

**Buy** (old: Buy)

24.05.2024

**EUR 11.70** (old: EUR 11.70)

### Strong Q1 displays ongoing operational improvements; chg.

NFON released Q1 results, showing a continuously strong recurring revenue ratio as well as further profitability improvements. In detail:

**Q1 recurring revenues increased by 2.8% yoy to € 19.9m** (eNuW: € 20.4m) and remained at a continuously strong ratio of 93.6% as total sales came in at € 21.1m. Sales growth was predominantly driven by an **increased seat base** (+2% to 659k) as well as the cross-selling referring to the company's premium solutions. This also becomes visible in the blended **ARPU** (adjusted for SIP-Trunk sales), which **improved to € 9.82** vs € 9.80 in Q1'23.

While we expect seat growth to remain at a stable pace throughout the year, ARPU is seen to further improve driven by (1) premium solutions like CC Hub, where ARPU levels of € 30-40 can be achieved, as well as (2) price indexation effects which came into effect in April.

**Profitability further improved**, as **adjusted EBITDA increased disproportionately by 43% yoy to € 2.8m** (eNuW: € 2.6m; reported EBITDA at € 2.7m). This was partly driven by a slightly improved gross margin of 84.1% (+0.3pp yoy) but more importantly by ongoing improvements on the personnel (-2pp yoy sales ratio) and other OpEx (-1.5pp yoy; mostly sales & marketing) level. Q1 EBIT came in at € 0.7m while FCF was slightly positive with € 0.2m.

Going forward, we expect continuous improvements based on the mentioned development of the sales-mix as well as further efficiency gains, especially in connection with the integration of DTS, which is seen to create significant synergies from H2 onwards.

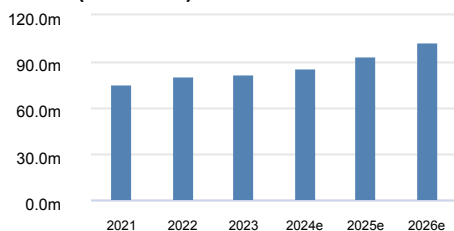
On this basis, **management confirmed the FY guidance**, targeting recurring revenue growth in the mid-to upper-single-digit-% range (eNuW new: +5.3%) at a recurring revenue ratio of >90% (eNuW new: 93.9%) as well as an adjusted EBITDA in the range of € 10-12m (eNuW new: € 11.5m).

That said, valuation remains attractive, in our view, as shares are trading on a mere 1.2 EV/Sales '24e (9.9x EV/EBITDA). We therefore reiterate **BUY with an unchanged PT of € 11.70** based on DCF. NFON remains part of our NuWays Alpha List.

Y/E 31.12 (EUR m)	2021	2022	2023	2024e	2025e	2026e
Sales	75.9	80.8	82.3	86.5	94.4	102.5
Sales growth	12.3%	6.5%	1.9%	5.0%	9.2%	8.6%
Adj. EBITDA	-1.3	-1.0	8.4	11.5	14.8	17.8
Net debt (if net cash=0)	-22.6	-7.4	-2.4	-3.9	-8.3	-14.4
FCF	-9.7	-12.4	1.0	1.5	4.4	6.1
Net Debt/EBITDA	0.0	0.0	0.0	0.0	0.0	0.0
EPS pro forma	-0.54	-0.94	-0.05	0.15	0.35	0.47
Adj. EBITDA margin	-1.7%	-1.2%	10.2%	13.3%	15.7%	17.4%
ROCE	-12.5%	-19.8%	-0.8%	5.3%	11.0%	15.2%
EV/sales	3.5	1.2	1.2	1.2	1.0	0.9
EV/adj. EBITDA	-204.6	-97.8	12.2	8.8	6.5	5.1
PER	-11.8	-6.7	-133.5	41.1	18.4	13.6
Adjusted FCF yield	-1.6%	-7.5%	4.4%	7.2%	10.4%	8.6%

