

# MPH Mittelstaendische Pharma Holding AG

Germany / Healthcare  
 Frankfurt  
 Bloomberg: 93M GR  
 ISIN: DE000A0NF697

H1 2016  
 Results

**RATING**  
**BUY**

**PRICE TARGET**  
**€5.20**

Return Potential 92.8%  
 Risk Rating High

## HEALTHCARE HOLDINGS DELIVER STRONG H1 PERFORMANCE

Six month results reflected the overall share price performance of the underlying holdings. In particular, HAEMATO AG and M1 Kliniken AG delivered strong six month results growing both their respective top and bottom lines. Meanwhile, the strong development in M1 shares over the first six months allowed MPH to book non-cash revaluation gains of some €22m in H1/16 under IFRS 10. MPH also paid a €0.12/share dividend to investors in June 2016. Our updated sum-of-the-parts model produces a new fair value of €5.20 per share (previously: €4.90). Our rating remains Buy.

**Share price developments of holdings drive bottom line** As of 31 December 2015, MPH reports as an investment entity according to IFRS 10, whereas the company previously fully consolidated the majority stakes in its primary holdings. The company no longer generates operating revenues after the deconsolidation. Consequently, earnings are now chiefly driven by the share price developments of the publicly traded core holdings. The market value of the core holdings climbed some 16% over the six month period. MPH recorded revenue of €6.0m from the sale of shares in the first six months. Given the aforementioned change in accounting, H1/15 figures do not provide any comparative value. Thanks to the strong results of HAEMATO and M1 (see overleaf), revaluation gains totalled €22.0m in H1/16 compared to €74.7m in 2015. Thus, MPH recorded net income of €19.9m at the six month mark compared to €74.1m last year.

**Financial result climbs some 6% in H1/16** The largest items on the balance sheet are the financial assets position, which amounted to €160m at the end of H1/16, and shareholders' equity of €154m. This compares to the balance sheet total of €165m at the end of the first quarter. The equity ratio thus totalled 93% at the end of the six month period. MPH exited H1/16 with cash and cash equivalents of €0.7m. Net debt totalled €6.3m at the end of H1. (p.t.o.)

### FINANCIAL HISTORY & PROJECTIONS<sup>1</sup>

	2014	2015	2016E	2017E	2018E	2019E
Revenue (€m)	219.25	262.89	8.04	6.84	5.81	4.94
Pro-forma Rev. (€m) <sup>2</sup>	219.20	262.90	353.70	383.30	426.80	472.00
EBT (€m)	9.31	87.30	26.03	35.47	34.37	28.98
EBT margin	4.2%	33.2%	323.7%	518.9%	591.6%	586.9%
Net income (€m)	8.45	84.10	25.51	34.76	33.69	28.40
EPS (diluted) (€)	0.20	1.96	0.60	0.81	0.79	0.66
DPS (€)	0.19	0.12	0.12	0.12	0.12	0.12
FCF (€m)	2.98	-7.85	11.05	11.80	10.98	10.37
Net gearing	29.1%	6.8%	2.3%	-1.6%	-4.1%	-5.8%
Liquid assets (€m)	17.70	0.53	6.38	13.05	18.90	24.02

<sup>1</sup> Please note the company changed to IFRS 10 reporting as of 31 December 2015 and deconsolidated its core holdings.

<sup>2</sup> We provide pro-forma revenue of M1 Beauty, HAEMATO and CR Capital as a reference.

### RISKS

Regulatory changes in healthcare systems, spending cuts in healthcare systems, homogenization of pharmaceutical prices within the European Union.

### COMPANY PROFILE

MPH is a German based healthcare company specializing in the fields of pharmaceuticals, patient care, and cosmetic surgery with a strategic focus on therapeutic areas of chronic diseases and lifestyle beautification. Rising healthcare costs in Germany are expected to continue driving demand for the inexpensive solutions provided by the company's core healthcare activities.

