

# Adore Beauty Group Limited (ABY)

Rating: Buy | Risk: High | Price Target: \$6.00

## Expectations Rebased but Future Trajectory & Market Positioning Still Highly Attractive

### Key Information

Current Price (\$ps)	3.70
12m Target Price (\$ps)	6.00
Target Price Upside (%)	62.2%
TSR (%)	62.2%
Reporting Currency	AUD
Market Cap (\$m)	348.3
Sector	Consumer Discretionary
Avg Daily Volume (m)	0.2
ASX 200 Weight (%)	0.03%

### Fundamentals

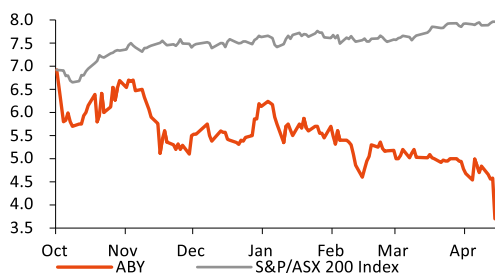
YE 30 Jun (AUD)	FY20A	FY21E	FY22E	FY23E
Sales (\$m)	121.1	174.1	221.6	267.7
NPAT (\$m)	2.5	4.2	7.5	10.4
EPS (cps)	2.9	4.5	7.9	11.0
EPS Growth (%)	444.6%	53.8%	76.8%	39.7%
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	0%	0%

### Ratios

YE 30 Jun	FY20A	FY21E	FY22E	FY23E
P/E (x)	n/a	82.9	46.9	33.6
EV/EBITDA (x)	67.6	42.5	26.9	20.5
Div Yield (%)	n/a	0.0%	0.0%	0.0%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%

### Price Performance

YE 30 Jun	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	(29.3%)	(29.6%)	(36.4%)	n/a
Absolute (%)	(26.3%)	(23.9%)	(32.7%)	n/a
Benchmark (%)	3.0%	5.7%	3.7%	31.8%



Price performance indexed to 100

Source:

### Major Shareholders

Quadrant Growth Fund	32.5%
Kate Morris (Co-Founder & ED)	10.8%
James Height (Co-Founder & ED)	10.8%
Greencap Capital Pty Ltd	5.2%

**SHAW AND PARTNERS ACTED AS  
CO-LEAD MANAGER TO THE RECENT  
IPO FOR WHICH IT RECEIVED A FEE.**

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### Event

3Q21 trading update and FY21 revenue guidance positively point to strong growth continuing, but perhaps not as strongly as the market anticipated given 1H21 and FY20 growth rates (COVID-benefit), with several notable catalysts and drivers (e.g. private label, mobile app, loyalty program, etc.) to augment and accelerate customer engagement, adoption and conversions (supporting key metrics like repeat transactions, LTV/CaC and increasing Average Order Value (AOV) and Average Order Frequency (AOF)), which in turn should deliver increasing returns and margins. FY21 and FY22 sales reduced by 7% and 19% respectively and our PT falls from \$8.30 to \$6.00.

### Highlights

- FY21 revenue growth guidance within the range of 43% to 47% vs. pcps (FY20) \$121.1m, which translates to revenue within the range of \$173m to \$178m was not as bad as it looked given the original guidance was for FY21 revenue above the growth levels achieved pre-COVID in FY19 of +38.6% but was actually an improvement at 43% to 47% – however market was most likely spooked by the following :**
  - 1H21 revenue growth of 85% on pcps – COVID-19 induced spike;**
  - FY20 revenue growth of +65% on pcps – again, a COVID-19 driven ‘sugar hit’;**
  - Potential slowdown in longer-term top-line growth given easing of COVID lockdowns and restrictions and shift from online to omni-channel (as per RBL/TPW/KGN downgrades recently); and, most perhaps most pertinently,**
  - Lack of clarity (confusion?) around the active customer numbers – the 687k announced was for the 9 months YTD to 31 March 2021. That number is +69% on the pcps customer numbers of 406k. The 777k customer numbers previously published in 1H21 was for CY 2020 period (i.e. a full 12 month period between 1 January 2020 to 31 December 2020).**
- 3Q21 revenue +47% to \$39.4m – a good result in a seasonally weaker quarter for Retail post 2Q21, with a significant catalyst being the acceleration continuing in active customer growth of +69% to 687k and the twin growth engines of Skincare and Haircare (both recently validated by Estee Lauder quarterly result this week).**
- Loyalty program launched in March – with sign-ups ahead of expectations according to the company, especially in our view the top Tier 3 category (annual spend \$1,500 p.a.) where we estimate the take-up was close to 50% (!).**
- Noted as per previous guidance that FY21 EBITDA will continue to see a scaling up of investment in marketing and advertising, in addition to staffing costs – ABY remains in growth mode with continuing investment to reinforce and augment the market share grab and the release of new capabilities (e.g. mobile app, private label, NZ operations, Loyalty program, content creation, range and adjacency opportunities) should, in time, translate into increased sales, earnings and EBITDA margins (EBITDA margins surged from 3.5% in 1H20 to 5.4% in 1H21).**

### Recommendation

**BUY.** ABY is a pre-eminent 100% online e-tailer with a strong focus on key analytical revenue drivers and customer engagement that is doing everything right and its accelerated – and significant – growth trajectory should continue with a clear runway ahead. ABY is ideally positioned for long-term growth, with a very attractive and large addressable market, which is very fragmented, thereby enabling the company to garner further market share (already the category leader), and to pursue and drive scale. Furthermore, the company is now recapitalised for growth, has minimal debt, management expertise is high and the risk/reward equation compelling. At 1.4x EV/Sales+1, ABY also trades at a significant 18% discount to listed pure online BPC Retailer peers KGN/TPW multiple of 1.9x.

