

# German Startups Group Berlin GmbH & Co. KGaA

Germany / Financials  
 Frankfurt  
 Bloomberg: GSJ GR  
 ISIN: DE000A1MMEV4

H1 financial results

**RATING**  
**BUY**

**PRICE TARGET**  
**€4.20**

Return Potential 65.5%  
 Risk Rating Medium

## ON TRACK TO MEET FULL YEAR FORECASTS

German Startups Group (GSG) published its H1 2016 report and an update on its portfolio holdings on 7 September. The financial results came in below our expectations mainly due to temporary weakness in the result from the investment business. The result from the investment business, which reflects portfolio appreciation based on third party valuations of the holdings (IFRS), declined 36% yoy to €1.7m (FBe: €27m; H1/15: €2.7m). We note that financing deals are customarily volatile over the course of a year. Management confirmed a positive financing outlook for its holdings. We therefore anticipate that a stronger H2 2016 will enable GSG to meet our FY/16 forecasts which we have not changed. The 25 minority holdings of particular significance for the company developed as expected during the reporting period. Recently, GSG added two new holdings to its portfolio, the online soccer platform, Onefootball and the commercial insurance comparison portal, Gewerbeversicherung24. In addition, GSG secured through a convertible note a further participation in the core holding Auctionata/Paddle 8, which will triple its stake of 0.33% to about 1.0%. We continue to believe the company is significantly undervalued at current levels. We reiterate our Buy recommendation and our €4.20 price target.

### Solid revenues, EBIT affected by weak result from the investment business

Revenues were higher than we anticipated at €6.0m (FBe: €5.5m; H1/15: €13k). Revenues reflected the acquisition and consolidation of the 50.5% stake in Exozet from 30 June 2015. On a proforma basis, Exozet's revenues grew yoy by an impressive 58% boosted by the largest service contract (in the mid-single digit million-euro range) in the history of the company which was signed at the end of 2015. We note that the second half of the year is usually seasonally stronger for Exozet than the first half. GSG recorded an EBIT of €1.4m (FBe: €2.2m; H1/15: €1.9m) of which Exozet contributed €0.6m. Net income for the period was €1.9m (FBe: €2.2m; H1/15: €2.0m), boosted by a one-off tax credit of €552k. EPS came in at €0.16 (FBe: €0.19; H1/15: €0.18). (p.t.o)

### FINANCIAL HISTORY & PROJECTIONS

	2014	2015	2016E	2017E	2018E	2019E
Revenue (€m)	0.07	5.60	12.50	13.13	13.78	14.47
Profit on portfolio (€m)	2.48	4.79	7.30	10.64	17.11	22.00
EBIT (€m)	1.49	3.72	6.90	10.50	17.25	22.23
EBITDA (€m)	1.53	3.98	7.49	11.11	17.90	22.91
Net income (€m)	1.44	3.65	6.74	9.99	16.41	21.18
EPS (diluted) (€)	0.22	0.33	0.48	0.72	1.18	1.52
Fin. Assets (€m)	9.45	18.26	29.54	45.03	64.69	87.47
NAV (€m)	14.12	29.45	37.07	47.07	63.49	84.68
Net gearing	-12.4%	-11.4%	2.2%	14.5%	17.0%	15.7%
Liquid assets (€m)	1.75	4.53	1.50	1.50	3.00	6.00

### RISKS

Risks include, but are not limited to, portfolio risk, portfolio liquidity (exit possibilities) and shareholder dilution

### COMPANY PROFILE

German Startups Group is a venture capital company focused on investing in young and high growth technology companies within the IT and Internet sectors. The company is based in Berlin and has a regional focus on German-speaking countries.

