

Company update
9 December 2013

Hold (maintained)

Price (06/12/13)
€25.71

Target price (12-mth)
€26.00 (maintained)

Forecast total return
4.4%

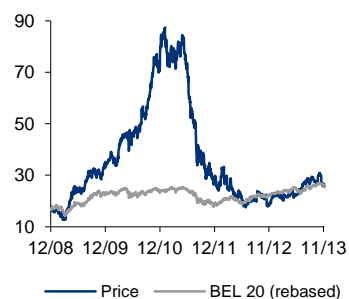
Industrial Goods & Services
Belgium
Bloomberg: BEKB BB
Reuters: BEKB.BR

Share data

Avg daily volume (3-mth)	104,790
Free float (%)	60.9
Market cap (€m)	1,508.0
Net debt (1F, €m)	660
Enterprise value (1F, €m)	2,432
Dividend yield (1F, %)	3.3

Source: Company data, ING estimates

Share price performance



Source: ING

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Bekaert

Good enough returns not yet in sight

We tweak our estimates down post weak 3Q13 volumes and a cautious full-year outlook, but remain broadly in line with consensus. We believe EBIT has passed the bottom and expect double-digit growth over 2014-15F, but don't expect the company to earn its cost of capital in the foreseeable future. Valuation multiples seem fair at best. HOLD; €26.0 TP maintained.

Weak 3Q Latam volumes and cautious outlook. 3Q13 sales came in c.5% below our expectation and down 11% YoY, driven mainly by forex (-9% YoY). However, the disappointment was in Latam volumes (-2% YoY vs +10% in 1Q13 and +3% in 2Q13). North America continued to suffer from investment delays in energy & construction, Asian imports and forex. In EMEA, we received confirmation that volumes have bottomed, while Asia Pac reported double-digit volume growth (market share gains in tire cord and growth in other markets), but sales were held back by price/mix. The outlook tone was cautious and suggested 3Q trends should persist in 4Q, next to year-end seasonality in EMEA and North America.

Realistic consensus. We lower our 2013F sales by 2% and REBIT by 3% to €156m (4.9% margin). This still implies 33% growth YoY. We expect 1.5% and 4.3% top-line growth over 2014-15F. We are cautious on 2014F growth, as the sequential weakening of sales in the Americas in 2013 suggests difficult comparables in 1H14F. Our 2015F growth assumption seems in line with average organic growth since 2005, and seems reasonable given the >50% exposure to emerging markets. We expect 24% and 14% REBIT growth YoY in 2014-15F to €194m (6.0% margin) and €221m (6.6% margin), respectively, driven by cost savings (still c.€30m to come in 2014F from the €100m cost-savings plan) and operating leverage. We seem broadly in line with Bloomberg consensus.

Balance sheet is not an issue. Net debt declined to €730m end-3Q13 from €770m end-2Q13 (€800m end-2Q ING def). We assume this was driven by working capital inflow. We assume net debt at €660m (ING def) end-4Q13. This implies 2.3x EBITDA (down from 2.7x end-2012). As funding consists mainly of bonds, we see no covenant issues. **ROCE is an issue.** On our estimates, Bekaert does not create value throughout 2015F, as we expect ROACE to increase from 3.8% in 2013F to 6.5% in 2015F (versus 8% WACC). We believe the shares will have difficulties attracting fundamental investors as long as the company is unlikely to earn its cost of capital in the foreseeable future.

Fair valuation: mid-cycle, we would pay c.6x EV/EBITDA for Bekaert. Given that the shares trade at 5.9x EV/EBITDA 2015F, valuation seems fair at best. **Catalysts:** stronger volumes (mainly in the Americas), a weaker euro, lower capital employed (most likely via lower receivables in China), the acquisition of Pirelli steelcord activities with a long-term supply agreement at an attractive multiple.

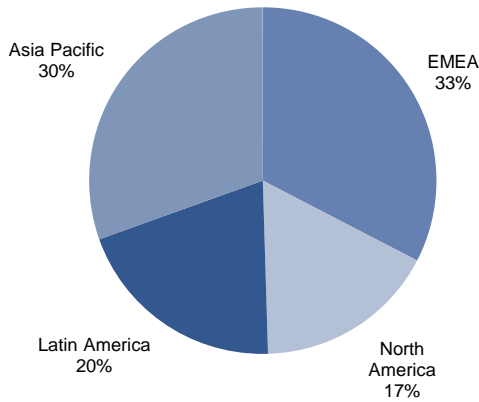
Forecasts and ratios

Year end Dec (€m)	2011	2012	2013F	2014F	2015F
Revenues	3,340	3,461	3,162	3,210	3,348
Normalised EBITDA	482	331	322	360	387
Normalised net profit	206	(28)	54	98	122
Normalised EPS (€)	3.49	(0.47)	0.92	1.66	2.08
Normalised PER (x)	7.4	n/a	28.1	15.5	12.3
EV/normalised EBITDA (x)	5.1	7.7	7.5	6.5	5.9
FCF yield (%)	n/a	12.2	8.2	6.3	6.3
Dividend yield (%)	4.6	3.3	3.3	3.3	3.3

