

December, 2019

Imexpharm Pharmaceutical JSC (HSX: IMP)

New bidding policy strengthens its competitive advantage

Particulars (VND B)	3Q-FY19	2Q-FY19	+/- QoQ	3Q-FY18	+/-YoY
Net revenue	328	286	15%	297	10%
PAT	42	33	27%	35	17%
EBIT	44	42	3%	46	-5%
EBIT margin	13.4%	14.9%	-150 bps	15.6%	-220 bps

Source: PME, Rong Viet Securities

9M/2019 results:

- 9M revenue increased 9.4% YoY, due to strong growth in ETC sales (+68% YoY). While the OTC channel slightly decreased (-0.6%) due to impact of Circular 02.
- Increasing bidding via partners made gross margin decline to 38.2% (-240 bps) YoY while also helped reduce selling expenses/revenue to 17.4% (-150 bps). Operating profit grew 4% YoY. Moreover, other income such as selling unused assets (VND 7.5 bn or USD 330,000) and dividend received from Agimexpharm (VND 4 bn or USD 173,000) helped 9M/2019 NPAT grow 11.2% YoY, reached VND 110 bn (USD 4.8 mn)
- In 9M, IMP fulfilled 62% of its revenue and PBT target for 2019.

Q4/2019 forecast and prospect in the coming years:

- Q4 is the annual peak season and the 2 factories in IMP3 are running at high capacity after 1H/2019 of limited production due to retesting. Therefore, we project Q4/2019 sales to grow well (+12% YoY) and account for 33% of 2019's sales. However, forecasted sales and PBT will only meet 92% and 97% of 2019's target as the OTC channel is facing difficulties. Accordingly, revenue and NPAT of 2019 will grow 11.2% and 11.7% respectively.
- In coming years, IMP has opportunities to replace foreign drugs in Tier 2 bidding group after Circular 15/2019 and plentiful room to increase production from 3 EU-GMP factories.

Valuation and recommendation:

When the IMP4 factory is approved for EU-GMP early next year, IMP will be one of the first two companies in Vietnam (with PME) to have 3 EU-GMP plants. After many years of focusing on that IMP is coming back to the ETC channel. With new modern factories and beneficial changes in government's policies to favor domestic drugs, IMP's ETC sales growth potential in the coming years is very promising. We forecast IMP to have revenue and NPAT CAGR of 16% and 19% over the next 5 years, starting from 2020.

We combined FCFF valuation model and multiples comparison with an applied P/E of 18 times. Our target price for IMP in the next 12 months is around **VND 64,500**, up 22% compared to the recent target price in the annual strategy report (Dec 2018). This revision is mostly because of positive prospect from Circular 15 and the transition from foreign drugs to domestic ones. Adding a cash dividend of VND 2,000, the **12-months expected return is 26%** compared to the closing price on December 10th 2019. We have a **BUY** recommendation on the stock. We believe that pharmaceutical stocks with sustainable growth prospects such as IMP would be suitable as defensive stocks in a current risky market.

BUY
+26%

Target price (VND)	64,500
Current market price (VND)	53,000
Cash dividend (VND)*	2,000

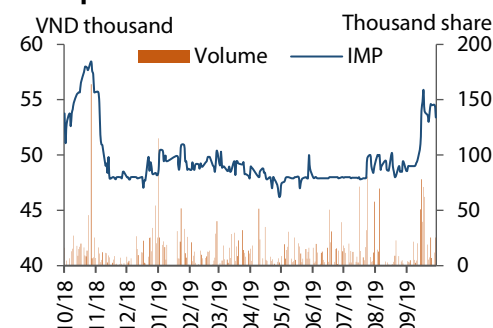
* Expected in the next 12 months

Stock info

Sector	Pharmaceutical
Market Cap (VND billion)	2,658
Current Shares O/S (mn)	49.4
Avg. Daily Volume (in 20 sessions)	23,483
Free float (%)	75.0
52 week High	58,464
52 week Low	46,200
Beta	-0.11

	FY2018	Current
EPS	2,806	3,036
EPS growth (%)	18%	8%
P/E	24.7	17.8
P/B	2.0	1.8
EV/EBITDA	12.4	12.7
Dividend yield (%)	3.4	3.7
ROE (%)	9.6	10.0
ROA (%)	7.8	8.4

Price performance



Major Shareholders (%)

