

Aiforia Technologies

Company report

12/7/2023



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Inderes corporate customer

This report is a summary translation of the report “Potentiaali houkuttelee palaamaan” published on 12/7/2023 at 9:10 am EET.

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Potential tempts to get back on board

We lower our target price to EUR 4.2 (was 4.5) and raise our recommendation to Accumulate (was Reduce). We still see clear potential for Aiforia to grow into one of the long-term winners in its market, although weak growth predictability and elevated financing risks argue for caution in pricing the potential. The expansion of the use of the company's software in its customer base seems to be taking time and we cut our growth forecasts slightly. However, we believe that the decline in the share price (-24%) since our last report compensated sufficiently for the cuts, and at the current price we see the company's value creation potential outweighing the risks.

Aiforia takes steps towards a strong position in a young but very attractive market

Aiforia's image recognition software is designed to provide faster, more efficient and precise analysis of pathological samples. The company already has a global customer base in medical research. The software has been rolled out to a much larger clinical customer base since the end of 2021. This market is emerging and Aiforia's competitive position looks good in light of the significant reference customers it has won (e.g. Mayo Clinic, NHS, Veneto). We see the company as having a strong initial position in the clinical market and promising potential to grow there to a significant size. With a strong healthcare customer base and high margins on the software, we see the market as very attractive. However, the visibility on the formation speed of the young market and the rate at which clinical players adopt AI solutions is so far weak.

Strong scalable growth still on the horizon, although it will take time to ramp up customers

The ramp-up of the already won clinical customers, which are important for Aiforia's growth, continues to progress well, but we believe at a slower pace than our previous expectations. The company's main customer, Mayo Clinic, still has only one AI model in clinical use (Ki-67). For clients using ready-to-use models, roll-outs are progressing as expected (in Veneto and the first NHS hospital, models are estimated to be in place/going live). However, since the new EU regulation (CE-IVDR, 5/2022), Aiforia has not been able to get model approvals through due to a backlog of external notified body approvals. This in turn slows down certain customer expansions. For these reasons, we lowered our revenue forecasts by around 5-25% and earnings forecasts by around 0-30% for the coming years. Still, we expect Aiforia's growth to accelerate further between 2024 and 2027, with annual revenue growth expected to be a very strong 46-87% and EBIT margins to strengthen from a clearly loss-making investment phase to -5% in 2027. For 2030 we estimate a revenue of EUR 81 million (target: >100 MEUR ~2030). Our estimates require the company to gain a position among the winners of the clinical market. The financing of the company is not sufficient to cover the loss-making phase and we would see the raising of additional funding of around EUR 20 million at the beginning of 2025 at the latest as a sensible step. The forecast risks are very high, as it is not yet possible to obtain clear evidence of the company's growth rate.

Despite the clear risks, we believe that the valuation again justifies further purchases

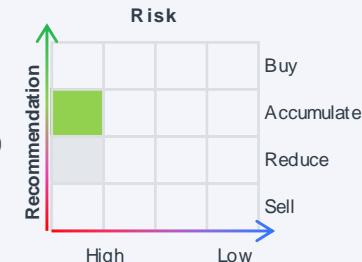
Aiforia's valuation (23-24e EV/S 30-19x, 25-26e 12-7x) relies on expectations of very strong and scalable growth. With methods that price growth at various rates and confidence intervals we can justify the company's value at a wide range of EUR 0.9-7.7 per share (previous EUR 0.9-7.5). Our confidence in the company's long-term growth is strong in the light of the evidence received. Risks are raised by the uncertainty of the growth rate and the need for additional financing, which we estimate the company will need by early 2025 at the latest. Supported by the company's good track record, we estimate that the dilution in a potential share issue would still be reasonable. As growth continues to strengthen, we see an attractive risk/return ratio at current share price.

