

# ad pepper media International N.V.

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

Q2 2022  
 preliminary results

**RATING**  
**BUY**

**PRICE TARGET**  
**€ 4.40**

Return Potential 96.4%  
 Risk Rating Medium

## Q2 AS WEAK AS EXPECTED, Q3 SHOULD BE SLIGHTLY BETTER

ad pepper media International (APM) has published preliminary Q2/22 figures which are close to our forecasts and significantly below the prior year figures. Group revenue declined 10% y/y to €5.9m and group EBITDA fell from €1.04m in Q2/21 to €-0.19m (FBe: €-0.07m) due mainly to weaker Webgains figures. Webgains has been hit by the weakness of its main market, the UK. Management is thus focusing on improving sales and earnings in the UK. Due to the difficult macroeconomic environment management expects Q3/22 revenue to be roughly on par with Q2/22 with a slight decline in operating costs q/q. This indicates slightly better earnings q/q. Given its strong balance sheet, APM is well prepared to weather the business cycle downturn, which may offer new business opportunities if competitors streamline their product offering or exit regional markets. We stick to our full-year revenue forecast but lower our EBITDA estimate slightly to reflect the slightly weaker than expected Q2 earnings. An updated DCF model yields a €4.40 price target (previously: €4.60). We reiterate our Buy rating.

**10% revenue decline and negative EBITDA in Q2** Gross sales retreated 11% y/y to €23.2m, and revenue was down 10% at €5.9m. Both the ad pepper media and the Webgains segment posted hefty revenue declines of -20% and -17% y/y respectively, while ad agents continued its growth trajectory at +10% y/y. Group EBITDA fell from €1.04m in Q2/21 to €-0.19m (FBe: €0.07m) due mainly to weaker EBITDA from Webgains (€-0.27m versus €0.82m in H2/21). On a half-year basis, group revenue fell 12% y/y to €11.8m, and group EBITDA from €2.34m to €-0.15m (see figure 1 overleaf).

**Q3 guidance suggests revenue stabilisation q/q and improved cost basis** APM is guiding towards Q3 revenue at roughly the same level as in Q2. We forecast ca. €6.0m (-14% y/y). Management's forecast of slightly decreasing operating costs q/q indicates that it has started to cut costs with first effects visible in Q3. (p.t.o.)

### FINANCIAL HISTORY & PROJECTIONS

	2019	2020	2021	2022E	2023E	2024E
Revenue (€m)	21.79	25.62	27.65	24.29	26.72	29.26
Y-o-y growth	7.5%	17.6%	7.9%	-12.1%	10.0%	9.5%
EBITDA (€m)	3.51	6.56	4.38	0.12	2.56	3.62
EBITDA margin	16.1%	25.6%	15.8%	0.5%	9.6%	12.4%
Net income (€m)	1.35	3.66	1.73	-0.95	0.67	1.22
EPS (diluted) (€)	0.06	0.17	0.08	-0.04	0.03	0.06
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	5.96	2.60	1.91	-0.33	1.40	1.98
Net gearing	-134.4%	-115.0%	-104.2%	-104.2%	-104.5%	-104.8%
Liquid assets (€m)	25.23	24.33	20.70	19.72	20.48	21.81

### 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 19 Jul 2022

Closing Price	€ 2.24
Shares outstanding	20.26m
Market Capitalisation	€ 45.38m
52-week Range	€ 2.19 / 6.08
Avg. Volume (12 Months)	11,363

Multiples	2021	2022E	2023E
P/E	25.1	n.a.	64.4
EV/Sales	0.9	1.0	0.9
EV/EBITDA	5.6	208.6	9.5
Div. Yield	0.0%	0.0%	0.0%

### STOCK OVERVIEW



### COMPANY DATA

As of 31 Mar 2022

Liquid Assets	€ 17.70m
Current Assets	€ 34.03m
Intangible Assets	€ 0.55m
Total Assets	€ 39.26m
Current Liabilities	€ 20.08m
Shareholders' Equity	€ 18.29m