## Adore Beauty Group Limited

### Consumer Discretionary

### Retailing

FactSet: ABY-AU / Bloomberg: ABY AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	3.70
Target Price (\$ps)	6.00
52 Week Range (\$ps)	-
Shares on Issue (m)	94.1
Market Cap (\$m)	348.3
Enterprise Value (\$m)	323.4
TSR (%)	62.2%
Valuation NPV	Data
Beta	1.30
Cost of Equity (%)	100.0%
Cost of Debt (net) (%)	0.0%
Risk Free Rate (%)	3.0%
Terminal Growth (%)	3.0%
WACC (%)	10.8%

### Company Description

Adore Beauty was co-founded in 2000 by Kate Morris and James Height as Australia's first beauty focused e-commerce website. Since then, it has become Australia's number one pureplay online beauty retailer, home to >230 global and domestic brands and 11,000 products. It offers premium beauty, wellness, personal care products as skin, hair, make up, body care, cosmetics, fragrances oral care, men's grooming, electrical appliances, dietary supplements, sex products, accessories and close adjacencies. It listed on the ASX on 23 October 2020 as \$6.75ps.



**NOTE: FY20A and historical periods are statutory numbers while FY21E is on a Pro-Forma basis hence Net Change in Cash discrepancy in FY21E**

## Financial Year End: 30 June

Investment Summary (AUD)	FY19A	FY20A	FY21E	FY22E	FY23E
EPS (Reported) (cps)	1.1	(1.4)	3.9	7.9	11.0
EPS (Underlying) (cps)	0.5	2.9	4.5	7.9	11.0
EPS (Underlying) Growth (%)	(45.9%)	444.6%	53.8%	76.8%	39.7%
PE (Underlying) (x)	n/a	n/a	82.9	46.9	33.6
EV / EBIT (x)	434.9	89.1	52.8	31.3	23.0
EV / EBITDA (x)	217.7	67.6	42.5	26.9	20.5
DPS (cps) (AUD)	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	n/a	n/a	0.0%	0.0%	0.0%
Franking (%)	0%	0%	0%	0%	0%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Free Cash Flow Yield (%)	n/a	n/a	3.4%	1.8%	2.1%
Profit and Loss (AUD) (m)	FY19A	FY20A	FY21E	FY22E	FY23E
Sales	73.2	121.1	174.1	221.6	267.7
Sales Growth (%)	38.6%	65.4%	43.8%	27.3%	20.8%
EBITDA	1.6	5.0	7.6	12.4	16.7
EBITDA Margin (%)	2.2%	4.1%	4.4%	5.6%	6.2%
Depreciation & Amortisation	(0.8)	(1.2)	(1.5)	(1.7)	(1.8)
EBIT	0.8	3.8	6.1	10.7	14.9
EBIT Margin (%)	1.1%	3.1%	3.5%	4.8%	5.6%
Net Interest	(0.1)	(0.2)	(0.1)	0.0	0.0
Pretax Profit	0.7	3.6	6.0	10.7	14.9
Tax	(0.2)	(1.1)	(1.8)	(3.2)	(4.5)
Tax Rate (%)	(28.5%)	(30.8%)	(29.7%)	(30.0%)	(30.0%)
Minorities	0.0	0.0	0.0	0.0	0.0
NPAT Underlying	0.5	2.5	4.2	7.5	10.4
Significant Items	0.5	(3.7)	(0.6)	0.0	0.0
NPAT Reported	1.0	(1.2)	3.7	7.5	10.4
Cashflow (AUD) (m)	FY19A	FY20A	FY21E	FY22E	FY23E
EBIT	0.8	3.8	6.1	10.7	14.9
Tax Paid	0.0	0.0	(1.1)	(3.2)	(4.5)
Net Interest	(0.1)	(0.2)	(0.1)	0.0	0.0
Change in Working Capital	(1.9)	(0.7)	6.5	8.6	12.9
Depreciation & Amortisation	0.8	1.2	1.5	1.7	1.8
Other	1.4	0.1	(0.7)	(11.2)	(17.4)
Operating Cashflow	1.0	4.2	12.2	6.5	7.8
Capex	(1.3)	(1.6)	(0.2)	(0.2)	(0.3)
Acquisitions and Investments	0.0	0.0	0.0	0.0	0.0
Disposal of Fixed Assets/Investments	0.0	0.0	0.0	0.0	0.0
Other	(0.2)	(0.4)	(1.0)	(1.0)	(1.0)
Investing Cashflow	(1.5)	(2.0)	(1.2)	(1.2)	(1.3)
Free Cashflow	(0.3)	2.6	12.0	6.3	7.5
Equity Raised / Bought Back	0.9	15.2	23.3	0.0	0.0
Dividends Paid	(0.7)	(1.3)	0.0	0.0	0.0
Change in Debt	0.6	1.2	(3.2)	0.0	0.0
Other	(0.6)	4.9	(30.0)	(15.8)	(15.8)
Financing Cashflow	0.2	20.1	(10.0)	(15.8)	(15.8)
Exchange Rate Effect	0.0	0.0	0.0	0.0	0.0
Net Change in Cash	(0.3)	22.3	1.0	(10.4)	(9.3)
Balance Sheet (AUD) (m)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash	1.5	16.6	24.8	14.4	5.1
Accounts Receivable	0.5	2.1	2.1	2.4	2.7
Inventory	7.1	14.7	23.2	33.5	48.2
Other Current Assets	0.7	1.7	4.5	5.5	6.2
PPE	1.0	1.2	1.2	1.2	1.3
Goodwill & Intangibles	0.6	1.4	2.0	2.0	2.0
Investments	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	0.2	2.0	5.6	5.6	5.6
Total Assets	11.6	39.6	63.4	64.6	71.1
Accounts Payable	7.3	17.2	19.2	21.2	23.3
Short Term Debt	1.4	3.2	0.0	0.0	0.0
Long Term Debt	0.6	0.0	0.0	0.0	0.0
Income Taxes Payable	0.0	1.7	1.0	1.0	1.0
Other	0.3	2.1	2.1	2.1	2.1
Total Liabilities	9.7	24.2	22.4	24.3	26.5
Total Shareholder Equity	2.0	15.4	41.1	40.3	44.6
Ratios	FY19A	FY20A	FY21E	FY22E	FY23E
ROE (%)	23.7%	28.5%	15.0%	18.4%	24.6%
ROIC (%)	60.6%	24.5%	10.3%	18.6%	23.4%
Gearing (%)	18.8%	(662.7%)	(152.6%)	(55.6%)	(12.9%)
Net Debt / EBITDA (x)	0.3	(2.7)	(3.3)	(1.2)	(0.3)
Price to Book (x)	n/a	n/a	nm	nm	nm