Vinapharm	22.9
KWE Beteiligungen AG	14.2
Balestrand Limited	5.9
Remaining foreign room (%)	0.0

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Exhibit 1: 3Q 2019 results

Particulars (VND B)	3Q-FY19	2Q-FY19	+/- (QoQ)	3Q-FY18	+/- (YoY)
Net revenue	328	286	14.7%	297	10.4%
Gross profit	121	103	16.9%	118	2.1%
SG&A	77	61	26.3%	72	6.9%
Operating income	44	42	3.5%	46	-5.3%
EBITDA	54	52	3.6%	54	-0.8%
EBIT	44	42	3.5%	46	-5.3%
Financial expenses	5	4	27.6%	3	44.3%
- Interest Expenses	1	0	218.4%	0	673.2%
Dep. and amortization	10	9	4.3%	8	26.3%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	51	41	24.7%	44	15.5%
PAT	42	33	27.3%	35	17.5%
(*) Adjusted PAT	42	33	27.3%	35	17.5%

Source: IMP, Rong Viet Securities

Exhibit 2: 3Q 2019 performance analysis

Particulars	3Q-FY19	2Q-FY19	+/- (QoQ)	3Q-FY18	+/- (YoY)
Profitability ratios (%)					
Gross margin	36.9%	36.2%	72 bps	40.0%	-302 bps
EBITDA margin	16.4%	18.1%	-175 bps	18.2%	-186 bps
EBIT margin	13.4%	14.9%	-145 bps	15.6%	-223 bps
Net margin	12.7%	11.4%	126 bps	11.9%	76 bps
Adjusted net margin					
Turnover (x)					
-Inventories	2.2	2.0	0.1	2.3	-0.1
-Receivables	5.2	4.6	0.6	3.6	1.6
-Payables	3.5	3.7	-0.1	4.0	-0.5
Leverage (%)					
Total debt/ equity	19.7%	24.5%	-480 bps	11.6%	810 bps

Source: IMP, Rong Viet Securities

Exhibit 3: 4Q 2019 performance forecast

Particulars (VND B)	4Q-FY19	+/- QoQ	+/- YoY	2019 forecast	% target
Total revenue and income	435	28%	12%	1.338	92%
Gross profit	160	32%	14%	499	
EBIT	51	16%	19%	183	
Profit before tax, science & technology fund	76	49%	11%	213	97%

Source: Rong Viet Securities

Update

9M/2019's net sales grew by 9.4% YoY. Revenue from manufactured goods accounted for 87% of net revenue, of which: revenue from **OTC channel accounted for 71.7% and decreased by 0.6% YoY.** It was in line with the overall OTC market which was affected by Circular 02/2018 - controlling prescription drugs abuse at pharmacies. In contrast, revenue from **ETC channel accounted for 28.3% and increased by 67.8% YoY.** In addition to the impact of Circular 02 helping to promote antibiotic consumption in the hospital channel, we also think that the transition from foreign medicine to domestic one is progressing faster.

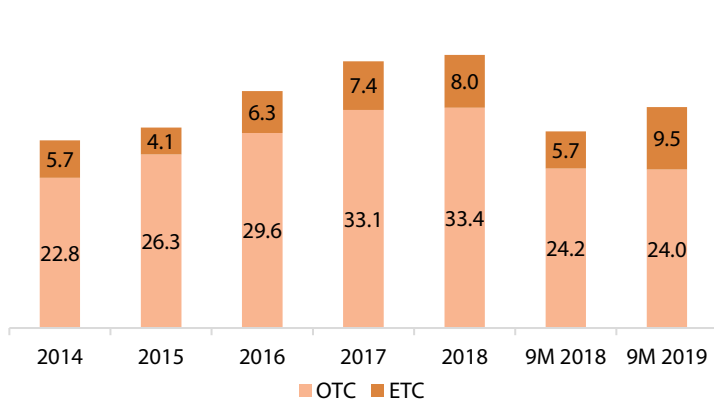
Circular 01/TTLT-BYT-BTC in 2012 stipulated drugs bidding in hospitals and prioritized cheaper drugs rather than quality, thus had a significant impact on IMP's ETC revenue. Accordingly, revenue from ETC from accounting for nearly 57% in 2012 fell to 13% in 2015. 2016 was the turning year with two factories producing antibiotics (Penicillin and Cephalosporin) in Binh Duong approved for EU-GMP and IMP started participating in bidding into Tier 2 drugs as well as **Law 105/2016/QH13 On Pharmacy stipulated that no bidding of imported drugs will be provided when domestic production capability is satisfied. Since then, IMP's ETC channel has started to recover, in 9M/2019 it contributed 28% of total revenue from manufactured goods.*