### SHAREHOLDERS

EMA B.V.	44.1%
Euro Serve Media GmbH	2.6%
Treasury shares	5.8%
Free Float	47.5%

**Figure 1: Reported group figures versus forecasts**

All figures in €m	Q2-22A	Q2-22E	Delta	Q2-21A	Delta	H1-22A	H1-21A	Delta
Gross sales	23.19	23.54	-1.5%	25.93	-10.6%	46.41	54.04	-14.1%
Revenue	5.88	5.88	0.1%	6.52	-9.7%	11.75	13.40	-12.3%
EBITDA	-0.19	-0.07	-	1.04	-	-0.15	2.34	-
margin on revenues	-3.2%	-1.2%		15.9%		-1.3%	17.5%	

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

**ad pepper media segment posts positive EBITDA in Q2** In Q2, segment sales retreated 20% y/y to €0.74m and EBITDA fell 37% y/y to €0.13m (see figure 2). Compared to Q1/22, revenue rose slightly (+4%) and EBITDA increased from €34k to €132k. We thus see first signs of stabilisation and expect this to continue in H2.

**Webgains' EBITDA weaker due to one-off effects** Q2 segment revenue fell 17% to €3.0m, 4% below our forecast (see figure 2). While we expected a slightly positive EBITDA, it was in fact negative (€-0.27m). We trace this back to one-off effects such as severance payments as management has reduced staff to cut costs. Based on a lower cost basis and a well-filled pipeline we forecast a return to positive EBITDA in Q3 and Q4. Although Webgains' main market UK looks set to face macroeconomic headwinds in H2, we anticipate higher revenue and EBITDA than in H1 due to the Christmas business and better performance from Webgains' smaller markets Germany and Spain.

**Figure 2: Reported segment figures versus forecasts**

All figures in €m	Q2-22A	Q2-22E	Delta	Q2-21A	Delta	H1-22A	H1-21A	Delta
<b>ad pepper media</b>								
Revenue	0.74	0.74	1.0%	0.93	-20.4%	1.46	2.17	-32.8%
EBITDA	0.13	0.00	13100.0%	0.21	-36.8%	0.17	0.74	-77.7%
margin	17.8%	0.1%	-	22.4%	-	11.4%	34.3%	-
<b>Webgains</b>								
Revenue	3.03	3.17	-4.4%	3.67	-17.4%	6.26	7.56	-17.1%
EBITDA	-0.27	0.07	-	0.82	-	-0.14	1.86	-
margin	-8.9%	2.1%	-	22.3%	-	-2.2%	24.5%	-
<b>ad agents</b>								
Revenue	2.11	1.97	7.0%	1.91	10.1%	4.03	3.68	9.7%
EBITDA	0.21	0.26	-18.5%	0.38	-44.1%	0.46	0.63	-26.6%
margin	10.1%	13.2%	-	19.8%	-	11.5%	17.1%	-
<b>Admin &amp; Consolidation</b>								
Revenue	0.00	0.00		0.00	-	0.00	0.00	-
EBITDA	-0.26	-0.40	-	-0.37	-	-0.64	-0.88	-
<b>Group</b>								
Revenue	5.88	5.88	0.1%	6.52	-9.7%	11.75	13.40	-12.3%
EBITDA	-0.19	-0.07	-	1.04	-	-0.15	2.34	-
margin	-3.2%	-1.2%	-	15.9%	-	-1.3%	17.5%	-

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

**ad agents with amazing revenue growth** In Q2, ad agents reported 10% growth y/y to €2.1m. This was 7% ahead of our forecast and is an excellent performance given the challenging macroeconomic environment (persistent high inflation, low consumer confidence,



supply chain problems, looming recession). But lower margins (10.1% versus 19.8% in Q2/21) resulted in EBITDA retreating 44% y/y to €0.21m (FBe: €0.26m). We expect segment growth to slow in H2 because of the weak economic outlook for Germany.

**2022E EBITDA forecast slightly lowered** The slightly weaker than expected Q2 EBITDA and high uncertainty regarding margin development in H2 cause us to lower our 2022E EBITDA forecast. We now expect full-year EBITDA of €117k (previously: €377k). New clients could result in a positive earnings revision, bad debt caused by customers not paying their bills in a negative earnings revision. APM will publish its H1/22 report on 25 August 2022.