## Earnings Revisions

Figure 1: Shaw and Partners Earnings Changes

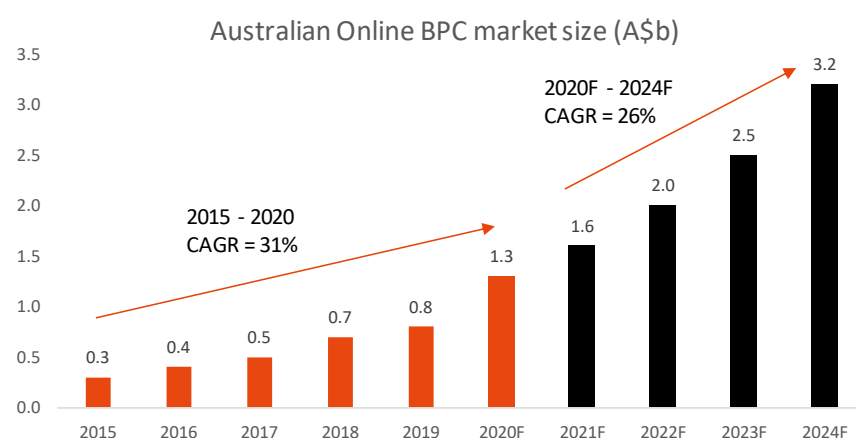
	FY21E			FY22E			FY23E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
Sales (A\$m)	187.4	174.1	-7%	275.2	221.6	-19%	352.8	267.7	-24%
EBITDA (A\$m)	10.7	7.6	-29%	17.1	12.4	-27%	22.6	16.7	-26%
Margin	5.7%	4.4%	134bp	6.2%	5.6%	61bp	6.4%	6.2%	17bp
Adjusted NPAT (A\$m)	4.8	4.2	-12%	7.8	7.5	-4%	11.2	10.4	-7%
EPS (cents)	5.0	4.5	-11%	8.3	7.9	-5%	11.8	11.0	-7%
DPS (cents)	0.0	0.0	nm	0.0	0.0	nm	0.0	0.0	nm

Source: Shaw and Partners

## Other Key Points

- Australia's leading 100% pure-play online retailer specialising in the Beauty and Personal Care (BPC) segment in Australia** – with >777,000 active customers (last published 12-month period) who become more valuable over time. This is underpinned and augmented further by very attractive unit economics combining Customer Acquisition Cost (CAC) and improving Lifetime Value (LTV), leading to higher returns. For example, FY19 cohort LTV/CAC rose from 1.4x to 2.6x in FY20. That is, the average CAC in each cohort is recovered within one year of acquiring the customer and continues to grow over time. For example, the LTV of the FY18 cohort in FY20 was 4.7x higher than the average CAC of this cohort.
- TAM for the Australian online beauty and personal care market now estimated by Frost & Sullivan to quadruple from \$797m in 2018 to \$3.2b in 2024** – with online TAM currently \$1.3b of the total \$11.2b Australian Beauty & Personal Care (BPC) market and the penetration rate increasing to 24.9% by CY24F, representing a very strong 4-year CAGR of 26%.

