

CapMan

Company report

8/04/2022 21:30



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✓ Inderes corporate customer

This report is a summary translation of the report “Suurin osa aliarvostuksesta purkautunut” published on 8/4/2022 at 9:30 pm

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Most of the undervaluation has dissolved

In the big picture, CapMan published a rather unsurprising Q2 report, which led us to revise our earnings estimates only slightly upwards, mainly in terms of investment income. However, with the share price rise the expected return of the share has significantly reduced and the valuation starts to look neutral. In light of this, we have updated our recommendation to Accumulate (previously Buy) and revised our target price to EUR 3.3 (previously EUR 3.1).

The profitability overshoot of the Q2 report is explained by investment income

Q2 turnover was clearly below our EUR 23.7 million estimate at EUR 17.7 million. This is in practice explained by lower-than-expected carried interest income, which totaled EUR 3.2 million (estimate 10.0 MEUR). Management fees were also slightly softer than our estimate due to lower AUM. In terms of recurring turnover, management fees were offset by the development of the Service business and the segment's turnover (Q2'22: 3.2 MEUR) grew by almost 60% year-on-year. The Group's EBIT was somewhat higher than our expectations (12.2 MEUR) at EUR 14.1 million. However, this is explained by investment income that was EUR +9.8 million, while our expectations were zero.

Outlook remained unchanged in the big picture

Based on the company's comments, the outlook still seems quite good despite the weak development of capital markets. CapMan's fundraising projects seem to be progressing quite well, and in connection with the half-year report, the company also announced establishment of a new Social Real Estate fund investing in real estate with a social policy goal in the Nordics. The company repeated its positive comments concerning commission income, so the clear gap to the estimates seems to be caused mainly by timing factors.

Earnings estimates for the next few years have increased with investment income

We only made limited changes to our estimates for the coming years after the Q2 report. In terms of investment income, our estimates have increased with the growing portfolio, while we revised our commission income and AUM estimates so that they are slightly more conservative. We expect CapMan's result to remain at around EUR 50 million in the next few years. Investors should pay particular attention to the quality of the result, as the earnings mix is crucial to CapMan's value. At present, the earnings mix remains rather weak as it focuses on investment income and commission income. We believe that there are good preconditions for continued growth in the Management Company business, which is critical to the mix improving, as the AUM growth outlook is very strong. With strong performance, the dividend can easily be kept on a stable growth path.

Expected return still sufficient

Although we feel the share is no longer clearly undervalued, the expectations loaded into the share are not too challenging. With the 2022 result the valuation is favorable but we point out that the 2022 result is 'too good' because of the exceptionally high level of one-off items. The 2023–2024 P/E ratios that reflect the company's more normal performance are 14-15x (EV/EBIT ~11x), which are relatively neutral levels considering the emphasis of the mix. However, we believe that a high and secure dividend yield of 5-6% and a strongly progressing strategy provide sufficient expected return to stay on board.

Recommendation

Accumulate
(previous Buy)

EUR 3.30
(previous EUR 3.10)

Share price:
3.09



Key figures

	2021	2022e	2023e	2024e
Revenue	52.8	77.9	77.4	84.5
growth-%	23%	48%	-1%	9%
EBIT adj.	44.6	60.2	47.2	50.0
EBIT-% adj.	84.6 %	77.3 %	60.9 %	59.1 %
Net Income	34.3	44.9	33.7	35.7
EPS (adj.)	0.22	0.28	0.21	0.22

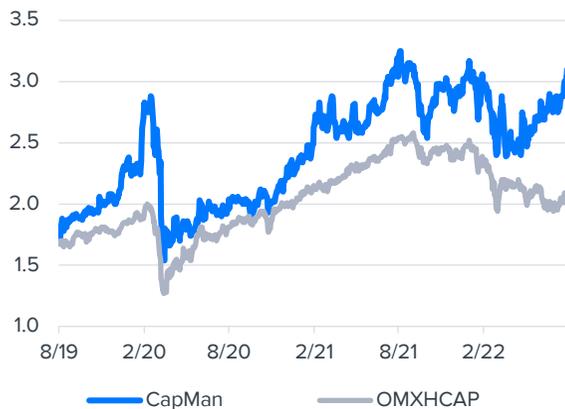
P/E (adj.)	14.1	10.9	14.6	13.8
P/B	3.9	3.3	3.1	3.0
Dividend yield-%	4.8 %	5.2 %	5.5 %	5.9 %
EV/EBIT (adj.)	11.5	8.9	11.3	10.5
EV/EBITDA	11.1	8.7	11.1	10.3
EV/S	9.7	6.9	6.9	6.2

