

Speculative
See key risks on page 4, and early-stage company risk warning on page 25. Speculative securities may not be suitable for Retail Clients.

Analyst
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Fluence Corporation (FLC)

Authorisation
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Towards new beginnings

Recommendation
Hold (unchanged)
Price
\$0.068
Target (12 months)
\$0.085 (previously \$0.10)
Risk
Speculative

Sector
Capital Goods

Expected Return

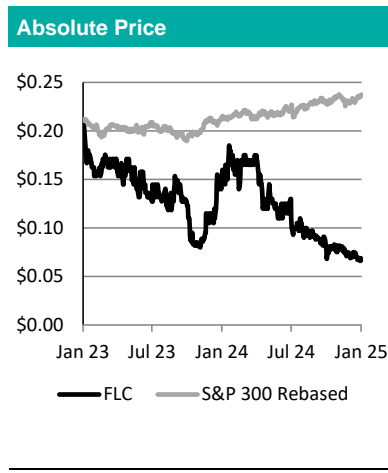
Capital growth	25.0%
Dividend yield	0.0%
Total expected return	25.0%

Company Data & Ratios

Enterprise value	\$109.4m
Market cap	\$73.5
Issued capital	1,081m
Free float	82%
Avg. daily val. (52wk)	\$150,000
12 month price range	\$0.063 - \$0.185

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.07	0.09	0.14
Absolute (%)	-9.46	-23.86	-52.14
Rel market (%)	-12.48	-27.01	-64.13



SOURCE: IRESS

Solid 4Q24 sets up an improved FY25e

Fluence (FLC) provided a solid 4Q24 broadly ahead of our expectations. The group reported 4Q24 revenue of US\$21.2m (vs. BPe \$21.7m), up +98% QOQ and down -23% YOY on an elevated pcp. While Smart Product Solutions ('SPS') sales – which exclude the large Ivory Coast (IVC) one-off project – were softer (\$15.1m) than revised Oct'24 guidance (\$19.0m), profitability was materially improved and comfortably ahead of our expectations (with SPS 4Q24 operating EBITDA of \$1.3m vs. BPe -\$0.8m).

FY25e guidance: FLC has established FY25e guidance for group revenue of US\$80m to US\$95m representing nearly +70% YOY growth at the mid-point (vs. BPe prev. \$85.5m), with SPS expected to contribute \$55m to 65m (BPe prev. \$59.5m). According to FLC, FY25e growth is underpinned by its existing \$88m backlog, of which \$58.1m is expected to be recognised in FY25e (61% to 73% coverage vs. guidance). FY25e operating EBITDA guidance is forecast for US\$3m to US\$5m, which we note was materially ahead of our prior US\$1.4m estimate.

Balance sheet: FLC's balance sheet has been a key focus of ours given the prior IVC start-up delays. In 4Q24 FLC received a net +\$3.6m cash payment from IVC resulting in break-even 4Q24 operating cash flow. While FLC exited 4Q24 with elevated core net debt of \$11.2m, a second gross milestone payment from IVC of \$8.5m (net c.\$2m BPe) was received in Jan'25, alleviating aforementioned concerns.

Other: (1) FLC is expecting a cash flow positive FY25e; (2) North America municipal pipeline of \$137m is up materially vs. \$12m at Dec'22; and (3) \$5m of new orders were booked in Jan'25, providing FLC with further confidence in the FY25e outlook.

Investment view: Maintain Hold (Spec) rating

We think FLC's improved 4Q24 underscores the underlying profitability of the business when quarterly revenues >\$20m, however remain mindful that 4Q is historically FLC's seasonally strongest quarter. With IVC issues now seemingly in the rear-view mirror, we see FLC set up for an improved FY25e and look to 1Q25 as further evidence of the turning point. Our earnings forecasts remain relatively unchanged ahead of 1Q25.