Recommendation

Accumulate
(previous Reduce)

EUR 4.20
(previous EUR 4.50)

Share price:
3.45



Key figures

	2022	2023e	2024e	2025e
Revenue	1.9	2.7	5.1	9.0
growth-%	92%	46%	87%	75%
EBIT adj.	-10.2	-12.1	-12.0	-10.6
EBIT-% adj.	-546.2 %	-441.0 %	-235.3 %	-118.4 %
Net Income	-10.6	-12.2	-12.2	-10.9
EPS (adj.)	-0.41	-0.47	-0.46	-0.40

P/E (adj.)	neg.	neg.	neg.	neg.
P/B	2.8	5.3	16.3	neg.
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %
EV/EBIT (adj.)	neg.	neg.	neg.	neg.
EV/EBITDA	neg.	neg.	neg.	neg.
EV/S	32.9	30.3	19.1	12.2

Source: Inderes

Guidance

(Unchanged)

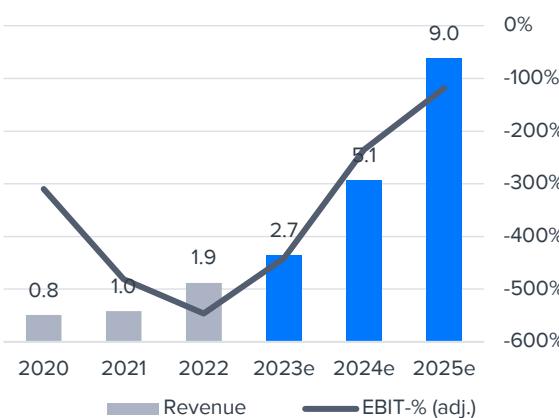
The company has not issued a financial guidance for 2023.

Share price



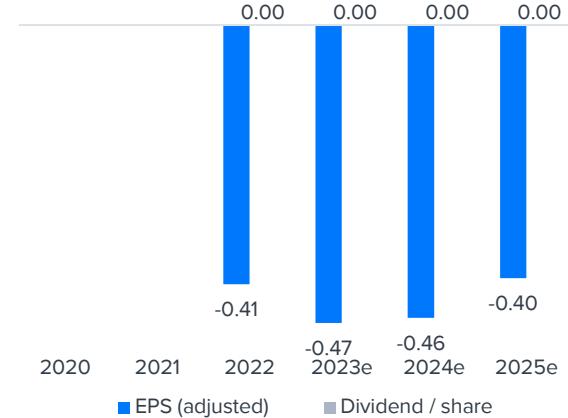
Source: Millistream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Significant market potential in increasing automation in pathology
- Early evidence of the product's competitiveness
- Plenty of room for growth especially increasing the number of sample types supported by clinical customers and technology
- SaaS business model provides continuity and scalability as growth is successful
- Aiforia's attractiveness as an acquisition target in a highly valued sector



Risk factors

- The business is only being built and the company's valuation virtually relies on future promises
- Falling behind ambitious objectives and drop in valuation that relies on successful strong growth
- Slower than expected progress in the implementation of new technology in a conservative industry, tightening regulations
- Competing technologies, changes in the company's position in the value chain of digital pathology, key personnel risks
- Data breach including personal health data
- Cash flow still strongly negative, which increases financing risk

Valuation	2023e	2024e	2025e
Share price	3.45	3.45	3.45
Number of shares, millions	26.0	26.4	27.2
Market cap	90	91	94
EV	83	98	110
P/E (adj.)	neg.	neg.	neg.
P/E	neg.	neg.	neg.
P/B	5.3	16.3	neg.
P/S	32.7	17.8	10.5
EV/Sales	30.3	19.1	12.2
EV/EBITDA	neg.	neg.	neg.
EV/EBIT (adj.)	neg.	neg.	neg.
Payout ratio (%)	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes

Growth expectations lowered for the coming years

Estimate revisions

- We lowered our revenue forecasts for the coming years, as the progress of Aiforia's software deployments looks slower than our previous expectations in the short term. In particular, the slower-than-expected pace of Mayo Clinic ramp-up and the backlog of the notified bodies performing CE-IVDR approvals will slow down the expansion in customers using ready-to-use models in the coming years.
- We made several revisions to Aiforia's cost forecasts. However, the decline in profitability forecasts was mainly due to the revenue cut. Due to the high gross margin on sales, this trickles down to profitability.
- We also revised our assumptions on option subscriptions and lowered our forecasts for share volume growth. As a result, forecasts of loss per share increased more than the decline in absolute earnings forecasts.
- Our long-term forecasts (2026-) changed more moderately, as we expect the ramp-up of Aiforia customers to continue to accelerate as getting approvals for ready-to-use models inevitably progresses in due course.

