

ad pepper media International N.V.

The Netherlands / Internet Services
 Frankfurt
 Bloomberg: APM GR
 ISIN: NL0000238145

2021 Annual Report

RATING
BUY

PRICE TARGET
€ 6.80

Return Potential 78.9%
 Risk Rating Medium

INFLATION AND WAR MAY HARM MARKETING BUSINESS

ad pepper media (APM) has published its 2021 annual report. Final figures match preliminary numbers. The net result declined 30% y/y to €2.6m due to: (1) investments in personnel and international expansion, which led to a higher cost basis; and (2) a weak performance of the ad pepper media segment, which had to digest the loss of a large client. The group remains very profitable with a 16% EBITDA margin, and has a very strong balance sheet with a net cash position including securities of €22.5m, plus an equity ratio of 43%. Free cash flow generation remained strong (2021: €1.9m). We expect ad pepper, a digital performance marketing pure play, to continue to benefit from its international expansion and the trend towards an increasing market share of online advertising. However, given the quickly deteriorating macro-economic situation, we have slightly trimmed our growth forecast as we believe that ad pepper's clients may reduce their advertising budgets. APM is guiding towards solid growth in 2022, which is in line with our 8% topline growth forecast. An updated DCF model yields a new price target of €6.80 (previously: €7.10). Following the strong share price decline in recent months, the stock is attractively valued with a 2023 EV/EBITDA of 9x. We confirm our Buy recommendation.

Second-best EBITDA in company history ad pepper booked solid 8% top line growth driven by both the Webgains (+18% y/y) and ad agents (+16% y/y) segments. However, the ad pepper media segment revenue fell 26% y/y due to the loss of a key customer and weak automotive ad spending. The ad pepper group could not repeat the exceptionally high and pandemic-induced 2020 EBITDA of €6.6m, as investments in international expansion and personnel increased the cost base. A total of 249 employees worked at APM at the end of 2021; an 8% increase y/y. Although the 2021 group EBITDA of €4.4m is 33% below the record 2020 level, it is the second-highest EBITDA in the history of the company (see figure 1 overleaf). The EBITDA margin of 15.8% reflects a decent level of profitability and is close to the 2019 margin.

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2019	2020	2021	2022E	2023E	2024E
Revenue (€m)	21.79	25.62	27.65	29.86	32.85	35.97
Y-o-y growth	7.5%	17.6%	7.9%	8.0%	10.0%	9.5%
EBITDA (€m)	3.51	6.56	4.38	5.16	6.80	8.84
EBITDA margin	16.1%	25.6%	15.8%	17.3%	20.7%	24.6%
Net income (€m)	1.35	3.66	1.73	2.07	3.27	4.65
EPS (diluted) (€)	0.06	0.17	0.08	0.10	0.15	0.22
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	5.96	2.60	1.91	3.18	4.56	6.02
Net gearing	-134.4%	-115.0%	-104.2%	-106.0%	-108.6%	-110.3%
Liquid assets (€m)	25.23	24.33	20.70	23.24	27.33	32.87

RISKS

The main risks are regulatory changes, technological innovations, dependence on key customers, and intense competition.

COMPANY PROFILE

ad pepper media International N.V. is an international digital performance marketing company, which acts as a holding for its three operating units ad pepper media (lead generation & audience targeting), Webgains (affiliate network), and ad agents (full service agency). The company is headquartered in Nuremberg, Germany.

MARKET DATA

As of 05 Apr 2022

Closing Price	€ 3.80
Shares outstanding	20.49m
Market Capitalisation	€ 77.87m
52-week Range	€ 3.61 / 6.72
Avg. Volume (12 Months)	12,907

Multiples	2021	2022E	2023E
P/E	45.1	37.7	23.8
EV/Sales	2.1	2.0	1.8
EV/EBITDA	13.3	11.3	8.6
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2021

Liquid Assets	€ 20.70m
Current Assets	€ 40.75m
Intangible Assets	€ 0.63m
Total Assets	€ 46.35m
Current Liabilities	€ 25.32m
Shareholders' Equity	€ 20.09m

SHAREHOLDERS

EMA B.V.	44.1%
Euro Serve Media GmbH	2.6%
Treasury shares	5.7%
Free Float	47.6%

**Figure 1: Reported P&L figures**

All figures in €m	2021A	2020A	Delta
Gross sales	111.54	101.34	10%
Net revenues	27.65	25.62	8%
Gross profit	26.59	24.69	8%
<i>margin</i>	96.2%	96.4%	-
EBITDA	4.38	6.56	-33%
<i>margin</i>	15.8%	25.6%	-
EBIT	3.19	5.48	-42%
<i>margin</i>	11.6%	21.4%	-
EBT	3.16	5.33	-41%
<i>margin</i>	11.4%	20.8%	-
Net result	2.56	3.66	-30%
<i>margin</i>	9.3%	14.3%	-
EPS (diluted)	0.08	0.12	-33%

Source: First Berlin Equity Research, ad pepper media International N.V.