Figure 2: Australian Online Beauty & Personal Care Market Summary



Source: Frost & Sullivan The Online Retail Market (ANZ) September 2020

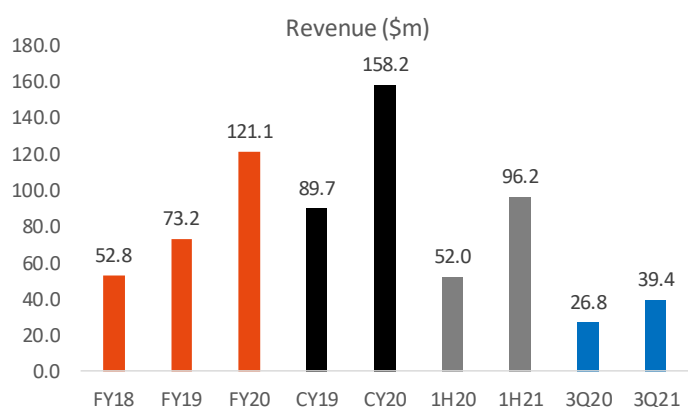
- Investing in future growth (opex) to further drive market share gains, earnings and to support the business in its next phase of growth** – given the relatively high proportion of opex which is fixed in nature, ABY believes it has significant operating leverage, with revenue and gross profit growth has improved EBITDA margins from CY19's 3.6% to CY20's 4.0% to 1H21's 5.4% and we forecast them to rise further.

• **ABY is benefitting from multiple growth drivers:**

1. Organic growth (data analytics, mobile app and loyalty scheme launches, improved brand engagement and content [podcasts, blogs, tutorials, live chat, reviews, broadening SKU range] and optimising supplier contracts;
2. Expanding into new markets and adjacent categories (private label, mobile app, grow NZ, deepening product exclusivity, importing international brands);
3. Increasing exclusivities from brands (now around 55 in number of the total 260);
4. NPD and innovation;
5. Driving social media channels to the consumer;
6. Improving back end functions, notably supply chain and logistics (e.g. click 'n' collect, same day or priority delivery);
7. Providing more flexible return policies;
8. Expansion of network infrastructure (4G to 5G, NBN); and
9. BNPL expanding customer segments.

