

DADA

4Q/FY16A Results

DADA - Key estimates and data					
Y/E December		2016A	2017E	2018E	2019E
Revenues	EURM	63.70	67.10	70.59	73.98
EBITDA	EUR M	10.66	12.08	13.20	14.13
EBIT	EUR M	3.98	5.50	6.78	7.77
Net Income	EUR M	0.18	1.80	2.57	3.22
Dividend ord.	EUR	0	0	0	0
Adj. EPS	EUR	0.01	0.11	0.15	0.19
EV/EBITDA	x	6.3	8.6	7.6	6.8
Adj. P/E	x	NM	43.4	30.4	24.3

NA: not available; NM: not meaningful; Neg.: negative; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

- FY16A Results.** DADA released 4Q/FY16A results broadly in line with our estimates. Consolidated revenues increased by around 2.5% yoy to EUR 63.7M (and -1.3% vs. our forecast). On a like-for-like basis (net of forex and changes in the consolidation scope), revenues would have been up by about 6.2%. Foreign-based activities accounted for 54% of consolidated revenues in FY16A (broadly in line with FY15A). FY16A EBITDA came in at EUR 10.7M vs. EUR 10.5M in FY15A (and 3.4% below our projection), with the EBITDA margin at 16.7% vs. 16.8% in FY15A, mainly due to the adverse trend of the appreciation of the EUR against the GBP. DADA posted a net profit of around EUR 0.2M vs. EUR 1.3M in FY15A (and EUR 0.5M in our estimates). We highlight that last year, net profit benefited from the revaluation gains of EUR 2.2M from the transfer of Simply to 4W MarketPlace. Net debt stood at EUR 29.5M in FY16A (broadly in line with our EUR 29.7M forecast), vs. EUR 27.9M at YE15A and EUR 29.4M at 30 September 2016, mainly reflecting the investment of approximately EUR 3.2M to acquire Sfera Networks S.r.l.
- Outlook.** We believe that the good news was the confirmation of the positive organic growth trend, founded on a sound basis. Indeed, on a like for like basis, revenue growth was supported by the positive trend of all the group's key business metrics. In particular, in FY16: i) the customer base topped the 630,000 mark, increasing by 13% yoy; ii) new customers were up 30% yoy; and iii) new domain registrations increased by around 18% yoy, reaching a total stock of 1.9M domains under management (+6% yoy). Furthermore, we appreciate the improvement in 4Q operating profit, which reflects some initial benefits arising from the operating initiatives implemented during the year. Looking at outlook, in the short term management is focused on increasing the market share in DADA's various geographical areas of operation, broadening the range of services in "we do it for you" mode, and strengthening its position as providers of Cloud, Virtual & Dedicated Servers and IT Managed services. Lastly, during the result's conference call, management provided its 2017 guidance which foresees a mid-single digit revenues increase (on a like-for-like basis), with operating margins expected to grow thanks to renewal dynamics, scale and operating efficiency.
- Estimates and valuation.** Following the FY16A results and management's guidance, we only fine-tuned our 2017E-18E top-line forecasts, while we slightly reduced our assumptions on the weighting of financial charges. We also rolled out our estimates to FY19E. Following our estimates fine-tuning, our updated DCF model points to a **EUR 4.4/share target price** (from EUR 3.8/share). Based on the difference vs. the current market price, which we underline grew significantly in the last few months (+79% 3M chg.), **we change our recommendation on the stock to HOLD** (from Buy).
- Key risks.** The main risks to DADA's equity story and our estimates model, in our view, are: 1) a slowdown in the growth rate of new domain registrations in DADA's main markets (Italy & the UK); 2) increasing competition from large multi-sector groups; and 3) an increase in e-costs for new customer acquisition.

