



## ERIK PENSER BANK

Penser Access | Food: Specialty/Candy | Sweden | 21 July 2022

# Midsona

## Q2 - Demand is good but held back by inflation

### Demand is good but held back by inflation

Sales increased by 5.9% y/y to SEK 956m and organic growth was up by 0.4%, indicating stable demand. The gross margin was weak at 23.6%, held back by inflation that is outpacing the effect of higher prices, resulting in an EBITDA margin of 3.6%. Several price increases will take effect going forward and the gross margin should recover by the end of the year.

### Preparing to emerge from the crisis with strength

Action is being taken to strengthen the supply chain and inventory, and a restructuring program that will result in annual savings of SEK 40m has been initiated. The important Christmas shopping season has already been secured. Cash flow in the quarter was relatively strong. We believe Midsona is acting with vigour and will emerge well-equipped from the crisis when the situation eases.

### Valuation is too low

We are making certain adjustments to our estimates where the gross margin recovery is taking longer than we had previously expected. The geopolitical situation and the devaluation of the sector and the stock market as a whole make us cautious in our valuation, and we are lowering our fair value to SEK 42-46/share (48-50), which entails some, justified, premium to peers. This gives an upside of about 90%.

Estimate Changes (kr)				Estimates (kr)				Risk and Potential	
	Now	Before			21	22e	23e	24e	Motivated value
EPS, adjusted 22e	0.8	2.2	-64.5%	Sales, mkr	3,773	3,972	4,091	4,214	42.0 - 46.0
EPS, adjusted 23e	2.2	2.4	-11.9%	Growth	2%	5%	3%	3%	
EPS, adjusted 24e	2.4	2.7	-11.0%	EBITDA, mkr	329	277	447	478	
				EBIT, mkr	161	114	255	279	
				EPS, adjusted	1.2	0.8	2.2	2.4	
				EPS growth	(55)%	(35)%	171%	13%	
				Equity/share	39.5	40.3	41.7	43.1	
				Dividend/share	0.0	0.8	1.0	1.0	
				EBIT margin	4.3%	2.9%	6.2%	6.6%	
				ROE	3.4%	2.0%	5.2%	5.6%	
				ROCE	3.5%	2.5%	5.4%	5.8%	
				EV/Sales	0.8x	0.8x	0.8x	0.7x	
				EV/EBITDA	9.5x	11.3x	7.0x	6.5x	
				EV/EBIT	19.3x	27.4x	12.2x	11.1x	
				P/E, adjusted	18.5x	28.6x	10.6x	9.4x	
				P/Equity	0.6x	0.6x	0.5x	0.5x	
				Dividend yield	0.0%	3.2%	4.0%	4.0%	
				FCF yield	(13.2)%	6.6%	13.6%	14.5%	
				Net debt/EBITDA	4.4g	4.8g	2.5g	2.0g	

### Calendar Events

Q3 report	25 Oct 2022
Q4 report	3 Feb 2023

### Key Figures (mkr)

Number of shares	73m
Market cap	1,651
Net debt	1,464
EV	3,115
Free float	61%
Average number of daily traded shares	67(k)
Reuters/Bloomberg	MSONb.ST/MSONB SS

### One Year Performance Chart



### Analysts

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# Overview

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## Q2 - Demand is good but held back by inflation

### Investment Case

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Midsona's exposure to organic and plant-based foods means it should be able to experience more rapid organic growth than the food industry as a whole. Its acquisition strategy has meant strong growth in both sales and profitability. The company has consolidated the Nordic market and is now contributing to consolidation in the rest of Europe. Acquisitions are bringing cost synergies and economies of scale throughout the value chain, from purchasing to sales. Increased consumer awareness and a focus on sustainability and health mean that Midsona's products are able to make the shift from the specialist health trade into grocery stores in Europe, just as has happened in the Nordic countries. This contributes to good organic growth.