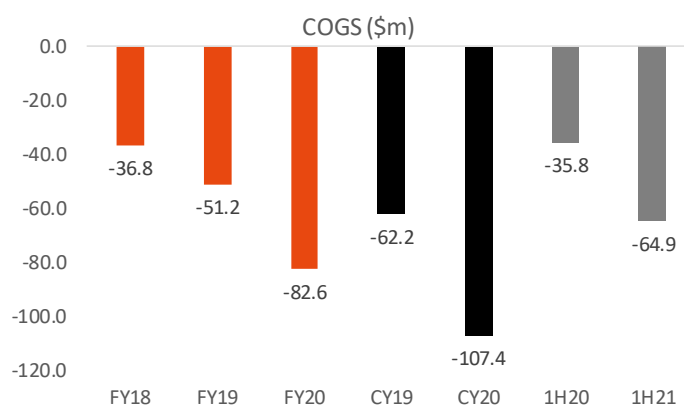
**Summary – in Charts**

**Figure 3: ABY Revenue Summary**



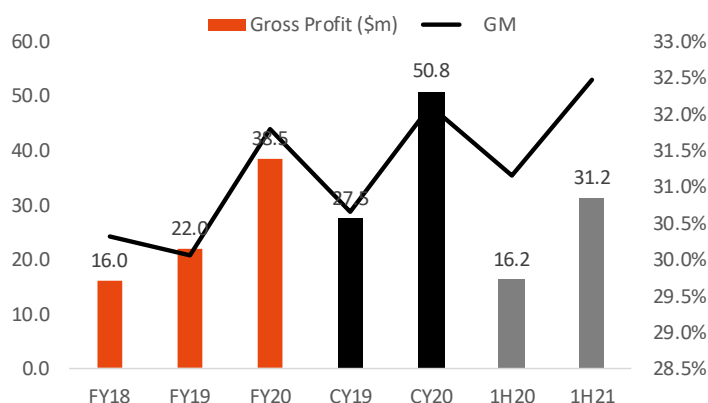
Source: Shaw and Partners

**Figure 4: ABY COGS Summary**



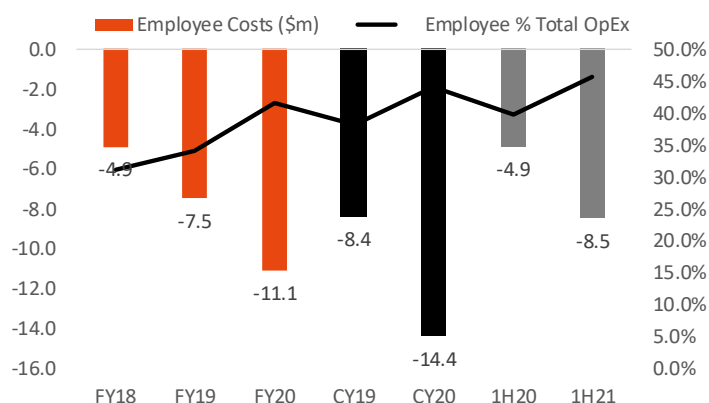
Source: Shaw and Partners

**Figure 5: ABY Gross Profit Summary**



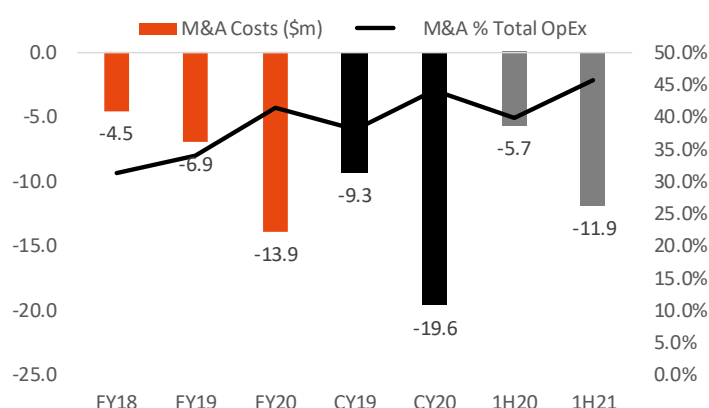
Source: Shaw and Partners

**Figure 6: ABY Employee Costs Summary**



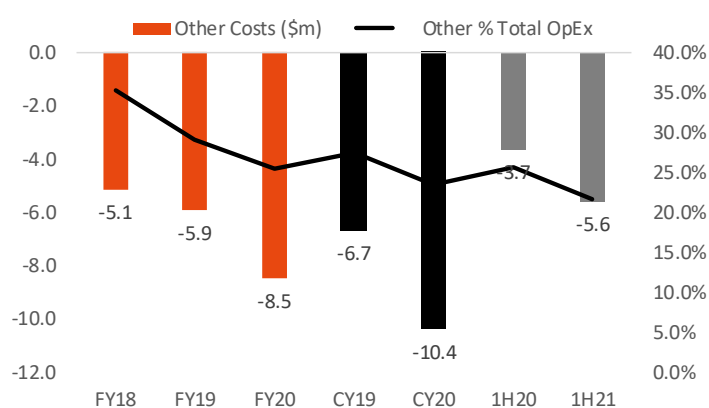
Source: Shaw and Partners

Figure 7: ABY Marketing & Advertising Costs Summary



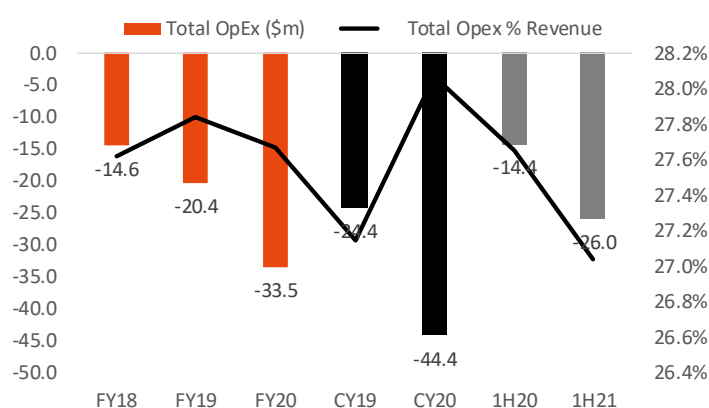
Source: Shaw and Partners

Figure 8: ABY Other Costs Summary



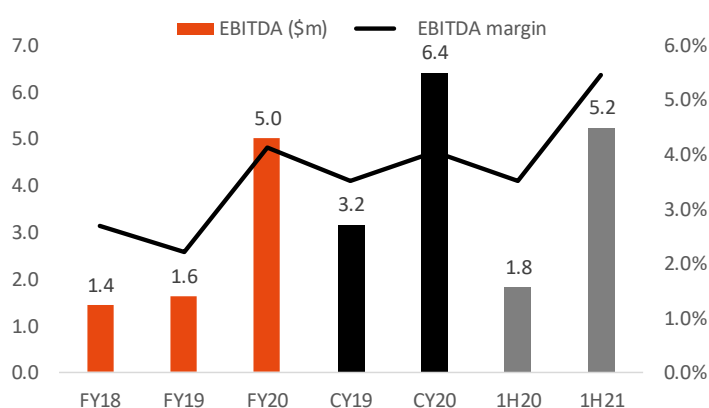
Source: Shaw and Partners

Figure 9: ABY Total OpEx Summary



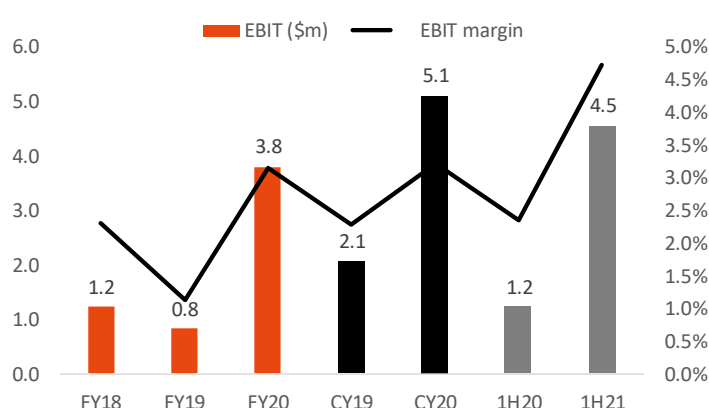
Source: Shaw and Partners

Figure 10: ABY EBITDA Summary



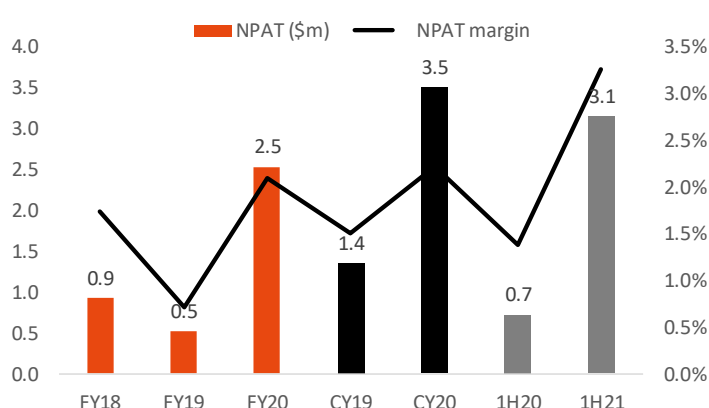
Source: Shaw and Partners

Figure 11: ABY EBIT Summary



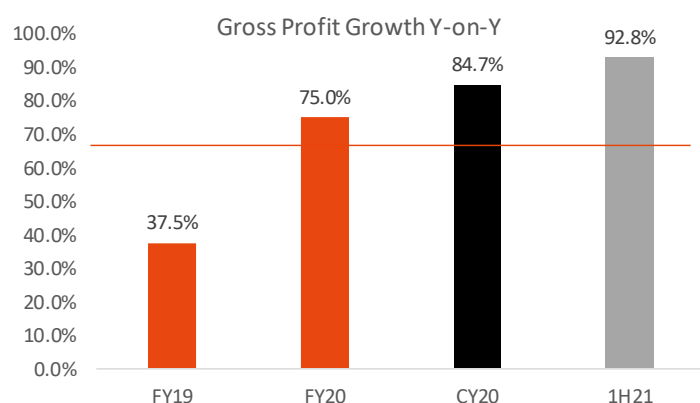
Source: Shaw and Partners

Figure 12: ABY NPAT Summary



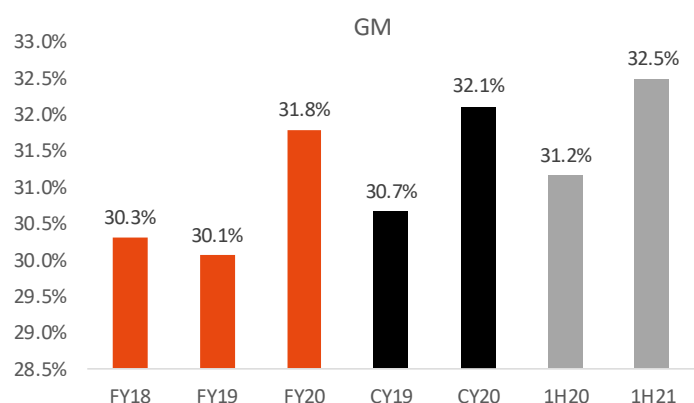
Source: Shaw and Partners