Balance sheet remains strong The net cash position including securities declined 5% to €22.5m and thus remained at a high level. Working capital (receivables ./ payables, no inventory) remained negative. The working capital ratio (WC/sales) was -3%. Although equity was slightly lower at €20m, the equity ratio rose slightly to 43.3% due to a balance sheet contraction by 5% (see figure 2).

Figure 2: Selected balance sheet items

in €m	2021A	2020A	Delta
Intangible goods & Goodwill	0.63	0.74	-15%
Property, plant & equipment	0.35	0.41	-16%
Right-of-use assets	1.18	1.57	-25%
Listed debt securities	3.06	1.01	202%
Financial assets	0.39	0.39	-1%
Non-current assets, total	5.60	4.12	36%
Receivables	19.32	19.73	-2%
Cash and cash equivalents	20.70	24.33	-15%
Current assets, total	40.75	44.72	-9%
Equity	20.09	20.84	-4%
<i>Equity ratio</i>	43.3%	42.7%	2%
Financial debt (long-term)	0.00	0.00	-
Financial debt (short-term)	0.00	0.00	-
Lease liabilities (long-term)	0.74	0.95	-22%
Lease liabilities (short-term)	0.51	0.74	-32%
Net cash incl. debt securities	22.52	23.65	-5%
Payables	20.25	20.74	-2%
Balance sheet total	46.35	48.84	-5%

Source: First Berlin Equity Research, ad pepper media International N.V.

Another year of positive free cash flow Free cash flow amounted to €1.9m (2020: €2.6m). Cash flow from investing was €-2.2m, thanks to the purchase of securities (€-2.0m). Cash flow from financing amounted to €-3.9m, due mainly to the purchase of treasury shares (€-2.6m) and the payment of lease liabilities (€-0.8m). Net cash flow was €-3.6m (see figure 3 overleaf).

**Figure 3: Selected cash flow items**

in €m	2021A	2020A
Operating cash flow	2.21	3.38
CAPEX	-0.30	-0.79
Free cash flow	1.91	2.60
Cash flow investing	-2.24	-1.77
Cash flow financing	-3.83	-2.28
Net cash flow	-3.63	-0.90

Source: First Berlin Equity Research, ad pepper media International N.V.

Growing market for digital ad spend According to Statista, global digital ad spend grew 17% y/y to \$389m in 2021. With a market share of almost 60%, digital advertising spend was by far the largest advertising segment, followed by television with less than 25%. The research house eMarketer forecasts global digital ad spending to increase from \$492bn in 2021 to \$785bn in 2025 (CAGR 2021-2025: 12%). Digital marketing thus looks set to remain a structural growth sector.

Macro-economic headwinds Pandemic-related supply chain disruptions and the Russian invasion of Ukraine have caused severe economic headwinds. In March, Euro zone inflation rose to 7.5% y/y. The German Sachverständigenrat recently lowered its growth projections for Germany for 2022 from 4.6% (published in November 2021) to 1.8%. Euro zone consumer confidence fell significantly from -8.8 in February to -18.7 in March. As marketing budgets often follow the business cycle, we anticipate more restrictive ad spending.

Forecasts adjusted Given the strong economic headwinds, we have slightly lowered our forecasts for 2022 and the following years (see figure 4). A higher digital marketing ad spend share may still largely balance lower total advertising budgets. As the tax rate in 2021 was lower than expected, we have trimmed our tax rate estimate from 29% to 27%. For 2022, we still anticipate revenue and EBITDA growth of 8% y/y and 18% y/y respectively.

Figure 4: Revisions to forecasts

All figures in €m	2022E			2023E			2024E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Revenue	30.16	29.86	-1.0%	33.17	32.85	-1.0%	36.32	35.97	-1.0%
EBITDA	5.40	5.16	-4.4%	7.42	6.80	-8.3%	9.02	8.84	-2.0%
margin	17.9%	17.3%		22.4%	20.7%		24.8%	24.6%	
Net income	2.18	2.07	-5.2%	3.48	3.27	-6.0%	4.63	4.65	0.4%
margin	7.2%	6.9%		10.5%	10.0%		12.7%	12.9%	
EPS (diluted)	0.10	0.10	-4.9%	0.16	0.15	-5.7%	0.22	0.22	0.6%

Source: First Berlin Equity Research, ad pepper media International N.V.