**Figure 3: Revisions to forecasts**

All figures in €m	2022E			2023E			2024E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Revenue	24.29	24.29	0.0%	26.72	26.72	0.0%	29.26	29.26	0.0%
EBITDA	0.38	0.12	-69.0%	2.56	2.56	0.0%	3.62	3.62	0.0%
margin	1.6%	0.5%		9.6%	9.6%		12.4%	12.4%	
Net income	-0.68	-0.95	-	0.67	0.67	0.0%	1.22	1.22	0.0%
margin	-2.8%	-3.9%		2.5%	2.5%		4.2%	4.2%	
EPS (diluted)	-0.03	-0.04	-	0.03	0.03	0.0%	0.06	0.06	0.0%

Source: First Berlin Equity Research

**Buy reiterated at slightly lower price target** An updated DCF model yields a new price target of €4.40 (previously: €4.60). The stock looks attractively valued with a 2023E EV/EBITDA multiple of 10x. APM has a strong balance sheet (Q1/21: net cash position €19.3m, equity ratio: 47%) and the capability to generate strong free cash flows due to low working capital requirements. The high operating leverage of APM's business model means that earnings are disproportionately hit when revenue declines but we will see a reversal of this as soon as revenues start to rise again. We reiterate our Buy rating.



## VALUATION MODEL

DCF valuation model								
All figures in EUR '000	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Net revenue	24,290	26,719	29,257	32,037	35,079	38,403	42,013	45,897
NOPLAT	-1,007	1,046	1,788	2,213	2,721	3,307	3,978	4,741
+ depreciation & amortisation	1,123	1,155	1,192	1,217	1,231	1,248	1,267	1,289
Net operating cash flow	117	2,201	2,980	3,430	3,952	4,554	5,245	6,029
- total investments (CAPEX and WC)	-613	-726	-928	-659	-696	-734	-773	-812
Capital expenditures	-559	-588	-673	-705	-746	-789	-833	-876
Working capital	-54	-138	-255	46	50	55	59	64
Free cash flows (FCF)	-496	1,476	2,052	2,771	3,255	3,820	4,472	5,217
PV of FCF's	-474	1,277	1,606	1,963	2,088	2,217	2,348	2,480

All figures in thousands		
PV of FCFs in explicit period (2022E-2036E)	33,197	
PV of FCFs in terminal period	34,000	
Enterprise value (EV)	67,197	
+ Net cash / - net debt	19,458	Terminal growth 2.0%
+ Investments / minority interests	4,470	Terminal EBIT margin 22.0%
Shareholder value	91,125	
Number of shares (diluted)	20,876	
Fair value per share in EUR	4.37	

WACC	10.5%	Terminal growth rate							
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	
Cost of equity	10.5%	6.5%	7.15	7.55	8.03	8.62	9.36	10.30	11.56
Pre-tax cost of debt	4.0%	7.5%	6.02	6.27	6.58	6.94	7.37	7.89	8.55
Tax rate	25.0%	8.5%	5.18	5.36	5.56	5.79	6.07	6.39	6.77
After-tax cost of debt	3.0%	9.5%	4.56	4.68	4.82	4.98	5.16	5.36	5.61
Share of equity capital	100.0%	10.5%	4.07	4.16	4.25	4.37	4.49	4.63	4.79
Share of debt capital	0.0%	11.5%	3.68	3.74	3.81	3.89	3.98	4.08	4.19
		12.5%	3.36	3.41	3.46	3.52	3.59	3.66	3.74
		13.5%	3.10	3.14	3.18	3.22	3.27	3.33	3.38
Price target in EUR	4.40								