Earnings Forecast

Year end 31 Dec	FY24e	FY25e	FY26e	FY27e
Sales (US\$m)	51.5	84.8	99.9	111.1
Sales excl. IVC (US\$m)	44.6	61.3	85.9	111.1
Operating EBITDA (US\$m)	-4.0	1.5	5.0	6.0
NPAT (underlying) (US\$m)	-7.8	-3.8	-1.1	0.5
NPAT (reported) (US\$m)	-6.4	-3.8	-1.1	0.5
EPS (adjusted) (AU cps)	-1.03	-0.50	-0.14	0.05
EPS growth (%)	nm	nm	nm	nm
Price/NTA (x)	nm	nm	nm	nm
Adjusted PE (x)	-9.4	16.3	-69.1	146.0
EV/Adjusted EBITDA (x)	nm	nm	35.5	26.3
FCF Yield (%)	-20.9%	-2.6%	-1.5%	1.0%
Dividend (¢ps)	0.0	0.0	0.0	0.0
ROE (%)	nm	nm	-64.3%	15.9%

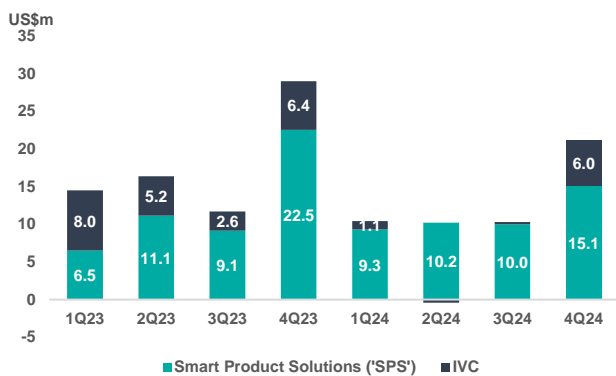
SOURCE: BELL POTTER SECURITIES ESTIMATES

Solid 4Q24 setting up FY25e outlook

4Q24 financial highlights and analysis

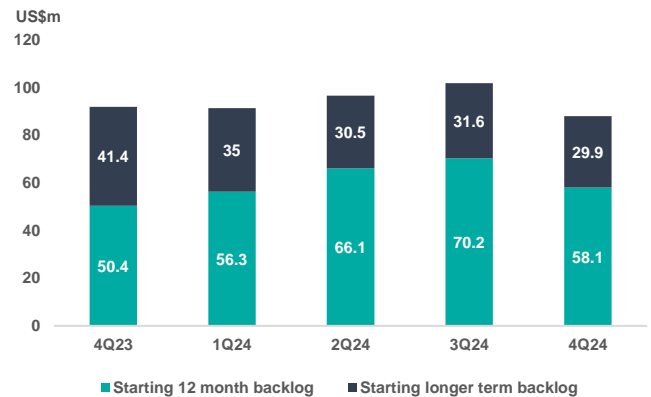
- 4Q24 group revenue of US\$21.2m (vs. BPe \$21.7m), up +98% QOQ and down -23% YOY on an elevated pcp.
- While Smart Product Solutions ('SPS') sales were softer (\$15.1m) than revised Oct'24 guidance (\$19.0m), profitability was materially improved and comfortably ahead of our expectations with SPS operating EBITDA of \$1.3m vs. BPe -\$0.8m.
- Segment performance was broadly in-line with our expectations, with municipal (MWW) and industrial reuse (IWR) segments in particular exiting 4Q24 strongly from a sales and profit perspective.
- 4Q24 new SPS orders of \$9.5m were slightly lighter than FLC expectations (\$10m to \$20m) however are expected to be made up in 1Q25e.