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HOLD (from Buy)

Target Price: EUR 4.4
(from EUR 3.8)

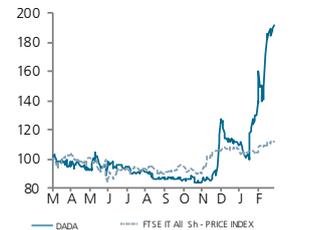
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Price performance, -1Y
27/03/2017



Source: FactSet

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Data priced on 27.03.2017			
Target price (€)			4.4
Target upside (%)			-5.36
Market price (€)			4.68
52Wk range (€)			4.68/2.04
Market cap (€ M)			78.13
No. of shares			16.68
Free float (%)			30.6
Major shr (%)	Global Tel. Hold.		69.4
Reuters		DA.MI	
Bloomberg		DA IM	
FTSE IT All Sh			22211
Performance %			
Absolute	Rel. to FTSE IT All		
-1M	47.4	-1M	37.5
-3M	72.8	-3M	64.0
-12M	92.0	-12M	71.3

*unless otherwise indicated within report. Source: FactSet and Intesa Sanpaolo Research estimates

See page 9 for full disclosures and analyst certification
Banca IMI is Specialist to DADA

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4Q/FY16A Results

DADA released 4Q/FY16A results broadly in line with our estimates. The key points of the results were:

- **Consolidated revenues** increased by around 2.5% yoy to EUR 63.7M (and -1.3% vs. our forecast). We underline that the top-line performance also reflects the adverse trend of the appreciation of the EUR against the GBP (which negatively accounted for EUR 2.8M vs. FY15) and the following changes in the business scope: i) the disposal of the ProAdv BU as of 1 July 2015, which had contributed EUR 1.2M in 1H15; ii) the consolidation of the results of Etinet S.r.l. as of 1 July 2015, which contributed EUR 0.7M to revenue in 1H16; and iii) the consolidation of the results of Sfera Networks S.r.l. as of 1 July 2016, which contributed EUR 1.1M in 2H16. **On a like-for-like basis, revenues would have been up by about 6.2%**. Lastly, foreign-based activities accounted for 54% of consolidated revenues in FY16A (broadly in line with FY15A);
- **FY16A EBITDA** came in at EUR 10.7M vs. EUR 10.5M in FY15A (and 3.4% below our projection), with the EBITDA margin at 16.7% vs. 16.8% in FY15A, mainly due to the abovementioned adverse trend of the appreciation of the EUR against the GBP;
- DADA posted a FY16A **net profit** of around EUR 0.2M vs. EUR 1.3M in FY15A (and EUR 0.5M in our estimates). We highlight that last year, net profit benefited from the revaluation gains of EUR 2.2M from the transfer of Simply to 4W MarketPlace;
- **Net debt** stood at EUR 29.5M in FY16A (broadly in line with our EUR 29.7M forecast), vs. EUR 27.9M at YE15A and EUR 29.4M at 30 September 2016, mainly reflecting the investment of approximately EUR 3.2M to acquire Sfera Networks S.r.l.

**Consolidated revenues up
2.5% yoy to EUR 63.7M**

EBITDA at EUR 10.7M

EUR 0.2M net profit

Net debt at EUR 29.5M

DADA – 4Q/FY16A results										
EUR M	4Q15A	4Q16A	yoy %	4Q16E	A/E %	FY15A	FY16A	yoy %	FY16E	A/E %
Revenues	15.5	16.0	3.1	16.8	-4.9	62.2	63.7	2.5	64.5	-1.3
EBITDA	2.0	2.5	23.9	2.9	-12.9	10.5	10.7	1.9	11.0	-3.4
EBITDA margin (%)	12.9	15.6		17.0		16.8	16.7		17.1	
EBIT	0.1	0.8	NM	0.7	6.7	3.2	4.0	26.0	3.9	1.2
Net profit	-0.9	0.0	NM	0.3	NM	1.3	0.2	NM	0.5	NM
NFP	27.9	29.5		29.7		27.9	29.5		29.7	

NM: not meaningful; A: actual; E: estimates; Source: Companies' data and Intesa Sanpaolo Research estimates

Earnings Outlook

We believe that the good news was the confirmation of the positive organic growth trend, founded on a sound basis. Indeed, on a like for like basis, revenue growth was supported by the positive trend of all the group's key business metrics. In particular, in FY16:

- The customer base topped the 630,000 mark, increasing by 13% yoy;
- New customers were up by 30% yoy;
- New domain registrations increased by around 18% yoy, reaching a total stock of 1.9M domains under management (+6% yoy).