Source: Inderes

Guidance

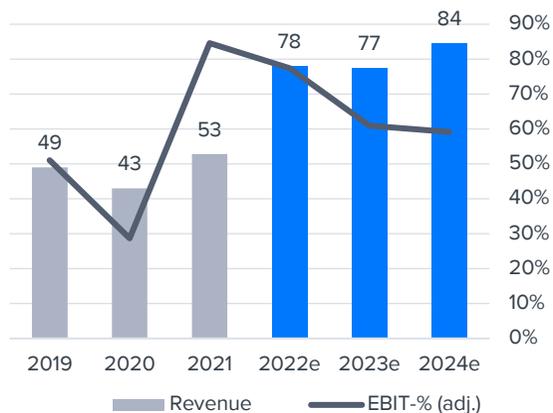
(No guidance)

Share price



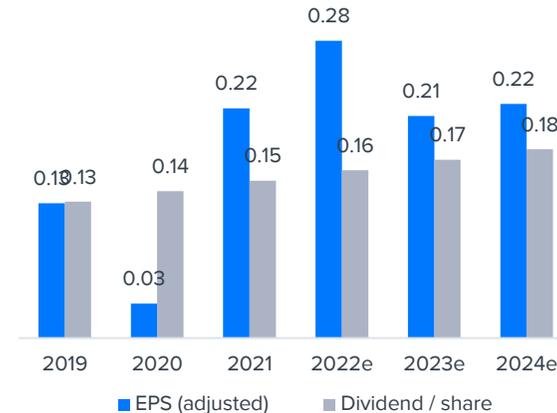
Source: Millstream Market Data AB

Revenue and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- New products
- Growth in open-end products
- Increase in carried interest income
- Ramping up CWS
- Growth in Service business
- Improving cost efficiency



Risk factors

- Sustainability of cost level
- Funds' ability to generate good returns for investors
- Investment portfolio's share of result still significant
- Market situation

Valuation	2022e	2023e	2024e
Market cap	490	490	490
EV	535	534	527
P/E (oik.)	10.9	14.6	13.8
P/E	10.9	14.6	13.8
P/FCF	21.9	15.6	12.2
P/B	3.3	3.1	3.0
P/S	6.3	6.3	5.8
EV/Sales	6.9	6.9	6.2
EV/EBITDA	8.7	11.1	10.3
EV/EBIT (adj.)	8.9	11.43	10.5
Payout ratio (%)	56%	80%	81%
Osinkotuotto-%	5.2 %	5.5 %	5.9 %

Source: Inderes

Estimates

Estimates	Q2'21	Q2'22	Q2'22e	Q2'22e	Consensus		Difference (%)	2022e
MEUR / EUR	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. Inderes	Inderes
Revenue	11.9	17.7	23.7				-25%	77.9
EBIT	11.4	14.1	12.2				16%	60.2
PTP	10.1	13.0	10.7				21%	54.6
EPS (adj.)	0.06	0.07	0.05				40%	0.28
Revenue growth-%	36.4 %	49.0 %	99.4 %				-50.5 pp	47.6 %
EBIT-% (adj.)	95.6 %	79.7 %	51.5 %				28.3 pp	77.3 %