### MARKET DATA

As of 05 Sep 2016

Closing Price	€ 2.70
Shares outstanding	42.81m
Market Capitalisation	€ 115.47m
52-week Range	€ 1.97 / 2.70
Avg. Volume (12 Months)	23,292

Multiples <sup>1</sup>	2015	2016E	2017E
P/E	1.4	4.5	3.3
EV/Sales	0.5	15.2	17.8
EV/EBIT	1.4	4.7	3.4
Div. Yield	4.4%	4.4%	4.4%

<sup>1</sup> 2016 & 2017 reflect the change to IFRS 10 accounting

### STOCK OVERVIEW



### COMPANY DATA

As of 30 Jun 2016

Liquid Assets	€ 0.70m
Current Assets	€ 5.72m
Intangible Assets	€ 159.50m
Total Assets	€ 165.31m
Current Liabilities	€ 3.41m
Shareholders' Equity	€ 153.50m

### SHAREHOLDERS

Magnum	60.0%
Baring Fund Managers	1.9%
BayernInvest Luxembourg	0.2%
Free Float	37.9%

## HAEMATO H1 2016 HIGHLIGHTS

**Six month sales up 40% Y/Y** Revenues reached €142.3m for the six month period (H1/2015: €101.5m) and beat our forecast of €109.5m. We believe the surge in revenues is traced to sales personnel who were able to boost activities in Germany. The revenue performance also marks the highest total since H1/14. On a quarterly basis, sales increased some 31% Y/Y following the exceptionally strong 50% Y/Y growth logged in Q1/16.

HAEMATO recorded its strongest gross margin (GM) since H1/15 at 6.9%, thanks to the higher sales volumes and favourable product mix. The strong H1 top line performance filtered down strongly to earnings, due to a stable cost structure. EBIT grew some 61% Y/Y to €5.9m (H1/15: €4.2m) and topped our figure of €37m. Net income (NI) totalled €4.5m (H1/15: €2.8m). For the second quarter, EBIT totalled €2.4m corresponding to a 3.2% margin, whereas NI amounted to €1.9m. HAEMATO paid out a dividend of €0.30 to shareholders equal to a payout of €6.2m.

**Table 1: HAEMATO profit and loss highlights**

All figures in EUR '000	H1/16	H1/16E	% delta	H1/15	% delta
Revenue	142,274	109,595	29.8%	101,477	40.2%
Gross profit	9,779	7,233	35.2%	7,739	26.4%
Margin (%)	6.9%	6.6%	-	7.6%	-
EBIT	5,931	3,674	61.4%	4,211	40.8%
Margin (%)	4.2%	3.4%	-	4.1%	-
Net income	4,490	2,761	62.6%	2,767	62.3%
EPS diluted (€)	0.21	0.13	62.6%	0.13	60.0%

Source: First Berlin Equity Research; HAEMATO

**Balance sheet remains stable; operating cash flow positive** Total assets grew to €120m (2015: €105m), mainly due to the increase in financial assets to €15.0m (2015: €9.8m). Meanwhile, inventory rose to €52.2m in conjunction with the upswing in sales. Net debt, including the €5.2m participation certificate, increased to €33.6m (2015: €28.6m), due to an increase in short term debt to cover working capital. Shareholders' equity increased to €56.5m (2015: €55.5m), thanks to the profitable H1. However, the equity ratio declined to 47.1% vs 54.5% in 2015, due chiefly to the larger asset base.

**Table 2: HAEMATO balance sheet highlights**

All figures in EUR '000	H1/16	FY 2015	Delta
Cash	1,845	2,449	-24.7%
Short-term investments	2,821	2,791	1.1%
Financial debt (short- and long-term)	38,290	28,617	33.8%
Net debt	33,624	23,377	43.8%
Total assets	120,033	106,989	12.2%
Shareholders' equity	56,544	58,289	-3.0%
Equity ratio	47.1%	54.5%	-

Source: First Berlin Equity Research; HAEMATO AG

Net operating cash flow totalled €0.9m for the six month period compared to €3.0m in 2015. The decrease is attributable to increased working capital. Cash flow from investing totalled €1.3m in H1/16 thanks to proceeds from the disposal of financial assets totalling €1.0m against CapEx of some €-0.4m. Cash flow from financing amounted to €-2.8m, due mainly to the dividend payment. Thus total cash consumed for the six month period equalled €-0.6m leaving HAEMATO with some €1.8m in cash and equivalents on the balance sheet.