DCF model revised We have incorporated a higher interest rate level (the 10y German government bond recently reached 0.6%), which increases our WACC estimate from 9.1% to 9.6%.

Buy reiterated at lower price target Our updated DCF model yields a new price target of €6.80 (previously: €7.10). Following the share price slump in recent months, the stock is now attractively valued (2023 EV/EBITDA: 9x). The upside to our price target is >75%. We confirm our Buy recommendation.



valuation model

DCF valuation model								
All figures in EUR '000	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Net revenue	29,864	32,851	35,972	39,389	43,130	47,216	51,655	56,430
NOPLAT	2,958	4,238	5,663	6,171	6,818	7,529	8,310	9,157
+ depreciation & amortisation	1,123	1,023	1,103	1,167	1,208	1,253	1,300	1,349
Net operating cash flow	4,081	5,260	6,766	7,338	8,026	8,782	9,610	10,506
- total investments (CAPEX and WC)	-862	-632	-685	-773	-815	-858	-902	-946
Capital expenditures	-687	-723	-827	-867	-917	-970	-1,024	-1,077
Working capital	-175	91	142	94	102	112	122	131
Free cash flows (FCF)	3,219	4,628	6,081	6,565	7,211	7,924	8,707	9,559
PV of FCF's	3,009	3,947	4,730	4,660	4,669	4,682	4,693	4,701

All figures in thousands			
PV of FCFs in explicit period (2022E- 2036E)	66,234		
PV of FCFs in terminal period	53,177		
Enterprise value (EV)	119,412		
+ Net cash / - net debt	19,458		Terminal growth 2.0%
+ Investments / minority interests	4,470		Terminal EBIT margin 23.0%
Shareholder value	143,340		
Number of shares (diluted)	21,109		
Fair value per share in EUR	6.79		

WACC		Terminal growth rate							
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	
Cost of equity	9.6%	5.6%	11.65	12.41	13.37	14.59	16.20	18.43	21.72
Pre-tax cost of debt	4.0%	6.6%	9.62	10.09	10.65	11.33	12.18	13.26	14.69
Tax rate	25.0%	7.6%	8.18	8.48	8.84	9.26	9.75	10.36	11.12
After-tax cost of debt	3.0%	8.6%	7.12	7.32	7.56	7.83	8.14	8.51	8.96
Share of equity capital	100.0%	9.6%	6.30	6.44	6.61	6.79	7.00	7.24	7.52
Share of debt capital	0.0%	10.6%	5.66	5.76	5.88	6.01	6.15	6.31	6.50
		11.6%	5.14	5.21	5.30	5.39	5.50	5.61	5.74
Price target in EUR	6.80	12.6%	4.71	4.77	4.83	4.90	4.98	5.06	5.15

* for layout purposes the model shows numbers only to 2029, but runs until 2036



INCOME STATEMENT

All figures in EUR '000	2019A	2020A	2021A	2022E	2023E	2024E
Gross sales	83,774	101,344	111,539	120,488	132,539	145,130
Media costs	61,987	75,729	83,893	90,624	99,688	109,158
Revenues	21,787	25,615	27,646	29,864	32,851	35,972
Cost of sales	820	928	1,059	1,209	1,397	1,439
Gross profit	20,967	24,687	26,587	28,655	31,454	34,533
S&M	12,225	13,411	15,739	16,601	17,382	17,986
G&A	6,853	7,108	7,707	8,051	8,422	8,993
Other operating income	943	1,514	530	602	754	863
Other operating expenses	313	234	477	567	624	683
EBITDA	3,512	6,559	4,378	5,161	6,803	8,837
Depreciation and amortisation	993	1,111	1,184	1,123	1,023	1,103
Operating income (EBIT)	2,519	5,448	3,194	4,037	5,780	7,734
Net financial result	-209	-116	-38	-40	-67	-64
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	2,310	5,332	3,156	3,997	5,713	7,670
Income taxes	390	991	592	1,079	1,542	2,071
Minority interests	-568	-677	-839	-850	-900	-950
Net income / loss	1,352	3,664	1,725	2,068	3,270	4,649
Diluted EPS (in €)	0.06	0.17	0.08	0.10	0.15	0.22