\* 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
<b>Gross sales</b>	<b>83,774</b>	<b>101,344</b>	<b>111,539</b>	<b>97,999</b>	<b>107,799</b>	<b>118,040</b>
Media costs	61,987	75,729	83,893	73,709	81,080	88,783
<b>Revenues</b>	<b>21,787</b>	<b>25,615</b>	<b>27,646</b>	<b>24,290</b>	<b>26,719</b>	<b>29,257</b>
Cost of sales	820	928	1,059	1,002	1,155	1,170
<b>Gross profit</b>	<b>20,967</b>	<b>24,687</b>	<b>26,587</b>	<b>23,288</b>	<b>25,564</b>	<b>28,087</b>
S&M	12,225	13,411	15,739	16,624	16,482	17,500
G&A	6,853	7,108	7,707	7,811	7,922	8,310
Other operating income	943	1,514	530	602	754	702
Other operating expenses	313	234	477	462	508	556
<b>EBITDA</b>	<b>3,512</b>	<b>6,559</b>	<b>4,378</b>	<b>117</b>	<b>2,561</b>	<b>3,615</b>
Depreciation and amortisation	993	1,111	1,184	1,123	1,155	1,192
<b>Operating income (EBIT)</b>	<b>2,519</b>	<b>5,448</b>	<b>3,194</b>	<b>-1,007</b>	<b>1,406</b>	<b>2,423</b>
Net financial result	-209	-116	-38	-151	-73	-71
Non-operating expenses	0	0	0	0	0	0
<b>Pre-tax income (EBT)</b>	<b>2,310</b>	<b>5,332</b>	<b>3,156</b>	<b>-1,158</b>	<b>1,333</b>	<b>2,353</b>
Income taxes	390	991	592	-313	360	635
Minority interests	-568	-677	-839	-100	-300	-500
<b>Net income / loss</b>	<b>1,352</b>	<b>3,664</b>	<b>1,725</b>	<b>-945</b>	<b>673</b>	<b>1,217</b>
<b>Diluted EPS (in €)</b>	<b>0.06</b>	<b>0.17</b>	<b>0.08</b>	<b>-0.04</b>	<b>0.03</b>	<b>0.06</b>
<b>Ratios</b>						
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%	95.9%	95.7%	96.0%
EBITDA margin in % of revenues	16.1%	25.6%	15.8%	0.5%	9.6%	12.4%
EBIT margin	11.6%	21.3%	11.6%	-4.1%	5.3%	8.3%
Net margin	6.2%	14.3%	6.2%	-3.9%	2.5%	4.2%
Tax rate	16.9%	18.6%	18.8%	27.0%	27.0%	27.0%
<b>Expenses as % of sales or revenues</b>						
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%	68.4%	61.7%	59.8%
G&A (as % of revenues)	31.5%	27.7%	27.9%	32.2%	29.6%	28.4%
Depreciation and amortisation	4.6%	4.3%	4.3%	4.6%	4.3%	4.1%
Other operating expenses	1.4%	0.9%	1.7%	1.9%	1.9%	1.9%
<b>Y-Y Growth</b>						
Gross sales	1.4%	21.0%	10.1%	-12.1%	10.0%	9.5%
Net revenues	7.5%	17.6%	7.9%	-12.1%	10.0%	9.5%
EBITDA	159.4%	86.8%	-33.3%	-97.3%	2090.1%	41.2%
Operating income	145.3%	116.3%	-41.4%	n.m.	n.m.	72.3%
Net income/ loss	447.4%	171.0%	-52.9%	n.m.	n.m.	80.9%



## BALANCE SHEET

All figures in EUR '000	2019A	2020A	2021A	2022E	2023E	2024E
<b>Assets</b>						
<b>Current assets, total</b>	<b>40,731</b>	<b>44,718</b>	<b>40,753</b>	<b>37,422</b>	<b>39,142</b>	<b>40,977</b>
Cash and cash equivalents	25,229	24,330	20,704	19,722	20,477	21,811
Short-term investments	47	29	26	26	26	26
Receivables	14,897	19,727	19,319	16,970	17,935	18,436
Inventories	0	0	0	0	0	0
Other current assets	558	632	704	704	704	704
<b>Non-current assets, total</b>	<b>3,321</b>	<b>4,123</b>	<b>5,599</b>	<b>5,682</b>	<b>5,762</b>	<b>5,890</b>
Property, plant & equipment	391	412	346	340	359	389
Goodwill & other intangibles	359	737	628	717	777	876
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
<b>Total assets</b>	<b>44,052</b>	<b>48,841</b>	<b>46,352</b>	<b>43,104</b>	<b>44,904</b>	<b>46,867</b>
<b>Shareholders' equity &amp; debt</b>						
<b>Current liabilities, total</b>	<b>24,299</b>	<b>26,761</b>	<b>25,318</b>	<b>22,915</b>	<b>23,742</b>	<b>23,988</b>
Short-term debt	0	0	0	0	0	0
Accounts payable	18,593	20,738	20,247	17,844	18,671	18,917
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
<b>Long-term liabilities, total</b>	<b>1,713</b>	<b>1,242</b>	<b>946</b>	<b>946</b>	<b>946</b>	<b>946</b>
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
<b>Minority interests</b>	<b>935</b>	<b>1,157</b>	<b>1,413</b>	<b>1,513</b>	<b>1,813</b>	<b>2,313</b>
<b>Shareholders' equity</b>	<b>17,105</b>	<b>19,681</b>	<b>18,675</b>	<b>17,730</b>	<b>18,403</b>	<b>19,620</b>
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	-47,127	-46,454	-45,237
<b>Total consolidated equity and debt</b>	<b>44,052</b>	<b>48,841</b>	<b>46,352</b>	<b>43,104</b>	<b>44,904</b>	<b>46,867</b>
<b>Ratios</b>						
Current ratio (x)	1.68	1.67	1.61	1.63	1.65	1.71
Quick ratio (x)	1.68	1.67	1.61	1.63	1.65	1.71
Net debt	-22,983	-22,634	-19,458	-18,476	-19,231	-20,565
Net gearing	-134.4%	-115.0%	-104.2%	-104.2%	-104.5%	-104.8%
Equity ratio	41.0%	42.7%	43.3%	44.6%	45.0%	46.8%
Book value per share (in €)	0.81	0.93	0.89	0.84	0.87	0.93
Return on equity (ROE)	7.9%	18.6%	9.2%	-5.3%	3.7%	6.2%
Return on investment (ROI)	3.1%	7.5%	3.7%	-2.2%	1.5%	2.6%
Return on assets (ROA)	3.1%	7.5%	3.7%	-2.2%	1.5%	2.6%