Estimate revisions	2023e	2023e	Change	2024e	2024e	Change	2025e	2025e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	2.7	2.7	0%	5.6	5.1	-8%	11.7	9.0	-24%
EBITDA	-9.0	-9.0	0%	-7.3	-7.6	-5%	-3.5	-4.3	-24%
EBIT (exc. NRIs)	-12.1	-12.1	0%	-12.4	-12.0	3%	-9.8	-10.6	-9%
EBIT	-12.1	-12.1	0%	-12.4	-12.0	3%	-9.8	-10.6	-9%
PTP	-12.2	-12.2	0%	-12.6	-12.2	3%	-10.1	-10.9	-9%
EPS (excl. NRIs)	-0.46	-0.47	-2%	-0.44	-0.46	-5%	-0.30	-0.40	-31%
DPS	0.00	0.00		0.00	0.00		0.00	0.00	

Source: Inderes

Valuation in graphs

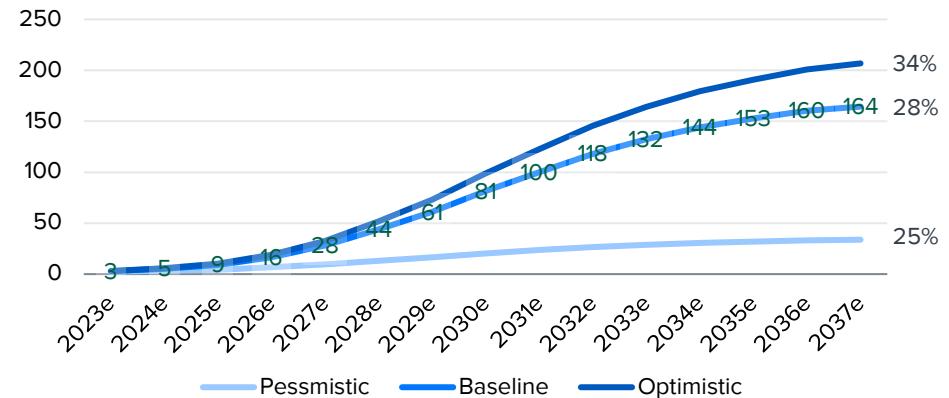
Estimated future valuation ranges,
2024e and 2027e

2024e, MEUR	Low	High
Revenue	5.1	5.1
EV/S, LTM	20	30
EV/S, NTM	11.4	17.1
EV	102	153
Net cash	-7	-7
Market cap	96	147
Per share	3.6	5.6
Per share currently	3.1	4.8

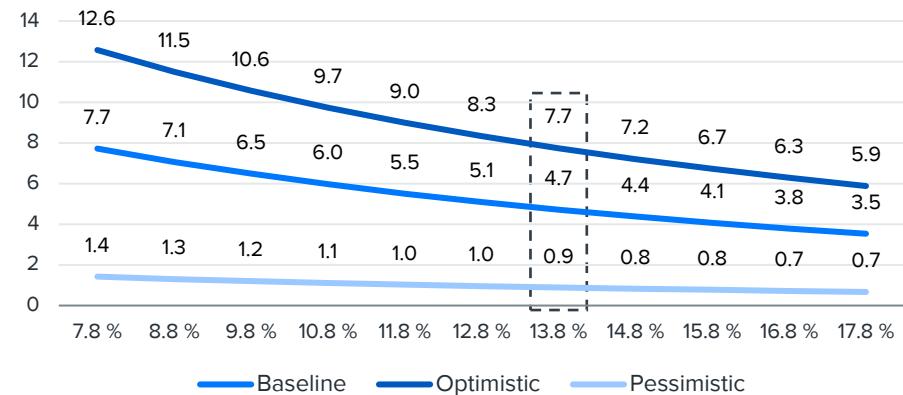
2027e, MEUR	Low	High
Revenue	27.9	27.9
EV/S, LTM	8	12
EV/S, NTM	5.1	7.6
EV	223	335
Net cash	-24	-24
Market cap	199	311
Per share	7.2	11.3
Per share currently	4.2	6.6