### Company Profile

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Midsona is a leading supplier in organic and plant-based foods, health foods and consumer health in the Nordic region, and its ambition is to be at the vanguard in Europe. The company develops, manufactures and markets several well-known brands aimed at helping people live a healthy life. These products are available through multiple sales channels – grocery stores, pharmacies, health food stores, gyms and online. Midsona has targeted average annual expansion of 15 percent through both organic and acquired growth. It has delivered this historically, and we believe the company should be able to continue to achieve this with its existing strategy.

### Valuation approach

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The share is traded on our forecasts at P/E 10x for 2023e, which is in line with the Nasdaq Stockholm All Share Index at P/E 14x. The sector is traded at an average P/E of 16x for 2023e. We believe that Midsona should be traded at a premium based on 1) its strong brand portfolio; 2) the company's successful acquisition strategy; and 3) its niche towards health, well-being and organic that we believe has structural growth. We regard the company's new investment in plant-based proteins as an asset that may be valued upward.

### Target Price

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Through the multiple valuation above combined with a DCF valuation, we arrive at a fair value of SEK 42-46 per share, which entails a certain justified premium to peers and an upside of about 90% from the current share price.

## The quarter in detail

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Net sales increased by 5.9% y/y to SEK 956 million with 0.4% organic growth. The growth indicates that there is demand for Midsona's products even in harder times. The market for organic products, which sold well during the pandemic, is more difficult now that societies have reopened but sales of health foods and consumer health improve as people return to the gym and sporting events. A planned shutdown of production in Spain hampered sales in the South Europe division, but will have positive impact through more efficient distribution going forward.

The supply chain is still under intense pressure, with long lead-times as a result. At 23.6%, the gross margin, which saw an improvement in Q1, weakened again compared to the same quarter last year (28.3%), driven by the continued inflationary pressure that takes time to compensate for in the next stage. Price increases have continued as planned, but are not keeping up with inflation. Several of Midsona's price increases will take effect in July and will be followed by additional increases. Cost inflation is still going up, although it now seems less dramatic and more controlled. This year's harvests will be important to where prices will be heading. Volatility in EUR and USD also had adverse impact.

The EBITDA margin decreased y/y to 3.6% (8.6%), which is explained by the lower gross margin. The cost savings programme announced in April is proceeding as planned and aims to lower costs by SEK 40 million annually, with full implementation by mid 2023. The increased inventory is an effect of Midsona's efforts in the first half to secure the flow of goods through the supply chain. It is important that Midsona has already ensured supply for the important Christmas shopping season, which begins in September. Considering the strained situation and the high goods inventory, the relatively good cash flow in the quarter is reassuring.

## Estimate changes

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As the perfect storm of external factors is well-known, expectations for the Q2 report should not have been high. But it does seem as if it is taking longer than expected to reverse the gross margin trend. We saw an impressive turnaround in the gross margin last quarter, which may have triggered expectations for swift improvement. The plan remains for the gross margin to return to previous levels and we now expect this to happen in late 2022. In response to the delayed recovery, we are slightly lowering our estimates for 2022.

