

# USU Software AG

Software - Germany



**Buy** (old: Buy)

25.08.2023

**EUR 30.00** (old: EUR 32.00)

## Q2 prelims: PW should offer buying opp.; chg.

**Topic:** USU published soft Q2 prelims, displaying a significant **sequential slowdown and growth as well as a margin decline in connection with one-off expenses**. On this basis, **management announced to cut the FY sales and EBITDA guidance while the mid-term guidance was confirmed**.

**Q2'23 sales are set to increase by 2.8% yoy to € 31.6m** (eNuW: 33.6m), as the strongly growing SaaS revenues (+25.1% yoy to € 4.2m; eNuW: € 4.0m) as well as the growth in consulting revenues (+13.8% to € 19.7; eNuW: € 19.5m) could not in full compensate for the strong decline in license sales, which came in at only € 0.8m (-75% yoy; eNuW: € 3.0m). Although a continuous slowdown in license revenues has been reflected in our model, due to the SaaS offensive, this steep decline came as a surprise which is mainly explained by prolonged sales cycles.

Based on this as well as increased costs in connection with AI projects in the Knowledge Management segment, the **EBITDA deteriorated and is seen to come in at only € 2.1m** (eNuW: € 4.2m), implying a 6.6% margin (Q1'22: 11.7%).

Against this backdrop, management decided to cut the FY guidance and is now expecting sales in the range of € 132-139m (old: € 134-139m) and an EBITDA of € 13-15m (€ 16.5-18.0m). However, **the mid-term target (until 2026) of 10% sales CAGR (organic), 25% SaaS CAGR and an EBITDA margin of 17-19% was confirmed**.

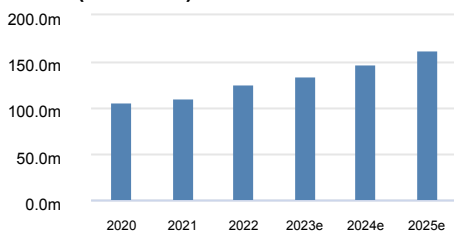
Although the profit warning might have caught investors off guard, after the company was unexceptionally delivering on their outlook in recent years, it should not be seen as a major push back to the story. Mind you, that the slowdown in license sales and the related margin decline was anticipated as the company aims for a higher share of SaaS deals (eNuW: +80% by 2026e), which provide lower initial revenues at a comparable cost base. On average, it takes roughly three years until the SaaS payments exceed the initial license and maintenance fee, thereby driving margins as there are hardly any incremental costs.

As shares came down heavily after the ad-hoc, valuation appears ever more undemanding, trading at only 19.6x PE '24e, a clear discount to the 2-year forward-looking average of 25.1x. **BUY** on weakness with a new **PT of € 30.00** (old: € 32.00) based on DCF.

Y/E 31.12 (EUR m)	2020	2021	2022	2023e	2024e	2025e
Sales	107.3	111.9	126.5	135.1	147.9	162.0
Sales growth	12.2%	4.3%	13.1%	6.8%	9.5%	9.5%
EBITDA	13.4	14.4	16.8	14.8	18.5	24.8
Net debt (if net cash=0)	-1.3	-7.5	0.6	2.3	1.1	-3.7
FCF	15.3	12.5	9.1	4.1	7.0	10.6
Net Debt/EBITDA	0.0	0.0	0.0	0.2	0.1	0.0
EPS pro forma	0.72	0.68	0.76	0.71	0.92	1.30
EBITDA margin	12.5%	12.9%	13.3%	10.9%	12.5%	15.3%
ROCE	9.3%	12.1%	14.5%	11.7%	16.0%	21.9%
EV/sales	1.9	2.4	1.5	1.4	1.3	1.2
EV/EBITDA	15.0	18.8	11.3	13.1	10.3	7.5
PER	24.9	26.4	23.6	25.4	19.6	13.8
Adjusted FCF yield	4.4%	3.4%	5.3%	4.9%	6.3%	8.8%