Source: Inderes

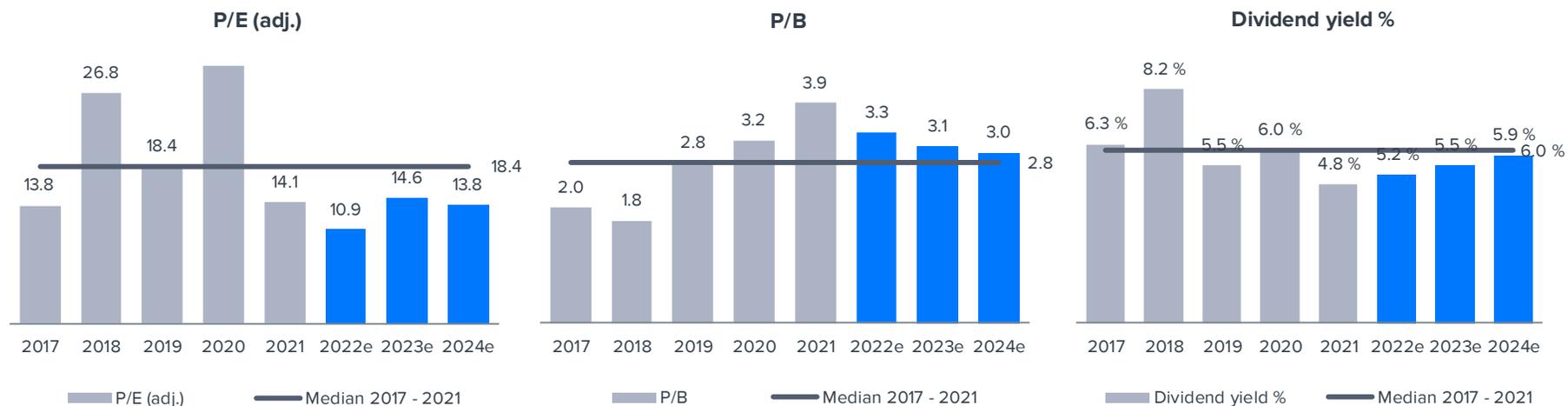
Estimate revisions	Old	2022e	Change	2023e	2023e	Change	2024e	2024e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	81.8	77.9	-5%	79.8	77.4	-3%	85.2	84.5	-1%
Management Company business	71.7	66.9	-7%	68.4	66.0	-4%	72.9	72.2	-1%
Services	9.6	10.5	9%	10.9	10.9	0%	11.8	11.8	0%
Other&eliminations	0.5	0.5	2%	0.5	0.5	0%	0.5	0.5	0%
EBITDA	60.6	61.7	2%	46.2	48.3	5%	48.3	51.4	6%
EBIT (exc. NRIs)	59.2	60.2	2%	45.0	47.2	5%	46.8	50.0	7%
EBIT	59.2	60.2	2%	45.0	47.2	5%	46.8	50.0	7%
Management Company business	38.7	33.8	-13%	32.6	30.4	-7%	34.2	33.7	-1%
Services	5.0	5.5	11%	5.9	5.9	0%	6.3	6.3	0%
Investments	21.7	28.7	32%	12.1	17.1	41%	12.1	17.1	41%
Other&eliminations	-6.2	-7.8	24%	-5.6	-6.2	11%	-5.7	-7.1	24%
PTP	53.1	54.6	3%	41.3	42.8	4%	43.6	45.6	5%
EPS (adjusted)	0.27	0.28	6%	0.20	0.21	4%	0.21	0.22	5%
Dividend / share	0.16	0.16	0%	0.17	0.17	0%	0.18	0.18	0%

Source: Inderes

Valuation table

Valuation	2017	2018	2019	2020	2021	2022e	2023e	2024e	2025e
Market cap	256	216	359	361	486	490	490	490	490
EV	281	222	385	395	513	535	534	527	527
P/E (adj.)	13.8	26.8	18.4	70.3	14.1	10.9	14.6	13.8	15.0
P/E	16.9	26.8	25.7	70.3	14.1	10.9	14.6	13.8	15.0
P/FCF	11.1	5.9	neg.	neg.	8.5	21.9	15.6	12.2	14.5
P/B	2.0	1.8	2.8	3.2	3.9	3.3	3.1	3.0	2.9
P/S	7.4	6.5	7.3	8.4	9.2	6.3	6.3	5.8	5.7
EV/Sales	8.1	6.6	7.9	9.2	9.7	6.9	6.9	6.2	6.1
EV/EBITDA	12.3	16.6	15.4	28.7	11.1	8.7	11.1	10.3	10.8
EV/EBIT (adj.)	12.2	18.6	15.4	32.0	11.5	8.9	11.3	10.6	11.2
Payout ratio (%)	105.9 %	219.0 %	141.7 %	424.1 %	68.5 %	56.5 %	80.3 %	80.6 %	92.5 %
Dividend yield %	6.3 %	8.2 %	5.5 %	6.0 %	4.8 %	5.2 %	5.5 %	5.9 %	6.2 %