Source: Company data, ING estimates

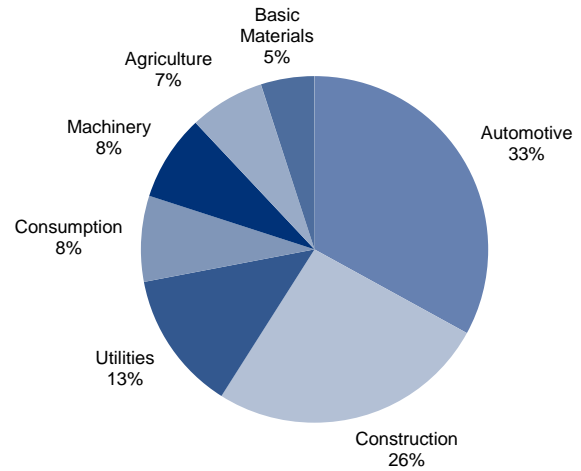
Bekaert in six charts

Fig 1 Consolidated sales per region (2013F)



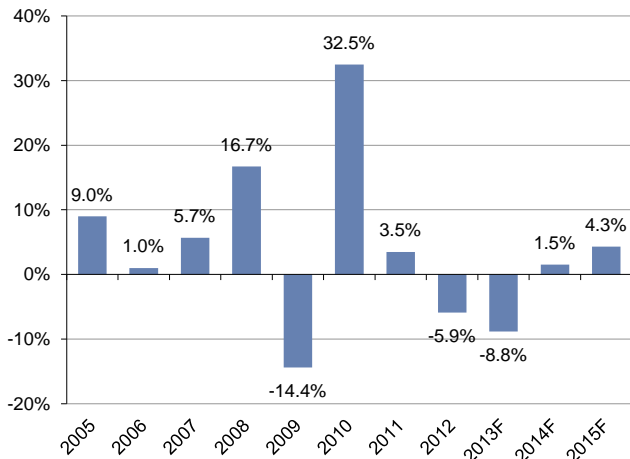
Source: ING estimates

Fig 2 Sales per end-market (October 2013)



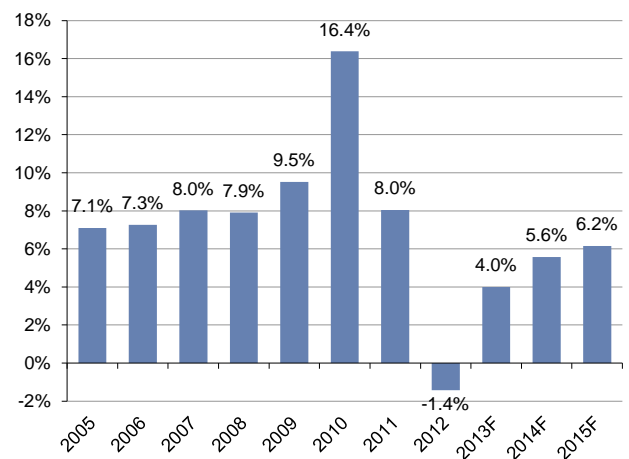
Source: Company data

Fig 3 Organic sales growth (%)



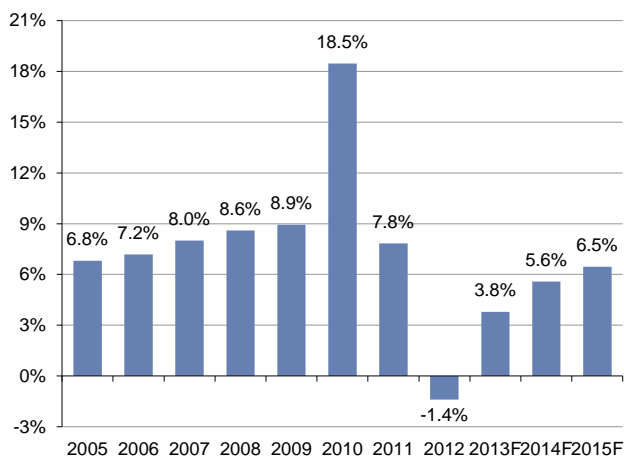
Source: Company data, ING estimates

Fig 4 EBIT margin (%)