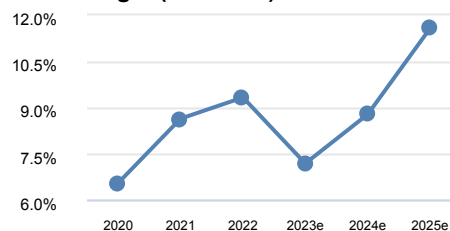
Source: Company data, NuWays, Close price as of 24.08.2023

### Sales (2020-25e)



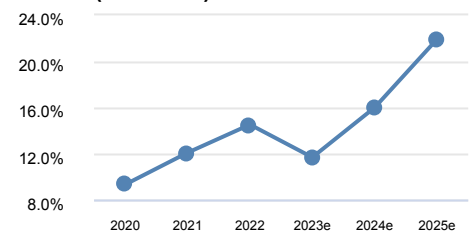
Source: NuWays Research

### EBIT margin (2020-25e)



Source: NuWays Research

### ROCE (2020-25e)



Source: NuWays Research

### Company description

USU Software is a leading provider of software and service solutions for IT and customer service management. The company offers solutions and services around the globe to companies in order for them to become more agile, cut costs, etc.



### Market data

Share price (in €)	18.00
Market cap (in € m)	189.4
Number of shares (in m pcs)	10.5
Enterprise value (in € m)	192.7
Ø trading volume (6 months)	5,292

### Identifier

Bloomberg	OSP2 GR
Reuters	OSPGK
WKN	A0BVU2
ISIN	DE000A0BVU28

### Key shareholders

AUSUM GmbH (Udo Strehl)	51.3%
MainFirst SICAV	4.7%
Peter Scheufler	4.7%
USU board (excl. Udo Strehl)	2.5%
Shares held in treasury	5.0%
Free Float	31.8%

### Estimates changes

	2023e	2024e	2025e
Sales	-2%	-2%	-2%
EBIT	-22%	-17%	-10%
EPS	-21%	-16%	-10%

### Comment on changes

- Estimates are cut following the re-release of the Q2 prelims.

### Guidance

- Sales: € 132-139m
- EBITDA: € 13-15m
- SaaS revenues: ≥ +25%

## Financials

Profit and loss (EUR m)	2020	2021	2022	2023e	2024e	2025e
<b>Sales</b>	<b>107.3</b>	<b>111.9</b>	<b>126.5</b>	<b>135.1</b>	<b>147.9</b>	<b>162.0</b>
Sales growth	12.2%	4.3%	13.1%	6.8%	9.5%	9.5%
Cost of sales	50.8	55.7	63.3	67.6	73.7	78.6
<b>Gross profit</b>	<b>56.5</b>	<b>56.2</b>	<b>63.2</b>	<b>67.6</b>	<b>74.3</b>	<b>83.4</b>
Sales and marketing	20.4	20.5	22.6	25.3	27.4	29.2
General and administration	14.3	10.2	11.7	13.5	13.8	14.3
Research and development	15.4	16.7	18.1	20.3	21.5	22.7
Other operating income	1.3	1.5	2.0	2.1	2.3	2.6
Other operating expenses	0.7	0.6	1.0	0.9	1.0	1.1
<b>Total operating expenses</b>	<b>49.5</b>	<b>46.5</b>	<b>51.4</b>	<b>57.9</b>	<b>61.3</b>	<b>64.7</b>
Unusual or infrequent items	0.0	0.0	0.0	0.0	0.0	0.0
<b>EBITDA</b>	<b>13.4</b>	<b>14.4</b>	<b>16.8</b>	<b>14.8</b>	<b>18.5</b>	<b>24.8</b>
Depreciation	1.4	1.2	1.1	1.1	1.1	1.1
<b>EBITA</b>	<b>12.0</b>	<b>13.2</b>	<b>15.7</b>	<b>13.7</b>	<b>17.4</b>	<b>23.7</b>
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	5.0	3.5	3.9	4.0	4.4	5.0
Impairment charges	0.0	0.0	0.0	0.0	0.0	0.0
<b>EBIT (inc revaluation net)</b>	<b>7.0</b>	<b>9.7</b>	<b>11.8</b>	<b>9.7</b>	<b>13.0</b>	<b>18.8</b>
Interest income	0.0	0.2	0.2	0.2	0.2	0.3
Interest expenses	0.3	0.1	0.1	0.1	0.2	0.2
Investment income	0.0	0.0	0.0	0.0	0.0	0.0
Financial result	-0.2	0.1	0.1	0.1	0.1	0.1
<b>Recurring pretax income from continuing operations</b>	<b>6.8</b>	<b>9.7</b>	<b>11.9</b>	<b>9.8</b>	<b>13.1</b>	<b>18.8</b>
Extraordinary income/loss	0.0	0.0	0.0	0.0	0.0	0.0
<b>Earnings before taxes</b>	<b>6.8</b>	<b>9.7</b>	<b>11.9</b>	<b>9.8</b>	<b>13.1</b>	<b>18.8</b>
Income tax expense	1.3	3.0	4.4	2.8	3.9	5.7
<b>Net income from continuing operations</b>	<b>5.5</b>	<b>6.8</b>	<b>7.5</b>	<b>6.9</b>	<b>9.1</b>	<b>13.2</b>
Income from discontinued operations (net of tax)	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net income</b>	<b>5.5</b>	<b>6.8</b>	<b>7.5</b>	<b>6.9</b>	<b>9.1</b>	<b>13.2</b>
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net profit (reported)</b>	<b>5.5</b>	<b>6.8</b>	<b>7.5</b>	<b>6.9</b>	<b>9.1</b>	<b>13.2</b>
Average number of shares	10.5	10.5	10.5	10.5	10.5	10.5
<b>EPS reported</b>	<b>0.52</b>	<b>0.64</b>	<b>0.71</b>	<b>0.66</b>	<b>0.87</b>	<b>1.25</b>