## CASH FLOW STATEMENT

All figures in EUR '000	2019A	2020A	2021A	2022E	2023E	2024E
<b>EBIT</b>	<b>2,519</b>	<b>5,448</b>	<b>3,194</b>	<b>-1,007</b>	<b>1,406</b>	<b>2,423</b>
Depreciation and amortisation	993	1,111	1,184	1,123	1,155	1,192
<b>EBITDA</b>	<b>3,512</b>	<b>6,559</b>	<b>4,378</b>	<b>117</b>	<b>2,561</b>	<b>3,615</b>
Changes in working capital	4,352	-1,527	636	-54	-138	-255
Other adjustments	-1,382	-1,650	-2,806	161	-433	-706
<b>Operating cash flow</b>	<b>6,482</b>	<b>3,382</b>	<b>2,208</b>	<b>224</b>	<b>1,990</b>	<b>2,654</b>
Investments in PP&E	-221	-238	-121	-219	-240	-263
Investments in intangibles	-303	-549	-178	-340	-347	-410
<b>Free cash flow</b>	<b>5,958</b>	<b>2,595</b>	<b>1,909</b>	<b>-334</b>	<b>1,402</b>	<b>1,981</b>
Acquisitions & disposals, net	8	10	57	0	0	0
Other investments	2,152	-994	-1,999	0	0	0
<b>Investment cash flow</b>	<b>1,636</b>	<b>-1,771</b>	<b>-2,241</b>	<b>-559</b>	<b>-588</b>	<b>-673</b>
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	-647	-647
<b>Financing cash flow</b>	<b>-1,173</b>	<b>-2,278</b>	<b>-3,829</b>	<b>-647</b>	<b>-647</b>	<b>-647</b>
FOREX & other effects	51	-232	236	0	0	0
<b>Net cash flows</b>	<b>6,996</b>	<b>-899</b>	<b>-3,626</b>	<b>-982</b>	<b>755</b>	<b>1,334</b>
Cash, start of the year	18,233	25,229	24,330	20,704	19,722	20,477
<b>Cash, end of the year</b>	<b>25,229</b>	<b>24,330</b>	<b>20,704</b>	<b>19,722</b>	<b>20,477</b>	<b>21,811</b>
<b>EBITDA/share (in €)</b>	<b>0.17</b>	<b>0.31</b>	<b>0.21</b>	<b>0.01</b>	<b>0.12</b>	<b>0.17</b>
<b>Y-Y Growth</b>						
Operating cash flow	n.m.	-47.8%	-34.7%	-89.8%	787.4%	33.4%
Free cash flow	n.m.	-56.4%	-26.4%	n.m.	n.m.	41.3%
EBITDA/share	161.0%	87.1%	-32.7%	-97.3%	2090.1%	41.2%

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Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy <sup>1</sup>	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%

<sup>1</sup> 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.

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**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...32	↓	↓	↓	↓
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	6 April 2022	€3.80	Buy	€6.80
38	26 April 2022	€3.66	Buy	€6.20
39	30 May 2022	€3.39	Buy	€6.20
40	1 July 2022	€2.55	Buy	€4.60
41	Today	€2.24	Buy	€4.40

**INVESTMENT HORIZON**

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