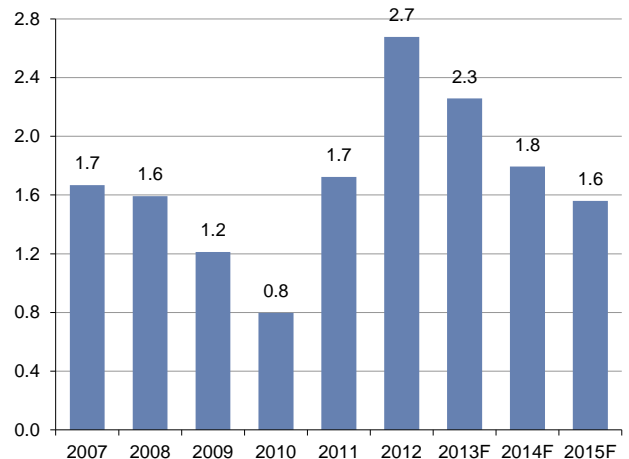
Source: Company data, ING estimates

Fig 5 ROACE (%)



Source: Company data, ING estimates

Fig 6 Net debt/EBITDA (x)



Source: Company data, ING estimates

Weak 3Q Latam volumes and cautious outlook

3Q13: Latam volumes below expectations

3Q13 sales came in c.5% below our expectations at €773m and down 11% YoY. The decline was driven mainly by forex (-9% YoY), due to the strong euro and a drastic further depreciation of the Venezuelan bolivar.

Fig 7 Consolidated sales growth (%YoY)

	1Q13	2Q13	3Q13
Volumes	-3	3	0
Price/mix	-5	-6	-3
Forex	-3	-3	-9
M&A	1	2	1
Consolidated sales	798	851	773
%YoY	-11	-4	-11

Source: Company data

The disappointment was, however, in volumes: Latam volumes declined 2% YoY in the third quarter, while they rose 10% in 1Q13 and 3% in 2Q13.

Fig 8 Consolidated sales (€m)

	3Q12	4Q12	1Q13	2Q13	3Q13F	3Q13A	% YoY
EMEA	253	234	260	272	258	259	2
North America	166	142	146	149	140	129	-22
Latam	212	203	176	176	181	144	-32
Asia Pac	234	233	216	254	240	241	3
Consolidated sales	865	812	798	851	851	773	-11

Source: Company data, ING estimates

EMEA

In EMEA we received confirmation that volumes have bottomed. Bekaert reported 3Q13 sales up 2% YoY and noted improved European demand for rubber reinforcement and stainless technology platforms.

North America

North America continued to suffer from the known issues: investment delays in energy & construction, Asian imports and forex. Bekaert reiterated that it had exited from (unprofitable) trading activities in competition with cheap exports. The company added that it will cease operations in Canada and will serve customers from its US plants.

Latam

3Q13 Latam sales fell a severe 32%, where sales fell 'only' 11% YoY in 1H13. The fall was driven by a sequential weakening of the Venezuelan bolivar, and, as mentioned above, impacted by falling volumes. In addition, Bekaert passed on lower wire rod prices. At the combined sales level, the decline was significantly tempered as a result of the strongly performing Brazilian JVs.

Asia Pac

In Asia Pac, the company reported double-digit volume growth (market share gains in tire cord and growth in other markets), but sales were held back by price/mix.

Cautious outlook

The outlook statement reads cautious for 4Q13:

- Usual year-end seasonal effects on volumes, especially in EMEA and North America
- Latam volumes to slow in line with GDP trends for the region
- Forex is expected to cause unfavourable translation effects in 4Q13
- The group intends to defend and grow its strong markets positions in Asia Pac, ie, good volumes, perhaps at the expense of price
- The group still does not perceive consistent signs of recovery in its markets

The medium-term mantra remains the same: Bekaert is confident of remaining an international market and a technology leader, and will take all measures needed to secure its strategic ambition of profitable growth.

Realistic consensus

We lower our 2013F sales by 2%, and this translates into a 3% decline in REBIT to €156m (4.9% margin). This still implies 33% growth YoY.