Figure 1 - Quarterly SPS revenues (US\$m)



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

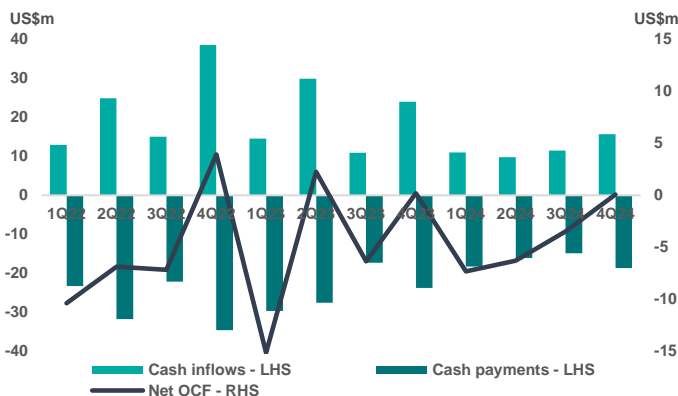
Figure 2 - Fluence backlog growth (US\$m)



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

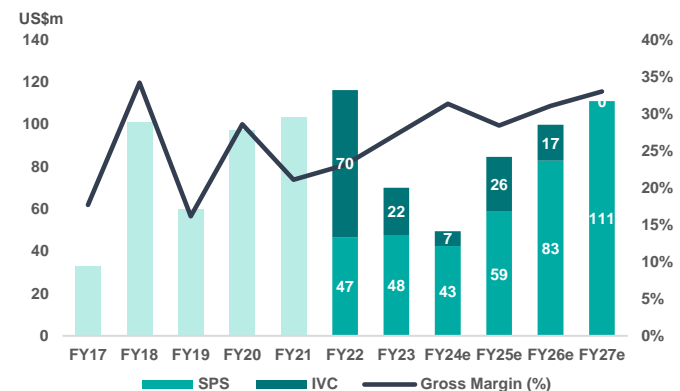
FLC's balance sheet has been a key focus of ours given prior IVC start-up delays. In 4Q24 FLC received a net +\$3.6m cash payment from IVC resulting in break-even 4Q24 operating cash flow. While FLC exited 4Q24 with elevated core net debt of \$11.2m, a second gross milestone payment from IVC of \$8.5m (net c.\$2m BPe) was received in Jan'25, alleviating aforementioned concerns. At this stage FLC is expecting FY25e to be cash flow positive.

Figure 3 - Quarterly cash flow trends (US\$m)



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 4 - Fluence revenue growth (US\$m)



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Full year FY24e result (unaudited)

Headline FY24 group sales (including IVC) of US\$51.5m came in at the bottom end of revised guidance (\$52 to 60m) driven by IVC delays experienced from 1Q25 to 3Q25. Group FY24 operating EBITDA of -\$4.0m came in at the mid-point of revised guidance (-\$3.5 to -\$4.5m). SPS revenue growth was -7% YOY however stronger on exit of 4Q25.