### MARKET DATA

As of 13 Sep 2016

Closing Price	€ 2.54
Shares outstanding	11.98m
Market Capitalisation	€ 30.42m
52-week Range	€ 2.42 / 3.90
Avg. Volume (12 Months)	12,501

Multiples	2015	2016E	2017E
P/E	7.7	5.2	3.5
P/Book Value	1.03	0.82	0.65
Div. Yield	0%	0%	0%

### STOCK OVERVIEW



### COMPANY DATA

As of 30 Jun 2016

Liquid Assets	€ 1.15m
Current Assets	€ 9.02m
NAV	€ 33.02m
Total Assets	€ 40.76m
Current Liabilities	€ 2.86m
Total Equity	€ 34.23m

### SHAREHOLDERS

Cara Investments GmbH	12.5%
Sondervermögen Frankf. Aktienfonds	9.2%
Gerlinger family	9.0%
Oceanlink Investments Limited	8.5%
Freefloat & others	60.8%

**Figure 1: P&L H1/16 reported figures vs. FB estimates and H1/15 (KPIs)**

All figures in EUR '000	H1/16	H1/16E	Delta	H1/15	Delta
Revenue	5,970	5,500	9%	13	44715%
Result from investment business	1,724	2,700	-36%	2,658	-35%
Operating income (EBIT)	1,412	2,200	-36%	1,920	-26%
<i>margin</i>	24%	27%		72%	
Net financial result	-22	30	n.a.	3	n.a.
Tax expense	552	0	n.a.	28	1882%
Net income / loss	1,942	2,230	-13%	1,951	0%
EPS (in EUR, dil.)	0.16	0.19	-13%	0.18	-8%

Source: First Berlin Equity Research, German Startups Group

**H1/16 balance sheet reflects positive development of holdings** In our view, the most important item on GSG's balance sheet is financial assets. This item reflects the current value of the portfolio's minority holdings under IFRS. GSG reported financial assets of €23.9m, up by 31% from year end of 2015 (€18.3m). These figures reflect portfolio expansion as well as the significant value appreciation of the holdings. Chiefly driven by the large contract acquired by Exozet, GSG's balance sheet saw a 44% increase in receivables, which amounted to €3.8m (FY 2015: €2.6m). GSG reported a lower cash position of €1.2m (FY/15: €4.5m) mainly due to cash outflows for new investments in minority holdings amounting to €2.9m during the period. This cash position is sufficient to fund ongoing operations for almost 24 months, even without considering proceeds from future potential exits. Equity increased to €34.2m (FY/15: €30.4m), corresponding to a high equity ratio of 84% (FY/15: 85%).

**Figure 2: Balance sheet reported figures H1/16 vs. FY/15 (KPIs)**

All figures in EUR '000	H1/16	FY/15	Delta
Cash & cash equivalents	1,155	4,527	-74%
Receivables	3,752	2,599	44%
Other short term assets	4,115	3,744	10%
<b>Current assets, total</b>	<b>9,022</b>	<b>10,870</b>	<b>-17%</b>
Goodwill	3,015	3,015	0%
Intangible assets	1,565	1,479	6%
Financial Assets	23,884	18,260	31%
<b>Non-current assets, total</b>	<b>31,738</b>	<b>25,084</b>	<b>27%</b>
Financial debt (LT & ST)	981	1,064	-8%
Total Equity	34,228	30,458	12%
Equity ratio	84%	85%	-1%
<b>Balance sheet, total</b>	<b>40,760</b>	<b>35,954</b>	<b>13%</b>

Source: First Berlin Equity Research, German Startups Group

**GSG secured a flexible bridge loan of €8m from current investors** In view of the current low share price, management has decided not to raise fresh equity. The company will not make use of its authorisation to raise the share capital by 27m shares which expires on 23 September 2016. Instead GSG has secured a flexible credit line of €8m from current shareholders. The credit line has an interest rate of 7.5%. In our view, management will most likely make use of these funds only in the case of highly attractive investment opportunities. The company is likely to require a capital increase to repay any debt arising through this credit line.



**Cash flow** GSG's positive net income includes €1.7m non-cash profit generated through fair value gains on its minority holdings (NAV). The NAV is determined through third party valuation in accordance to IFRS. As a result GSG's operating cash flow in H1/16 was €-0.9m (H1/15: €-0.7m). Cash flow from investment activities totalled €-3.3m (H1/15: €-2.5m), due to investment in minority holdings amounting to €2.9m (H1/15: €2.2m). Hence, free cash flow (operating cash flow minus CAPEX) was also negative at €-1.3m (H1/15: €-0.7m). Net cash flow came in at €-3.4m (H1/15: €0.7m), chiefly driven by a strong investment activity for the portfolio expansion.