Profit and loss (common size)	2020	2021	2022	2023e	2024e	2025e
<b>Sales</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
Cost of sales	47.3%	49.8%	50.0%	50.0%	49.8%	48.5%
<b>Gross profit</b>	<b>52.7%</b>	<b>50.2%</b>	<b>50.0%</b>	<b>50.0%</b>	<b>50.2%</b>	<b>51.5%</b>
Sales and marketing	19.0%	18.4%	17.9%	18.7%	18.5%	18.0%
General and administration	13.3%	9.2%	9.3%	10.0%	9.3%	8.8%
Research and development	14.4%	14.9%	14.3%	15.0%	14.5%	14.0%
Other operating income	1.2%	1.4%	1.6%	1.6%	1.6%	1.6%
Other operating expenses	0.6%	0.5%	0.8%	0.7%	0.7%	0.7%
<b>Total operating expenses</b>	<b>46.1%</b>	<b>41.6%</b>	<b>40.6%</b>	<b>42.8%</b>	<b>41.4%</b>	<b>39.9%</b>
<b>EBITDA</b>	<b>12.5%</b>	<b>12.9%</b>	<b>13.3%</b>	<b>10.9%</b>	<b>12.5%</b>	<b>15.3%</b>
Depreciation	1.3%	1.1%	0.9%	0.8%	0.8%	0.7%
<b>EBITA</b>	<b>11.2%</b>	<b>11.8%</b>	<b>12.4%</b>	<b>10.1%</b>	<b>11.8%</b>	<b>14.6%</b>
Amortisation of goodwill	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Amortisation of intangible assets	4.6%	3.1%	3.1%	2.9%	3.0%	3.1%
Impairment charges	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>EBIT (inc revaluation net)</b>	<b>6.5%</b>	<b>8.6%</b>	<b>9.3%</b>	<b>7.2%</b>	<b>8.8%</b>	<b>11.6%</b>
Interest income	0.0%	0.2%	0.2%	0.2%	0.2%	0.2%
Interest expenses	0.3%	0.1%	0.1%	0.1%	0.1%	0.1%
Investment income	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Financial result	neg.	0.1%	0.1%	0.1%	0.1%	0.1%
<b>Recurring pretax income from continuing operations</b>	<b>6.3%</b>	<b>8.7%</b>	<b>9.4%</b>	<b>7.2%</b>	<b>8.8%</b>	<b>11.6%</b>
Extraordinary income/loss	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Earnings before taxes</b>	<b>6.3%</b>	<b>8.7%</b>	<b>9.4%</b>	<b>7.2%</b>	<b>8.8%</b>	<b>11.6%</b>
Tax rate	19.3%	30.5%	36.6%	29.0%	30.0%	30.0%
<b>Net income from continuing operations</b>	<b>5.1%</b>	<b>6.0%</b>	<b>5.9%</b>	<b>5.1%</b>	<b>6.2%</b>	<b>8.1%</b>
<b>Net income</b>	<b>5.1%</b>	<b>6.0%</b>	<b>5.9%</b>	<b>5.1%</b>	<b>6.2%</b>	<b>8.1%</b>
Minority interest	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Net profit (reported)</b>	<b>5.1%</b>	<b>6.0%</b>	<b>5.9%</b>	<b>5.1%</b>	<b>6.2%</b>	<b>8.1%</b>

