

EMIS Group

FY21 results

Supporting a more proactive health service

EMIS reported FY21 results ahead of our recently raised forecasts, with revenue up 6% y-o-y, adjusted operating profit up 11% and adjusted EPS up 10%. EMIS-X analytics is being adopted by both EMIS Health and EMIS Enterprise customers, supporting a more proactive approach to healthcare, and enhancements to the platform underpin the company's integrated care systems strategy. Reflecting FY21 performance and recent bolt-on acquisitions, we upgrade our adjusted EPS forecasts by c 3% in FY22 and FY23.

Year end	Revenue (£m)	PBT* (£m)	Diluted EPS* (p)	EMIS adj dil EPS** (p)	DPS (p)	P/E (x)
12/20	159.5	43.4	56.4	50.4	32.0	23.6
12/21	168.2	43.5	55.0	55.5	35.2	24.2
12/22e	176.8	48.0	61.2	59.7	36.0	21.8
12/23e	186.0	52.5	63.1	59.9	37.0	21.1

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **EMIS adjusted EPS – cash accounts for development costs and excludes exceptional items and amortisation of acquired intangibles.

FY21 results: Back to business as usual

While EMIS continued to support its customers with COVID-19-related activities during FY21, it saw more normal trading patterns return. EMIS Health revenue was essentially flat year-on-year (lower hardware sales offset higher other sales) while EMIS Enterprise revenue rebounded 16% with better margins in both divisions. Since year-end, EMIS has made two bolt-on acquisitions totalling £20m in cash. We have revised our forecasts to reflect the most recent acquisition and FY21 results, with adjusted diluted EPS upgrades of 3.3% in FY22 and 3.0% in FY23.

EMIS-X driving growth and efficiency

The EMIS-X platform and analytics applications are proving popular across both divisions. In EMIS Health, EMIS-X is helping the NHS to move from reactive to proactive by analysing the use of healthcare services and identifying at-risk patients. In EMIS Enterprise, life sciences companies are using EMIS-X analytics to identify cohorts for research programmes, improving the speed and efficiency of drug trials, and to identify at-risk patients for screening, with the resulting data fed back to GPs. The platform also supports EMIS's integrated care systems strategy with several interoperability technology enhancements released in FY21 and Q122.

Valuation: Earnings growth to drive upside

Compared to a global group of healthcare software peers, EMIS trades at a discount on all profitability valuation metrics. EMIS generates significantly higher operating profit margins but, with slightly slower revenue growth, generates lower earnings growth. Its dividend yield is significantly ahead of the group. Key to closing the discount will be evidence of sustained revenue growth that meets the company's medium-term goal of mid- to high single digits, in turn driving stronger earnings growth. We note that with a strong balance sheet, 80% recurring revenue, no material overseas exposure and no debt, the company is well positioned to weather current economic and geopolitical pressures.

Software & comp services

22 March 2022

Price **1,332p**
Market cap **£843m**

Net cash (£m) at end FY21	64.0
Shares in issue	63.3m
Free float	98%
Code	EMIS
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	8.7	3.7	20.7
Rel (local)	9.3	3.7	11.3
52-week high/low	1,460p	1,090p	

Business description

EMIS is a software supplier to the UK healthcare market, with two divisions. EMIS Health supplies integrated care technology to the NHS, including primary, community, acute and social care. EMIS Enterprise is a business-to-business software provider to the healthcare market, including medicines management, partner businesses, patient-facing services and healthcare analytics.

Next events

AGM 5 May

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EMIS Group is a research client of Edison Investment Research Limited

Review of FY21 results

Exhibit 1: FY21 results highlights

£'000s	FY20	FY21e	FY21	Diff	y-o-y
Revenues	159,453	166,813	168,226	0.8%	5.5%
Normalised operating profit	43,020	42,662	43,246	1.4%	0.5%
<i>Normalised operating margin</i>	<i>27.0%</i>	<i>25.6%</i>	<i>25.7%</i>	<i>0.1%</i>	
Reported operating profit	35,776	34,507	35,785	3.7%	0.0%
EMIS adjusted operating profit	39,266	41,962	43,533	3.7%	10.9%
<i>Adjusted operating margin</i>	<i>24.6%</i>	<i>25.2%</i>	<i>25.9%</i>	<i>0.7%</i>	
Normalised dil EPS (p)	56.4	54.8	55.0	0.4%	(2.4%)
Reported basic EPS (p)	48.1	44.8	46.2	3.0%	(4.0%)
EMIS adjusted dil EPS (p)	50.4	53.9	55.5	2.9%	10.0%
Dividend per share (p)	32.0	35.2	35.2	0.0%	10.0%
Net cash	53,008	63,972	64,042	0.1%	20.8%