## Valuation peers

	Price		MCAP		EV/EBIT (adj)			P/E (adj)			Div yield	EBIT-marg.			Sales growth		Share performance
	(local)		(local cy)		22e	23e	24e	22e	23e	24e		22e	23e	24e	21	22e	
Atria Oyj Class A	8,8	EUR	249		11,1	10,0	9,2	7,9	7,6	7,0	7,5%	2,6%	2,9%	3,1%	2,4%	6,2%	-28%
Cloetta AB Class B	20,0	SEK	5 769		11,5	10,4	10,1	11,4	10,3	10,0	4,6%	10,5%	11,4%	11,5%	6,2%	9,3%	-28%
Olvi Oyj Class A	35,4	EUR	733		15,4	13,8	12,6	19,8	17,9	16,4	3,3%	11,0%	11,7%	12,2%	11,3%	-9,2%	-33%
Orkla ASA	82,6	NOK	82 758		14,6	14,9	14,7	15,5	15,0	14,5	3,9%	12,3%	11,9%	11,8%	7,0%	11,9%	2%
Tyson Foods, Inc. Class A	83,5	SEK	29 605		8,0	9,3	9,0	9,2	10,5	9,9	2,4%	8,8%	7,4%	7,5%	11,1%	12,4%	18%
Unilever PLC	39,4	USD	100 529		16,2	15,0	13,9	18,5	17,1	15,9	3,9%	15,8%	16,4%	17,1%	-0,7%	11,9%	-9%
Nestle S.A.	115,3	EUR	317 020		22,6	21,1	19,9	24,4	22,6	20,9	2,7%	16,8%	17,0%	17,2%	3,3%	7,8%	0%
Procter & Gamble Compan	144,0	CHF	345 595		21,8	21,0	19,5	24,7	23,6	21,7	2,6%	22,5%	22,7%	23,3%	7,3%	5,2%	3%
Hain Celestial Group, Inc.	22,6	USD	2 025		18,9	15,6	14,4	17,6	14,9	12,9	0,0%	8,7%	9,6%	10,0%	-4,1%	-2,8%	-44%
Midsona	24,7	SEK	1 796		27,5	12,1	11,0	29,2	10,4	9,3	4,8%	2,9%	6,2%	6,6%	1,7%	6,5%	-66%
Average					15,6	14,6	13,7	16,6	15,5	14,4	3,4%	12,1%	12,3%	12,6%	4,9%	5,8%	
Median					15,4	14,9	13,9	17,6	15,0	14,5	3,3%	11,0%	11,7%	11,8%	6,2%	7,8%	

Factset, EPB

## DCF Valuation

To support our peer valuation, we have applied a DCF model as below, which provides a value of approximately SEK 44 per Midsona share. This is based on conservative long-term organic growth of 3%. No acquisitions are included in the estimates, although we do expect these on top of the organic growth. There is potential for an upward valuation here if Midsona continues its acquisition journey in Europe.

### DCF

Valuation output			
Sum of PV of FCF (explicit period)	2 029		
PV of terminal value (perpetuity formula)	2 653		
<b>Enterprise value</b>	<b>4 683</b>		
Latest net debt	1 452		
Minority interests & other	0		
<b>Equity value</b>	<b>3 231</b>		
No. of shares outstanding (millions)	73		
<b>Equity value per share (SEK)</b>	<b>44</b>		

Implicit multipl.	2022	2023	2024
EV/Sales	1,2	1,1	1,1
EV/EBITDA	17,0	10,5	9,8
EV/EBIT	41,8	18,4	16,8
EV/NOPLAT	53,6	23,5	21,5
P/E			
ROIC/WACC			
Current Share price			24,80

### WACC assumptions

Risk free nominal rate	2,5%
Risk premium	5,5%
Extra risk premium	4,0%
Beta	0,8
Cost of equity	9,6%
Cost of debt (pre-tax)	4,0%
Tax rate	22%
Target debt/(debt + equity)	20%
WACC	8,3%

### Terminal value assumptions

Long term growth rate	3,0%
Long term EBIT margin	9,0%
Depreciation (% of sales)	4,0%
Capex (% of sales)	4,0%
Working cap. (% of sales)	17,3%
Tax rate	22%

### Sensistivity analysis

#### Sensitivity analysis

Long-term growth rate						
	2,0%	2,5%	3,0%	3,5%	4,0%	
WACC	7,3%	49	54	60	68	78
	7,8%	43	47	51	57	65
	8,3%	38	41	44	49	54
	8,8%	33	36	39	42	47
	9,3%	29	31	34	37	40
Long-term EBIT margin						
	4,0%	6,5%	9,0%	11,5%	14,0%	
WACC	7,3%	23	41	60	79	97
	7,8%	19	35	51	68	84
	8,3%	16	30	44	59	73
	8,8%	13	26	39	51	64
	9,3%	11	23	34	45	56