Ratios

Gross margin in % of gross sales	25.0%	24.4%	23.8%	23.8%	23.7%	23.8%
Gross margin in % of revenues	96.2%	96.4%	96.2%	96.0%	95.7%	96.0%
EBITDA margin in % of revenues	16.1%	25.6%	15.8%	17.3%	20.7%	24.6%
EBIT margin	11.6%	21.3%	11.6%	13.5%	17.6%	21.5%
Net margin	6.2%	14.3%	6.2%	6.9%	10.0%	12.9%
Tax rate	16.9%	18.6%	18.8%	27.0%	27.0%	27.0%

Expenses as % of sales or revenues

Media costs (as % of gross sales)	74.0%	74.7%	75.2%	75.2%	75.2%	75.2%
S&M (as % of revenues)	56.1%	52.4%	56.9%	55.6%	52.9%	50.0%
G&A (as % of revenues)	31.5%	27.7%	27.9%	27.0%	25.6%	25.0%
Depreciation and amortisation	4.6%	4.3%	4.3%	3.8%	3.1%	3.1%
Other operating expenses	1.4%	0.9%	1.7%	1.9%	1.9%	1.9%

Y-Y Growth

Gross sales	1.4%	21.0%	10.1%	8.0%	10.0%	9.5%
Net revenues	7.5%	17.6%	7.9%	8.0%	10.0%	9.5%
EBITDA	159.4%	86.8%	-33.3%	17.9%	31.8%	29.9%
Operating income	145.3%	116.3%	-41.4%	26.4%	43.2%	33.8%
Net income/ loss	447.4%	171.0%	-52.9%	19.9%	58.2%	42.2%



BALANCE SHEET

All figures in EUR '000	2019A	2020A	2021A	2022E	2023E	2024E
Assets						
Current assets, total	40,731	44,718	40,753	44,420	50,557	56,269
Cash and cash equivalents	25,229	24,330	20,704	23,236	27,326	32,379
Short-term investments	47	29	26	26	26	26
Receivables	14,897	19,727	19,319	20,455	22,501	23,160
Inventories	0	0	0	0	0	0
Other current assets	558	632	704	704	704	704
Non-current assets, total	3,321	4,123	5,599	5,810	5,981	6,175
Property, plant & equipment	391	412	346	390	452	504
Goodwill & other intangibles	359	737	628	795	904	1,046
Right-of-use assets	2,129	1,568	1,177	1,177	1,177	1,177
Financial assets	442	1,406	3,448	3,448	3,448	3,448
Other assets	0	0	0	0	0	0
Total assets	44,052	48,841	46,352	50,230	56,537	62,445
Shareholders' equity & debt						
Current liabilities, total	24,299	26,761	25,318	26,279	28,415	28,724
Short-term debt	0	0	0	0	0	0
Accounts payable	18,593	20,738	20,247	21,208	23,344	23,653
Current provisions	0	0	0	0	0	0
Other current liabilities	4,907	5,280	4,566	4,566	4,566	4,566
Lease liabilities	799	743	505	505	505	505
Long-term liabilities, total	1,713	1,242	946	946	946	946
Long-term debt	0	0	0	0	0	0
Lease liabilities	1,447	953	741	741	741	741
Other liabilities	266	289	205	205	205	205
Minority interests	935	1,157	1,413	2,263	3,163	4,113
Shareholders' equity	17,105	19,681	18,675	20,743	24,013	28,662
Share capital	1,075	1,075	1,075	1,075	1,075	1,075
Capital reserve	63,782	63,782	63,782	63,782	63,782	63,782
Other reserves	0	0	0	0	0	0
Loss carryforward / retained earnings	-47,752	-45,176	-46,182	-44,114	-40,844	-36,195
Total consolidated equity and debt	44,052	48,841	46,352	50,230	56,537	62,445
Ratios						
Current ratio (x)	1.68	1.67	1.61	1.69	1.78	1.96
Quick ratio (x)	1.68	1.67	1.61	1.69	1.78	1.96
Net debt	-22,983	-22,634	-19,458	-21,990	-26,080	-31,133
Net gearing	-134.4%	-115.0%	-104.2%	-106.0%	-108.6%	-108.6%
Equity ratio	41.0%	42.7%	43.3%	45.8%	48.1%	52.5%
Book value per share (in €)	0.81	0.93	0.89	0.98	1.14	1.36
Return on equity (ROE)	7.9%	18.6%	9.2%	10.0%	13.6%	16.2%
Return on investment (ROI)	3.1%	7.5%	3.7%	4.1%	5.8%	7.4%
Return on assets (ROA)	3.1%	7.5%	3.7%	4.1%	5.8%	7.4%