Gross profit margin decreased by 240 bps to 38.2% in 9M/2019. The reason is that the company increased bidding through intermediary partners which are local pharmaceutical manufacturers/distributors. Thereby the company can take advantage of the local partner's distribution networks to medical facilities in the area, it enables faster market expansion and reduces selling costs. The ratio of selling expenses/revenue decreased 150 bps to 17.4% in 9M/2019 YoY. In addition to the core business, IMP also had other income from selling unused real estate assets (VND 7.5 bn or USD 330,000) and dividends received from Agimexpharm (VND 4 bn or USD 173,000). **Net income reached VND 110 bn (USD 4.8 mn), up 11.2% YoY.**

In July 2019, the IMP2 factory in Vinh Loc Industrial Park came into operation and the company also completed EU-GMP retesting for three old production lines as well as received EU-GMP for two new lines, bringing the total number of EU-GMP lines in IMP3 factory up to five.

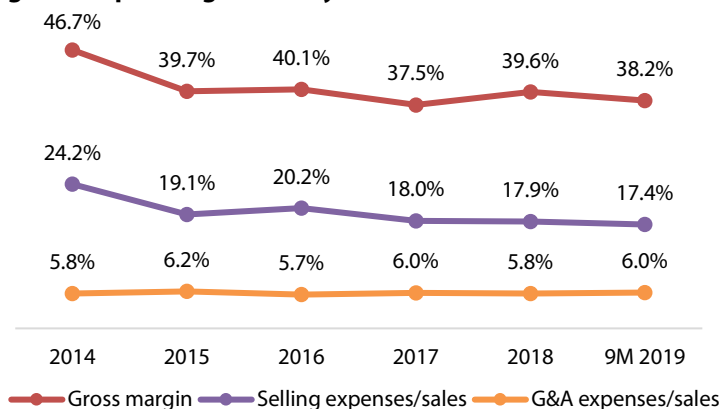
After 9 months, total revenue and profit before tax reached VND 886 bn (USD 38.5 mn) and VND 137 bn (USD 6 mn), respectively, fulfilling 62% of revenue and PBT plan for the whole year. However, IMP's peak season usually fell in Q4, when revenue and NPAT in the quarter contributed of 34% and 28% for 2018 and 36% and 24% for 2017 (whole year), respectively (lower profit contribution than revenue due to science and technology fund deduction in Q4). For Q4/2019, we forecast total revenue and NPAT to grow by 12% and 11% YoY, respectively, accounting for 33% and 29% of the year's number. For the whole year, revenue reached VND 1,317 bn (USD 57.3 mn, +11.2% YoY) and net income reached VND 155 bn (USD 6.7 mn, +11.7 YoY).

Figure 1: Manufactured goods sales by channel (USD mn)



Sources: IMP, Rong Viet Securities collected

Figure 2: Operating efficiency



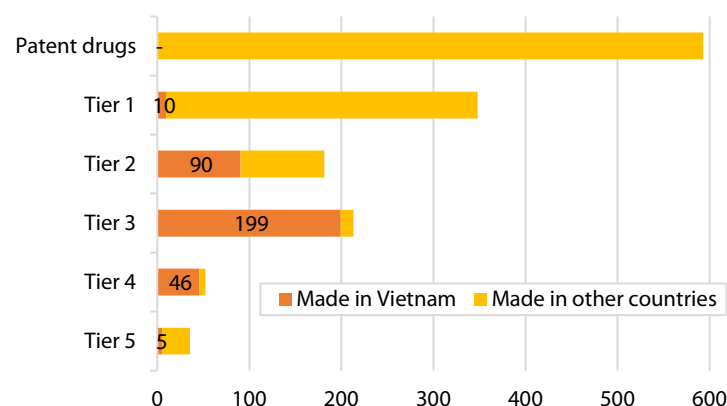
Sources: IMP, Rong Viet Securities collected