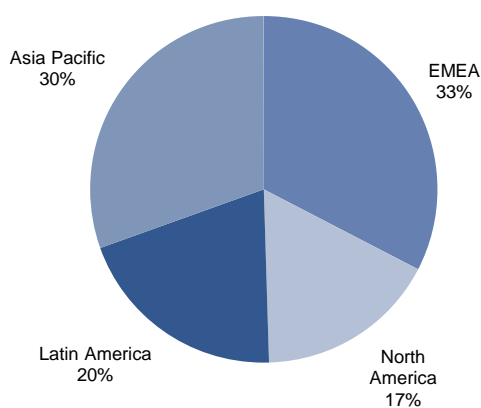
Fig 9 Changes in key estimates (€m)

	2013F			2014F		
	Old	New	Diff (%)	Old	New	Diff (%)
Sales	3,237	3,162	-2.3	3,330	3,210	-3.6
REBITDA	326	322	-1.3	370	360	-2.7
REBIT	160	156	-2.7	204	194	-5.0
EBIT	130	126	-3.3	189	179	-5.4
Reported EPS (€)	0.36	0.40	12.8	1.46	1.41	-3.6
Normalised EPS (€)	0.87	0.92	5.3	1.71	1.66	-3.1
DPS (€)	0.85	0.85	0.0	0.85	0.85	0.0
Net debt	674	660	-2.1	628	618	-1.5

Source: ING estimates

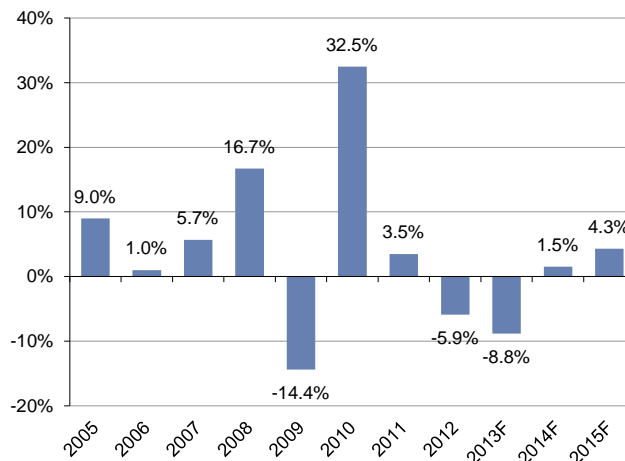
We expect 1.5% and 4.3% top-line growth over 2014-15F. We are cautious on 2014F growth, as the sequential weakening of sales in the Americas in 2013 suggests difficult comparables in 1H14F. Our 2015F growth assumption seems in line with average organic growth since 2005, and seems reasonable given the >50% exposure to emerging markets (Figures 10 and 11).

Fig 10 Consolidated sales per region (2013F)



Source: ING estimates

Fig 11 Organic sales growth (%)

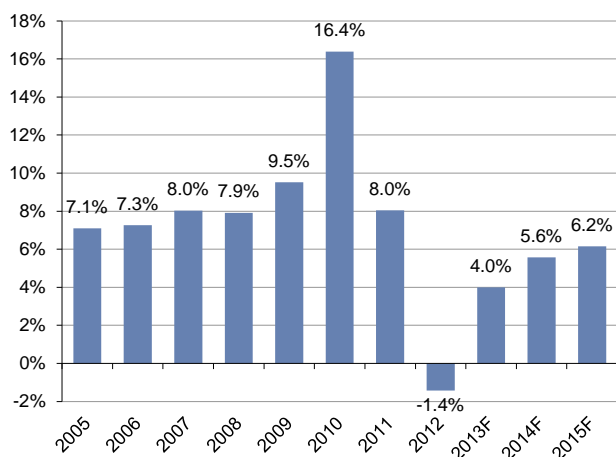


Source: Company data

We expect 24% and 14% REBIT growth YoY in 2014-15F to €194m (6.0% margin) and €221m (6.6% margin), respectively, driven by cost savings (still c.€30m to come in 2014F from the €100m cost savings plan), and operating leverage (Figure 12). We seem broadly in line with Bloomberg consensus.