Source: Inderes



Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company	MEUR	MEUR	2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e	2022e
Alexandria	77	61	6.7	5.7	5.3	4.7	1.4	1.2	11.6	10.5	8.3	9.0	2.6
Aktia	703	703	8.4	6.7	8.4	6.7	2.7	2.3	10.5	9.1	5.8	7.2	0.9
EAB Group	46	45	11.1	7.6	7.1	5.7	1.9	1.6	14.9	10.0	4.6	4.9	1.9
eQ	923	865	16.8	14.5	16.5	14.3	10.2	9.0	22.6	19.6	4.6	5.3	10.8
Evli	443	413	11.7	10.0	10.3	9.0	4.5	4.0	18.3	15.7	7.9	8.2	5.0
Taaleri	303	237	7.2	6.6	7.0	6.5	3.5	3.3	12.2	12.0	9.7	9.9	1.4
Titanium	144	124	7.3	6.5	7.0	6.3	4.4	3.9	10.5	9.5	8.1	8.8	5.0
United Bankers	142	129	10.2	8.1	8.8	7.1	3.0	2.6	15.0	12.4	6.0	6.4	3.0
CapMan (Inderes)	490	535	8.9	11.3	8.7	11.1	6.9	6.9	10.9	14.6	5.2	5.5	3.3
Average			9.9	8.2	8.8	7.5	3.9	3.5	14.4	12.4	6.9	7.5	3.8
Median			9.3	7.1	7.7	6.6	3.2	2.9	13.5	11.3	7.0	7.7	2.8
Diff-% to median			-4%	59%	12%	68%	112%	135%	-19%	29%	-26%	-28%	19%

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

Income statement

Income statement	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22	Q2'22	Q3'22e	Q4'22e	2022e	2023e	2024e	2025e
Revenue	43.0	11.3	11.9	14.9	14.7	52.8	14.2	17.7	18.2	27.8	77.9	77.4	84.5	85.7
Management Company business	30.9	9.0	9.9	12.9	11.8	43.6	11.7	14.5	15.9	24.8	66.9	66.0	72.2	72.7
Services business	11.4	2.3	2.0	1.9	2.4	8.6	2.5	3.2	2.3	2.5	10.5	10.9	11.8	12.5
Investment business	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
Others	0.7	0.0	0.0	0.0	0.5	0.5	0.0	0.0	0.0	0.5	0.5	0.5	0.5	0.5
EBITDA	13.7	10.5	11.7	11.3	12.6	46.1	19.2	14.5	7.6	20.4	61.7	48.3	51.4	48.8
Depreciation	-1.4	-0.4	-0.4	-0.4	-0.4	-1.5	-0.4	-0.4	-0.4	-0.4	-1.5	-1.2	-1.4	-1.6
EBIT (excl. NRI)	12.3	10.1	11.4	10.9	12.2	44.6	18.9	14.1	7.2	20.0	60.2	47.2	50.0	47.2
EBIT	12.3	10.1	11.4	10.9	12.2	44.6	18.9	14.1	7.24	20.0	60.2	47.2	50.0	47.2
Management Company business	9.1	2.5	2.4	5.1	3.2	13.2	4.4	6.1	7.7	15.7	33.8	30.4	33.7	31.2
Services business	5.0	1.2	0.7	1.1	1.2	4.2	1.4	1.7	1.2	1.2	5.5	5.9	6.3	6.5
Investment business	4.0	7.9	9.4	5.9	9.6	32.7	14.5	9.6	-0.2	4.8	28.7	17.1	17.1	17.1
Others	-5.7	-1.4	-1.2	-1.1	-1.7	-5.4	-1.4	-3.3	-1.5	-1.7	-7.8	-6.2	-7.1	-7.6
Net financial items	-3.1	-0.9	-1.3	-0.8	-1.1	-4.0	-2.6	-1.1	-1.0	-1.0	-5.7	-4.4	-4.3	-4.3
PTP	9.2	9.3	10.1	10.2	11.1	40.6	16.3	13.0	6.24	19.0	54.6	42.8	45.6	42.9
Taxes	-2.9	-1.5	-1.2	-0.7	-1.7	-5.2	-2.9	-1.2	-1.5	-3.1	-8.6	-7.5	-8.2	-8.2
Minority interest	-1.1	-0.3	0.0	-0.4	-0.3	-1.0	-0.1	-0.2	-0.4	-0.4	-1.1	-1.6	-1.7	-1.8
Net earnings	5.1	7.5	8.8	9.0	9.0	34.3	13.3	11.6	4.4	15.6	44.9	33.7	35.7	33.0
EPS (adj.)	0.03	0.05	0.06	0.06	0.06	0.22	0.08	0.07	0.03	0.10	0.28	0.21	0.22	0.21
EPS (rep.)	0.03	0.05	0.06	0.06	0.06	0.22	0.08	0.07	0.03	0.10	0.28	0.21	0.22	0.21