CASH FLOW STATEMENT

All figures in EUR '000	2019A	2020A	2021A	2022E	2023E	2024E
EBIT	2,519	5,448	3,194	4,037	5,780	7,734
Depreciation and amortisation	993	1,111	1,184	1,123	1,023	1,103
EBITDA	3,512	6,559	4,378	5,161	6,803	8,837
Changes in working capital	4,352	-1,527	636	-175	91	-351
Other adjustments	-1,382	-1,650	-2,806	-1,119	-1,610	-2,135
Operating cash flow	6,482	3,382	2,208	3,866	5,284	6,352
Investments in PP&E	-221	-238	-121	-269	-296	-324
Investments in intangibles	-303	-549	-178	-418	-427	-504
Free cash flow	5,958	2,595	1,909	3,179	4,561	5,524
Acquisitions & disposals, net	8	10	57	0	0	0
Other investments	2,152	-994	-1,999	0	0	0
Investment cash flow	1,636	-1,771	-2,241	-687	-723	-827
Debt financing, net	0	0	0	0	0	0
Equity financing, net	0	-978	-2,489	0	0	0
Dividends paid	0	0	0	0	0	0
Other financing	-1,173	-1,300	-1,340	-647	-471	-471
Financing cash flow	-1,173	-2,278	-3,829	-647	-471	-471
FOREX & other effects	51	-232	236	0	0	0
Net cash flows	6,996	-899	-3,626	2,532	4,090	5,054
Cash, start of the year	18,233	25,229	24,330	20,704	23,236	27,326
Cash, end of the year	25,229	24,330	20,704	23,236	27,326	32,379
EBITDA/share (in €)	0.17	0.31	0.21	0.24	0.32	0.42
Y-Y Growth						
Operating cash flow	n.m.	-47.8%	-34.7%	75.1%	36.7%	20.2%
Free cash flow	n.m.	-56.4%	-26.4%	66.5%	43.5%	21.1%
EBITDA/share	161.0%	87.1%	-32.7%	17.1%	31.8%	29.9%

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Anschrift:

First Berlin Equity Research GmbH
Mohrenstr. 34
10117 Berlin
Germany

Vertreten durch den Geschäftsführer: Martin Bailey

Telefon: +49 (0) 30-80 93 9 680

Fax: +49 (0) 30-80 93 9 687

E-Mail: info@firstberlin.com

Amtsgericht Berlin Charlottenburg HR B 103329 B
UST-Id.: 251601797

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First Berlin Equity Research GmbH

Authored by: Dr. Karsten von Blumenthal, Analyst

All publications of the last 12 months were authored by Dr. Karsten von Blumenthal.

Company responsible for preparation: First Berlin Equity Research GmbH, Mohrenstraße 34, 10117 Berlin

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PRICE TARGET DATES

Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

AGREEMENT WITH THE ANALYSED COMPANY AND MAINTENANCE OF OBJECTIVITY

The present financial analysis is based on the author's own knowledge and research. The author prepared this study without any direct or indirect influence exerted on the part of the analysed company. Parts of the financial analysis were possibly provided to the analysed company prior to publication in order to avoid inaccuracies in the representation of facts. However, no substantial changes were made at the request of the analysed company following any such provision.

ASSET VALUATION SYSTEM

First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

ASSET RECOMMENDATION

The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy ¹	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

¹ The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

RISK ASSESSMENT

The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	9 January 2018	€4.06	Add	€4.30
2...28	↓	↓	↓	↓
29	21 April 2021	€6.56	Buy	€8.40
30	25 May 2021	€5.82	Buy	€8.40
31	19 July 2021	€5.52	Buy	€8.40
32	25 August 2021	€5.72	Buy	€8.40
33	21 October 2021	€5.84	Buy	€8.10
34	22 November 2021	€4.88	Buy	€8.10
35	14 January 2022	€4.92	Buy	€7.10
36	18 February 2022	€4.69	Buy	€7.10
37	Today	€3.80	Buy	€6.80

INVESTMENT HORIZON

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

UPDATES

At the time of publication of this financial analysis it is not certain whether, when and on what occasion an update will be provided. In general First Berlin strives to review the financial analysis for its topicality and, if required, to update it in a very timely manner in connection with the reporting obligations of the analysed company or on the occasion of ad hoc notifications.

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Legally required information regarding

- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

can be accessed through the following internet link: <https://firstberlin.com/disclaimer-english-link/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Marie-Curie-Straße 24-28, 60439 Frankfurt am Main

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