Figure 5 - Fluence full year FY24 overview

Year End 31 Dec	2022A	1H23	2H23	2023A	1H24A	2H24A	2024A	FY24e	Diff %
Municipal Water and Wastewater (MWW)	14.8	5.3	5.8	11.1	3.7	7.3	11.0	10.6	3.9%
Industrial Wastewater & Biogas (IWB)	8.5	3.4	3.6	7.0	3.2	5.7	8.9	8.8	1.4%
Industrial Water & Reuse (IWR)	12.6	5.7	9.2	14.9	8.7	9.3	18.0	16.8	6.8%
SEA & China	9.6	2.2	11.4	13.6	2.4	1.4	3.8	5.9	-35.6%
BOO	2.1	1.1	1.6	2.8	1.5	1.4	2.9	3.0	-3.3%
Revenue excl. IVC	47.6	17.6	31.7	49.3	19.5	25.1	44.6	45.1	-1.1%
Ivory Coast Contract (IVC)	69.5	13.2	9.0	22.2	0.7	6.3	7.0	7.0	0.0%
Other incl. R&D	(0.8)	(0.3)	(1.2)	(1.5)	(0.6)	(1.4)	(2.0)	(2.0)	0.0%
Total Revenue	116.3	30.6	39.5	70.0	19.6	30.0	49.6	50.1	-1.0%
... Growth (%)	nm	-52.4%	-24.2%	-39.8%	-35.9%	-24.0%	-29.2%	-28.5%	-
Municipal Water and Wastewater (MWW)	1.7	(0.5)	2.8	2.3	(0.2)	1.1	0.9	0.3	183.3%
Industrial Wastewater & Biogas (IWB)	0.7	(0.1)	0.2	0.1	(0.2)	0.8	0.6	0.5	14.0%
Industrial Water & Reuse (IWR)	1.9	(0.1)	1.2	1.1	1.5	1.6	3.1	2.7	15.0%
SEA & China	(1.4)	(1.5)	1.5	(0.0)	(0.7)	(0.4)	(1.1)	(1.5)	25.4%
BOO	0.8	0.2	0.1	0.3	0.2	0.3	0.5	0.3	58.7%
Segment EBITDA excl. IVC	3.7	(1.9)	5.7	3.8	0.6	3.4	4.0	2.4	68.0%
Ivory Coast Contract (IVC)	6.2	1.5	(0.3)	1.2	(0.2)	0.4	0.2	0.9	-78.8%
Corporate (unallocated)	(7.1)	0.9	(5.8)	(4.9)	(4.0)	(4.2)	(8.2)	(7.8)	-5.8%
Operating EBITDA	2.8	0.5	(0.3)	0.2	(3.6)	(0.4)	(4.0)	(4.4)	9.6%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Other commentary: (1) FLC is expecting a cash flow positive FY25e; (2) North America municipal pipeline of \$137m is up materially vs. \$12m at Dec'22; and (3) FLC booked \$5m of new orders in Jan'25, providing FLC with further confidence in the FY25e outlook.

Earnings changes: At this early stage of the year our sales forecasts remain unchanged, however we have increased our margin forecasts modestly following what was a solid 4Q24 from that perspective. We note that at this stage our FY25e operating EBITDA estimate (US\$1.5m) remains below that of company guidance for US\$3.0m to US\$5.0m.

Fluence Corporation (FLC)

Company Description

Fluence Corporation (FLC) is a global supplier of decentralised water treatment solutions for plant asset operators in municipal, commercial, and industrial markets.

Investment View and Thesis

We are Hold (Spec) rated on FLC. Our valuation of \$0.085ps is derived through an equal weighted blend of DCF and EV/Sales valuation methodologies: For DCF we utilise a WACC of 12.0% and TGR of 3.5%. Our relative valuation marks FLC at a 40% discount to the average FY25e EV/Sales (excl. IVC) of FLC's peer group given the IVC contract overhang and elevated execution risk associated with FLC's SPS turnaround.

High upside turnaround play: Fluence is in turnaround phase under a new management team with a history of transformational growth and shareholder value creation in past water treatment exits, including for FLC's direct competitors. At a high-level, the new strategy involves exiting lump-sum contracting (15% GM) for repeatable 'Smart Product Solutions' (25-40% GM) and entering more developed private water treatment markets (e.g. USA). FLC's aspirational FY26-27e goal is to reach sales of US\$120m at 10% operating EBITDA margin, suggesting potentially material upside to our FY26e forecast.

Investing in megatrends: Water scarcity, regulation, and sustainability are driving an increased focus on treatment and reuse solutions. This is especially true as global municipalities and industrial companies commit to ESG/sustainability mandates, in many cases receiving ROI incentives on "green" capital. We believe FLC offers strong leverage to a double-digit 'mid-market' water infrastructure investment cycle, with FLC's drop-in plant solutions both highly scalable and in most cases offering cost advantages over existing treatment methods.

Disruptive 'MABR' technology: In particular, FLC has a proven technical and cost advantage in one of its core products for the treatment of nutrient pollution – one of the most widespread and costly forms of water contamination globally. Many states in the US are in the process of mandating nutrient discharge limits for wastewater treatment plants, which we estimate could see FLC's addressable market expand by 5-6x over the mid-term.