Source: Company data, NuWays

Balance sheet (EUR m)	2020	2021	2022	2023e	2024e	2025e
Intangible assets	44.0	43.4	42.7	39.4	35.5	31.1
Property, plant and equipment	19.7	19.7	18.7	23.4	27.3	31.7
Financial assets	0.8	0.7	0.8	0.8	0.8	0.8
<b>FIXED ASSETS</b>	<b>64.6</b>	<b>63.9</b>	<b>62.2</b>	<b>63.6</b>	<b>63.6</b>	<b>63.6</b>
Inventories	5.0	5.3	6.5	6.9	7.6	8.3
Accounts receivable	16.9	14.9	22.3	23.8	26.0	28.5
Other assets and short-term financial assets	1.3	1.0	1.6	1.6	1.6	1.6
Liquid assets	18.5	24.3	15.5	13.8	15.0	19.8
Deferred taxes	7.0	4.9	2.4	2.4	2.4	2.4
Deferred charges and prepaid expenses	2.2	1.8	2.5	2.5	2.5	2.5
<b>CURRENT ASSETS</b>	<b>50.8</b>	<b>52.2</b>	<b>50.8</b>	<b>51.0</b>	<b>55.1</b>	<b>63.1</b>
<b>TOTAL ASSETS</b>	<b>115.5</b>	<b>116.0</b>	<b>113.0</b>	<b>114.7</b>	<b>118.7</b>	<b>126.7</b>
<b>SHAREHOLDERS EQUITY</b>	<b>61.8</b>	<b>64.4</b>	<b>57.0</b>	<b>58.1</b>	<b>61.5</b>	<b>68.9</b>
MINORITY INTEREST	0.0	0.0	0.0	0.0	0.0	0.0
Provisions for pensions and similar obligations	1.3	1.3	1.0	1.0	1.1	1.1
Other provisions and accrued liabilities	3.1	2.9	3.7	3.7	3.7	3.7
Short-term liabilities to banks	0.8	0.0	0.0	0.0	0.0	0.0
Accounts payable	4.2	4.5	7.0	7.5	8.1	8.7
Advance payments received on orders	5.1	3.2	3.9	3.9	3.9	3.9
Other liabilities (incl. from lease and rental contracts)	9.5	10.0	10.1	10.1	10.1	10.1
Deferred taxes	1.3	0.9	1.2	1.2	1.2	1.2
Deferred income	11.6	11.3	11.9	11.9	11.9	11.9
<b>CURRENT LIABILITIES</b>	<b>18.8</b>	<b>17.7</b>	<b>21.0</b>	<b>21.5</b>	<b>22.2</b>	<b>22.7</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>115.5</b>	<b>116.0</b>	<b>113.0</b>	<b>114.6</b>	<b>118.7</b>	<b>126.7</b>
<b>Balance sheet (common size)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023e</b>	<b>2024e</b>	<b>2025e</b>
Intangible assets	38.1%	37.4%	37.8%	34.3%	29.9%	24.6%
Property, plant and equipment	17.1%	17.0%	16.6%	20.4%	23.0%	25.0%
Financial assets	0.7%	0.6%	0.7%	0.7%	0.7%	0.6%
<b>FIXED ASSETS</b>	<b>56.0%</b>	<b>55.0%</b>	<b>55.1%</b>	<b>55.5%</b>	<b>53.6%</b>	<b>50.2%</b>
Inventories	4.3%	4.6%	5.7%	6.0%	6.4%	6.6%
Accounts receivable	14.6%	12.8%	19.7%	20.7%	21.9%	22.5%
Other assets and short-term financial assets	1.1%	0.8%	1.4%	1.4%	1.3%	1.2%
Liquid assets	16.1%	20.9%	13.7%	12.1%	12.7%	15.6%
Deferred taxes	6.0%	4.2%	2.1%	2.1%	2.0%	1.9%
Deferred charges and prepaid expenses	1.9%	1.6%	2.2%	2.2%	2.1%	2.0%
<b>CURRENT ASSETS</b>	<b>44.0%</b>	<b>45.0%</b>	<b>44.9%</b>	<b>44.5%</b>	<b>46.4%</b>	<b>49.8%</b>
<b>TOTAL ASSETS</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>SHAREHOLDERS EQUITY</b>	<b>53.5%</b>	<b>55.5%</b>	<b>50.4%</b>	<b>50.7%</b>	<b>51.8%</b>	<b>54.3%</b>
MINORITY INTEREST	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Provisions for pensions and similar obligations	1.1%	1.2%	0.9%	0.9%	0.9%	0.9%
Other provisions and accrued liabilities	2.7%	2.5%	3.3%	3.2%	3.1%	2.9%
Short-term liabilities to banks	0.7%	0.0%	0.0%	0.0%	0.0%	0.0%
Accounts payable	3.6%	3.8%	6.2%	6.5%	6.9%	6.9%
Advance payments received on orders	4.4%	2.7%	3.5%	3.4%	3.3%	3.1%
Other liabilities (incl. from lease and rental contracts)	8.3%	8.7%	8.9%	8.8%	8.5%	7.9%
Deferred taxes	1.2%	0.8%	1.1%	1.0%	1.0%	0.9%
Deferred income	10.0%	9.7%	10.6%	10.4%	10.0%	9.4%
<b>CURRENT LIABILITIES</b>	<b>16.3%</b>	<b>15.2%</b>	<b>18.6%</b>	<b>18.7%</b>	<b>18.7%</b>	<b>17.9%</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Company data, NuWays