Competitive advantage in Tier 2 drug is the long-term growth driver

Positive bidding result (2019 – 2020) due to new bidding mechanism

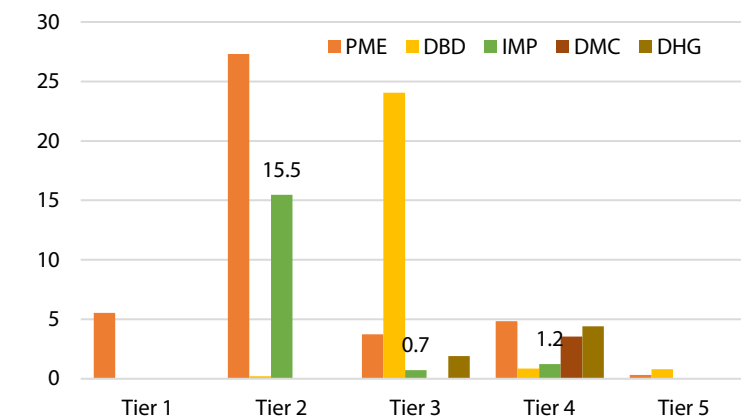
Since the end of 2017, the Ministry of Health has begun organizing nationwide centralized bidding, aiming to reduce healthcare costs, reduce spending pressure on the health insurance fund and limit off-the-table negative in the industry. For bidders, a more transparent environment would benefit businesses with large-scale production and high standard products.

Among listed pharmaceutical companies, IMP and PME are the two strongest ones in the high-quality generic drug segment (Tier 1 and 2) due to their large-scale EU-GMP production lines and good medicine portfolios for hospital channel. In which PME, thanks to support from Stada, has the advantage in acquiring export visa to Europe which allows PME to bid for Tier 1 (another requirement beside of having EU-GMP factory). For IMP, 89% of its winning bid is in Tier 2 (VND 356 bn or USD 15.5 mn of 2019 compared to VND 400 bn or USD 17.4 mn of the whole period 2016 - 2018). In addition, the estimated national winning bid value is more than VND 160 bn (USD 7 mn), equivalent to about 40% of IMP's total winning bid (up to August 2019).

Figure 3: Bid winning value by drug Tiers (USD mn)


Sources: Drug Administration of Vietnam, Rong Viet Securities

* Collected from bidding result in 2019 reported by medical facilities up until 8/27/2019

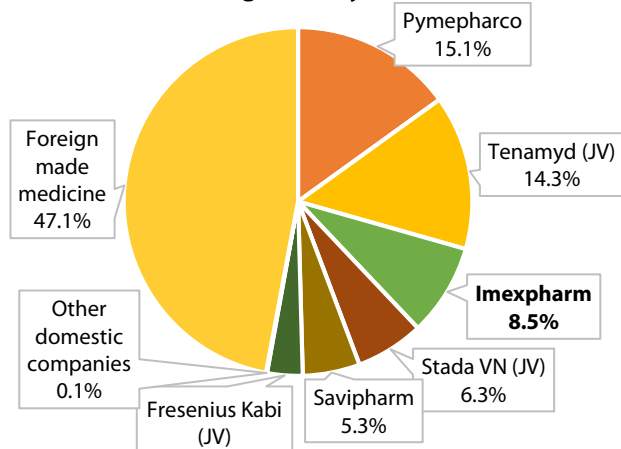
Figure 4: Bidding result of some listed pharmaceutical companies (USD mn)


Sources: Drug Administration of Vietnam, Rong Viet Securities

New bidding Circular (15/2019): Opportunities in replacing foreign drugs in Tier 2

Tier 2 is IMP's most important tier in the hospital channel, where drugs manufactured in Vietnam only meet more than half of the demand (Figure 3). In which there are almost only six companies, including three domestic ones (Pymepharco, Imexpharm, Savipharm) and 3 joint ventures with foreign companies (Stada VN, Fresenius Kabi, Tenamyd). All six mentioned companies have EU-GMP lines, thus they are still eligible to bid for Tier 2 under the new Circular (see Appendix for changes in the new Circular).