Source: Inderes
NTM = next 12 months
LTM = last 12 months

Revenue development and terminal EBIT % of DCF scenarios
MEUR and % of revenue



Sensitivity of the DCF value to the required return,
EUR per share, WACC-%

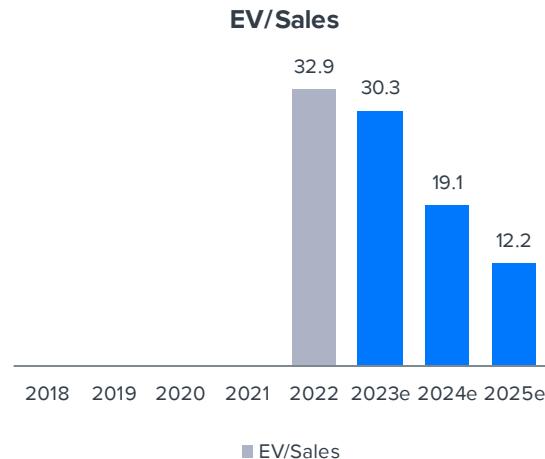


Source: Inderes

Valuation table

Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price				5.22	3.23	3.45	3.45	3.45	3.45
Number of shares, millions				25.8	25.8	26.0	26.4	27.2	27.5
Market cap				135	83	90	91	94	95
EV				99	61	83	98	110	119
P/E (adj.)				neg.	neg.	neg.	neg.	neg.	neg.
P/E				neg.	neg.	neg.	neg.	neg.	neg.
P/B				3.6	2.8	5.3	16.3	neg.	neg.
P/S				>100	44.7	32.7	17.8	10.5	5.7
EV/Sales					32.9	30.3	19.1	12.2	7.2
EV/EBITDA					neg.	neg.	neg.	neg.	neg.
EV/EBIT (adj.)					neg.	neg.	neg.	neg.	neg.
Payout ratio (%)				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 %

Source: Inderes



Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		Revenue growth-%		EBIT-%		Rule of 40
			MEUR	MEUR	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	
Sectra AB	2354	2289	57.5	52.2	50.7	43.1	11.1	9.7	23%	14%	19%	19%	33%
ContextVision AB	52	47	10.9	11.5	9.2	8.5	3.9	3.7	19%	5%	36%	32%	37%
Roche Holding AG	216829	241054	11.6	10.8	9.9	9.3	3.8	3.6	-6%	4%	33%	34%	38%
INIFY Laboratories AB									0%	0%	0%	0%	0%
Feedback PLC	11	3					2.3	1.5	67%	48%	-428%	-213%	-165%
PainChek Ltd	37	35					10.0	6.7	93%	50%	-59%	-22%	28%
Renalytix PLC	20	8					2.3	1.3	-9%	72%			-531%
Diagnos Inc	23	25					61.3	24.5	20%	150%			
CellaVision AB	356	356	27.3	20.3	21.5	16.9	6.2	5.4	-3%	15%	23%	27%	42%
RaySearch Laboratories AB	299	317	29.1	20.2	8.8	7.4	3.5	3.2	26%	11%	12%	16%	27%
Aiforia Technologies Oyj (Inderes)	90	83	-6.9	-8.1	-9.3	-12.8	30.3	19.1	46%	87%	-441%	-235%	-148%
Average			27.3	23.0	20.0	17.0	11.6	6.6	23%	37%	-46%	-71%	
Median	36.8	35.3	27.3	20.2	9.9	9.3	3.9	3.7	20%	15%	16%	16%	35%
Diff-% to median	143%	135%	-125%	-140%	-194%	-238%	678%	415%	138%	499%			-524%