Key figures	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22	Q2'22	Q3'22e	Q4'22e	2022e	2023e	2024e	2025e
Revenue growth-%	-12.2 %	-5.3 %	36.4 %	66.0 %	10.1 %	22.8 %	25.7 %	48.8 %	22.4 %	89.0 %	47.6 %	-0.6 %	9.1 %	1.5 %
Adjusted EBIT growth-%	-50.6 %	-269.4 %	174.4 %	144.8 %		261.8 %	86.1 %	24.2 %	-33.6 %	63.6 %	35.0 %	-21.7 %	5.9 %	-5.5 %
EBITDA-%	31.9 %	92.8 %	98.6 %	75.8 %	85.8 %	87.4 %	135.3 %	82.2 %	41.7 %	73.3 %	79.2 %	62.4 %	60.8 %	56.9 %
Adjusted EBIT-%	28.7 %	89.6 %	95.6 %	73.3 %	83.2 %	84.6 %	132.7 %	79.8 %	39.8 %	72.0 %	77.3 %	60.9 %	59.1 %	55.1 %
Net earnings-%	12.0 %	65.9 %	74.3 %	60.5 %	61.4 %	65.0 %	93.7 %	65.8 %	23.9 %	56.0 %	57.6 %	43.5 %	42.2 %	38.5 %

Source: Inderes

Balance sheet

Assets	2020	2021	2022e	2023e	2024e
Non-current assets	138	150	190	197	198
Goodwill	15.3	15.3	15.3	22.3	22.3
Intangible assets	0.7	0.5	0.6	0.8	0.9
Tangible assets	2.6	1.8	1.8	2.1	2.2
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	117	130	170	170	170
Other non-current assets	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	2.4	1.8	1.8	1.8	1.8
Current assets	81.1	90.5	93.5	92.9	101
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	23.1	25.3	31.2	31.0	33.8
Cash and equivalents	58.0	65.2	62.3	61.9	67.6
Balance sheet total	219	240	283	290	299