Meanwhile, foreign drug producers with PIC/S standards issued by non-ICH member countries are no longer be able to bid for Tier 2 from October 2019 onwards. Most are PIC/S-GMP issued by Ukraine, Malaysia and Argentina. According to our statistics, India is the most winning country of Tier 2 this year (nearly VND 1,000 bn or USD 45 mn), of which there is at least VND 500 bn (USD 22 mn) worth of medicine from non-ICH PIC/S facilities, the number of that from Argentina also reached nearly VND 90 bn (USD 4 mn). **Thus, foreign PIC/S facilities that do not meet the criteria of the new Circular contributed at least VND 600 bn (USD 26 mn) in value of Tier 2 bid this year.** Of which over 80% are special medicines. This opens up a great opportunity for manufacturers with EU-GMP special medicine factories, including IMP with the coming up IMP4 factory.

Figure 5: Tier 2 bid winning value by manufacturers


Sources: Drug Administration of Vietnam, Rong Viet Securities

Among the active ingredients that can be replaced, IMP is manufacturing such types as:

- Digestive group: Rabeprazol and Omeprazol
- Cardiovascular group: Clopidogrel and Rosuvastatin
- Antibiotic group: Amoxicillin and Cefoperazon + Sulbactam

Ingredients are worth up to VND 350 bn (USD 15 mn) in 2019 for Tier 2.

Plentiful room to increase production from EU-GMP factories

When IMP4 factory comes into operation from next year, IMP will have 3 EU-GMP factories and become one of the two companies (with PME) that have the most EU-GMP factories in Vietnam. With the development trend of the pharmaceutical industry to replace foreign drugs by domestic ones, having EU-GMP factory is a must-have condition for manufacturers to enter the high-quality drug segment which has greater value and less competition than WHO-GMP drugs.

Specifically, IMP's current factories:

1. IMP1: Consists of 2 sub factories, Non-Betalactam and penicillin tablet in Dong Thap (both in WHO-GMP), currently contributes over 70% of total revenue, is old and difficult to increase production capacity in the near future. IMP1's products are currently bidding into Tier 3 and sold through OTC channel.
2. IMP3: Consists of 2 sub factories with 2019 whole year's estimated capacity at 30-40% due to limited production in the first 7 months during the EU-GMP retesting. In Q4 alone, the Penicillin factory will operate at nearly 100% of designed capacity. In 2019 IMP has upgraded 2 production lines to EU-GMP: Cephalosporin tablet and packet.
3. IMP2 factory in Vinh Loc Industrial Park went into operation at the end of Q2/2019 has just reached 5% capacity. It manufactures new generation penicillin oral antibiotics.
4. IMP4 factory has finished the construction phase and received WHO-GMP certification, it is expected to receive EU-GMP by the end of Q1/2020 before going into operation. The new factory will produce non-betalactam drugs for the hospital channel. Non-betalactam drugs include 2 main groups: (1) painkillers, antipyretics and (2) Special medicines for diseases such as digestive, cardiovascular, respiratory, cancer ... Currently, there is no specific information about the products. However, **we believe that this factory will focus on special medicines** because its painkillers and antipyretic drugs are overlapping with many other domestic companies and facing fierce competition.

Table 1: IMP's current production lines

No	Factory	Product	Designed capacity	2019 estimated capacity
1	Dong Thap factory (IMP1)			
+	Non-Betalactam factory	Non-beta tablets	1.2 billion units	90%
+	Penicillin factory	Oral Penicillin	300 million tablets	70%
2	Vinh Loc high tech factory (IMP2)			
+	Vinh Loc high tech antibiotic factory (EU-GMP)	Oral Penicillin	300 million units	5%
3	Binh Duong high tech Betalactam factory (IMP3)			
+	Cephalosporin factory (EU-GMP)	Cephalosporin injectable powder & tablet	200 million tablets/packets and 20 million vials	30-40%
+	Penicillin factory (EU-GMP)	Powdered & injectable Penicillin	5 bottles	30-40%
4	Binh Duong high tech factory (IMP4)			
+	Binh Duong high tech factory (EU-GMP)	N/A	N/A	N/A

Source: IMP

Recommendation and Valuation

With beneficial policies such as Circular 15/2019 and Circular 03/2019 as well as the strategy to focus on the ETC channel, we expect that IMP's ETC sales will have a high growth rate in the coming years and account for about 50% of IMP's total revenue by 2022 (estimated at 30% in 2019). Meanwhile, OTC channels, which are facing difficulties in 2018-2019 due to the immediate impact of Circular 02 will begin to recover slightly from 2020 onwards.