Source: Refinitiv / Inderes

Income statement

Income statement	H1'21	H2'21	2021	H1'22	H2'22	2022	H1'23	H2'23e	2023e	2024e	2025e	2026e
Revenue	0.4	0.5	1.0	0.7	1.1	1.9	0.9	1.8	2.7	5.1	9.0	16.5
EBITDA	-1.3	-2.2	-3.5	-3.5	-4.6	-8.1	-4.9	-4.1	-9.0	-7.6	-4.3	-1.3
Depreciation	-0.6	-0.7	-1.2	-0.9	-1.2	-2.1	-1.3	-1.7	-3.1	-4.4	-6.3	-7.4
EBIT (excl. NRI)	-1.9	-2.8	-4.7	-4.4	-5.8	-10.2	-6.2	-5.9	-12.1	-12.0	-10.6	-8.6
EBIT	-1.9	-2.8	-4.7	-4.4	-5.8	-10.2	-6.2	-5.9	-12.1	-12.0	-10.6	-8.6
Net financial items	-0.5	-2.4	-2.9	0.0	-0.4	-0.4	-0.1	-0.1	-0.2	-0.2	-0.3	-0.3
PTP	-2.3	-5.2	-7.6	-4.4	-6.2	-10.6	-6.3	-6.0	-12.2	-12.2	-10.9	-8.9
Taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net earnings	-2.3	-5.2	-7.6	-4.4	-6.2	-10.6	-6.3	-6.0	-12.2	-12.2	-10.9	-8.9
EPS (adj.)				-0.17	-0.24	-0.41	-0.24	-0.23	-0.47	-0.46	-0.40	-0.32
EPS (rep.)				-0.17	-0.24	-0.41	-0.24	-0.23	-0.47	-0.46	-0.40	-0.32
Key figures	H1'21	H2'21	2021	H1'22	H2'22	2022	H1'23	H2'23e	2023e	2024e	2025e	2026e
Revenue growth-%	-4.3 %		14.7 %	72.1 %	107.1 %	91.8 %	25.5 %	60.0 %	46.5 %	86.9 %	75.3 %	83.9 %
Adjusted EBIT growth-%	53.7 %		78.1 %	137.2 %	104.8 %	117.6 %	40.9 %	1.2 %	18.2 %	-0.3 %	-11.7 %	-18.8 %
EBITDA-%	-299.8 %	-396.5 %	-354.2 %	-479.1 %	-405.0 %	-434.1 %	-530.0 %	-227.8 %	-329.5 %	-148.8 %	-48.1 %	-7.6 %
Adjusted EBIT-%	-434.3 %	-518.1 %	-481.4 %	-598.8 %	-512.2 %	-546.2 %	-672.0 %	-323.9 %	-441.0 %	-235.3 %	-118.4 %	-52.3 %
Net earnings-%	-550.0 %	-954.7 %	-777.7 %	-597.6 %	-548.6 %	-567.8 %	-679.8 %	-330.0 %	-447.6 %	-239.2 %	-121.8 %	-54.1 %

Source: Inderes

Balance sheet

Assets	2021	2022	2023e	2024e	2025e
Non-current assets	4.8	9.1	12.7	15.4	16.4
Goodwill	0.0	0.0	0.0	0.0	0.0
Intangible assets	4.7	8.4	11.7	14.0	14.7
Tangible assets	0.1	0.5	1.0	1.4	1.7
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	0.0	0.1	0.0	0.0	0.0
Deferred tax assets	0.0	0.0	0.0	0.0	0.0
Current assets	39.1	26.3	13.5	4.1	2.0
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	1.0	1.6	1.4	1.5	2.0
Cash and equivalents	38.1	24.7	12.2	2.6	0.0
Balance sheet total	43.9	35.3	26.2	19.6	18.3