Source: EMIS, Edison Investment Research

EMIS reported an FY21 trading update in January, at which point we upgraded our numbers to reflect better-than-expected performance and the Edenbridge Healthcare acquisition. Full FY21 results were better than these upgraded forecasts, with revenue 1% and adjusted operating profit 4% ahead of our forecasts. Revenue grew 6% y-o-y, with recurring revenue making up 80% of the total. Adjusted operating profit grew 11% y-o-y with the margin expanding by 1.3pp. Adjusted diluted EPS increased 10% y-o-y. The company confirmed a final dividend of 17.6p, taking the full year dividend to 35.2p, up 10% y-o-y. Net cash improved 21% y-o-y, even after the delayed £7.3m VAT payment in the year.

Exhibit 2: Divisional performance

£m	FY20	FY21e	FY21	Diff	y-o-y
Revenues					
EMIS Health	107.8	106.7	108.0	1.2%	0.2%
EMIS Enterprise	51.7	60.1	60.3	0.3%	16.6%
Total	159.5	166.8	168.2	0.8%	5.5%
Adjusted operating profit					
EMIS Health	25.1	25.6	26.3	2.8%	4.9%
EMIS Enterprise	15.7	18.2	18.9	4.2%	20.6%
Central costs	(1.5)	(1.8)	(1.7)	-4.7%	13.6%
Total adjusted operating profit	39.3	42.0	43.5	3.7%	10.9%
Reported operating profit					
EMIS Health	23.8	21.9	22.1	0.6%	(7.4%)
EMIS Enterprise	13.5	14.4	15.4	7.4%	14.7%
Central costs	(1.5)	(1.8)	(1.7)	-4.7%	13.6%
Total reported operating profit	35.8	34.5	35.8	3.7%	0.0%
Adjusted operating margin					
EMIS Health	23.3%	24.0%	24.4%	0.4%	1.1%
EMIS Enterprise	30.4%	30.2%	31.4%	1.2%	1.0%
Total adjusted operating margin	24.6%	25.2%	25.9%	0.7%	1.3%
Reported operating margin					
EMIS Health	22.1%	20.5%	20.4%	(0.1%)	(1.7%)
EMIS Enterprise	26.1%	23.9%	25.6%	1.7%	(0.4%)
Total reported operating margin	22.4%	20.7%	21.3%	0.6%	(1.2%)

Source: EMIS, Edison Investment Research

On a divisional basis, EMIS Health revenue was essentially flat year-on-year. In FY20, this division saw high demand for hardware to help GP practices to continue working through the COVID-19 pandemic; these revenues declined in FY21. As hardware is lower margin than software, this also explains the 1.1pp increase in the adjusted operating margin year-on-year. In FY20, EMIS Enterprise saw a revenue decline of 11.9% due to the pandemic; in FY21 revenue rebounded, growing 16.6% y-o-y and 2.8% compared to FY19, supporting a 1pp increase in the adjusted

operating margin. The company noted that last year, there were 25 pilots running for EMIS-X Analytics. In FY21, many of these converted into commercial contracts, with 27 contracts signed in total over the year. While these are spread across customers of both divisions (12 in EMIS Health and 15 in EMIS Enterprise), all revenue is reported in EMIS Enterprise.

Business update

EMIS Health: Strong position maintained

In Primary Care, EMIS slightly improved its share of UK GP practices from 57% to 58%. In England, the GP IT Futures framework is due for renewal in March 2023. This will only test the financial viability of companies on the framework, a test that we believe EMIS should easily pass. When the new framework was introduced, GP practices were able to continue with their incumbent supplier without running a formal competitive process until October 2022. The company expects this period to be extended by 18 months due to the impact of the pandemic. EMIS was recently appointed to the Digital Health and Care Wales framework after having not been selected in 2018. Despite not being on the framework, EMIS did not lose any Welsh practices and in fact has recently gained a few. In Northern Ireland, EMIS extended the primary care contract until 2023.