Along with that, gross profit margin will improve from next year due to: (1) Depreciation/product declines as the EU-GMP factories gradually fill up capacity and (2) Reduce dependence on local bidding partners along with the expansion of the nationwide centralized bidding drug list. In contrast, the ratio of selling expenses/revenue will increase slightly but lower than that of gross margin when IMP directly bids more. Therefore, net profit margin will also be improved.

Accordingly, **we project that IMP's total revenue and NPAT will grow at an average of 16% and 19% per year from 2019 - 2023, respectively.** Combining FCFF valuation model and multiples comparison with applied P/E of 18 times, the target price of IMP in the next

12 months will be around **VND 64,500**, plus a cash dividend of VND 2,000, equivalent to an **expected return of 26%** compared to the closing price on December 10th 2019. We believe that pharmaceutical stocks with sustainable growth prospects such as IMP would be suitable as defensive stocks in the current risky market.

Tablet 2: Forecast (VND bn)

	2018	9T 2019	2019E	2020F	2021F	2022F	2023F
Net revenue	1,185	886	1,317	1,524	1,765	2,052	2,379
ETC sales/manufactured goods sales	19%	28%	29%	37%	44%	50%	55%
Gross margin	39.6%	38.2%	37.9%	38.9%	39.7%	40.1%	40.8%
SG&A expenses/sales	25.3%	23.4%	23.7%	24.0%	24.3%	24.3%	24.3%
Profit before tax and science & technology fund	193	137	213	252	302	358	431
Adjusted EPS	2,469	2,227	2,757	3,269	3,920	4,664	5,638

Source: Rong Viet Securities

*Bonus and welfare fund (12% NPAT) is adjusted from annual EPS

Table 3: Comparison with other top pharmaceutical companies

Companies	Market cap (VND bn)	12M trailing results (to Q2/2019)					5-years revenue CAGR (%)	5-years profit CAGR (%) Revenue (VND bn)	12M trailing valuation		
		Revenue (VND bn)	Net margin (%)	EPS (VND)	ROA (%)	ROE (%)			Net margin (%)	EPS (VND)	ROA (%)
DHG	12,264	3,835	16.5	4,843	15.2	20.4	1.9	1.9	19.6	3.9	16.7
PME	4,118	1,772	17.2	4,073	13.9	16.8	7.1	15.8	13.5	2.2	10.0
DBD	3,007	1,257	11.2	2,694	9.6	15.0	1.6	45.7	23.4	3.3	20.5
TRA	2,595	1,703	10.5	3,909	10.5	14.4	1.3	0.4	14.8	2.3	8.0
DMC	2,466	1,460	15.8	6,665	16.3	20.0	-0.6	16.4	10.1	2.0	7.7
OPC	1,321	1,011	11.2	4,055	8.9	16.2	12.2	12.4	11.6	2.0	9.0
MKP	1,087	1,184	6.8	3,805	5.9	7.0	-1.4	3.1	12.3	0.9	11.2
DHT	972	1,904	4.7	4,097	13.5	29.2	18.1	22.6	12.4	4.0	12.8
Average									14.7	2.6	12.0
IMP	2,469	1,295	11.6	3,033	8.4	10.0	7.1	18.0	16.8	1.7	12.0

Sources: FiinGroup, Rong Viet Securities

APPENDIX

Appendix 1: Some major changes in Tier classification of Circular 15/2019

Drug tier	Circular 11 - 2016	Circular 15 - 2019
Tier 1	Drugs produced on EU-GMP or PIC/S-GMP lines granted by ICH member countries or Australia	Drugs produced completely on EU-GMP or EU-GMP equivalent lines granted by SRA countries
Tier 2	Drugs produced on EU-GMP or PIC/S-GMP lines granted by non-ICH member countries nor Australia	Drugs produced completely on EU-GMP or PIC/S-GMP granted by PIC/S and ICH member countries
Tier 3	Drugs produced on WHO-GMP lines	Drugs produced on WHO-GMP lines and are Bioequivalence tested
Tier 4	Drugs are bioequivalence tested by Ministry of Health	Drugs produced on WHO-GMP lines in Vietnam
Tier 5	Drugs that do not meet requirements of Tier 1,2,3 and 4	Drugs produced on WHO-GMP lines and do not qualify in Tier 1,2,3 and 4