## M1 KLINIKEN H1 2016 HIGHLIGHTS

**Strong revenue increase spurred by clinic rollout** Sales surged some 82% Y/Y to €18.5m (FBe: €18.0m), driven by the new clinic in Berlin-Köpenick as well as the aggressive expansion of ten new outpatient clinics across Germany. Gross profit increased over fivefold to €6.3m (H1/15: €1.0m) and translated into a gross margin (GM) of 34.1% (H1/15: 9.7%). The increase in GM stemmed from a volume-related improvement in procurement conditions. Thanks to stable operating expenses, gross profits filtered strongly down to the EBIT level with operating income reaching €3.0m for the period vs an operating loss (€-0.2m) last year. Net income (NI) totalled €2.9m (H1/15: €-0.4m). The company likewise paid out a dividend of €0.30 to shareholders equivalent to a payout of €4.5m.

**Table 3: M1 profit and loss highlights**

All figures in EUR '000	H1/16	H1/16E	Delta	H1/15	Delta
Revenue	18,498	18,000	3%	10,160	82%
Gross profit	6,299	5,600	12%	981	542%
margin	34.1%	31.1%		9.7%	
Operating income (EBIT)	3,046	3,100	-2%	-193	n.a.
margin	16.5%	17.2%		-1.9%	
Net income / loss	2,893	2,008	44%	-392	n.a.
margin	15.6%	11.2%		-3.9%	
EPS (€) (diluted)	0.19	0.13	44%	-0.03	n.a.

Source: First Berlin Equity Research; M1 Kliniken

**Balance sheet remains stable; operating cash flow positive** Total assets decreased to €31m (2015: €33m), mainly due the decline in accounts receivable to €12.9m (2015: €15.7m) and inventory to €0.7m from €3.2m. Net cash remained stable at €0.3m (2015: €0.4m). Shareholders' equity increased to €28.1m (2015: €29.8m) owing to the aforementioned dividend to shareholders. However, the equity ratio climbed 160 basis points to 91.2%, due mainly to the smaller asset base.

**Table 4: M1 balance sheet highlights**

All figures in EUR '000	H1/16	FY 2015	Delta
Cash	337	412	-18.2%
Short-term investments	2,726	0	-
Financial debt (short- and long-term)	15	16	-6.3%
Net cash	3,048	396	669.7%
Total assets	30,869	33,187	-7.0%
Shareholders' equity	28,143	29,750	-5.4%
Equity ratio	91.2%	89.6%	-

Source: First Berlin Equity Research; M1 Kliniken

Net operating cash flow totalled €4.0m for the six month period compared to €73k in 2015 owing primarily to the positive net income result and working capital conversion. Cash flow from investing totalled €0.4m in H1/16 thanks to proceeds from the disposal of financial assets totalling €1.0m against CapEx of some €-0.6m. Meanwhile, cash flow from financing amounted to €-4.5m, due mainly to the dividend payment. Total cash consumed for the six month period equalled €-0.1m leaving M1 with some €0.3 m in cash and equivalents on the balance sheet.



## CR CAPITAL HIGHLIGHTS

CR Capital last reported results for FY 2015. Revenues were down some 51% Y/Y although annual volatility is typical for a real estate project developer. The company continues to work on its Leipzig project pipeline, which features 60,000m<sup>2</sup> of sellable space. We expect the company to complete and hand over units over the next two to three years.

**Table 5: CR Capital financial highlights**

All figures in EUR '000	FY 2013	FY 2014	FY 2015
Revenue	13,506	18,337	8,970
Y/Y	-	35.8%	-51.1%
Gross Profit	1,130	10,220	5,231
Margin (%)	8.4%	55.7%	58.3%
EBIT	-629	7,287	2,717
Margin (%)	-4.7%	39.7%	30.3%
Cash	417	2,965	1,947
Net Debt	4,253	626	374

Source: First Berlin Equity Research; CR Capital

**Updates to our MPH forecasts** We have adjusted our 2016 forecasts to account for the higher than expected revenue and the lower than expected revaluation KPI in H1/16. We note that revenues stem from shares that are sold opportunistically when market conditions are favourable, whereas revaluation gains are a function of underlying share price performance.