Furthermore, we appreciate the improvement in operating profit in 4Q, which reflects some initial benefits arising from the operating initiatives implemented during the year.

Looking at outlook, in the short term management is focused on increasing the market share in DADA's various geographical areas of operation, broadening the range of services in "we do it for you" mode, and strengthening its position as providers of Cloud, Virtual & Dedicated Servers and IT Managed services. Lastly, during the result's conference call, management provided its 2017 guidance which foresees a mid-single digit revenues increase (on a like-for-like basis), with operating margins expected to grow thanks to renewal dynamics, scale and operating efficiency.

We also underline that in 2017 the group's bottom line should slightly benefit from lower financial charges as DADA recently (December 2016) signed a financing contract with a pool of banks for EUR 22M, with a cost of Euribor 6M + 250bps, i.e. 100bps lower than the current ML credit lines. DADA also renegotiated another EUR 3.5M ML credit line, reducing the spread from 270bps to 240bps, and has opened a new line for EUR 1M at a cost of Euribor 3M + 160bps.

A change of control is coming

In March, Libero Acquisition announced that it is considering a possible sale of its interest in DADA, currently representing around 69.432% of its share capital.

We remind that Orascom TMT Investments (through its subsidiary Libero Acquisition) acquired DADA from RCS in 2013. Orascom gave the company the security of having a financially-strong shareholder and the clear mission of focusing on the group's core business: the management of the online presence and visibility for small and medium businesses. Now that this latter strategy is completed, we believe that DADA could be an interesting target for a large international player.

Estimates fine-tuning

Following the FY16A results and management's guidance, we only fine-tuned our 2017E-18E top-line forecasts, while we slightly reduced our assumptions on the weighting of financial charges. We also rolled out our estimates to FY19E.

DADA – Estimates revision (2017E-19E)							
EUR M	2017E Old	2017E New	% chg.	2018E Old	2018E New	% chg.	2019E New
Revenues	68.1	67.1	-1.5	71.7	70.6	-1.5	74.0
EBITDA	12.3	12.1	-1.5	13.4	13.2	-1.5	14.1
EBITDA margin (%)	18.0	18.0		18.7	18.7		19.1
EBIT	5.6	5.5	-1.5	6.7	6.8	1.7	7.8
EBIT margin (%)	8.2	8.2		9.3	9.6		10.5
Net profit	1.8	1.8	0.5	2.4	2.6	5.2	3.2
Net debt	25.6	26.0		20.9	22.1		17.8

E: estimates; Source: Intesa Sanpaolo Research estimates

Revenue growth supported by positive trend of key business metrics

Focus on increasing market share

Valuation

We based our valuation of DADA on a DCF model, reflecting the group's specific long-term prospects. Following our estimates fine-tuning, **our updated DCF model points to a EUR 4.4/share target price** (from EUR 3.8/share). Based on the difference vs. the current market price, which we underline grew significantly in the last few months (+79% 3M chg.), **we change our recommendation on the stock to HOLD (from Buy).**

HOLD rating, EUR 4.4/share target price

The main assumptions of our three-stage DCF model are as follows:

Key assumptions

- Explicit period until 2019E, assuming a 2016A-19E revenues CAGR of 5.1% and 2019E EBIT margin at 10.5%;
- An assumed revenues CAGR of 3.6%, an average EBIT margin of 10.5%, a 1x D&A/capex and a stable net working capital to sales ratio at -19.5% over 2020E-23E;
- For the terminal value (2024E), we assume a revenue growth of 1.5% yoy and an EBIT margin of 10.5%. We set a 1.5% perpetuity growth rate to reflect the steady growth expectations;
- For the WACC calculation, we consider a risk-free rate of 2.0%, a risk premium of 6.25%, and a Beta of 1x (source: elaboration on Bloomberg data). As a result, we obtain a WACC at 6.59%.