Source: Inderes

Liabilities & equity	2021	2022	2023e	2024e	2025e
Equity	37.8	29.3	17.0	5.6	-3.1
Share capital	0.1	0.1	0.1	0.1	0.1
Retained earnings	-17.7	-28.4	-40.6	-52.9	-63.8
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	55.5	57.6	57.6	58.3	60.5
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	2.7	2.2	5.7	9.4	14.4
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0
Interest bearing debt	2.7	2.2	5.7	9.4	14.4
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	0.0	0.0	0.0	0.0	0.0
Current liabilities	3.3	3.9	3.5	4.7	7.1
Interest bearing debt	0.2	0.5	0.0	0.0	1.3
Payables	2.4	2.0	2.2	3.3	4.5
Other current liabilities	0.7	1.3	1.3	1.3	1.3
Balance sheet total	43.9	35.3	26.2	19.6	18.3

DCF calculation

DCF model	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	2034e	2035e	2036e	2037e	TERM
Revenue growth-%	91.8 %	46.5 %	86.9 %	75.3 %	83.9 %	69.2 %	56.9 %	39.1 %	33.5 %	23.0 %	18.0 %	12.0 %	9.0 %	6.0 %	5.0 %	2.5 %	
EBIT-%	-546.2 %	-441.0 %	-235.3 %	-118.4 %	-52.3 %	-4.8 %	11.6 %	19.8 %	24.6 %	29.0 %	34.0 %	32.0 %	30.0 %	28.0 %	28.0 %	28.0 %	
EBIT (operating profit)	-10.2	-12.1	-12.0	-10.6	-8.6	-1.3	5.1	12.1	20.0	29.0	40.1	42.3	43.2	42.8	44.9	46.0	
+ Depreciation	2.1	3.2	4.4	6.3	7.4	8.0	9.0	10.1	11.1	11.3	11.4	11.4	11.4	11.4	11.4	11.4	
- Paid taxes	0.0	0.0	0.0	0.0	0.0	0.0	1.0	1.8	2.0	1.4	-6.2	-8.4	-8.6	-8.5	-8.9	-9.2	
- Tax, financial expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	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	0.0	0.0	0.0	0.0	0.0	
- Change in working capital	-0.3	0.4	1.0	0.7	1.1	2.0	3.2	3.4	4.1	3.7	3.6	2.8	2.4	1.7	1.5	0.8	
Operating cash flow	-8.5	-8.5	-6.6	-3.6	-0.1	8.6	18.2	27.4	37.2	45.5	48.9	48.1	48.4	47.3	48.9	49.0	
+ Change in other long-term liabilities	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	0.0	0.0	
- Gross CAPEX	-6.4	-6.8	-7.2	-7.2	-7.9	-8.6	-9.4	-10.3	-11.3	-11.3	-11.4	-11.4	-11.4	-11.4	-11.4	-11.2	
Free operating cash flow	-14.8	-15.3	-13.8	-10.8	-8.0	0.0	8.8	17.1	25.9	34.2	37.5	36.7	37.0	36.0	37.5	37.8	
+/- Other	2.1	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	0.0	
FCFF	-12.7	-15.3	-13.8	-10.8	-8.0	0.0	8.8	17.1	25.9	34.2	37.5	36.7	37.0	36.0	37.5	37.8	
Discounted FCFF	-15.2	-12.1	-8.3	-5.4	0.0	4.6	7.8	10.4	12.0	11.6	10.0	8.8	7.5	6.9	6.1	55.5	
Sum of FCFF present value	100	116	128	136	141	141	137	129	119	107	94.9	84.9	76.1	68.6	61.7	55.5	
Enterprise value DCF	100																
- Interest bearing debt	-2.7																
+ Cash and cash equivalents	24.7																
-Minorities	0.0																
-Dividend/capital return	0.0																
Equity value DCF	122																
Equity value DCF per share	4.7																

