 %	30.6 %	35.2 %	38.5 %	41.5 %
Operating cash flow	5.1	3.9	12.9	15.2	22.4	ROE-%	7.7 %	-472.4 %	116.2 %	60.7 %	43.0 %
CAPEX	0.0	-4.8	-3.6	-4.2	-4.5	ROI-%	46.9 %	102.3 %	73.1 %	57.2 %	48.3 %
Free cash flow	1.7	2.4	5.8	10.0	17.2	Equity ratio	-22.8 %	9.9 %	39.3 %	56.8 %	68.7 %
						Gearing	-197.8 %	292.2 %	27.1 %	-11.3 %	-35.8 %
Largest shareholders	% of shares					Valuation multiples	2018	2019	2020	2021e	2022e
Fizroy Investments	26.2 %					EV/S	0.5	1.1	3.7	3.9	3.3
Luminos Sun Holding	22.6 %					EV/EBITDA (adj.)	3.3	3.4	9.7	9.3	7.1
Padma Ravichander	5.6 %					EV/EBIT (adj.)	3.3	4.1	10.2	10.1	7.8
Tecnotree Oyj	5.3 %					P/E (adj.)	neg.	6.0	13.6	14.0	11.8
Viking Acquisition Corp	3.7 %					P/B	neg.	11.7	9.7	6.5	4.2
Hammaren & Co Oy Ab	3.1 %					Dividend-%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %

Source: Inderes

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Reduce	The 12-month risk-adjusted expected shareholder return of the share is weak
Sell	The 12-month risk-adjusted expected shareholder return of the share is very weak

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## Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
30-03-21	Buy	0.68 €	0.56 €
30-04-21	Buy	0.92 €	0.77 €
31-05-21	Buy	1.00 €	0.86 €



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#### Inderes Oy

Itämerentori 2

FI-00180 Helsinki, Finland

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