**Table 6: Changes to our forecasts**

All figures in €	2016E			2017E		
	old	new	% delta	old	new	% delta
Revenue	5,170	8,042	55.6%	6,836	6,836	0.0%
Gross profit	-572	-1,045	-	957	957	0.0%
Margin (%)	-11.1%	-13.0%	-	14.0%	14.0%	-
EBIT	-1,587	-2,319	-	-67	-67	-
Margin (%)	-30.7%	-28.8%	-	-1.0%	-1.0%	-
Net income	30,512	25,510	-16.4%	34,762	34,762	0.0%
EPS diluted (€)	0.71	0.60	-16.4%	0.81	0.81	0.0%

Source: First Berlin Equity Research



## SUM-OF-THE-PARTS VALUATION

We switched from DCF methodology to a sum-of-the-parts valuation methodology with our note of 16 June 2016. Following the flotation of M1 Kliniken AG in 2015, investors can now track the performance of all three core holdings via their respective stock quotes. Given the change in accounting to IFRS 10 and the deconsolidation of the core holdings, MPH no longer generates revenues from operations making our prior DCF methodology unsuitable. Our overall valuation is driven our assessment of HAEMATO, M1 Beauty, and CR Capital, which we have valued separately on a DCF basis. Based on the current stakes, we derive an aggregate fair value of €221m for the listed holdings. We add the book value of the non-listed holdings to this figure and subtract the Q2/16 net debt. Given the 42.8m shares outstanding (SO), we now see fair value for MPH at €5.20 per share (previously: €4.90) corresponding to a Buy rating.

**Table 7: SOTP**

in € '000	Shareholdings	SO	MPH stake	Share price	Fair value <sup>1</sup>	Projected value
HAEMATO AG	10,418	20,780	50%	5.35	7.00	72,926
M1 Beauty AG	12,857	15,000	86%	7.30	9.00	115,713
CR Capital Real Estate AG	11,625	18,780	62%	1.23	2.80	32,550
<b>Projected value of listed hldings</b>						<b>221,189</b>

<b>Fair value of listed portfolio</b>	<b>221,189</b>
Non-listed investment (book value)	5,870
Nett debt (30 June 2016)	6,317
<b>Total fair value</b>	<b>220,742</b>
MPH SO	42,814
<b>Fair value per share (€)</b>	<b>5.16</b>

<sup>1</sup> First Berlin Equity Research currently covers HAEMATO AG (Buy / PT EUR7.00), M1 Kliniken AG (Add/ PT EUR9.00) and CR Capital (Buy / PT: EUR2.80)

Changes to the market values of the holdings reflect the share price developments of HAEMATO; M1 Kliniken and CR Capital over the first six months of 2016 as well as adjustments to MPH stakes.

**Table 8: Changes to market values in H1/16**

in € '000	2015			H1/16			Delta
	MPH shares	Share price	Value	MPH shares	Share price	Value	
HAEMATO AG	10,418	4.90	51,048	10,418	4.92	51,257	0.4%
M1 Beauty AG	12,807	5.34	68,389	12,857	7.05	90,642	32.5%
CR Capital Real Estate AG	10,848	1.31	14,211	11,625	1.18	13,718	-3.5%
<b>Total</b>			<b>133,648</b>			<b>155,616</b>	<b>16.4%</b>