Cash flow statement (EUR m)	2020	2021	2022	2023e	2024e	2025e
Net profit/loss	5.5	6.8	7.5	6.9	9.1	13.2
Depreciation of fixed assets (incl. leases)	1.4	1.2	1.1	1.1	1.1	1.1
Amortisation of goodwill & intangible assets	5.0	3.5	3.9	4.0	4.4	5.0
Others	-11.4	-2.4	0.0	0.0	0.0	0.0
Cash flow from operating activities	14.6	11.0	7.9	8.0	9.7	13.6
Increase/decrease in inventory	-1.1	-0.4	-1.2	-0.4	-0.7	-0.7
Increase/decrease in accounts receivable	4.0	2.0	-7.4	-1.5	-2.3	-2.5
Increase/decrease in accounts payable	-0.6	0.3	2.5	0.5	0.7	0.5
Increase/decrease in other working capital positions	0.0	0.0	0.0	0.0	0.0	0.0
Increase/decrease in working capital	2.3	1.9	-6.0	-1.5	-2.2	-2.7
<b>Cash flow from operating activities</b>	<b>17.7</b>	<b>13.3</b>	<b>10.4</b>	<b>10.6</b>	<b>12.5</b>	<b>16.7</b>
CAPEX	2.4	0.9	1.3	6.5	5.5	6.1
Payments for acquisitions	0.0	0.0	0.0	0.0	0.0	0.0
Financial investments	0.0	0.0	0.0	0.0	0.0	0.0
Income from asset disposals	0.0	0.0	0.0	0.0	0.0	0.0
<b>Cash flow from investing activities</b>	<b>-2.4</b>	<b>-0.8</b>	<b>-1.3</b>	<b>-6.5</b>	<b>-5.5</b>	<b>-6.1</b>
Cash flow before financing	11.1	8.3	3.8	-1.7	1.2	4.8
Increase/decrease in debt position	8.6	-0.4	-2.9	0.0	0.0	0.0
Purchase of own shares	0.0	0.0	9.8	0.0	0.0	0.0
Capital measures	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	4.2	4.2	5.3	5.8	5.8	5.8
Others	-11.4	-2.4	0.0	0.0	0.0	0.0
Effects of exchange rate changes on cash	-0.1	0.3	0.1	0.0	0.0	0.0
<b>Cash flow from financing activities</b>	<b>-7.0</b>	<b>-7.0</b>	<b>-18.0</b>	<b>-5.8</b>	<b>-5.8</b>	<b>-5.8</b>
Increase/decrease in liquid assets	8.1	5.8	-8.8	-1.7	1.2	4.8
<b>Liquid assets at end of period</b>	<b>18.5</b>	<b>24.3</b>	<b>15.5</b>	<b>13.8</b>	<b>15.0</b>	<b>19.8</b>