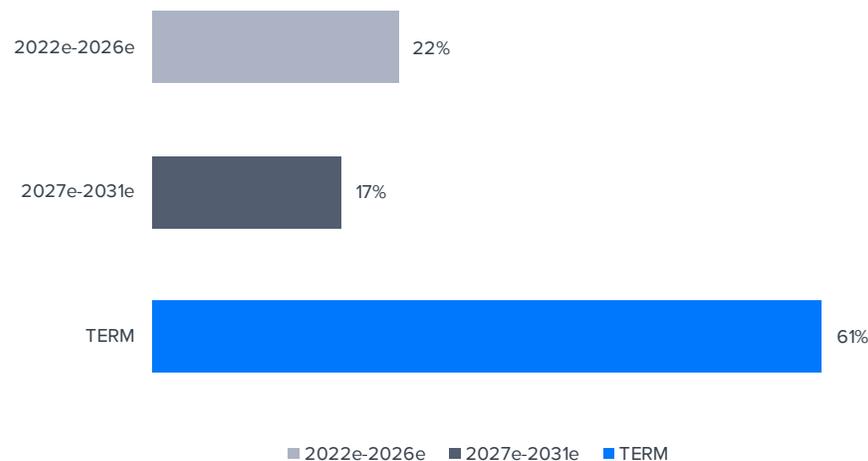
Source: Inderes

Liabilities & equity	2020	2021	2022e	2023e	2024e
Equity	113	127	149	157	166
Share capital	0.8	0.8	0.8	0.8	0.8
Retained earnings	1.6	33.6	55.0	63.3	72.0
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	39.0	39.0	39.0	39.0	39.0
Other equity	71.2	52.4	52.4	52.4	52.4
Minorities	0.7	1.6	1.6	1.6	1.6
Non-current liabilities	92.3	94.2	109	108	105
Deferred tax liabilities	2.7	4.6	4.6	4.6	4.6
Provisions	0.0	0.0	0.0	0.0	0.0
Long term debt	82.6	82.0	97.2	96.0	92.6
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	6.9	7.6	7.6	7.6	7.6
Current liabilities	13.3	18.7	25.2	24.9	28.5
Short term debt	0.9	1.0	0.8	0.8	2.2
Payables	11.1	16.7	23.4	23.2	25.3
Other current liabilities	1.3	1.0	1.0	1.0	1.0
Balance sheet total	219	240	283	290	299

DCF calculation

DCF model	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	TERM
EBIT (operating profit)	44.6	60.2	47.2	50.0	47.2	45.0	42.1	43.8	45.1	46.5	47.6	
+ Depreciation	1.5	1.5	1.2	1.4	1.6	1.6	1.7	1.7	1.7	1.7	1.7	
- Paid taxes	-2.7	-8.6	-7.5	-8.2	-8.2	-7.7	-7.1	-7.4	-7.7	-8.0	-8.6	
- Tax, financial expenses	-0.5	-0.9	-0.8	-0.8	-0.8	-0.8	-0.9	-0.9	-0.9	-0.9	-0.9	
+ 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	3.1	0.8	0.0	-0.7	-4.4	-0.6	-0.5	-0.6	-0.4	-0.5	-0.4	
Operating cash flow	46.0	53.0	40.1	41.7	35.4	37.4	35.3	36.6	37.8	38.9	39.4	
+ Change in other long-term liabilities	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-14.2	-41.6	-8.7	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	-1.6	
Free operating cash flow	32.5	11.4	31.4	40.0	33.7	35.7	33.6	34.9	36.1	37.2	37.9	
+/- Other	24.7	11.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	57.2	22.4	31.4	40.0	33.7	35.7	33.6	34.9	36.1	37.2	37.9	743
Discounted FCFF		21.7	28.3	33.4	26.1	25.8	22.4	21.7	20.8	19.9	18.8	369
Sum of FCFF present value		608	586	558	525	499	473	450	429	408	388	369
Enterprise value DCF		608										
- Interesting bearing debt		-83.0										
+ Cash and cash equivalents		65.2										
-Minorities		-10.0										
-Dividend/capital return		-23.5										
Equity value DCF		557										
Equity value DCF per share		3.5										

Cash flow distribution



Wacc

Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E))	10.0 %
Cost of debt	4.0 %
Equity Beta	1.10
Market risk premium	4.75%
Liquidity premium	1.00%
Risk free interest rate	2.0 %
Cost of equity	8.2 %
Weighted average cost of capital (WACC)	7.7 %