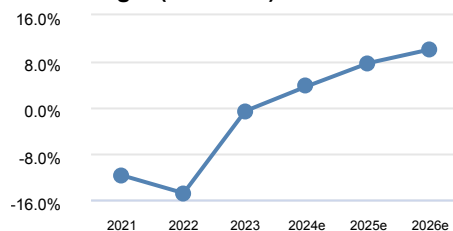
Source: Company data, NuWays, Close price as of 22.05.2024

#### Sales (2021-26e)



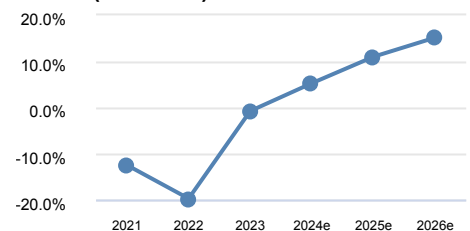
Source: NuWays Research

#### EBIT margin (2021-26e)



Source: NuWays Research

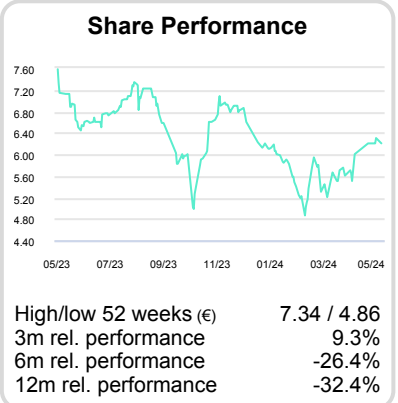
#### ROCE (2021-26e)



Source: NuWays Research

#### Company description

NFON is the German market leader for integrated business communication. NFON offers an easy-to-use, independent and reliable solution for advanced cloud business communications. Further premium and industry solutions complete the portfolio in the field of cloud communications.



#### Market data

Share price (in €)	6.20
Market cap (in € m)	105.2
Number of shares (in m pcs)	16.6
Enterprise value (in € m)	101.2
Ø trading volume (6 months)	3,049

#### Identifier

Bloomberg	NFN GR
Reuters	NFN
WKN	A0N4N5
ISIN	DE000A0N4N52

#### Key shareholders

Milestone Venture Capital	31.9%
AOC	27.6%
Universal	8.3%
Teslin	7.0%
Morgan Stanley	6.0%
Free Float	19.2%

#### Estimates changes

	2024e	2025e	2026e
Sales	-2%	-2%	-2%
EBIT	-8%	11%	9%
EPS	-8%	11%	9%

#### Comment on changes

- We adjusted our model following the Q1 release, i.e. fully reflecting the costs of the DTS integration