\* Closing prices taken from Bloomberg on 30 December 2015 and 30 June 2016

Source: First Berlin Equity Research; Company



## INCOME STATEMENT<sup>1</sup>

All figures in EUR '000	2014	2015	2016E	2017E	2018E
<b>Revenues</b>	<b>219,249</b>	<b>262,887</b>	<b>8,042</b>	<b>6,836</b>	<b>5,810</b>
Change in inventories	-27	-3,720	0	0	0
Cost of goods sold	-197,433	-231,703	-9,087	-5,879	-4,997
<b>Gross profit</b>	<b>21,789</b>	<b>27,464</b>	<b>-1,045</b>	<b>957</b>	<b>813</b>
Personnel expenses	-6,479	-8,326	-643	-520	-433
Other OpEx	-8,006	-10,771	-643	-520	-433
Other income	5,442	9,978	20	20	20
Depreciation & amortisation	-1,829	-5,193	-7	-5	-4
<b>Operating income (EBIT)</b>	<b>10,917</b>	<b>13,152</b>	<b>-2,319</b>	<b>-67</b>	<b>-36</b>
Net financial result	-1,604	-2,001	-599	-300	-300
Other financial result	0	7,860	6,983	6,983	6,983
Depreciation of financial assets	0	-6,417	-8,321	0	0
Revaluation result	0	74,707	30,287	28,856	27,728
<b>Pre-tax income (EBT)</b>	<b>9,313</b>	<b>87,301</b>	<b>26,031</b>	<b>35,472</b>	<b>34,374</b>
Income taxes	-860	-3,200	-521	-709	-687
<b>Net income / loss</b>	<b>8,453</b>	<b>84,101</b>	<b>25,510</b>	<b>34,762</b>	<b>33,687</b>
Minority interests	3,503	1,513	0	0	0
<b>Net income after minorities</b>	<b>4,950</b>	<b>82,588</b>	<b>25,510</b>	<b>34,762</b>	<b>33,687</b>
<b>EPS (in €)</b>	<b>0.20</b>	<b>1.96</b>	<b>0.60</b>	<b>0.81</b>	<b>0.79</b>
<b>Ratios</b>					
EBT margin on revenues	4.2%	33.2%	323.7%	518.9%	591.6%
Net margin on revenues	3.9%	32.0%	317.2%	508.5%	579.8%
Tax rate	9.2%	3.7%	2.0%	2.0%	2.0%
<b>Expenses as % of revenues</b>					
Personnel expenses	-3.0%	-3.2%	-8.0%	-7.6%	-7.4%
Other OpEx	-3.7%	-4.1%	-8.0%	-7.6%	-7.4%
Depreciation & amortisation	-0.8%	-2.0%	-0.1%	-0.1%	-0.1%
<b>Y-Y Growth</b>					
Revenues	26.3%	19.9%	-96.9%	-15.0%	-15.0%
Pre-tax income	-17.4%	837.4%	-70.2%	36.3%	-3.1%
Net income/ loss	-42.5%	894.9%	-69.7%	36.3%	-3.1%

<sup>1</sup> Please note the change to IFRS 10 accounting as of 31 December 2015



## BALANCE SHEET<sup>1</sup>

All figures in EUR '000	2014	2015	2016E	2017E	2018E
<b>Assets</b>					
<b>Current assets, total</b>	<b>68,150</b>	<b>685</b>	<b>6,452</b>	<b>13,109</b>	<b>18,946</b>
Cash and equivalents	10,117	528	6,382	13,049	18,895
ST financial assets	7,581	0	0	0	0
Trade receivables	11,523	8	22	19	16
Inventories	35,401	0	0	0	0
Other ST assets	3,528	149	48	41	35
<b>Non-current assets, total</b>	<b>82,051</b>	<b>150,419</b>	<b>163,287</b>	<b>186,264</b>	<b>208,996</b>
Property, plant & equipment	2,406	14	15	16	17
Goodwill & other intangibles	53,562	24	25	25	25
Investment properties	13,436	0	0	0	0
Financial assets	12,371	150,360	163,239	186,216	208,947
Deferred taxes	276	21	8	7	6
<b>Total assets</b>	<b>150,201</b>	<b>151,104</b>	<b>169,739</b>	<b>199,373</b>	<b>227,942</b>
<b>Shareholders' equity &amp; debt</b>					
<b>Current liabilities, total</b>	<b>28,645</b>	<b>967</b>	<b>317</b>	<b>332</b>	<b>357</b>
Trade payables	7,210	638	25	16	14
ST debt	14,359	60	0	0	0
Provisions	3,820	54	56	57	59
Other ST financial liabilities	510	205	226	248	273
Other current liabilities	2,746	10	11	11	12
<b>Long-term liabilities, total</b>	<b>26,826</b>	<b>11,117</b>	<b>10,030</b>	<b>10,024</b>	<b>10,019</b>
Long-term debt	23,356	9,990	9,990	9,990	9,990
LT provisions	27	0	0	0	0
Deferred tax liabilities	3,443	1,127	40	34	29
<b>Shareholders' equity</b>	<b>68,771</b>	<b>139,020</b>	<b>159,392</b>	<b>189,017</b>	<b>217,565</b>
Minority interests	25,959	0	0	0	0
<b>Total equity</b>	<b>94,730</b>	<b>139,020</b>	<b>159,392</b>	<b>189,017</b>	<b>217,565</b>
<b>Total consolidated equity and debt</b>	<b>124,242</b>	<b>151,104</b>	<b>169,739</b>	<b>199,373</b>	<b>227,942</b>
<b>Ratios</b>					
Current ratio (x)	2.4	0.7	20.4	39.4	53.1
Quick ratio (x)	1.1	0.7	20.4	39.4	53.1
Net debt	20,017	9,522	3,608	-3,059	-8,905
Net gearing	29%	7%	2%	-2%	-4%
Equity ratio	45.8%	92.0%	93.9%	94.8%	95.4%