From a technology perspective, the company has completed the first phase of the EMIS-X technology refresh. The next phase of cloud infrastructure upgrades is planned over the next two years, which should improve efficiency and expand margins. The A&E system was upgraded to enable better interoperability and GP software was updated to improve customer satisfaction.

EMIS Enterprise: Seeing good take-up of EMIS-X Analytics

The EMIS-X platform and related analytics are supporting an increasing number of applications. To support health services during the pandemic, EMIS participated in the OpenSAFELY programme. By analysing GP interactions, EMIS has been able to provide data that have helped to update prescribing guidelines and protocols for long COVID. EMIS-X is also being used by NHS organisations to analyse emergency department attendance, peak times and demographic details of patients. EMIS has several projects underway in research and life sciences, including with Pfizer and Bristol Myers Squibb, where it is being used to identify cohorts for clinical research and identify patients at risk of certain conditions.

Community Pharmacy increased its market share from 38% to 39% during the year. Pinnacle's Outcomes4Health software was used to record more than 100m COVID-19 vaccinations, which was 86% of all vaccinations given. Pinnacle contributed £7.4m to revenue in FY21 compared to £2.2m in FY20. The company expects this to decline by c £2m in FY22 as set-up-related revenues will not recur. As well as continuing to support whatever vaccination programmes the NHS decides to offer, Pinnacle will refocus on its core business of supporting pharmacies to offer consulting room services. EMIS released several new services during FY21 including Pro Delivery Manager (home delivery services management), Centred Solutions (a third-party dispensing workflow solution), PharmaSelf 24 (an automated prescription-collection system, available 24/7) and Golden Tote (an automated repeat prescription process provided for Numark, a division of Phoenix Healthcare Distribution). ProScript Connect was successfully transitioned to the cloud.

Hospital Pharmacy maintained its number two position with market share of 35%, down from 36% in FY20.

New services were made available through Patient Access during FY21, including home-testing kits and diagnostic services. In the year, 51,060 services were booked through marketplace. Registered users increased to 14m from 11.7m in FY20, with 22m repeat prescriptions ordered (FY20: 23.5m), 1.5m face-to-face GP appointments booked (FY20: 2.5m) and 49,000 community pharmacy

consultations booked (FY20: 41,000). The number of GP appointments booked declined as practices shifted to online triage, phone consultations and signposting to self-help where appropriate, and community pharmacies provided more treatment of minor illnesses and guidance. Patient.info had 96m unique users viewing 187m pages (FY20: 80m users, 166m page views).

Bolt-on acquisitions: Edenbridge Health, FourteenFish

The company had already announced the acquisition of Edenbridge Healthcare in January, paying £4m in cash with a potential further £6m in contingent consideration. Edenbridge generated revenue of £1m and profit of £0.2m last year. Edenbridge provides business intelligence tools to GP practices, federations and commissioners, and expands EMIS's capabilities in the data and analytics market, providing real-time insight to support GP practice access, efficiency, transformation and workforce planning. Integration between product sets is underway.

With FY21 results, the company announced a second acquisition, FourteenFish, for £15.8m in cash. FourteenFish is a medical appraisals specialist and is the chosen training system of the Royal College of General Practitioners. FourteenFish generated revenue of £2.4m and profit of £1.4m last year.

Formalising ESG strategy

In FY21, the company formalised its ESG strategy, setting the target of becoming carbon neutral by 2030. A newly formed ESG committee will develop the strategy further, building social value targets and ambitions into corporate strategy.

Outlook and changes to forecasts

The company views EMIS-X technologies as offering good potential to accelerate efficiency and growth in both divisions. It is focused on delivering consistent revenue growth and expanding margins. Management noted that it intends to retire some legacy products, particularly in EMIS Health, which we would expect to have a negative impact on revenue, but less so on profitability.

In terms of M&A, the company has a bolt-on strategy and expects to make further acquisitions of a size similar to its recent deals. With net cash of c £44m (£64m at the end of FY21 less the £20m spent on the two acquisitions) as well as undrawn bank facilities of £30m and a further £30m accordion facility, the company is well funded to pursue this strategy.