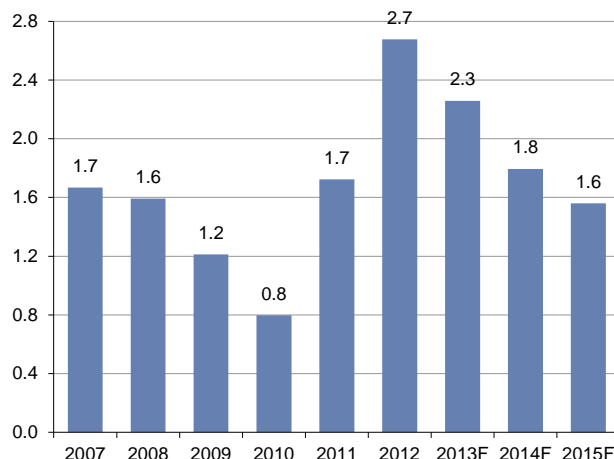
Still, it implies that the EBIT margin should stay below the 7% management target in 2015. We add that our forecast does not contradict management statements, as management always said the company would need enough volume growth to reach the target (and this is not yet the case).

Fig 12 EBIT margin (%)



Source: Company data, ING estimates

Fig 13 Net debt/EBITDA (x)



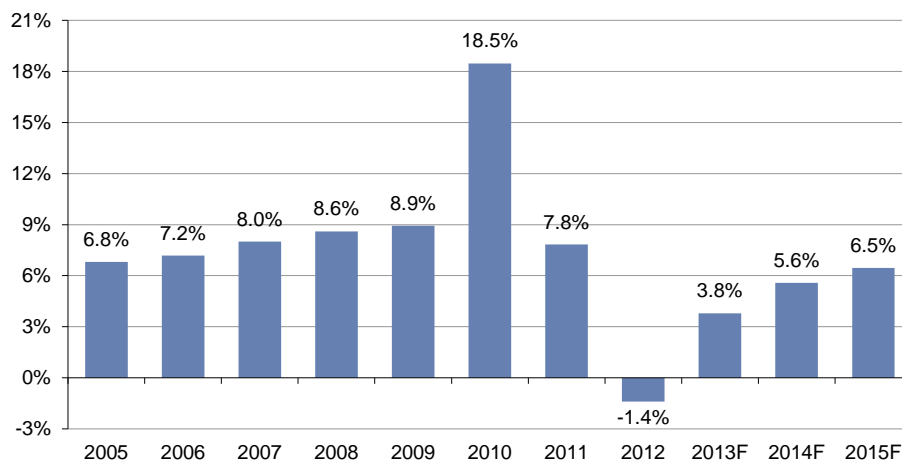
Source: Company data, ING estimates

Balance sheet is not an issue

Net debt declined to €730m end-3Q13 from €770m end-2Q13 (€800m end-2Q ING def). We assume this was driven by working capital inflow. We assume net debt at €660m (ING def) end-4Q13. This implies 2.3x EBITDA (down from 2.7x end-2012). As funding consists mainly of bonds, we see no covenant issues. We expect gearing to revert back to 1.6x by 2015F (Figure 13).

ROCE is an issue

Fig 14 ROACE (%)



Source: Company data, ING estimates

On our estimates, Bekaert does not create value throughout 2015F, as we expect ROACE to increase from 3.8% in 2013F to 6.5% in 2015F (versus 8% WACC). We believe the shares will have difficulties attracting fundamental investors as long as the company is unlikely to earn its cost of capital in the foreseeable future.

New key estimates

Fig 15 New key estimates (€m)