**Andreas von Blottnitz strengthened GSG's supervisory board as of 04.08.2016** Mr. von Blottnitz joined the supervisory board as successor to Mr. Henric Buettner, who stepped down on 30.06.2016. Mr. von Blottnitz is a successful serial entrepreneur, business angel and venture capitalist. In 1995, he founded AOL Europe with Mr. Buettner and Bertelsmann. This company was the object of a then record-breaking exit to AOL Time Warner for \$6.75bn in 2000/2001. Mr. von Blottnitz was later CEO of the US-based software start-up Expertcity, which was acquired by Citrix Systems for \$225m. Mr von Blottnitz has participated as VC or board member in several exits of US based start-ups to companies such as Hewlett Packard, Best Buy and Red Hat.

**The 25 minority holdings of particular significance for the company continued to show a positive development** During H1/16, the majority of GSG's significant holdings delivered positive news flow on the achievement of certain milestones including solid sales growth, client base expansion, strategic alliances (e.g. mergers or cooperations), financing rounds, etc. GSG's FinTech portfolio comprising 11 holdings performed particularly well, delivering a strong gross performance (result from investment business/average invested capital) of 51.3% p.a. since first investment in Q2/13. The overall portfolio achieved a gross performance of 27.7% p.a. in the same period.

**Progress of top 10 core holdings:** The H1 report contained no significant news on the holdings Ceritech and Tictail. We have summarised milestones achieved by eight of the top ten core holdings below:

**Mister Spex (0.95% stake)**, Europe's largest online retailer for branded eyewear continues its expansion path. Besides launching its online shop in the Netherlands, in May the company started cooperation with more than twenty local Dutch partner opticians, who offer additional free-of-charge services such as eyesight tests and fitting adjustments for Mister Spex customers. We met the company's CEO, Dirk Graber, in June and were positively impressed by his deep industry knowledge. The company's first physical store opened in Berlin, Germany in early 2016 and has been very successful. We therefore believe further stores may follow. In August the Berlin store received the internationally prestigious Red Dot Award for its innovative design and space concept. We see positive growth prospects for the company.

**SoundCloud (0.19% stake)**, the global online audio distribution platform, won an additional noteworthy investor in Twitter. Twitter invested approximately \$70m in June for an undisclosed stake in the company. Additionally, SoundCloud launched several new significant products such as advertising and subscription services that will increase the company's ability to monetise its 175 million monthly users. The company has license agreements with Universal Music, Warner Music and Sony.

**Delivery Hero (0.06% stake)**, the leading online food ordering service, achieved a revenue increase of 91% to €72m in the first quarter of 2016, according to a statement by one of its investors (Q1 2015: €38m).



**Auctionata/Paddle 8 (pre merger/post merger stake 0.33% / 0.23%).** Auctionata, one of the largest European art and luxury goods online auction houses, announced a merger with the leading US action house Paddle 8 in May. The combined companies have over €130m in joint annual sales and 800k registered users, making the merged entity one of the largest auctioneers in the world outside of China. This business combination reinforces the company's market dominance. Through the merger, GSG's stake in the company fell to 0.23% (previously 0.33%). However, GSG recently secured an additional stake in the company by means of a convertible note. As a result, GSG will soon increase its participation in Auctionata/Paddle8 to about 1.0%.

**TVSmiles (8.53% stake),** the pioneer in mobile native advertising, in early September announced the expansion of its business model. The company has launched the ad platform KWIZZAD, which offers advertisers and app publishers the possibility to integrate quiz-based advertising into their own apps. Through the platform, advertisers and publishers achieve a higher monetization rate and stronger brand engagement. The first client for Kwizzard is Deichmann, which saw a very positive outcome from advertising with the quiz-ad format. To facilitate the platform's launch, TVSmiles has partnered with the German publisher Stanwood (develops apps for ProSiebenSat.1, Condé Nast, etc.) and Whow Games GmbH.

**Simplesurance/Schutzklick (2.37% stake),** the online market leader in individual product insurance, won Allianz as an additional cooperation and investment partner in June. From now on, the Berlin-based company will also distribute Allianz products in 28 European countries via customer portals such as Schutzklick.de as well as some 1,500 online shops. Simplesurance recorded a significant valuation increase as a result of this financing round. Furthermore, Simplesurance was awarded a "very good" grade by a leading finance magazine in a test of 20 mobile phone insurers.