Source: Inderes

Summary

Income statement	2019	2020	2021	2022e	2023e	Per share data	2019	2020	2021	2022e	2023e
Revenue	49.0	43.0	52.8	77.9	77.4	EPS (reported)	0.09	0.03	0.22	0.28	0.21
EBITDA	25.0	13.7	46.1	61.7	48.3	EPS (adj.)	0.13	0.03	0.22	0.28	0.21
EBIT	19.4	12.3	44.6	60.2	47.2	OCF / share	0.14	-0.05	0.29	0.33	0.25
PTP	17.6	9.2	40.6	54.6	42.8	FCF / share	-0.03	-0.01	0.37	0.14	0.20
Net Income	14.0	5.1	34.3	44.9	33.7	Book value / share	0.84	0.72	0.80	0.93	0.98
Extraordinary items	-5.6	0.0	0.0	0.0	0.0	Dividend / share	0.13	0.14	0.15	0.16	0.17
Balance sheet	2019	2020	2021	2022e	2023e	Growth and profitability	2019	2020	2021	2022e	2023e
Balance sheet total	216.5	218.8	240.3	283.4	290.3	Revenue growth-%	46%	-12%	23%	48%	-1%
Equity capital	129.5	113.3	127.4	148.8	157.1	EBITDA growth-%	87%	-45%	236%	34%	-22%
Goodwill	15.3	15.3	15.3	15.3	22.3	EBIT (adj.) growth-%	109%	-51%	262%	35%	-22%
Net debt	16.4	25.5	17.8	35.7	34.9	EPS (adj.) growth-%	135%	-74%	564%	29%	-25%
Cash flow	2019	2020	2021	2022e	2023e	EBITDA-%	51.1 %	31.9 %	87.4 %	79.2 %	62.4 %
EBITDA	25.0	13.7	46.1	61.7	48.3	EBIT (adj.)-%	51.0 %	28.7 %	84.6 %	77.3 %	60.9 %
Change in working capital	4.5	-19.4	3.1	0.8	0.0	EBIT-%	39.6 %	28.7 %	84.6 %	77.3 %	60.9 %
Operating cash flow	20.8	-7.4	46.0	53.0	40.1	ROE-%	11.3 %	4.3 %	28.8 %	32.9 %	22.3 %
CAPEX	-27.1	16.5	-14.2	-41.6	-8.7	ROI-%	10.5 %	6.4 %	21.9 %	26.4 %	18.8 %
Free cash flow	-4.0	-1.2	57.2	22.4	31.4	Equity ratio	59.8 %	51.8 %	53.0 %	52.5 %	54.1 %
Valuation multiples	2019	2020	2021	2022e	2023e	Gearing	12.6 %	22.5 %	14.0 %	24.0 %	22.2 %
EV/S	7.9	9.2	9.7	6.9	6.9						
EV/EBITDA (adj.)	15.4	28.7	11.1	8.7	11.1						
EV/EBIT (adj.)	15.4	32.0	11.5	8.9	11.4						
P/E (adj.)	18.4	70.3	14.1	10.9	14.6						
P/E	2.8	3.2	3.9	3.3	3.2						
Dividend-%	5.5 %	6.0 %	4.8 %	5.2 %	5.5 %						

Source: Inderes

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Accumulate	The 12-month risk-adjusted expected shareholder return of the share is attractive
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
09-08-19	Buy	2.00 €	1.75 €
26-09-19	Accumulate	2.00 €	1.87 €
01-11-19	Reduce	2.10 €	2.06 €
31-01-20	Buy	2.75 €	2.48 €
20-03-20	Buy	2.00 €	1.52 €
07-04-20	Accumulate	1.90 €	1.70 €
24-04-20	Accumulate	1.90 €	1.76 €
07-08-20	Accumulate	2.10 €	1.96 €
30-10-20	Accumulate	2.10 €	1.93 €
05-02-21	Accumulate	2.80 €	2.63 €
22-02-21	Accumulate	2.80 €	2.68 €
30-04-21	Accumulate	3.00 €	2.78 €
06-08-21	Accumulate	3.30 €	3.04 €
28-10-21	Accumulate	3.30 €	2.98 €
05-01-22	Accumulate	3.30 €	3.10 €
04-02-22	Accumulate	3.30 €	3.00 €
21-03-22	Accumulate	3.10 €	2.81 €
29-04-22	Buy	3.10 €	2.62 €
05-08-22	Accumulate	3.30 €	3.09 €



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