Sources: Ministry of Health, Rong Viet Securities

VND in billions

<i>Income statement</i>	FY2017	FY2018	FY2019F	FY2020F
Revenue	1,165	1,185	1,317	1,524
COGS	729	715	818	931
Gross profit	437	470	499	593
Selling expense	210	212	216	254
G&A expense	86	88	96	111
Finance income	18	19	13	14
Finance expense	14	18	14	16
Other profits	1	3	8	4
PBT	147	174	194	230
Prov. of tax	29	35	39	46
Minority's interest	0	0	0	0
PAT to equity S/H	117	139	155	184
EBIT	141	169	187	227
EBITDA	173	200	225	293

%

<i>Financial ratio</i>	FY2017	FY2018	FY2019F	FY2020F
Growth (%)				
Revenue	15.4%	1.7%	11.2%	15.7%
Operating income	3.2%	15.8%	12.8%	30.1%
EBITDA	8.7%	19.9%	10.2%	21.7%
PAT	16.0%	18.2%	11.6%	18.6%
Total assets	63.1%	0.0%	3.3%	6.5%
Equity	49.1%	7.8%	2.4%	4.3%

Profitability (%)

Gross margin	37.5%	39.6%	37.9%	38.9%
EBITDA margin	14.8%	16.9%	17.1%	19.3%
EBIT margin	12.1%	14.3%	14.2%	14.9%
Net margin	10.1%	11.7%	11.8%	12.0%
ROA	6.6%	7.8%	8.4%	9.4%
ROE	9.9%	10.9%	11.6%	13.4%

Efficiency (x)

Receivable turnover	2.9	4.1	4.5	4.9
Inventory turnover	2.6	2.2	2.5	2.5
Payable turnover	2.1	3.2	3.6	3.6

Liquidity (x)

Current	2.8	3.8	3.7	4.0
Quick	2.0	2.3	2.3	2.6

Solvency (%)

Total debt/equity	0.0%	0.0%	0.0%	0.0%
Current debt/equity	0.0%	0.0%	0.0%	0.0%
Long-term Debt/equity	0.0%	0.0%	0.0%	0.0%

VND in billions

<i>Balance sheet</i>	FY2017	FY2018	FY2019F	FY2020F
Cash and cash equivalents	106	190	158	244
Short-term investments	183	4	50	100
Accounts receivable	396	290	293	312
Inventories	282	324	327	372
Other current assets	10	26	30	15
Property, plant & equipment	622	790	830	764
Acquired intangible assets	72	73	72	71
Long-term investments	66	41	41	41
Other non-current assets	36	35	33	33
Total assets	1,774	1,774	1,834	1,953
Accounts payable	343	222	229	261
Short-term borrowings	0	0	0	0
Long-term borrowings	0	0	0	0
Other non-current liabilities	0	1	1	1
Bonus and welfare fund	1	14	31	53
Technology-science, dev. fund	34	33	33	33
Total liabilities	378	270	293	346
Common stock and APIC	1,031	1,095	1,095	1,095
Treasury stock (enter as -)	0	0	0	0
Retained earnings	96	125	141	187
Other comprehensive income	2	2	2	2
Inv. and dev. fund	266	282	302	322
Total equity	1,395	1,505	1,541	1,607
Minority interest				

<i>Valuation ratio</i>	FY2017	FY2018	FY2019F	FY2020F
EPS (VND)	2,090	2,469	2,757	3,269
P/E (x)	27.5	24.7	19.2	16.2
BV (VND)	32,466	30,445	31,175	32,514
P/B (x)	2.0	2.0	1.7	1.6
DPS (VND/cp)	500	2,000	2,000	2,000
Dividend yield	0.8	3.4	3.8	3.8

<i>Valuation history</i>	<i>Price</i>	<i>Recommendation</i>	<i>Period</i>
12/2019	64,500	Buy	Long term
12/2018	53,000	Reduce	Long term
08/2017	69,500**	Buy	Long term
08/2016	29,600*	Neutral	Long term

*12/2016 issued shares at discount price for existing share holders at 10:3 ratio

3/2017 issued share for employees at 5% ratio

5/2017 stock dividend 10%

Pre adjusted target price was VND 50,400

**6/2018 stock dividend 15%, Pre adjusted target price was VND 80,000

Result Update

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective that is to determine the reasonable value of the stock at the time such analyses are performed. Through this report, we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information, investors may contact the assigned analyst or our client support department.

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Ratings	BUY	ACCUMULATE	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

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