Cash flow distribution

2023e-2027e

-41%



2033e- ja TERM



■ 2023e-2027e ■ 2028e-2032e ■ 2033e- ja TERM

Source: Inderes

WACC

Tax-% (WACC)	20.0 %	2028e-2032e
Target debt ratio (D/(D+E))	5.0 %	
Cost of debt	6.0 %	
Equity Beta	1.85	
Market risk premium	4.75%	2033e- ja TERM
Liquidity premium	3.00%	
Risk free interest rate	2.5 %	
Cost of equity	14.3 %	
Weighted average cost of capital (WACC)	13.8 %	

Summary

Income statement	2020	2021	2022	2023e	2024e	Per share data	2020	2021	2022	2023e	2024e	
Revenue	0.8	1.0	1.9	2.7	5.1	EPS (reported)				-0.41	-0.47	-0.46
EBITDA	-1.6	-3.5	-8.1	-8.9	-7.6	EPS (adj.)				-0.41	-0.47	-0.46
EBIT	-2.6	-4.7	-10.2	-12.1	-12.0	OCF / share				-0.33	-0.33	-0.25
PTP	-2.8	-7.6	-10.6	-12.2	-12.2	FCF / share				-0.49	-0.59	-0.53
Net Income	-2.8	-7.6	-10.6	-12.2	-12.2	Book value / share				1.13	0.66	0.21
Extraordinary items	0.0	0.0	0.0	0.0	0.0	Dividend / share				0.00	0.00	0.00
Balance sheet	2020	2021	2022	2023e	2024e	Growth and profitability	2020	2021	2022	2023e	2024e	
Balance sheet total	5.3	43.9	35.3	26.2	19.6	Revenue growth-%	33%	15%	92%	46%	87%	
Equity capital	0.9	37.8	29.3	17.0	5.6	EBITDA growth-%	-25%	114%	135%	10%	-14%	
Goodwill	0.0	0.0	0.0	0.0	0.0	EBIT (adj.) growth-%	-13%	78%	118%	18%	0%	
Net debt	1.3	-35.2	-22.0	-6.5	6.8	EPS (adj.) growth-%				15%	-2%	
Cash flow	2020	2021	2022	2023e	2024e	EBITDA-%	-189.8 %	-354.2 %	-434.1 %	-324.8 %	-148.8 %	
EBITDA	-1.6	-3.5	-8.1	-8.9	-7.6	EBIT (adj.)-%	-310.1 %	-481.4 %	-546.2 %	-441.0 %	-235.3 %	
Change in working capital	-1.2	2.1	-0.3	0.4	1.0	EBIT-%	-310.1 %	-481.4 %	-546.2 %	-441.0 %	-235.3 %	
Operating cash flow	-2.8	-1.4	-8.5	-8.5	-6.6	ROE-%	-386.3 %	-39.1 %	-31.6 %	-52.9 %	-108.2 %	
CAPEX	-0.8	-3.8	-6.4	-6.8	-7.2	ROI-%	-77.0 %	-20.9 %	-28.1 %	-44.1 %	-64.0 %	
Free cash flow	-3.6	-5.2	-12.7	-15.3	-13.8	Equity ratio	16.8 %	86.3 %	82.9 %	65.0 %	28.5 %	
						Gearing	146.0 %	-93.0 %	-75.1 %	-38.3 %	121.4 %	
Valuation multiples	2020	2021	2022	2023e	2024e							
EV/S				32.9	30.3	19.1						
EV/EBITDA (adj.)				neg.	neg.	neg.						
EV/EBIT (adj.)				neg.	neg.	neg.						
P/E (adj.)				neg.	neg.	neg.						
P/B				2.8	5.3	16.3						
Dividend-%				0.0 %	0.0 %	0.0 %						

Source: Indères

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
6/24/2022	Sell	4.00 €	4.58 €
8/26/2022	Reduce	4.00 €	3.52 €
12/3/2022	Reduce	4.00 €	3.50 €
3/3/2023	Accumulate	4.80 €	4.15 €
8/28/2023	Reduce	4.50 €	4.54 €
12/7/2023	Accumulate	4.20 €	3.45 €



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