Key ratios (EUR m)	2020	2021	2022	2023e	2024e	2025e
<b>P&amp;L growth analysis</b>						
Sales growth	12.2%	4.3%	13.1%	6.8%	9.5%	9.5%
EBITDA growth	143.0%	45.1%	25.9%	2.6%	10.1%	68.2%
EBIT growth	159.4%	138.4%	68.1%	0.3%	10.0%	93.4%
EPS growth	470.7%	28.2%	36.6%	2.7%	22.1%	90.1%
<b>Efficiency</b>						
Sales per employee	153.0	149.9	159.9	161.5	167.8	174.8
EBITDA per employee	19.1	19.3	21.3	17.6	21.0	26.8
No. employees (average)	702	746	792	836	882	926
<b>Balance sheet analysis</b>						
Avg. working capital / sales	12.9%	12.3%	12.0%	11.8%	13.3%	13.4%
Inventory turnover (sales/inventory)	21.7	21.0	19.5	19.5	19.5	19.5
Accounts receivable turnover	57.5	48.6	64.3	64.3	64.3	64.3
Accounts payable turnover	30.0	29.2	40.3	40.3	40.3	40.3
<b>Cash flow analysis</b>						
Free cash flow	15.3	12.5	9.1	4.1	7.0	10.6
Free cash flow/sales	14.2%	11.2%	7.2%	3.0%	4.7%	6.5%
FCF / net profit	278.8%	184.8%	121.0%	59.3%	76.1%	80.3%
Capex / sales	2.3%	0.8%	1.0%	4.8%	3.8%	3.8%
<b>Solvency</b>						
Net debt	-1.3	-7.5	0.6	2.3	1.1	-3.7
Net Debt/EBITDA	0.0	0.0	0.0	0.2	0.1	0.0
Dividend payout ratio	76.8%	77.9%	77.3%	83.4%	63.3%	43.9%
Interest paid / avg. debt	3.0%	0.9%	0.8%	0.9%	1.0%	1.1%
<b>Returns</b>						
ROCE	9.3%	12.1%	14.5%	11.7%	16.0%	21.9%
ROE	8.9%	10.5%	13.2%	11.9%	14.9%	19.2%
Adjusted FCF yield	4.4%	3.4%	5.3%	4.9%	6.3%	8.8%
Dividend yield	2.2%	2.8%	3.1%	3.1%	3.1%	3.1%
DPS	0.4	0.5	0.6	0.6	0.6	0.6
EPS reported	0.52	0.64	0.71	0.66	0.87	1.25
Average number of shares	10.5	10.5	10.5	10.5	10.5	10.5
<b>Valuation ratios</b>						
P/BV	3.1	2.9	3.3	3.3	3.1	2.8
EV/sales	1.9	2.4	1.5	1.4	1.3	1.2
EV/EBITDA	15.0	18.8	11.3	13.1	10.3	7.5
EV/EBIT	28.5	28.0	16.2	19.9	14.8	10.0

Source: Company data, NuWays

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Company	Disclosures
USU Software AG	2

### Historical target price and rating changes for USU Software AG

Company	Date	Analyst	Rating	Target Price	Close
USU Software AG	05.12.2022	Sennewald, Philipp	Buy	EUR 29.00	EUR 19.50

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According to Article 4(1) No. i of the delegated regulation 2016/958 supplementing regulation 596/2014 of the European Parliament, further information regarding investment recommendations of the last 12 months are published under:

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