**Friendsurance (2.40% stake).** In June the innovative online peer-to-peer insurance platform secured \$15.3 million in a funding round led by Horizons Ventures. Strategic investors and business angels from Asia and the USA participated in the round.

**Scalable Capital (2.68% stake),** offers a digital wealth management service, using its proprietary "robo-advisor" platform which allows clients to make online investments into digital portfolios according to their risk appetite. In May the company raised €7m in funding from investors including Holtzbrink Ventures, Monk's Hill Ventures, GSG, Rainer Mauch and MPGI.

**Progress of top 11-25 holdings:** During H1/16, GSG invested in a new company now included in the group of top 11-25 holdings. The newcomer is Onefootball, which is active in over 200 countries with over 20m users. The company claims to be the largest soccer platform worldwide. Additionally, we give a quick overview on progress achieved by selected GSG holdings within the top 11-25 minority holdings of particular significance for the company.

**Fiagon** is a medtech company offering navigation instruments to monitor surgical procedures. During H1/16, the company received FDA approval for ear, nose, throat instruments and brain navigation software, which give these products access to the North American market. According to the company, it now sells its products in over 50 countries worldwide.

**Juniqe** is an online marketplace for the commercialization of artwork from independent artists printed on numerous products. The company increased its valuation through the €14m raised from noteworthy investors such as Highland Capital Partners Europe, Vorwerk



Ventures, High-Tech Gründerfonds, and Redalpine. Junique plans to use the funds raised to boost growth in Europe.

**Buy rating and price target reiterated** In view of GSG's positive achievements over the reporting period, we continue to believe the company is significantly undervalued at current levels. Based on unchanged estimates, our residual income model based on portfolio NAV still yields a price target of €4.20. We reiterate our Buy recommendation.

## VALUATION MODEL

Figure 3: Residual Income Model

In €'000	2016	2017	2018	2019	2020	2021	2022
Shareholders' equity	37,067	47,068	63,492	84,682	108,247	132,335	157,275
Average shareholders' equity	33,260	42,068	55,280	74,087	96,465	120,291	144,805
Net profit	6,735	9,991	16,414	21,180	23,554	24,076	24,929
<b>NAV per share</b>	<b>2.67</b>	<b>3.39</b>	<b>4.57</b>	<b>6.09</b>	<b>7.79</b>	<b>9.52</b>	<b>11.31</b>
<b>Return on equity</b>							
Return on equity	20.2%	23.8%	29.7%	28.6%	24.4%	20.0%	17.2%
Cost of equity	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%
<b>Spread</b>	<b>4.2%</b>	<b>7.8%</b>	<b>13.7%</b>	<b>12.6%</b>	<b>8.4%</b>	<b>4.0%</b>	<b>1.2%</b>
<b>Residual income</b>							
Residual income	1,413	3,261	7,569	9,326	8,120	4,830	1,761
PV of residual income stream	1,277	2,540	5,083	5,399	4,053	2,078	653
<b>Fair value calculation</b>							
NAV (2015)	29,452						
PV of residual income stream	21,084						
Fair value	50,536						
Number of shares (000's, fully diluted)	11,984						
<b>Fair value per share €</b>	<b>4.20</b>						