We have revised our forecasts to reflect FY21 performance and the FourteenFish acquisition and we introduce forecasts for FY24. We have reduced our capex and capitalised development costs and related depreciation and amortisation forecasts for FY22 and FY23. Overall, we upgrade revenue by 1.1% in FY22 and 0.7% in FY23 and adjusted diluted EPS by 3.3% and 3.0% respectively. We note that EPS growth in FY23 and FY24 is lower than EBIT growth due to the increase in UK corporation tax rates from 19% to 25% from April 2023.

Exhibit 3: Changes to forecasts

£'000s	FY22e	FY22e	Change	y-o-y	FY23e	FY23e	Change	y-o-y	FY24e	y-o-y
	Old	New			Old	New			New	
Revenues	174,941	176,792	1.1%	5.1%	184,648	186,023	0.7%	5.2%	195,705	5.2%
Normalised operating profit	46,881	47,793	1.9%	10.5%	49,858	52,232	4.8%	9.3%	56,217	7.6%
Normalised operating margin	26.8%	27.0%	0.2%		27.0%	28.1%	1.1%		28.7%	
Reported operating profit	40,981	41,592	1.5%	16.2%	44,990	46,964	4.4%	12.9%	53,362	13.6%
EMIS adjusted operating profit	44,981	46,593	3.6%	7.0%	47,958	49,532	3.3%	6.3%	52,417	5.8%
Adjusted operating margin	25.7%	26.4%	0.6%		26.0%	26.6%	0.7%		26.8%	
Normalised dil. EPS - p	60.2	61.2	1.7%	11.2%	64.0	63.1	(1.3%)	3.2%	66.6	5.5%
Reported basic EPS - p	53.2	53.8	1.2%	16.5%	55.1	57.3	4.1%	6.6%	63.8	11.3%
EMIS adjusted dil. EPS - p	57.8	59.7	3.3%	7.5%	58.1	59.9	3.0%	0.4%	62.1	3.7%
Dividend per share - p	36.0	36.0	0.0%	2.3%	37.0	37.0	0.0%	2.8%	39.0	5.4%
Net cash	70,086	60,873	(13.1%)	(4.9%)	87,004	78,610	(9.6%)	29.1%	95,907	22.0%

Source: Edison Investment Research

Valuation

Our peer group includes companies involved in clinical, healthcare analytics and medicines management software. The tables below show how EMIS compares in terms of financial performance (Exhibit 4) and valuation metrics (Exhibit 5). EMIS is at the top of its peer group in terms of EBIT margins but is at the lower end in terms of revenue growth and consequently earnings growth. It trades at a discount to the peer group average/median on all profitability metrics, with a dividend yield at the top end of the group. Acceleration of revenue growth will be a key driver of upside. We note that with a strong balance sheet, 80% recurring revenue, no material overseas exposure and no debt, the company is well positioned to weather current economic and geopolitical pressures.

Exhibit 4: Peer financial metrics

Company	EBIT margin (%)		EBITDA margin (%)		Revenue growth (%)		EPS growth (%)	
	CY	NY	CY	NY	CY	NY	CY	NY
EMIS	27.0	28.1	32.5	32.8	5.1	5.2	11.2	3.2
Allscripts Healthcare Solutions	11.8	11.5	19.0	19.4	1.6	2.1	-31.8	5.8
Cegedim	7.7	8.2	20.6	20.9	5.1	3.8	15.2	13.2
Computer Programs and Systems	17.9	13.9	18.6	19.5	10.2	5.7	4.1	11.5
Craneware	22.6	22.8	29.5	29.4	129.4	8.7	30.1	7.9
CompuGroup	14.6	16.7	22.7	24.3	5.5	4.9	10.7	17.3
Health Catalyst	-20.6	-18.0	-1.1	3.0	20.2	20.6		
Nexus	14.3	15.6	22.5	23.3	12.9	10.7	27.3	21.9
NextGen Healthcare	14.3	13.9	19.4	19.1	6.6	5.3	0.8	3.2
Omnicell	12.3	14.8	17.9	20.0	23.4	12.7	-0.1	21.2
OPTIMIZERx Corp	6.5	2.7	17.0	21.7	34.4	37.7	63.1	80.6
Pharmagest Interactive	27.5	28.1	32.7	33.3	10.3	9.9	20.1	13.0
Tabula Rasa HealthCare	-10.2	-9.7	6.4	7.4	11.8	12.6		
Average	9.9	10.0	18.8	20.1	22.6	11.2	14.0	19.6
Median	13.3	13.9	19.2	20.5	11.1	9.3	12.9	13.1