#### Guidance

- ARR: mid- to upper-single-digit-% growth & >90% ratio
- Adj. EBITDA: € 10-12m

## Financials

Profit and loss (EUR m)	2021	2022	2023	2024e	2025e	2026e
<b>Net sales</b>	<b>75.9</b>	<b>80.8</b>	<b>82.3</b>	<b>86.5</b>	<b>94.4</b>	<b>102.5</b>
<i>Sales growth</i>	12.3%	6.5%	1.9%	5.0%	9.2%	8.6%
Increase/decrease in finished goods and work-in-process	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total sales</b>	<b>75.9</b>	<b>80.8</b>	<b>82.3</b>	<b>86.5</b>	<b>94.4</b>	<b>102.5</b>
Other operating income	0.6	1.1	0.9	0.9	0.9	1.0
Material expenses	14.5	14.4	13.0	13.8	14.6	15.4
Personnel expenses	31.7	37.4	34.9	35.0	36.1	38.4
Other operating expenses	32.3	35.3	28.6	28.3	30.2	32.3
<b>EBITDA</b>	<b>-2.0</b>	<b>-5.3</b>	<b>6.8</b>	<b>10.2</b>	<b>14.4</b>	<b>17.4</b>
Adjustments	0.7	4.3	1.6	1.3	0.4	0.4
<b>Adj. EBITDA</b>	<b>-1.3</b>	<b>-1.0</b>	<b>8.4</b>	<b>11.5</b>	<b>14.8</b>	<b>17.8</b>
Depreciation	3.2	3.3	3.5	3.3	3.3	3.3
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	3.7	3.4	3.9	3.8	3.8	3.8
Impairment charges	0.0	0.0	0.0	0.0	0.0	0.0
<b>EBIT (inc revaluation net)</b>	<b>-9.0</b>	<b>-12.0</b>	<b>-0.5</b>	<b>3.2</b>	<b>7.3</b>	<b>10.4</b>
Interest income	0.0	0.0	0.2	0.3	0.3	0.5
Interest expenses	0.3	0.2	0.4	0.5	0.5	0.5
Investment income	0.0	0.0	0.0	0.0	0.0	0.0
Financial result	-0.3	-0.2	-0.2	-0.2	-0.1	-0.0
<b>Recurring pretax income from continuing operations</b>	<b>-9.2</b>	<b>-12.2</b>	<b>-0.7</b>	<b>3.0</b>	<b>7.2</b>	<b>10.3</b>
Extraordinary income/loss	0.0	0.0	0.0	0.0	0.0	0.0
<b>Earnings before taxes</b>	<b>-9.2</b>	<b>-12.2</b>	<b>-0.7</b>	<b>3.0</b>	<b>7.2</b>	<b>10.3</b>
Income tax expense	0.4	0.1	0.1	0.5	1.4	2.6
<b>Net income from continuing operations</b>	<b>-8.9</b>	<b>-15.6</b>	<b>-0.8</b>	<b>2.6</b>	<b>5.7</b>	<b>7.7</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>-8.9</b>	<b>-15.6</b>	<b>-0.8</b>	<b>2.6</b>	<b>5.7</b>	<b>7.7</b>
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net profit (reported)</b>	<b>-8.9</b>	<b>-15.6</b>	<b>-0.8</b>	<b>2.6</b>	<b>5.7</b>	<b>7.7</b>
Average number of shares	16.6	16.6	16.6	16.6	16.6	16.6
<b>EPS reported</b>	<b>-0.54</b>	<b>-0.94</b>	<b>-0.05</b>	<b>0.15</b>	<b>0.35</b>	<b>0.47</b>

Profit and loss (common size)	2021	2022	2023	2024e	2025e	2026e
<b>Net 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>
<i>Sales growth</i>	12.3%	6.5%	1.9%	5.0%	9.2%	8.6%
Increase/decrease in finished goods and work-in-process	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Total 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>
Other operating income	0.7%	1.3%	1.1%	1.0%	1.0%	1.0%
Material expenses	19.0%	17.8%	15.8%	16.0%	15.5%	15.0%
Personnel expenses	41.8%	46.3%	42.4%	40.5%	38.2%	37.5%
Other operating expenses	42.6%	43.7%	34.7%	32.7%	32.0%	31.5%
<b>EBITDA</b>	<b>-2.6%</b>	<b>-6.5%</b>	<b>8.3%</b>	<b>11.8%</b>	<b>15.3%</b>	<b>17.0%</b>
Adjustments	0.9%	5.3%	1.9%	1.5%	0.4%	0.4%
<b>Adj. EBITDA</b>	<b>-1.7%</b>	<b>-1.2%</b>	<b>10.2%</b>	<b>13.3%</b>	<b>15.7%</b>	<b>17.4%</b>
Depreciation	4.2%	4.1%	4.2%	3.8%	3.5%	3.2%
Amortisation of goodwill	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Amortisation of intangible assets	4.9%	4.3%	4.7%	4.4%	4.0%	3.7%
Impairment charges	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>EBIT (inc revaluation net)</b>	<b>-11.8%</b>	<b>-14.9%</b>	<b>-0.6%</b>	<b>3.7%</b>	<b>7.7%</b>	<b>10.1%</b>
Interest income	0.0%	0.0%	0.2%	0.4%	0.4%	0.4%
Interest expenses	0.4%	0.2%	0.4%	0.6%	0.5%	0.5%
Investment income	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Financial result	neg.	neg.	neg.	neg.	neg.	neg.
<b>Recurring pretax income from continuing operations</b>	<b>-12.1%</b>	<b>-15.1%</b>	<b>-0.8%</b>	<b>3.5%</b>	<b>7.6%</b>	<b>10.1%</b>
Extraordinary income/loss	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Earnings before taxes</b>	<b>-12.1%</b>	<b>-15.1%</b>	<b>-0.8%</b>	<b>3.5%</b>	<b>7.6%</b>	<b>10.1%</b>
Tax rate	3.4%	-1.1%	-14.2%	15.0%	20.0%	25.0%
<b>Net income from continuing operations</b>	<b>-11.7%</b>	<b>-19.3%</b>	<b>-1.0%</b>	<b>3.0%</b>	<b>6.1%</b>	<b>7.5%</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>-11.7%</b>	<b>-19.3%</b>	<b>-1.0%</b>	<b>3.0%</b>	<b>6.1%</b>	<b>7.5%</b>
Minority interest	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Net profit (reported)</b>	<b>-11.7%</b>	<b>-19.3%</b>	<b>-1.0%</b>	<b>3.0%</b>	<b>6.1%</b>	<b>7.5%</b>