The following tables summarise our WACC calculation and our DCF model:

DADA – WACC calculation (%)	
Risk-free rate	2.00
Equity risk premium	6.25
Beta (x)*	1.0
Cost of equity	8.25
Net cost of debt	3.5
Gross cost of debt	5.0
Tax rate	30
Gearing	35
WACC	6.59

Source: Intesa Sanpaolo Research estimates and *elaboration on Bloomberg data

DADA - DCF calculation								
EUR M	2017E	2018E	2019E	2020E	2021E	2022E	2023E	LT
Revenues	67.1	70.6	74.0	77.2	80.3	83.2	85.9	87.2
change yoy (%)	5.3	5.2	4.8	4.4	4.0	3.6	3.2	1.5
EBIT	5.5	6.8	7.8	8.1	8.4	8.7	9.0	9.2
EBIT margin (%)	8.2	9.6	10.5	10.5	10.5	10.5	10.5	10.5
Taxes	-1.2	-1.7	-2.1	-2.4	-2.7	-2.9	-3.0	-3.4
NOPAT	4.3	5.1	5.6	5.7	5.8	5.9	6.0	5.8
D&A	6.6	6.4	6.4	-6.4	-6.4	-6.4	-6.4	
Capex	-5.5	-6.0	-6.0	6.4	6.4	6.4	6.4	
NWC changes	0.6	0.9	0.7	0.6	0.6	0.6	0.5	
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCF	6.0	6.4	6.6	6.3	6.4	6.4	6.5	5.8
Discounted FCF	5.7	5.8	5.6	5.0	4.7	4.5	4.2	3.5
WACC (%)	6.59							
Perpetuity growth rate (%)	1.5							
NPV of cash flows	35.4							
NPV of terminal value @2024	69.1							
EV	104.6							
Adj. net debt @ 2016A	29.5							
LT liabilities	1.1							
Equity value	73.9							
N of shares (M)	16.7							
Value per share (EUR)	4.4							

E: estimates; Source: Intesa Sanpaolo Research estimates

DADA – Sensitivity (EUR/share)						
Perpetual growth rate %	1.0	1.2	1.5	1.8	2.0	
Discount rate %						
5.59	5.3	5.5	5.9	6.3	6.7	
6.09	4.6	4.8	5.1	5.4	5.7	
6.59	4.1	4.2	4.4	4.7	4.9	
7.09	3.6	3.7	3.9	4.1	4.3	
7.59	3.2	3.3	3.4	3.6	3.7	