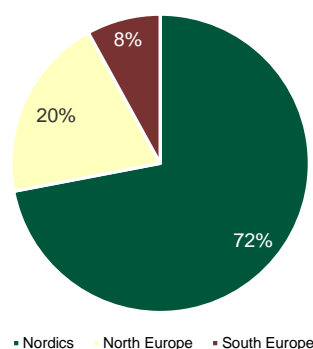
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### Shareholders

Shareholders	Votes	Shares
Stena Adactum AB	29,8%	29,8%
Swedbank Robur Fonder	8,6%	8,9%
La Financière de l'Echiquier	7,2%	7,5%
Peter Wahlberg	4,3%	4,5%
Övriga	50,1%	49,3%
Chairman		Ola Erici
CEO		Peter Åsberg
CFO		Max Bokander
Contact		-
Website		midsona.com

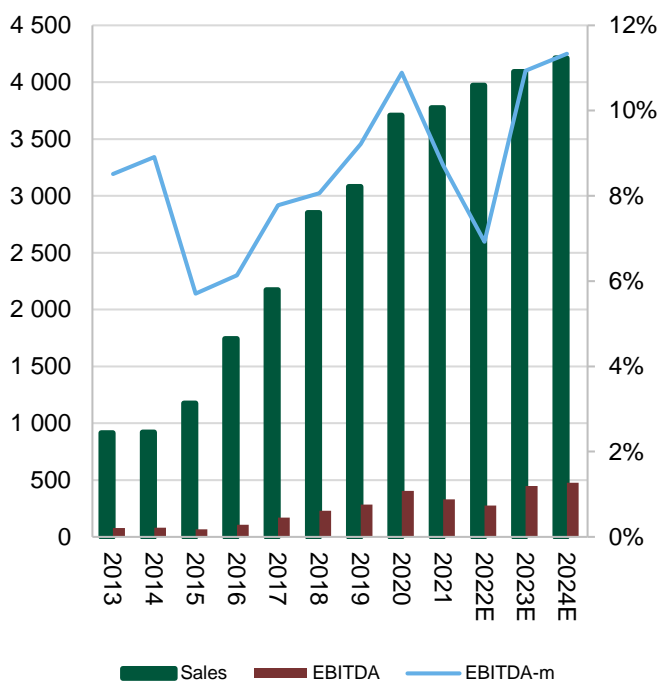
### Sales per division



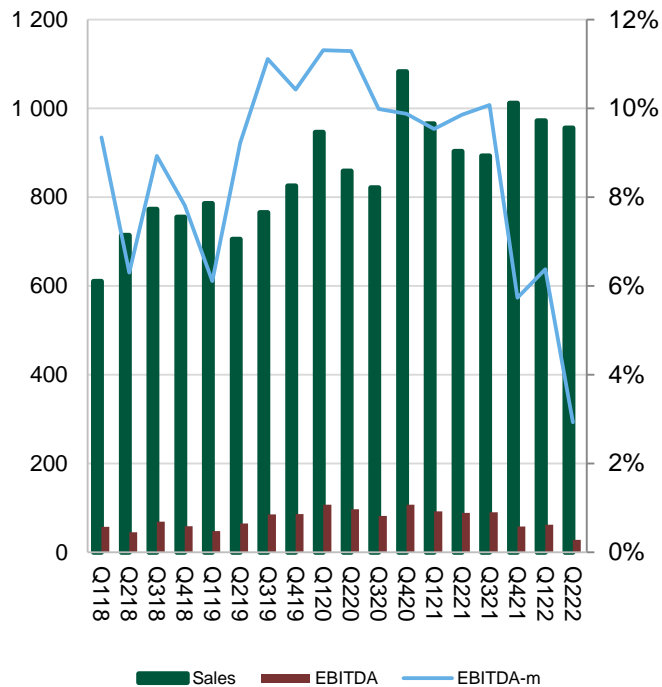
Holdings

Company

## Yearly results



## Quarterly results



EPB, Company

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## Target price and stock price