Source: Company data, NuWays

Balance sheet (EUR m)	2021	2022	2023	2024e	2025e	2026e
Intangible assets	30.0	34.0	35.4	38.1	41.0	44.0
Property, plant and equipment	8.2	8.7	11.6	10.7	9.8	9.0
Financial assets	0.6	0.7	0.7	0.7	0.7	0.7
<b>FIXED ASSETS</b>	<b>38.8</b>	<b>43.5</b>	<b>47.7</b>	<b>49.5</b>	<b>51.4</b>	<b>53.6</b>
Inventories	0.2	0.1	0.1	0.1	0.1	0.1
Accounts receivable	10.9	9.3	9.0	9.5	10.3	11.2
Other assets and short-term financial assets	3.6	3.1	4.0	4.0	4.0	4.0
Liquid assets	27.7	13.2	12.3	13.8	18.2	24.3
Deferred taxes	2.4	0.3	0.8	0.8	0.8	0.8
Deferred charges and prepaid expenses	0.0	0.0	0.0	0.0	0.0	0.0
<b>CURRENT ASSETS</b>	<b>44.7</b>	<b>26.0</b>	<b>26.2</b>	<b>28.2</b>	<b>33.5</b>	<b>40.5</b>
<b>TOTAL ASSETS</b>	<b>83.5</b>	<b>69.4</b>	<b>73.9</b>	<b>77.7</b>	<b>84.9</b>	<b>94.1</b>

<b>SHAREHOLDERS EQUITY</b>	<b>63.2</b>	<b>47.8</b>	<b>47.2</b>	<b>50.7</b>	<b>57.4</b>	<b>66.2</b>
MINORITY INTEREST	0.0	0.0	0.0	0.0	0.0	0.0
Provisions for pensions and similar obligations	2.2	0.0	0.0	0.0	0.0	0.0
Other provisions and accrued liabilities	2.8	2.3	3.1	3.1	3.1	3.1
Short-term liabilities to banks	1.7	1.8	1.4	1.4	1.4	1.4
Accounts payable	6.1	4.2	5.0	5.2	5.7	6.2
Advance payments received on orders	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities (incl. from lease and rental contracts)	2.8	6.5	5.8	5.8	5.8	5.8
Deferred taxes	1.3	2.5	2.2	2.2	2.2	2.2
Deferred income	0.0	0.0	0.0	0.0	0.0	0.0
<b>CURRENT LIABILITIES</b>	<b>8.9</b>	<b>10.7</b>	<b>10.7</b>	<b>11.0</b>	<b>11.5</b>	<b>12.0</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>83.5</b>	<b>69.4</b>	<b>73.9</b>	<b>77.7</b>	<b>84.9</b>	<b>94.1</b>