<sup>1</sup> Please note the change to IFRS 10 accounting as of 31 December 2015



## CASH FLOW STATEMENT<sup>1</sup>

All figures in EUR '000	2014	2015	2016E	2017E	2018E
<b>Pre-tax income</b>	<b>9,308</b>	<b>87,279</b>	<b>26,031</b>	<b>35,472</b>	<b>34,374</b>
Depreciation and amortisation	1,829	10,896	8,328	5	4
Revaluation gains	-4,953	-81,551	-30,287	-28,856	-27,728
Changes in working capital	-9	-533	-1,578	22	30
Other adjustments	-5,055	-15,342	9,087	5,879	4,997
Net financial result	1,604	2,000	599	300	300
<b>Operating cash flow</b>	<b>2,724</b>	<b>2,749</b>	<b>12,180</b>	<b>12,821</b>	<b>11,977</b>
Interest income	158	223	0	0	0
Interest expense paid	-1,779	-2,223	-599	-300	-300
Tax paid	-1,594	-406	-521	-709	-687
<b>Net operating cash flow</b>	<b>-491</b>	<b>343</b>	<b>11,060</b>	<b>11,812</b>	<b>10,990</b>
CapEx	-9,913	-26,814	-8	-7	-6
Proceeds from disposal of fixed assets	13,387	18,623	0	0	0
<b>Cash flow from investing</b>	<b>3,474</b>	<b>-8,191</b>	<b>-8</b>	<b>-7</b>	<b>-6</b>
<b>Free cash flow (FCF)</b>	<b>2,983</b>	<b>-7,848</b>	<b>11,052</b>	<b>11,805</b>	<b>10,984</b>
Equity inflow, net	2,485	3,652	0	0	0
Debt inflow, net	5,880	6,741	-60	0	0
Dividend paid to shareholders	-7,086	-8,223	-5,138	-5,138	-5,138
<b>Cash flow from financing</b>	<b>1,279</b>	<b>2,170</b>	<b>-5,198</b>	<b>-5,138</b>	<b>-5,138</b>
<b>Net cash flows</b>	<b>4,262</b>	<b>-9,590</b>	<b>5,854</b>	<b>6,667</b>	<b>5,846</b>
Cash, start of the year	5,855	10,117	528	6,382	13,049
<b>Cash, end of the year</b>	<b>10,117</b>	<b>528</b>	<b>6,382</b>	<b>13,049</b>	<b>18,895</b>
<b>EBITDA/share (in €)</b>	<b>0.30</b>	<b>0.56</b>	<b>0.14</b>	<b>0.00</b>	<b>0.00</b>
<b>Y-Y Growth</b>					
Operating cash flow	n.m.	n.m.	3124.5%	6.8%	-7.0%
Free cash flow	n.m.	n.m.	n.m.	6.8%	-7.0%
EBITDA/share	-50.4%	88.7%	-75.0%	n.m.	n.m.

<sup>1</sup> Please note the change to IFRS 10 accounting as of 31 December 2015



### FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	29 October 2012	€2.45	Buy	€5.50
2...10	↓	↓	↓	↓
11	18 May 2015	€2.44	Buy	€5.00
12	4 September 2015	€2.02	Buy	€5.10
13	16 June 2016	€2.64	Buy	€4.90
14	Today	€2.70	Buy	€5.20

**Authored by: Ellis Acklin, Analyst**

**Company responsible for preparation:**

**First Berlin Equity Research GmbH**

Mohrenstraße 34  
10117 Berlin

Tel. +49 (0)30 - 80 93 96 83 Fax +49 (0)30 - 80 93 96 87

info@firstberlin.com

www.firstberlin.com

**Person responsible for forwarding or distributing this financial analysis: Martin Bailey**

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