Figure 13: ABY GP Summary



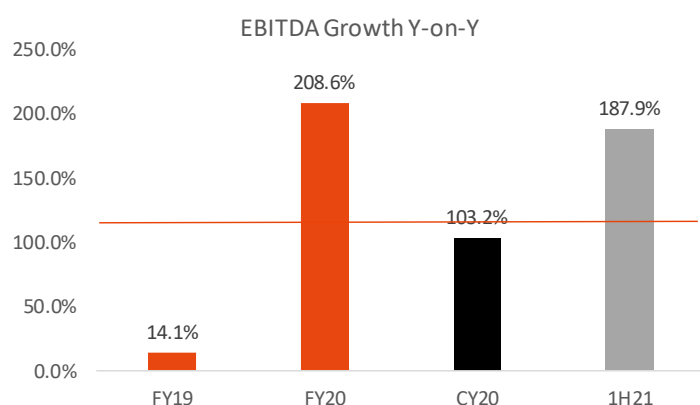
Source: Shaw and Partners

Figure 14: ABY GM Summary



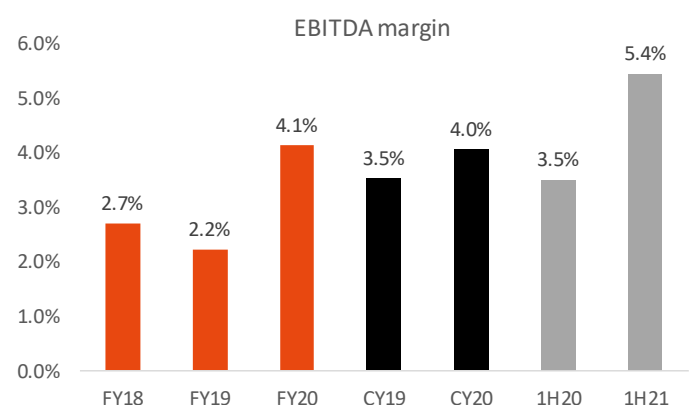
Source: Shaw and Partners

Figure 15: ABY EBITDA Summary



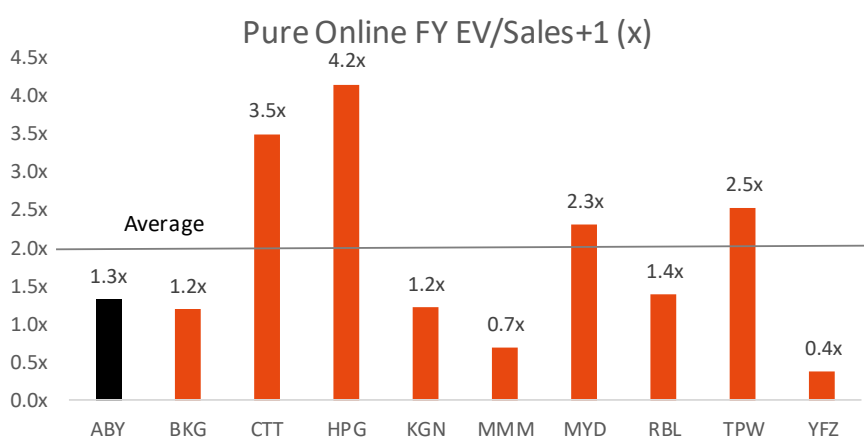
Source: Shaw and Partners

Figure 16: ABY EBITDA Margin Summary



Source: Shaw and Partners

Figure 17: e-Commerce / Pure Online EV/Sales+1 CompCo Summary (Consensus)



Source: Shaw and Partners, FactSet(Consensus)

Figure 18: e-Commerce / Pure Online CompCo Valuation Summary (Consensus)

Domestic - Pure Online Retailers				PE (x)			EV/Sales (x)			EV/Gross Profit (x)			EV/EBITDA (x)			EV/EBIT (x)		
Security Name	Country	Last Price	Mkt Cap	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
ABY Adore Beauty Group	Australia	\$3.70	\$348	134.8x	64.8x	40.5x	2.7x	1.7x	1.3x	8.5x	5.3x	4.3x	71.1x	42.3x	22.6x	94.4x	52.5x	26.1x
BKG Booktopia Group	Australia	\$2.55	\$350	-	94.9x	47.2x	-	1.5x	1.2x	-	5.5x	4.4x	-	22.5x	17.0x	-	34.8x	24.3x
CTT Cettire	Australia	\$1.64	\$623	-	817.5x	545.0x	-	7.2x	3.5x	-	-	-	-	482.9x	235.8x	-	827.7x	353.7x