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## Income Statement

### Income Statement

	2015A	2016A	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E
Net sales	1 174	1 744	2 173	2 852	3 081	3 709	3 773	3 972	4 091	4 214
Other operating income	0	0	0	0	0	0	0	0	0	0
Extraordinary income	0	0	0	0	0	0	0	0	0	0
Cost of goods sold	-699	-1 127	-1 430	-1 980	-2 178	-2 672	-2 758	-2 945	-2 958	-3 034
<b>Gross profit</b>	<b>475</b>	<b>617</b>	<b>743</b>	<b>872</b>	<b>903</b>	<b>1 037</b>	<b>1 015</b>	<b>1 026</b>	<b>1 133</b>	<b>1 180</b>
Selling expenses	-323	-377	-425	-473	-505	-542	-592	-625	-573	-590
Administrative expenses	-103	-149	-179	-212	-240	-284	-289	-291	-307	-312
Other working costs	28	30	38	59	151	199	203	171	201	207
Other costs	-10	-14	-8	-16	-25	-6	-8	-7	-7	-7
Extraordinary costs	0	0	0	0	0	0	0	0	0	0
<b>EBITDA</b>	<b>67</b>	<b>107</b>	<b>169</b>	<b>230</b>	<b>284</b>	<b>404</b>	<b>329</b>	<b>275</b>	<b>447</b>	<b>478</b>
Depreciation/amortization	-19	-25	-35	-52	-114	-147	-168	-163	-192	-198
Good will depreciation	0	0	0	0	0	0	0	0	0	0
<b>EBIT</b>	<b>48</b>	<b>82</b>	<b>134</b>	<b>178</b>	<b>170</b>	<b>257</b>	<b>161</b>	<b>112</b>	<b>255</b>	<b>279</b>
Extraordinary items	0	0	0	0	0	0	0	0	0	0
<b>Adjusted EBIT</b>	<b>48</b>	<b>82</b>	<b>134</b>	<b>178</b>	<b>170</b>	<b>257</b>	<b>161</b>	<b>112</b>	<b>255</b>	<b>279</b>
Financial income	0	0	0	0	0	0	0	0	0	0
Financial costs	-9	-24	-22	-15	-54	-53	-46	-42	-60	-60
<b>Profit before taxes</b>	<b>39</b>	<b>58</b>	<b>112</b>	<b>163</b>	<b>116</b>	<b>204</b>	<b>115</b>	<b>70</b>	<b>195</b>	<b>220</b>
Income tax	27	-13	-28	-34	-19	-28	-26	-14	-39	-44
Minority interest	0	0	0	0	0	0	0	0	0	0
<b>Net income</b>	<b>66</b>	<b>45</b>	<b>84</b>	<b>129</b>	<b>97</b>	<b>176</b>	<b>89</b>	<b>56</b>	<b>156</b>	<b>176</b>
<b>Net income (adjusted)</b>	<b>66</b>	<b>45</b>	<b>84</b>	<b>129</b>	<b>97</b>	<b>176</b>	<b>89</b>	<b>56</b>	<b>156</b>	<b>176</b>