Source: First Berlin Equity Research



## INCOME STATEMENT

All figures in EUR '000	2014	2015	2016E	2017E	2018E	2019E
<b>Revenue</b>	<b>72</b>	<b>5,602</b>	<b>12,500</b>	<b>13,125</b>	<b>13,781</b>	<b>14,470</b>
<b>Result from investment business</b>	<b>2,479</b>	<b>4,792</b>	<b>7,304</b>	<b>10,636</b>	<b>17,110</b>	<b>21,996</b>
Change in inventories	0	-851	-1,021	-1,043	-1,065	-1,087
Cost of materials and services received	0	-945	-1,702	-1,703	-1,705	-1,707
Income from own work capitalized	0	179	185	190	196	202
Personnel expenses	-116	-3,117	-6,412	-6,604	-6,802	-7,142
Other operating income / expenses	-900	-1,678	-3,368	-3,488	-3,615	-3,820
Depreciation and amortization	-47	-263	-586	-615	-646	-679
<b>EBITDA</b>	<b>1,534</b>	<b>3,983</b>	<b>7,486</b>	<b>11,113</b>	<b>17,900</b>	<b>22,912</b>
<b>Operating income (EBIT)</b>	<b>1,487</b>	<b>3,720</b>	<b>6,900</b>	<b>10,498</b>	<b>17,254</b>	<b>22,233</b>
Net financial result	-18	-139	85	-256	-590	-803
<b>Pre-tax income (EBT)</b>	<b>1,469</b>	<b>3,581</b>	<b>6,985</b>	<b>10,241</b>	<b>16,664</b>	<b>21,430</b>
Tax expense	-34	263	0	0	0	0
<b>Net income / loss</b>	<b>1,435</b>	<b>3,844</b>	<b>6,985</b>	<b>10,241</b>	<b>16,664</b>	<b>21,430</b>
Minority interests	0	196	250	250	250	250
<b>Net income / loss</b>	<b>1,435</b>	<b>3,648</b>	<b>6,735</b>	<b>9,991</b>	<b>16,414</b>	<b>21,180</b>
<b>Basic EPS (in €)</b>	<b>0.22</b>	<b>0.33</b>	<b>0.48</b>	<b>0.72</b>	<b>1.18</b>	<b>1.52</b>
<b>Diluted EPS (in €)</b>	<b>0.22</b>	<b>0.31</b>	<b>0.48</b>	<b>0.72</b>	<b>1.18</b>	<b>1.52</b>
<b>Ratios</b>						
EBITDA margin on revenues	60.1%	38.3%	37.8%	46.8%	57.9%	62.8%
EBIT margin on revenues	58.3%	35.8%	34.8%	44.2%	55.9%	61.0%
Tax rate	2.3%	-7.3%	0.0%	0.0%	0.0%	0.0%
<b>Expenses as % of revenues</b>						
Cost of materials and services received	n.m.	16.9%	13.6%	13.0%	12.4%	11.8%
Personnel expenses	n.m.	55.6%	51.3%	50.3%	49.4%	49.4%
<b>Y-Y Growth</b>						
Revenues	n.m.	7702.8%	123.1%	5.0%	5.0%	5.0%
EBITDA	n.m.	225.4%	-89.4%	-87.2%	-83.5%	-83.9%
Operating income	n.m.	150.2%	85.5%	52.1%	64.4%	28.9%
Net income/ loss	n.m.	154.2%	84.6%	48.4%	64.3%	29.0%



## BALANCE SHEET

All figures in EUR '000	2014	2015	2016E	2017E	2018E	2019E
<b>Assets</b>						
<b>Current assets, total</b>	<b>4,744</b>	<b>10,870</b>	<b>8,477</b>	<b>9,175</b>	<b>11,443</b>	<b>15,287</b>
Cash & cash equivalents	1,751	4,527	1,500	1,500	3,000	6,000
Other short term assets	475	1,890	2,079	2,287	2,515	2,767
Other current financial assets	2,500	1,693	1,862	2,048	2,253	2,478
Trade and other receivables	19	2,599	2,859	3,145	3,460	3,806
Inventories	0	161	177	195	215	236
<b>Non-current assets, total</b>	<b>10,012</b>	<b>25,084</b>	<b>36,931</b>	<b>53,026</b>	<b>73,366</b>	<b>96,873</b>
Goodwill	0	3,015	3,316	3,648	4,012	4,414
Intangible assets	26	1,479	1,627	1,790	1,969	2,166
Property plant & equipment	0	211	232	255	281	309
Financial Assets	9,450	18,260	29,545	45,026	64,694	87,466
Deferred tax assets	123	1,723	1,775	1,828	1,883	1,939
Other LT financial assets	413	396	436	479	527	580
<b>Total assets</b>	<b>14,757</b>	<b>35,954</b>	<b>45,408</b>	<b>62,202</b>	<b>84,809</b>	<b>112,160</b>
<b>Shareholders' equity &amp; debt</b>						
<b>Current liabilities, total</b>	<b>360</b>	<b>3,360</b>	<b>3,427</b>	<b>4,963</b>	<b>6,402</b>	<b>7,861</b>
ST borrowings from banks	0	670	468	1,709	2,822	3,923
Trade & other payables	309	679	747	821	903	994
Other current liabilities	51	2,011	2,212	2,433	2,677	2,944
<b>Long-term liabilities, total</b>	<b>278</b>	<b>2,137</b>	<b>3,659</b>	<b>8,665</b>	<b>13,160</b>	<b>17,612</b>
LT borrowings from banks	0	394	1,873	6,836	11,286	15,692
Provisions	105	320	330	340	350	360
Deferred tax liabilities	173	1,083	1,116	1,149	1,184	1,219
Other LT liabilities	0	340	340	340	340	340
<b>Total liabilities</b>	<b>638</b>	<b>5,497</b>	<b>7,086</b>	<b>13,628</b>	<b>19,561</b>	<b>25,473</b>
<b>Total Equity</b>	<b>14,118</b>	<b>30,458</b>	<b>38,322</b>	<b>48,573</b>	<b>65,247</b>	<b>86,687</b>
Shareholder's equity	14,118	29,452	37,067	47,068	63,492	84,682
Minority interests	0	1,005	1,255	1,505	1,755	2,005
<b>Total Equity and Liabilities</b>	<b>14,757</b>	<b>35,954</b>	<b>45,408</b>	<b>62,202</b>	<b>84,809</b>	<b>112,160</b>
<b>Ratios</b>						
Current ratio (x)	13.17	3.24	2.47	1.85	1.79	1.94
Equity ratio	95.7%	87.5%	87.2%	80.5%	79.0%	79.1%
Gearing	-12.4%	-11.4%	2.2%	14.5%	17.0%	15.7%
Net debt	-1,751	-3,464	841	7,045	11,108	13,615
Return on equity (ROE)	n.a.	26.0%	20.2%	23.8%	29.7%	28.6%