Highly acquisitive industry: Recent transactions for product portfolios and technology similar to FLC have ranged between 12.5x to 18.5x trailing EV/EBITDA, suggesting material upside to FLC's valuation upon successful execution.

Key Risks

Execution risk: FLC is a turnaround. Failure of management to successfully implement the company's turnaround strategy may impact the ability of FLC to achieve our forecasts.

Contract burn rate: Although FLC has a deliberate strategy to shift the business mix towards smaller projects and service level revenues, growth of current contracts plus the rate of new contract wins must exceed the contract "burn rate" to sustain growth. A decline in industrial activity and/or regulatory drivers increases risk of a decline in book size.

Access to capital markets: Although we believe FLC has sufficient funding headroom to see the business back to self-funding profitability, the company may require access to capital to fully execute on its turnaround. Access to equity and debt markets may change based on economic conditions, geopolitical issues, as well as the risk appetite of credit providers and equity investors.

Technology acceptance: Influencing factors for customers include pricing versus other solutions, recommendations of water treatment system integrators and design engineers, acceptance by local regulators, appetite to invest in new technologies and effective communication and education regarding the perceived advantages of FLC's products.

Counterparty risks: Individual suppliers may not be able to meet demand for the supply of materials and could adversely affect FLC's ability to meet delivery commitments. Similarly, FLC relies on the financing arrangements of counterparties when delivering its solutions.

Contracting risk: FLC regularly enters contracts with customers that exceed US\$1m. Successful execution of such contracts is imperative for the success of FLC. Most notably, the Ivory Coast project represents a significant share of Fluence's current revenue.

Currency: FLC undertakes transactions denominated in non-USD currency and is exposed to foreign currency risk, the greatest of which include the Euro, Argentinian Peso, Egyptian Pound and the Brazilian Real.