Balance sheet (common size)	2021	2022	2023	2024e	2025e	2026e
Intangible assets	35.9%	49.0%	47.9%	49.1%	48.2%	46.7%
Property, plant and equipment	9.8%	12.6%	15.7%	13.7%	11.5%	9.6%
Financial assets	0.8%	1.0%	0.9%	0.9%	0.8%	0.7%
<b>FIXED ASSETS</b>	<b>46.5%</b>	<b>62.6%</b>	<b>64.6%</b>	<b>63.7%</b>	<b>60.5%</b>	<b>57.0%</b>
Inventories	0.2%	0.1%	0.2%	0.2%	0.2%	0.2%
Accounts receivable	13.1%	13.4%	12.1%	12.2%	12.2%	11.9%
Other assets and short-term financial assets	4.3%	4.5%	5.4%	5.1%	4.7%	4.2%
Liquid assets	33.1%	19.0%	16.6%	17.8%	21.5%	25.8%
Deferred taxes	2.9%	0.4%	1.1%	1.1%	1.0%	0.9%
Deferred charges and prepaid expenses	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>CURRENT ASSETS</b>	<b>53.5%</b>	<b>37.4%</b>	<b>35.4%</b>	<b>36.3%</b>	<b>39.5%</b>	<b>43.0%</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>75.7%</b>	<b>68.9%</b>	<b>63.8%</b>	<b>65.3%</b>	<b>67.6%</b>	<b>70.3%</b>
MINORITY INTEREST	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Provisions for pensions and similar obligations	2.6%	0.0%	0.0%	0.0%	0.0%	0.0%
Other provisions and accrued liabilities	3.4%	3.3%	4.2%	4.0%	3.7%	3.3%
Short-term liabilities to banks	2.0%	2.6%	1.9%	1.8%	1.7%	1.5%
Accounts payable	7.3%	6.1%	6.7%	6.7%	6.7%	6.6%
Advance payments received on orders	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other liabilities (incl. from lease and rental contracts)	3.4%	9.4%	7.8%	7.4%	6.8%	6.1%
Deferred taxes	1.6%	3.6%	2.9%	2.8%	2.6%	2.3%
Deferred income	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>CURRENT LIABILITIES</b>	<b>10.7%</b>	<b>15.4%</b>	<b>14.5%</b>	<b>14.1%</b>	<b>13.5%</b>	<b>12.7%</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)	2021	2022	2023	2024e	2025e	2026e
Net profit/loss	-8.9	-15.6	-0.8	2.6	5.7	7.7
Depreciation of fixed assets (incl. leases)	3.2	3.3	3.5	3.3	3.3	3.3
Amortisation of goodwill & intangible assets	3.7	3.4	3.9	3.8	3.8	3.8
Other costs affecting income / expenses	0.0	3.4	0.9	0.0	0.0	0.0
Cash flow from operating activities	-3.5	-5.8	4.6	6.8	9.4	7.3
Increase/decrease in inventory	-0.3	0.1	-0.0	0.0	-0.0	-0.0
Increase/decrease in accounts receivable	-0.9	2.1	-0.6	-0.5	-0.9	-0.9
Increase/decrease in accounts payable	1.2	-0.8	0.0	0.2	0.5	0.5
Increase/decrease in other working capital positions	0.0	0.1	0.0	0.0	0.0	0.0
Increase/decrease in working capital	-0.1	1.5	-0.6	-0.3	-0.4	-0.4
<b>Cash flow from operating activities</b>	<b>-1.8</b>	<b>-3.9</b>	<b>6.8</b>	<b>9.3</b>	<b>12.4</b>	<b>14.4</b>
CAPEX	7.9	8.5	5.9	7.8	8.0	8.3
Payments for acquisitions	0.6	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	0.1	0.0	0.0	0.0	0.0
<b>Cash flow from investing activities</b>	<b>-8.5</b>	<b>-8.4</b>	<b>-5.9</b>	<b>-7.8</b>	<b>-8.0</b>	<b>-8.3</b>
Cash flow before financing	-10.2	-12.3	1.0	1.5	4.4	n.a.
Increase/decrease in debt position	-11.0	-2.1	0.0	0.0	0.0	0.0
Purchase of own shares	0.0	0.0	0.0	0.0	0.0	0.0
Capital measures	25.8	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	-1.9	0.0	0.0	0.0
Effects of exchange rate changes on cash	0.0	-0.1	0.0	0.0	0.0	0.0
<b>Cash flow from financing activities</b>	<b>14.8</b>	<b>-2.1</b>	<b>-1.9</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Increase/decrease in liquid assets	4.6	-14.5	-0.9	1.5	4.4	n.a.
<b>Liquid assets at end of period</b>	<b>27.7</b>	<b>13.2</b>	<b>12.3</b>	<b>13.8</b>	<b>18.2</b>	<b>24.3</b>