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## Balance Sheet

### Balance Sheet

	2015A	2016A	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E
<b>Assets</b>										
Goodwill	1 067	1 940	2 129	2 466	3 058	3 289	3 364	3 364	3 364	3 364
Other intangible assets	0	0	0	0	0	0	0	0	0	0
Tangible fixed assets	47	55	58	254	585	548	522	518	489	460
Interest bearing fixed assets	0	0	0	0	0	0	0	0	0	0
Shares in associated companies	0	0	0	0	0	0	0	0	0	0
Other fixed assets	81	84	102	78	101	89	95	95	95	95
<b>Total fixed assets</b>	<b>1 195</b>	<b>2 079</b>	<b>2 289</b>	<b>2 798</b>	<b>3 744</b>	<b>3 926</b>	<b>3 981</b>	<b>3 977</b>	<b>3 948</b>	<b>3 919</b>
Inventory	151	244	272	482	529	643	783	722	660	602
Accounts receivable	131	209	213	259	290	290	403	424	437	450
Other current assets	17	23	29	59	44	73	67	67	67	67
cash and cash equivalents	61	65	54	101	173	195	53	171	358	547
<b>Total current assets</b>	<b>360</b>	<b>541</b>	<b>568</b>	<b>901</b>	<b>1 036</b>	<b>1 201</b>	<b>1 306</b>	<b>1 384</b>	<b>1 522</b>	<b>1 666</b>
<b>Total Assets</b>	<b>1 555</b>	<b>2 620</b>	<b>2 857</b>	<b>3 699</b>	<b>4 780</b>	<b>5 127</b>	<b>5 287</b>	<b>5 361</b>	<b>5 470</b>	<b>5 585</b>
<b>Equity and liabilities</b>										
Equity	877	1 349	1 550	1 630	2 322	2 313	2 875	2 931	3 029	3 133
Minority interest	0	0	0	0	0	0	0	0	0	0
<b>Total equity</b>	<b>877</b>	<b>1 349</b>	<b>1 550</b>	<b>1 630</b>	<b>2 322</b>	<b>2 313</b>	<b>2 875</b>	<b>2 931</b>	<b>3 029</b>	<b>3 133</b>
Non-current liabilities	250	706	665	1 130	1 382	1 526	1 314	1 314	1 314	1 314
Provisions for pensions	0	0	0	0	0	0	0	0	0	0
Deferred tax liabilities	135	207	221	271	321	342	347	347	347	347
Other non-current liabilities	0	4	5	83	92	38	11	11	11	11
<b>Total non-current liabilities</b>	<b>385</b>	<b>917</b>	<b>891</b>	<b>1 484</b>	<b>1 795</b>	<b>1 906</b>	<b>1 672</b>	<b>1 672</b>	<b>1 672</b>	<b>1 672</b>
Current liabilities	69	21	41	87	144	253	175	175	175	175
Accounts payable	132	212	220	357	288	405	342	360	371	382
Tax liability	0	0	0	0	2	0	15	15	15	15
Other current liabilities	92	121	155	141	229	250	208	208	208	208
<b>Total current liabilities</b>	<b>293</b>	<b>354</b>	<b>416</b>	<b>585</b>	<b>663</b>	<b>908</b>	<b>740</b>	<b>758</b>	<b>769</b>	<b>780</b>
<b>Total equity and liabilities</b>	<b>1 555</b>	<b>2 620</b>	<b>2 857</b>	<b>3 699</b>	<b>4 780</b>	<b>5 127</b>	<b>5 287</b>	<b>5 361</b>	<b>5 470</b>	<b>5 585</b>