	1H12	2H12	2012	1H13	2H13F	2013F	2014F	2015F
EMEA	557	487	1,044	532	499	1,031	1,052	1,078
North America	351	308	659	295	239	534	545	561
Latin America	397	415	812	352	280	632	581	604
Asia Pacific	478	467	945	470	494	964	1,032	1,104
Sales	1,784	1,677	3,460	1,649	1,513	3,162	3,210	3,348
EMEA (%)	-9.3	-12.3	-10.7	-4.5	2.6	-1.2	2.0	2.5
North America (%)	-0.8	-1.0	-0.9	-16.0	-22.3	-18.9	2.0	3.0
Latin America (%)	129.5	108.5	118.3	-11.3	-32.6	-22.2	-8.0	4.0
Asia Pacific (%)	-25.2	-5.7	-16.7	-1.7	5.8	2.0	7.0	7.0
Sales growth (%)	0.2	7.5	3.6	-7.6	-9.8	-8.6	1.5	4.3
REBITDA	187.7	143.7	331.4	167.0	148.2	322.2	359.9	386.9
REBITDA growth (%)			-31.2	-11.0	3.1	-2.8	11.7	7.5
REBITDA margin (%)	10.5	8.6	9.6	10.1	9.8	10.2	11.2	11.6
EMEA	36.0	27.0	63.0	46.0	37.6	83.6	97.0	104.0
North America	21.0	9.0	30.0	13.0	4.3	17.3	25.0	29.0
Latin America	29.0	35.0	64.0	28.0	15.1	43.1	36.9	42.0
Asia Pacific	35.0	2.0	37.0	39.0	43.1	82.1	103.0	115.9
Other	(36.0)	(40.2)	(76.2)	(35.0)	(35.0)	(70.0)	(68.0)	(70.0)
REBIT	85.1	32.7	117.8	91.0	65.2	156.2	193.9	220.9
EMEA (%)	6.5	5.5	6.0	8.6	7.5	8.1	9.2	9.6
North America (%)	6.0	2.9	4.6	4.4	1.8	3.2	4.6	5.2
Latin America (%)	7.3	8.4	7.9	8.0	5.4	6.8	6.3	6.9
Asia Pacific (%)	7.3	0.4	3.9	8.3	8.7	8.5	10.0	10.5
REBIT margin (%)	4.8	2.0	3.4	5.5	4.3	4.9	6.0	6.6
Non-recurring	(80.9)	(86.2)	(167.1)	(2.3)	(27.7)	(30.0)	(15.0)	(15.0)
EBIT	3.8	(53.1)	(49.3)	88.7	37.4	126.2	178.9	205.9
EBIT margin	0.2	(3.2)	(1.4)	5.4	2.5	4.0	5.6	6.2
Net financing charges	(53.4)	(28.5)	(82.0)	(41.2)	(33.2)	(74.4)	(64.0)	(62.0)
Taxes	(27.5)	(40.2)	(67.7)	(29.7)	(20.3)	(50.0)	(55.0)	(60.0)
Share in the JVs	6.0	4.4	10.4	17.1	14.9	32.0	33.6	35.3
Minorities	(8.4)	2.0	(6.4)	(8.8)	(1.2)	(10.0)	(11.0)	(12.0)
Net profit	(80)	(115)	(194.9)	26.2	(2.4)	23.8	82.5	107.2
Normalised net profit	1	(29)	(27.8)	28.4	25.3	53.8	97.5	122.2
Reported EPS (€)	(1.35)	(1.95)	(3.30)	0.45	(0.04)	0.40	1.41	1.83
Normalised EPS (€)	0.02	(0.49)	(0.47)	0.48	0.43	0.92	1.66	2.08
DPS (€)			0.85			0.85	0.85	0.85
Net debt (ING definition)			735	800	660	660	618	580

Source: Company data, ING estimates

Valuation

Mid-cycle, we would pay c.6x EV/EBITDA for Bekaert. Given that the shares trade at 5.9x EV/EBITDA 2015F, the valuation seems fair at best.

Fig 16 Multiple valuation (€m)

	2008	2009	2010	2011	2012	2013F	2014F	2015F	Median
Average share price (€)	29.5	25.1	53.8	54.7	22.6	25.7	25.7	25.7	
No. of shares (m)	59.5	59.4	59.7	58.9	59.1	58.7	58.7	58.7	
Market cap	1,755	1,494	3,212	3,223	1,335	1,508	1,508	1,508	
Net debt	656	467	578	857	735	660	618	580	
Pension liabilities	261	234	279	269	302	276	276	276	
Minorities	42	89	86	73	182	176	176	176	
Investments JV	(200)	(219)	(244)	(258)	(168)	(188)	(221)	(257)	
Enterprise value	2,514	2,065	3,911	4,163	2,387	2,432	2,357	2,283	
EV multiples									
EV/sales	0.9	0.8	1.2	1.2	0.7	0.8	0.7	0.7	1.0
EV/REBITDA	5.5	5.2	5.3	8.6	7.2	7.5	6.5	5.9	6.4
EV/REBIT	8.5	8.0	7.0	14.8	20.3	15.6	12.2	10.3	10.6
FCF yield									
FCF yield to EV (%)	-1.6	16.0	2.4	-4.1	13.1	8.2	6.3	6.3	2.9
FCF yield to equity (%)	-4.1	19.5	1.6	-7.2	17.5	9.0	5.6	5.4	2.1
Earnings multiples									
Normalised PER	6.8	8.5	8.1	15.7	n/a	28.1	15.5	12.3	8.3
Dividend yield (%)	3.2	3.9	3.1	2.1	3.8	3.3	3.3	3.3	3.2

Source: Company data, ING estimates

Risks

To the upside

- Faster-than-expected volume recovery, especially in the Americas. This would boost the top line, and imply higher operating leverage.
- Weakening of the euro versus other currencies, especially currencies in the Americas. It would imply positive translation effects.
- A faster-than-expected decline in receivables (mainly in China, where payment terms seem quite long), as it would imply a decrease in Capital Employed, and hence an increase in ROCE.
- The acquisition of the Pirelli steelcord operations at an attractive multiple, coupled with a long-term supply agreement.