Source: Intesa Sanpaolo Research estimates

DADA - Key data							
Rating	Target price (EUR/sh)	Mkt price (EUR/sh)	Sector	Free float (%)	Reuters Code		
HOLD	Ord 4.4	Ord 4.68	Software & Computer Services	30.6	DA.MI		
Values per share (EUR)			2015A	2016A	2017E	2018E	2019E
No. ordinary shares (M)			16.68	16.68	16.68	16.68	16.68
No. NC saving/preferred shares (M)			0.00	0.00	0.00	0.00	0.00
Total no. of shares (M)			16.68	16.68	16.68	16.68	16.68
Market cap			43.35	38.17	78.13	78.13	78.13
Adj. EPS			0.08	0.01	0.11	0.15	0.19
CFPS			0.49	0.41	0.50	0.54	0.57
BVPS			3.6	3.2	3.3	3.4	3.6
Dividend ord			0	0	0	0	0
Income statement (EUR M)			2015A	2016A	2017E	2018E	2019E
Revenues			62.20	63.70	67.10	70.59	73.98
EBITDA			10.50	10.66	12.08	13.20	14.13
EBIT			3.22	3.98	5.50	6.78	7.77
Pre-tax income			0.72	1.17	3.00	4.28	5.37
Net income			1.32	0.18	1.80	2.57	3.22
Adj. net income			1.32	0.18	1.80	2.57	3.22
Cash flow (EUR M)			2015A	2016A	2017E	2018E	2019E
Net income before minorities			1.3	0.2	1.8	2.6	3.2
Depreciation and provisions			6.9	6.7	6.6	6.4	6.4
Others/Uses of funds			-1.3	-0.1	0	0	0
Change in working capital			1.2	0.7	0.6	0.9	0.7
Operating cash flow			8.2	7.4	9.0	9.9	10.2
Capital expenditure			-7.3	-7.4	-5.5	-6.0	-6.0
Financial investments			0	0	0	0	0
Acquisitions and disposals			4.8	0	0	0	0
Free cash flow			5.6	0.0	3.5	3.9	4.2
Dividends			0	0	0	0	0
Equity changes & Other non-operating items			0	-2.0	0	0	0
Net cash flow			5.6	-2.0	3.5	3.9	4.2
Balance sheet (EUR M)			2015A	2016A	2017E	2018E	2019E
Net capital employed			87.1	82.4	80.7	79.3	78.3
of which associates			0	0	0	0	0
Net debt/-cash			27.9	29.5	26.0	22.1	17.8
Minorities			0	0	0	0	0
Net equity			59.3	52.9	54.7	57.3	60.5
Minorities value			0	0	0	0	0
Enterprise value			71.3	67.7	104.1	100.2	95.9
Stock market ratios (x)			2015A	2016A	2017E	2018E	2019E
Adj. P/E			32.7	NM	43.4	30.4	24.3
P/CFPS			5.3	5.6	9.3	8.7	8.2
P/BVPS			0.73	0.72	1.4	1.4	1.3
Payout (%)			0	0	0	0	0
Dividend yield (% ord)			0	0	0	0	0
FCF yield (%)			13.0	0.1	4.5	5.0	5.4
EV/sales			1.1	1.1	1.6	1.4	1.3
EV/EBITDA			6.8	6.3	8.6	7.6	6.8
EV/EBIT			22.1	17.0	18.9	14.8	12.4
EV/CE			0.82	0.82	1.3	1.3	1.2
D/EBITDA			2.7	2.8	2.2	1.7	1.3
D/EBIT			8.7	7.4	4.7	3.3	2.3
Profitability & financial ratios (%)			2015A	2016A	2017E	2018E	2019E
EBITDA margin			16.9	16.7	18.0	18.7	19.1
EBIT margin			5.2	6.3	8.2	9.6	10.5
Tax rate			NM	84.7	40.0	40.0	40.0
Net income margin			2.1	0.3	2.7	3.6	4.4
ROCE			3.7	4.8	6.8	8.5	9.9
ROE			2.4	0.3	3.3	4.6	5.5
Interest cover			1.3	1.4	2.2	2.7	3.2
Debt/equity ratio			47.0	55.8	47.5	38.5	29.5
Growth (%)				2016A	2017E	2018E	2019E
Sales				2.4	5.3	5.2	4.8
EBITDA				1.6	13.3	9.3	7.0
EBIT				23.6	38.1	23.2	14.6
Pre-tax income				61.2	NM	42.4	25.5
Net income				-86.6	NM	42.4	25.5
Adj. net income				-86.6	NM	42.4	25.5

NM: not meaningful; NA: not available; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Notes:

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Equity rating key: (long-term horizon: 12M)

In its recommendations, Intesa Sanpaolo SpA uses an "absolute" rating system, which is not related to market performance and whose key is reported below:

Equity rating key (long-term horizon: 12M)	
Long-term rating	Definition
BUY	If the target price is 20% higher than the market price
ADD	If the target price is 10%-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
REDUCE	If the target price is 10%-20% lower than the market price
SELL	If the target price is 20% lower than the market price
RATING SUSPENDED	The investment rating and target price for this stock have been suspended as there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and target price, if any, are no longer in effect for this stock.
NO RATING	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulations and/or firm policies in certain circumstances, including when Intesa Sanpaolo is acting in an advisory capacity in a merger or strategic transaction involving the company.
TARGET PRICE	The market price that the analyst believes the share may reach within a one-year time horizon
MARKET PRICE	Closing price on the day before the issue date of the report, as indicated on the first page, except where otherwise indicated

Historical recommendations and target price trends (long-term horizon: 12M)

Target price and market price trend (-1Y)



Historical recommendations and target price trend (-1Y)

Date	Rating	TP	Mkt Price
14-Dec-16	BUY	3.80	2.10
04-Aug-16	BUY	4.20	2.21
12-Apr-16	BUY	4.41	2.38

Equity rating allocations (long-term horizon: 12M)

Intesa Sanpaolo Research Rating Distribution (at February 2017)						
Number of companies considered: 101	BUY	ADD	HOLD	REDUCE	SELL	
Total Equity Research Coverage relating to last rating (%)	41	29	30	1	0	
of which Intesa Sanpaolo's Clients (%) (*)	56	55	37	100	0	