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## Cash Flow Statement

### Cash Flow Statement

	2015A	2016A	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E
Net income	64	103	146	182	221	319	244	219	349	374
Items not affecting cash flow	0	0	0	0	0	0	0	0	0	0
Changes in working capital	23	-34	6	30	-23	-36	-308	58	60	56
<b>Cash flow from operating activities</b>	<b>87</b>	<b>69</b>	<b>152</b>	<b>212</b>	<b>198</b>	<b>283</b>	<b>-64</b>	<b>277</b>	<b>409</b>	<b>430</b>
Investments	-254	-848	-91	-357	-712	-369	-175	-159	-164	-169
Divestments	0	0	0	0	0	0	0	0	0	0
<b>Free cash flow</b>	<b>-167</b>	<b>-779</b>	<b>61</b>	<b>-145</b>	<b>-514</b>	<b>-86</b>	<b>-239</b>	<b>118</b>	<b>245</b>	<b>261</b>
Dividends	-20	-23	-23	-51	-58	-81	-81	0	-58	-73
Right issue/Share buyback	203	801	-46	240	647	198	175	0	0	0
Acquisitions	0	0	0	0	0	0	0	0	0	0
Debt financing and other adjustments	0	0	0	0	0	0	0	0	0	0
<b>Cash flow</b>	<b>16</b>	<b>-1</b>	<b>-8</b>	<b>44</b>	<b>75</b>	<b>31</b>	<b>-145</b>	<b>118</b>	<b>187</b>	<b>189</b>
Adjustments for non-cash items	0	0	0	0	0	0	0	0	0	0
<b>Net debt (adjusted)</b>	<b>258</b>	<b>662</b>	<b>652</b>	<b>1 116</b>	<b>1 353</b>	<b>1 584</b>	<b>1 436</b>	<b>1 318</b>	<b>1 131</b>	<b>942</b>

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## Key Ratios

### Per Share Data

	2015A	2016A	2017A	2018A	2019A	2020A	2020A	2022E	2023E	2024E
EPS	2,70	1,77	1,83	2,80	1,49	2,71	1,22	0,77	2,15	2,42
EPS adjusted	2,70	1,77	1,83	2,80	1,49	2,71	1,22	0,77	2,15	2,42
FCF per share	3,06	1,62	3,30	4,61	3,05	4,35	-0,88	3,81	5,62	5,91
Dividend per share	1,00	1,10	1,25	1,25	1,25	1,25	0,00	0,80	1,00	1,00
Equity per share	30,85	31,63	33,69	35,43	35,72	35,58	39,46	40,31	41,66	43,08
Number of shares	28,43	42,65	46,01	46,01	65,00	65,00	72,86	72,71	72,71	72,71

### Valuation

	2015A	2016A	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E
P/E	9,4	22,1	28,5	19,5	33,1	28,7	44,2	29,2	10,5	9,3
P/EK	0,8	1,2	1,5	1,5	1,4	2,2	1,4	0,6	0,5	0,5
P/FCF	8,3	24,2	15,7	11,9	16,2	17,9	-61,6	5,9	4,0	3,8
Div yield	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Payout ratio	0,4	0,6	0,7	0,4	0,8	0,5	0,0	1,0	0,5	0,4
EV/Sales	0,8	1,3	1,4	1,3	1,5	1,8	1,4	0,8	0,8	0,7
EV/EBITDA	14,7	21,8	18,0	15,8	16,1	16,4	15,7	11,2	6,9	6,4
EV/EBITDA	20,5	28,4	22,7	20,4	26,8	25,8	32,2	27,5	12,1	11,0
Share price year end	25,5	39,1	52,0	54,8	49,4	77,8	54,1	0,0	0,0	0,0
EV, year end	982,4	2329,9	3044,4	3635,4	4564,2	6641,4	5178,9	3075,7	3075,7	3075,7

### Growth and Margins

	2015A	2016A	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E
Sales growth	28%	49%	25%	31%	8%	20%	2%	5%	3%	3%
EBIT growth	-28%	71%	63%	33%	-4%	51%	-37%	-30%	128%	10%
ESP growth	-2%	-35%	3%	54%	-47%	81%	-55%	-37%	178%	13%
EBITDA margin	6%	6%	8%	8%	9%	11%	9%	7%	11%	11%
EBIT margin	4%	5%	6%	6%	6%	7%	4%	3%	6%	7%
Tax rate	-69%	22%	25%	21%	16%	14%	23%	20%	20%	20%

### Profitability

	2015A	2016A	2017A	2018A	2019A	2020A	2020A	2022E	2023E	2024E
ROE	8%	4%	6%	8%	5%	8%	3%	2%	5%	6%
ROCE	4%	5%	6%	7%	5%	6%	4%	3%	6%	6%

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