## CASH FLOW STATEMENT

All figures in EUR '000	2014	2015	2016E	2017E	2018E	2019E
<b>Net income</b>	<b>1,435</b>	<b>3,648</b>	<b>6,735</b>	<b>9,991</b>	<b>16,414</b>	<b>21,180</b>
Depreciation & amortisation, daferred taxes, provisions	80	-215	586	615	646	679
Non-cash change in financial assets	-2479	-4,787	-7,304	-10,636	-17,110	-21,996
Minority interests	0	197	250	250	250	250
<b>Operating cash flow</b>	<b>-964</b>	<b>-1,157</b>	<b>267</b>	<b>221</b>	<b>200</b>	<b>112</b>
Changes in working capital	187	1,476	-405	-445	-490	-539
<b>Net operating cash flow</b>	<b>-777</b>	<b>319</b>	<b>-138</b>	<b>-225</b>	<b>-290</b>	<b>-427</b>
CapEx / intangibles	-32	-1,788	-1,057	-1,133	-1,216	-1,305
Cash outflows from acquisition of financial assets	-4,284	-6,338	-6,026	-8,863	-11,257	-18,114
Cash inflows from sales of financial assets	222	896	2,045	4,018	8,699	17,338
<b>Cash flow from investing</b>	<b>-4,094</b>	<b>-7,230</b>	<b>-5,037</b>	<b>-5,978</b>	<b>-3,773</b>	<b>-2,081</b>
<b>Free cash flow</b>	<b>-809</b>	<b>-1,469</b>	<b>-1,194</b>	<b>-1,358</b>	<b>-1,506</b>	<b>-1,732</b>
Debt financing, net	0	470	1,278	6,203	5,563	5,508
Equity financing, net	4,800	9,217	870	0	0	0
<b>Cash flow from financing</b>	<b>4,800</b>	<b>9,687</b>	<b>2,148</b>	<b>6,203</b>	<b>5,563</b>	<b>5,508</b>
<b>Net cash flows</b>	<b>-71</b>	<b>2,776</b>	<b>-3,027</b>	<b>0</b>	<b>1,500</b>	<b>3,000</b>
Cash, start of the year	1,822	1,751	4,527	1,500	1,500	3,000
<b>Cash, end of the year</b>	<b>1,751</b>	<b>4,527</b>	<b>1,500</b>	<b>1,500</b>	<b>3,000</b>	<b>6,000</b>



### FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	25 April 2016	€2.74	Buy	€4.20
...	↓	↓	↓	↓
2	Today	€2.54	Buy	€4.20

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