HPG hipages Group	Australia	\$2.37	\$308	-	-	143.6x	6.0x	5.1x	4.2x	6.0x	5.1x	3.9x	47.4x	36.8x	19.6x	-	-	70.7x
KGN Kogan com	Australia	\$10.48	\$1,115	37.4x	25.9x	21.7x	1.9x	1.3x	1.2x	7.7x	4.9x	4.5x	20.2x	15.1x	12.6x	23.9x	17.2x	14.4x
MMM Marley Spoon CDI	Germany	\$2.50	\$640	-	-	-	1.0x	0.8x	0.7x	2.7x	2.0x	1.7x	-	79.7x	35.1x	-	-	-
MYD MyDeal	Australia	\$0.68	\$176	13600.0x	-	-	9.5x	3.3x	2.3x	9.5x	4.0x	3.0x	-	-	-	-	-	-
RBL Redbubble	Australia	\$3.79	\$1,037	-	26.1x	38.3x	2.8x	1.6x	1.4x	7.3x	4.1x	3.8x	64.0x	15.6x	18.8x	-	22.9x	30.1x
TPW Temple & Webster	Australia	\$10.06	\$1,212	86.2x	66.8x	87.2x	6.7x	3.4x	2.5x	18.9x	9.5x	7.3x	138.1x	53.8x	68.0x	142.5x	58.4x	84.7x
YFZ Youfoodz Holdings	Australia	\$0.49	\$65	-	-	-	-	0.3x	0.4x	-	0.9x	1.1x	-	14.7x	28.6x	-	-	-
Average				3464.6x	182.7x	131.9x	4.4x	2.6x	1.9x	8.7x	4.6x	3.8x	68.2x	84.8x	50.9x	86.9x	168.9x	86.3x
Median				110.5x	65.8x	47.2x	2.8x	1.6x	1.4x	7.7x	4.9x	3.9x	64.0x	36.8x	22.6x	94.4x	43.7x	30.1x
High				13600.0x	817.5x	545.0x	9.5x	7.2x	4.2x	18.9x	9.5x	7.3x	138.1x	482.9x	235.8x	142.5x	827.7x	353.7x
Low				37.4x	25.9x	21.7x	1.0x	0.3x	0.4x	2.7x	0.9x	1.1x	20.2x	14.7x	12.6x	23.9x	17.2x	14.4x