Source: Edison Investment Research, Refinitiv (at 17 March)

Exhibit 5: Peer valuation metrics

	Share	Market	EV/Sales (x)		EV/EBITDA (x)		EV/EBIT (x)		P/E (x)		Dividend yield	
	price	Cap m	CY	NY	CY	NY	CY	NY	CY	NY	CY	NY
EMIS	£13.32	843	4.5	4.3	13.9	13.1	16.7	15.3	21.8	21.1	2.7%	2.8%
EMIS - adjusted profitability			4.5	4.3	13.9	13.1	17.1	16.1	22.3	22.2	2.7%	2.8%
Allscripts Healthcare Solutions	\$22.00	2557	1.8	1.7	9.4	9.0	15.1	15.1	22.6	21.3	0.0%	0.0%
Cegedim	€ 27.55	383	1.1	1.1	5.5	5.2	14.7	13.3	14.2	12.6	0.0%	0.0%
Computer Programs and Systems	\$33.95	496	1.9	1.8	10.2	9.2			12.1	10.9		4.7%
Craneware	£16.80	592	4.9	4.5	16.7	15.4	21.9	19.9	25.0	23.1	0.0%	0.0%
CompuGroup	€ 48.82	2604	3.0	2.9	13.2	11.7	20.5	17.1	22.6	19.3	1.2%	1.4%
Health Catalyst	\$22.56	1204	3.2	2.7							0.0%	0.0%
Nexus	€ 53.70	849	4.0	3.6	17.8	15.5	27.9	23.2	38.7	31.7	0.4%	0.4%
NextGen Healthcare	\$19.76	1321	2.1	2.0	11.0	10.7	15.0	14.6	20.0	19.4		
Omicell	\$136.69	6072	4.4	3.9	24.7	19.7	36.1	26.6	35.9	29.6		
OPTIMIZERx Corp	\$38.81	694	7.4	5.4	43.5	24.8	113.2	201.9	52.9	29.3		
Pharmagest Interactive	€ 78.50	1182	5.6	5.1	17.1	15.3	20.3	18.1	26.6	23.5	1.6%	1.7%
Tabula Rasa HealthCare	\$4.51	116	1.2	1.1	19.2	14.7						
Average			3.4	3.0	17.1	13.7	31.6	38.9	27.1	22.1	0.5%	1.0%
Median			3.1	2.8	16.7	14.7	20.5	18.1	23.8	22.2	0.0%	0.2%

Source: Edison Investment Research, Refinitiv (at 17 March)