Key ratios (EUR m)	2021	2022	2023	2024e	2025e	2026e
<b>P&amp;L growth analysis</b>						
Sales growth	12.3%	6.5%	1.9%	5.0%	9.2%	8.6%
EBITDA growth	-186.0%	161.9%	-229.1%	50.5%	40.8%	21.1%
EBIT growth	394.5%	34.4%	-95.8%	-729.0%	128.5%	41.8%
EPS growth	261.6%	75.6%	-95.0%	-424.4%	123.8%	35.2%
<b>Efficiency</b>						
Sales per employee	238.7	226.4	215.1	442.6	460.2	524.6
EBITDA per employee	-6.3	-14.8	17.8	52.4	70.2	89.2
No. employees (average)	318	357	383	195	205	195
<b>Balance sheet analysis</b>						
Avg. working capital / sales	7.0%	5.3%	6.8%	3.1%	3.7%	3.1%
Inventory turnover (sales/inventory)	489.6	928.6	722.3	722.3	722.3	722.3
Accounts receivable turnover	52.4	41.9	39.7	40.0	40.0	40.0
Accounts payable turnover	29.3	19.0	22.0	22.0	22.0	22.0
<b>Cash flow analysis</b>						
Free cash flow	-9.7	-12.4	1.0	1.5	4.4	6.1
Free cash flow/sales	-12.7%	-15.4%	1.2%	1.8%	4.7%	6.0%
FCF / net profit	108.6%	79.5%	neg.	60.6%	76.8%	78.9%
Capex / sales	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Solvency</b>						
Net debt	-22.6	-7.4	-2.4	-3.9	-8.3	-14.4
Net Debt/EBITDA	0.0	0.0	0.0	0.0	0.0	0.0
Dividend payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Interest paid / avg. debt	2.3%	1.8%	4.9%	6.3%	5.0%	6.3%
<b>Returns</b>						
ROCE	-12.5%	-19.8%	-0.8%	5.3%	11.0%	15.2%
ROE	-14.1%	-32.7%	-1.7%	5.0%	10.0%	11.7%
Adjusted FCF yield	-1.6%	-7.5%	4.4%	7.2%	10.4%	8.6%
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
DPS	0.0	0.0	0.0	0.0	0.0	0.0
EPS reported	-0.54	-0.94	-0.05	0.15	0.35	0.47
Average number of shares	16.6	16.6	16.6	16.6	16.6	16.6
<b>Valuation ratios</b>						
P/BV	1.7	2.2	2.2	2.1	1.8	1.6
EV/sales	3.5	1.2	1.2	1.2	1.0	0.9
EV/EBITDA	-133.4	-18.6	15.1	9.9	6.7	5.2
EV/EBIT	-30.0	-8.1	-202.3	31.7	13.3	8.8

Source: Company data, NuWays

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Company	Disclosures
NFON AG	2

### Historical target price and rating changes for NFON AG

Company	Date	Analyst	Rating	Target Price	Close
NFON AG	18.01.2024	Sennewald, Philipp	Buy	EUR 11.70	EUR 6.10
	23.11.2023	Sennewald, Philipp	Buy	EUR 11.30	EUR 7.08

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Date of publication creation: 24/05/2024 07:00 AM

Date of publication dissemination: 24/05/2024 07:00 AM

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