To the downside

- Prolonged volume weakness in key markets (especially a hard landing of the Chinese economy).
- Material capacity expansions by Asian competitors, as it would pressure margins both inside Asia Pac and in the rest of world via cheap exports.
- A further strengthening of the euro versus currencies in major end-market regions.

Financials

Year end Dec (€m)	2008	2009	2010	2011	2012	2013F	2014F	2015F
Income statement								
Revenues	2,663	2,438	3,262	3,340	3,461	3,162	3,210	3,348
Cost of goods sold	(2,061)	(1,904)	(2,358)	(2,689)	(2,982)	(2,718)	(2,751)	(2,846)
Gross profit	602	534	904	651	479	444	459	502
Operating costs	(189)	(149)	(179)	(154)	(204)	(152)	(114)	(130)
EBITDA	412	385	725	497	275	292	345	372
Depreciation & amortisation	(202)	(153)	(191)	(228)	(324)	(166)	(166)	(166)
Impairments	0	0	0	0	0	0	0	0
EBIT	210	232	534	269	(49)	126	179	206
Net interest	(49)	(66)	(32)	(19)	(82)	(74)	(64)	(62)
Associates	56	38	36	25	10	32	34	35
Other pre-tax items	0	0	0	0	0	0	0	0
Pre-tax profit	217	204	538	276	(121)	84	149	179
Tax	(26)	(34)	(140)	(68)	(68)	(50)	(55)	(60)
Minorities	(18)	(19)	(31)	(15)	(6)	(10)	(11)	(12)
Other post-tax items	0	0	0	0	0	0	0	0
Net profit	174	152	368	193	(195)	24	83	107
Normalised EBITDA	455	398	735	482	331	322	360	387
Normalised EBIT	294	257	562	281	118	156	194	221
Normalised net profit	258	176	396	206	(28)	54	98	122
Balance sheet								
Tangible fixed assets	1,271	1,346	1,539	1,692	1,545	1,518	1,515	1,520
Intangible fixed assets	111	105	131	104	99	96	96	96
Other non-current assets	27	84	96	105	102	102	102	102
Cash & equivalents	118	276	443	676	457	463	504	543
Other current assets	1,140	1,018	1,464	1,593	1,464	1,339	1,355	1,402
Total assets	2,667	2,830	3,673	4,169	3,668	3,518	3,573	3,662
Short-term debt	503	151	320	648	343	417	417	417
Other current liabilities	478	484	719	616	611	586	590	603
Long-term debt	288	598	700	908	850	706	706	706
Other long-term liabilities	226	223	236	230	260	240	240	240
Total liabilities	1,495	1,456	1,977	2,403	2,064	1,949	1,953	1,966
Total equity	1,172	1,374	1,697	1,766	1,604	1,569	1,620	1,696
Total liabilities & equity	2,667	2,830	3,673	4,169	3,668	3,518	3,573	3,662
Capital employed	1,964	2,123	2,717	3,322	2,796	2,692	2,743	2,819
Net working capital	793	640	1,004	1,204	1,082	989	1,001	1,034
Net debt (cash)	673	474	578	880	735	660	618	580
Cash flow								
Cash flow EBITDA	412	385	725	497	275	292	345	372
Change in working capital	(159)	196	(277)	(200)	227	74	(12)	(33)
Other non-cash items	(16)	(52)	7	(62)	(3)	0	0	0
Operating cash flow	238	529	456	235	498	366	333	338
Cash interest paid	(32)	(39)	(43)	(59)	(78)	(64)	(64)	(62)
Cash taxes paid	(28)	(31)	(113)	(129)	(59)	(44)	(55)	(60)
Net cash from operating activities	178	458	299	47	361	257	214	216
Capex	(251)	(167)	(248)	(278)	(127)	(122)	(130)	(135)
Net acquisitions	(44)	(4)	(17)	83	31	0	0	0
Other net investing cash flows	51	43	54	9	15	19	7	7
Cash from investing activities	(243)	(127)	(211)	(185)	(81)	(103)	(123)	(128)
Increase (decrease) in equity	(20)	2	(58)	0.7	0	(15)	0	0
Increase (decrease) in debt								
Dividends & minority distribution	(62)	(51)	(119)	(163)	(46)	(59)	(50)	(50)
Other financing cash flow	192	(253)	300	242	(148)	0	0	0
Cash from financing activities	111	(302)	123	79	(194)	(74)	(50)	(50)
Forex & discontinued operations	0.8	(13)	5	15	(27)			
Net change in cash & equivalents	47	16	217	(44)	58	80	41	39
FCF	(41)	331	95	(172)	312	199	148	143

Normalised earnings (eg, EBITDA, EBIT, net income and other sector-specific line items) are in the opinion of the analyst the best representation of a company's underlying and sustainable earnings derived from its regular operating activities.