Exhibit 6: Financial summary

	£'000s	2018	2019	2020	2021	2022e	2023e	2024e
Year end 31 December								
PROFIT & LOSS								
Revenue		149,710	159,507	159,453	168,226	176,792	186,023	195,705
Cost of sales		(14,236)	(15,407)	(20,335)	(16,255)	(17,435)	(19,369)	(20,884)
Gross profit		135,474	144,100	139,118	151,971	159,357	166,654	174,821
EBITDA		48,919	55,632	53,536	54,707	57,493	61,032	64,517
Operating Profit (before amort. of acq. intang, SBP and except.)		32,991	40,794	43,020	43,246	47,793	52,232	56,217
EMIS adjusted operating profit		35,890	39,273	39,266	43,533	46,593	49,532	52,417
Amortisation of acquired intangibles		(6,202)	(7,317)	(6,824)	(5,673)	(4,301)	(3,268)	(755)
Exceptionals		1,657	(5,360)	1,802	0	0	0	0
Share-based payments		(766)	(1,290)	(1,440)	(1,788)	(1,900)	(2,000)	(2,100)
Operating profit		27,680	26,827	36,558	35,785	41,592	46,964	53,362
Net Interest		(180)	(498)	(501)	(426)	(500)	(500)	(500)
Profit before tax (norm)		33,426	41,038	43,377	43,547	48,020	52,459	56,444
Profit before tax (FRS 3)		28,115	27,071	36,915	36,086	41,819	47,191	53,589
Tax		(5,355)	(5,022)	(6,794)	(7,010)	(7,946)	(11,090)	(13,397)
Profit after tax (norm)		26,447	33,697	35,658	35,065	38,896	40,131	42,333
Profit after tax (FRS3)		22,760	22,049	30,121	29,076	33,873	36,101	40,191
Average Number of Shares Outstanding (m)		63.0	62.9	62.9	63.0	63.0	63.0	63.0
EPS - normalised & diluted (p)		40.4	53.5	56.4	55.0	61.2	63.1	66.6
EPS - EMIS adjusted & diluted (p)		45.0	51.1	50.4	55.5	59.7	59.9	62.1
EPS - FRS 3 (p)		36.1	36.0	48.1	46.2	53.8	57.3	63.8
Dividend (p)		28.4	31.2	32.0	35.2	36.0	37.0	39.0
Gross Margin (%)		90.5%	90.3%	87.2%	90.3%	90.1%	89.6%	89.3%
EBITDA Margin (%)		32.7%	34.9%	33.6%	32.5%	32.5%	32.8%	33.0%
Operating Margin (before GW and except.) (%)		22.0%	25.6%	27.0%	25.7%	27.0%	28.1%	28.7%
BALANCE SHEET								
Fixed assets		117,920	101,089	105,518	95,584	109,885	107,320	108,767
Intangible assets		96,807	82,345	85,295	76,535	91,334	88,767	89,712
Tangible assets		21,000	18,399	19,870	18,694	18,194	18,194	18,694
Other fixed assets		113	345	353	355	357	359	361
Current assets		53,107	67,278	87,170	101,359	100,538	120,045	139,200
Stocks		1,264	657	613	530	530	530	530
Debtors		36,223	33,047	29,993	32,057	33,905	35,676	37,532
Cash		15,620	31,099	53,008	64,042	60,873	78,610	95,907
Current Liabilities		(60,169)	(55,700)	(63,370)	(61,665)	(62,657)	(65,882)	(69,263)
Creditors		(60,169)	(55,060)	(62,380)	(60,762)	(61,754)	(64,979)	(68,360)
Lease liabilities		0	(640)	(990)	(903)	(903)	(903)	(903)
Short term borrowings		0	0	0	0	0	0	0
Long Term Liabilities		(8,199)	(8,469)	(10,180)	(6,801)	(6,555)	(5,779)	(5,265)
Long term borrowings		0	0	0	0	0	0	0
Lease liabilities		0	(3,294)	(5,891)	(5,013)	(4,856)	(4,699)	(4,542)
Other long-term liabilities		(8,199)	(5,175)	(4,289)	(1,788)	(1,699)	(1,080)	(723)
Net Assets		102,659	104,198	119,138	128,477	141,212	155,704	173,437
CASH FLOW								
Operating cash flow		49,873	50,059	64,138	50,059	58,636	62,486	66,042
Net Interest		(214)	(93)	(54)	(64)	(500)	(500)	(500)
Tax		(5,830)	(4,466)	(11,684)	(7,483)	(8,535)	(11,709)	(13,754)
Capex		(12,767)	(13,119)	(9,491)	(6,405)	(7,500)	(8,500)	(9,500)
Acquisitions/disposals		(9,269)	5,152	(953)	(1,990)	(21,800)	0	0
Financing		906	(2,369)	1,324	(780)	225	225	225
Dividends		(21,070)	(18,745)	(19,860)	(21,146)	(22,539)	(23,109)	(24,058)
Net cash flow		1,629	16,419	23,420	12,191	(2,012)	18,893	18,455
Opening net debt/(cash)		(13,991)	(15,620)	(31,099)	(53,008)	(64,042)	(60,873)	(78,610)
Finance leases initiated		0	(940)	(1,511)	(1,157)	(1,157)	(1,157)	(1,157)
Other		0	0	0	0	0	(0)	(0)
Closing net debt/(cash)		(15,620)	(31,099)	(53,008)	(64,042)	(60,873)	(78,610)	(95,907)

Source: EMIS, Edison Investment Research

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