(*) Companies on behalf of whom Intesa Sanpaolo and the other companies of the Intesa Sanpaolo Group have provided corporate and Investment banking services in the last 12 months; percentage of clients in each rating category

Valuation methodology (short-term horizon: 3M)

Our short-term investment ideas are based on ongoing special market situations, including among others: spreads between share categories; holding companies vs. subsidiaries; stub; control chain reshuffling; stressed capital situations; potential extraordinary deals (including capital increase/delisting/extraordinary dividends); and preys and predators. Investment ideas are presented either in relative terms (e.g. spread ordinary vs. savings; holding vs. subsidiaries) or in absolute terms (e.g. preys).

The companies to which we assign short-term ratings are under regular coverage by our research analysts and, as such, are subject to fundamental analysis and long-term recommendations. The main differences attain to the time horizon considered (monthly vs. yearly) and definitions (short-term 'long/short' vs. long-term 'buy/sell'). Note that the short-term relative recommendations of these investment ideas may differ from our long-term recommendations. We monitor the monthly performance of our short-term investment ideas and follow them until their closure.

Equity rating key (short-term horizon: 3M)

Equity rating key (short-term horizon: 3M)	
Short-term rating	Definition
LONG	Stock price expected to rise or outperform within three months from the time the rating was assigned due to a specific catalyst or event
SHORT	Stock price expected to fall or underperform within three months from the time the rating was assigned due to a specific catalyst or event

Company specific disclosures

Intesa Sanpaolo S.p.A. and the other companies belonging to the Intesa Sanpaolo Banking Group (jointly also the "Intesa Sanpaolo Banking Group") have adopted written guidelines "Modello di Organizzazione, Gestione e Controllo" pursuant to Legislative Decree 8 June, 2001 no. 231 (available at the Intesa Sanpaolo website, webpage http://www.group.intesasanpaolo.com/scripts/sir0/si09/governance/eng_wp_governance.jsp, along with a summary sheet, webpage <https://www.bancaimi.com/en/bancaimi/chiamo/documentazione/normative>) setting forth practices and procedures, in accordance with applicable regulations by the competent Italian authorities and best international practice, including those known as Information Barriers, to restrict the flow of information, namely inside and/or confidential information, to prevent the misuse of such information and to prevent any conflicts of interest arising from the many activities of the Intesa Sanpaolo Banking Group which may adversely affect the interests of the customer in accordance with current regulations.

In particular, the description of the measures taken to manage interest and conflicts of interest – related to Articles 69-quater and 69-quinquies of the Issuers' Regulation issued by Consob with Resolution no. 11971 of 14.05.1999 as subsequently amended and supplemented, Article 24 of "Rules governing central depositories, settlement services, guarantee systems and related management companies" issued by Consob and Bank of Italy, FINRA Rule 2241 and NYSE Rule 472, as well as the FCA Conduct of Business Sourcebook rules COBS 12.4.9 and COBS 12.4.10 - between the Intesa Sanpaolo Banking Group and issuers of financial instruments, and their group companies, and referred to in research products produced by analysts at Intesa Sanpaolo is available in the "Research Rules" and in the extract of "A business model for managing privileged information and conflicts of interest" published on the website of Intesa Sanpaolo S.p.A.

At the Intesa Sanpaolo website, webpage http://www.group.intesasanpaolo.com/scripts/sir0/si09/studi/eng_archivio_conflitti_mad.jsp you can find the archive of Intesa Sanpaolo Banking Group's conflicts of interest.

Furthermore, we disclose the following information on the Intesa Sanpaolo Banking Group's conflicts of interest:

- 1 One or more of the companies of the Intesa Sanpaolo Banking Group plan to solicit investment banking business or intends to seek compensation from DADA in the next three months
- 2 One or more of the companies of the Intesa Sanpaolo Banking Group have granted significant financing to DADA and its parent and group companies
- 3 One or more of the companies of the Intesa Sanpaolo Banking Group are one of the main financial lenders to DADA and its parent and group companies
- 4 Banca IMI acts as Specialist relative to securities issued by DADA

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