Source: Company data, ING estimates

Valuation, ratios and metrics

Year end Dec	2008	2009	2010	2011	2012	2013F	2014F	2015F
Performance & returns								
Revenue growth (%)	22.5	-8.5	33.8	2.4	3.6	-8.6	1.5	4.3
Normalised EBITDA growth (%)	46.5	-12.4	84.5	-34.4	-31.2	-2.8	11.7	7.5
Normalised EBIT growth (%)	57.9	-12.7	118.9	-50.0	-58.1	32.5	24.2	13.9
Normalised EPS growth (%)	59.2	-31.6	124.0	-47.8	n/a	n/a	81.4	25.3
Gross margin (%)	22.6	21.9	27.7	19.5	13.8	14.0	14.3	15.0
Normalised EBITDA margin (%)	17.1	16.3	22.5	14.4	9.6	10.2	11.2	11.6
Normalised EBIT margin (%)	11.0	10.5	17.2	8.4	3.4	4.9	6.0	6.6
Reported net margin (%)	6.5	6.2	11.3	5.8	-5.6	0.75	2.6	3.2
Reported ROE (%)	15.6	12.6	25.4	11.7	-12.5	1.7	5.8	7.2
Normalised ROA (%)	11.8	9.3	17.3	7.2	3.0	4.3	5.5	6.1
Leverage & solvency								
Working capital as % of sales	29.8	26.3	30.8	36.0	31.3	31.3	31.2	30.9
Net debt (cash)/EBITDA (x)	1.6	1.2	0.80	1.8	2.7	2.3	1.8	1.6
Net debt (cash)/equity (%)	57.4	34.5	34.1	49.8	45.9	42.0	38.2	34.2
EBITDA net interest coverage (x)	8.4	5.9	22.4	26.8	3.4	3.9	5.4	6.0
Current ratio (x)	1.3	2.0	1.8	1.8	2.0	1.8	1.8	1.9
Dividend cover (cash flow) (x)	n/a	6.8	1.4	n/a	6.1	3.3	2.7	2.6
Valuation								
EV/revenue (x)	0.86	0.86	0.68	0.74	0.74	0.77	0.73	0.68
EV/normalised EBITDA (x)	5.0	5.2	3.0	5.1	7.7	7.5	6.5	5.9
EV/normalised EBIT (x)	7.8	8.1	3.9	8.8	21.7	15.6	12.2	10.3
EV/capital employed (x)	1.2	0.98	0.81	0.74	0.92	0.90	0.86	0.81
EV/invested capital (x)	1.0	0.89	0.75	0.70	0.84	0.83	0.79	0.75
Normalised PER (x)	5.9	8.6	3.9	7.4	n/a	28.1	15.5	12.3
Price/book (x)	1.3	1.2	0.96	0.91	1.1	1.1	1.0	0.99
Dividend yield (%)	3.6	3.8	6.5	4.6	3.3	3.3	3.3	3.3
FCF yield (%)	n/a	15.9	4.3	n/a	12.2	8.2	6.3	6.3
Per share data								
Reported EPS (€)	2.94	2.56	6.20	3.27	(3.30)	0.40	1.41	1.83
Normalised EPS (€)	4.36	2.98	6.68	3.49	(0.47)	0.92	1.66	2.08
Dividend per share (€)	0.93	0.98	1.67	1.17	0.85	0.85	0.85	0.85
Equity FCFPS (€)	(1.23)	4.93	0.87	(3.92)	3.96	2.30	1.44	1.39
BV/share (€)	19.05	21.59	26.90	28.24	24.08	23.76	24.63	25.93

Source: Company data, ING estimates

Company profile

Bekaert is the market leader in advanced solutions based on metal transformation and coatings, and the world's largest independent manufacturer of drawn steel wire products. The company operates in four main geographic segments, with Asia Pacific contributing the most to EBITDA in 2012 (45%), while Latin America contributed 26%, EMEA 18% and North America 11%.

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