Source: Shaw and Partners, FactSet

### Key risks

- Stability of website, databases, its operating systems and technology** – ABY's website, databases, IT, warehouse systems and management systems are critically important to its success in attracting and retaining customers, and maximising sales conversion.
- New/existing competitors could adversely impact** – The beauty and personal care market is highly fragmented. Existing online competitors may strengthen their market share through increased funding or industry consolidation, an increase in brand awareness or attractiveness to customers, or through financial or operational advantages which allow them to compete aggressively on pricing. Competition may also come from third-party suppliers establishing their own online presence as opposed to utilising ABY's network.
- Relies on third-party suppliers for its products** – Success relies on ABY's ability to retain its existing key supplier relationships and its ability to continue to attract suppliers on acceptable terms. Supply agreements are negotiated on a case by case basis and there is no guarantee that these arrangements will be renewed on like terms.
- Exclusivity of brands** – Competitors will from time to time attempt to negotiate contracts with exclusivity terms with various brands (potentially including with brands that are stocked by ABY or that ABY wishes to stock). There is a risk that the brands ABY stocks, or would like to stock, could be subject to these exclusivity arrangements with a competitor in the future.
- Growth in online penetration and/or rate of migration slows** – Growth in ecommerce is being driven partly by the migration of customers from a traditional offline retailing experience to online retailing platforms across a number of segments. This factor is outside ABY's control and there is no guarantee that the migration of customers will continue to grow in the future.
- Expansion (e.g. acquisitions) into new markets may not be successful** – Any future acquisitions or expansions into new markets (in product segments, relevant adjacencies and potentially geographically) may expose ABY to unforeseen risks.

## Core drivers and catalyst

### Organic Growth

- **Grow brand awareness** - currently ~52% as at Dec-2020 and ABY believe they can increase this in time to c. 80%+ via further reductions in CAC, increasing LTV, growing market share higher than industry average, higher conversion rates, etc.;
- **Make buying proposition more attractive and compelling for those customers who do not know what they want to purchase** - e.g. personalised and targeted campaigns, more seamless UI integration, using AI to determine areas of interest, etc.;
- **Leverage customer data analytics** - e.g. build competitive moat, improve conversion and increase LTV;
- **Launched (soft) mobile app late 2020 with full release in 2H21** - app will have a content-first focus, delivering highly personalised and relevant content to engage customers with blog posts, guides, routines and reviews, and to provide a seamless transition to purchase; and
- **Launch loyalty and rewards to drive customer retention** - this is likely to take the form of a holistic tiered program including financial, experiential, useful, personal and social benefits, delivering tangible perceived value to members and providing members with a sense of belonging and inclusivity.

### Expanding into New Markets & Adjacent Categories

- **Private label will enable ABY to fill product offering gaps, increase flexibility in marketing and design and improve supply chain management through control of sourcing, volume and timely delivery** - management is currently aiming to launch these in-house brands in 2H CY21. This should enable ABY to increase its competitive moat, improve margins and expand TAM through international D2C expansion; and
- **Category and market adjacencies** - ABY will continue to increase the number of brands offered as well as expand its product categories. This may take the form of exclusive rights, importation of international brands, launching own brands, acquiring or incubating nascent or growing brands. The net result is to increase TAM via larger SKU coverage and improving margins.



## Rating Classification

<b>Buy</b>	Expected to outperform the overall market
<b>Hold</b>	Expected to perform in line with the overall market
<b>Sell</b>	Expected to underperform the overall market
<b>Not Rated</b>	Shaw has issued a factual note on the company but does not have a recommendation

## Risk Rating

<b>High</b>	Higher risk than the overall market – investors should be aware this stock may be speculative
<b>Medium</b>	Risk broadly in line with the overall market
<b>Low</b>	Lower risk than the overall market

**RISK STATEMENT:** Where a company is designated as 'High' risk, this means that the analyst has determined that the risk profile for this company is significantly higher than for the market as a whole, and so may not suit all investors. Clients should make an assessment as to whether this stock and its potential price volatility is compatible with their financial objectives. Clients should discuss this stock with their Shaw adviser before making any investment decision.

### Distribution of Investment Ratings

Rating	Count	Recommendation Universe
Buy	66	83%
Hold	12	15%
Sell	2	3%

### History of Investment Rating and Target Price - Adore Beauty Group Limited



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