Fluence Corporation

as at 3 February 2025

Recommendation **Hold, Speculative**

Price **\$0.068**

Target (12 months) **\$0.085**

Table 1 - Financial summary

Post-AASB 16						
Dec year end	2022	2023	2024e	2025e	2026e	2027e
Profit & Loss (US\$m)						
Sales revenue	116.3	70.0	51.5	84.8	99.9	111.1
... Growth (%)	12.5%	-39.8%	-26.5%	64.6%	17.8%	11.2%
Gross Profit	26.9	19.1	15.6	24.1	31.0	36.7
... Margin %	23.1%	27.2%	30.2%	28.4%	31.1%	33.0%
EBITDA (normalised)	1.1	(1.7)	(5.9)	(0.4)	3.1	4.2
... Margin %	0.9%	-2.4%	-11.4%	-0.5%	3.1%	3.7%
Depreciation & amortisation	(2.2)	(2.0)	(1.9)	(1.9)	(1.9)	(2.1)
EBIT	(1.1)	(3.7)	(7.8)	(2.3)	1.2	2.1
Net interest	(4.0)	(5.7)	(2.8)	(2.8)	(2.6)	(1.4)
Pre tax profit	(5.1)	(9.4)	(10.6)	(5.1)	(1.4)	0.7
Tax expense	0.0	1.0	2.8	1.3	0.4	(0.2)
Normalised NPAT	(5.1)	(8.4)	(7.8)	(3.8)	(1.1)	0.5
Abs. & extras.	(10.2)	(6.9)	1.4	-	-	-
Reported Profit	(15.3)	(15.3)	(6.4)	(3.8)	(1.1)	0.5
Pre-AASB16 operating results:						
EBITDAL	-0.4	-2.7	-7.7	-2.3	1.1	2.1
Cashflow (US\$m)						
Operating EBITDA	2.8	0.2	-4.0	1.5	5.0	6.0
Change in Working Capital	-7.4	-3.8	-1.6	2.3	-0.4	-1.2
Net Interest	-3.9	-5.7	-3.9	-2.8	-2.7	-2.0
Tax Paid	-0.1	-0.2	0.0	0.0	0.0	0.0
Other Residual Items	-11.8	-9.5	-3.1	0.0	0.0	0.0
Operating cashflow	(20.5)	(19.0)	(12.6)	1.0	1.8	2.8
AASB 16 Leases	-1.6	-1.4	-1.0	-1.0	-1.1	-1.2
Lease adjusted OCF	(22.1)	(20.4)	(13.6)	(0.1)	0.7	1.5
Capital Expenditure	-0.4	-1.8	-1.8	-1.8	-1.8	-0.8
Free cashflow	(22.5)	(22.2)	(15.4)	(1.9)	(1.1)	0.7
Dividends Paid	0.0	0.0	0.0	0.0	0.0	0.0
Asset Sales	0.3	0.1	2.0	0.0	0.0	0.0
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0
Other	18.2	2.6	-4.6	0.0	0.0	0.0
Equity Issues(Reduction)	3.7	26.6	0.0	0.0	0.0	0.0
Change in Cash Position	-0.3	7.1	-18.0	-1.9	-1.1	0.7
Balance Sheet (US\$m)						
Cash	30.9	24.6	8.9	7.1	6.0	6.7
Short & long-term deposits	13.6	8.0	8.0	8.0	8.0	8.0
Receivables	21.1	16.9	15.0	17.8	20.0	22.2
Inventory	8.6	5.7	5.0	6.8	8.0	8.9
Property, Plant & Equipment	8.8	8.1	10.7	11.8	13.0	13.1
Contract assets	27.4	18.4	18.4	18.4	18.4	18.4
Intangibles (excl. goodwill)	1.3	1.1	1.1	1.1	1.1	1.1
Goodwill	-	-	-	-	-	-
Other assets	11.8	10.2	13.0	12.2	11.1	10.9
Total Assets	123.6	93.1	80.2	83.1	85.6	89.4
Trade payables	28.2	13.9	10.0	17.0	20.5	22.8
Accrued expenses (PDVSA)	23.0	18.5	18.5	18.5	18.5	18.5
Contract liabilities	24.8	22.4	22.4	22.4	22.4	22.4
Debt	31.3	17.8	20.1	20.1	20.1	20.1
Lease liabilities	3.1	1.5	1.5	1.5	1.5	1.5
Other	10.3	6.9	1.0	1.0	1.0	1.0
Total Liabilities	120.7	80.9	73.5	80.4	83.9	86.2
Net Assets	2.9	12.2	6.7	2.7	1.7	3.2
Share capital	207.4	232.3	232.3	232.3	232.3	232.3
Reserves	-3.7	-3.3	-3.3	-3.3	-3.3	-3.3
Retained earnings	-198.9	-214.9	-220.4	-224.4	-225.4	-223.9
Minorities	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0
Shareholders Equity	2.9	12.2	6.7	2.7	1.7	3.2
Core Net Debt (Cash)						
Short & long-term deposits	(13.6)	(8.0)	(8.0)	(8.0)	(8.0)	(8.0)
AASB 16 leases	3.1	2.1	1.5	1.5	1.5	1.5
Accrued expenses (PDVSA)	23.0	18.5	18.5	18.5	18.5	18.5
Group indebtedness (US\$m)	12.9	5.8	23.1	25.0	26.1	25.4
Share price (AUS)	0.07					
Target price (AUS)	0.09					
Rating	Hold (Spec)					
Issued capital (m)	1081.0					
Market cap (AU\$m)	73.5					
Enterprise value (AU\$m)	109.4					
Free Float	82%					
Note: Enterprise value includes operating leases. Assumed flat AUD/USD conversion rate of 0.70.						
June year end						
Segmental Information (US\$m)						
Municipal Water and Wastewater (MWW)	14.8	11.1	11.0	15.6	24.7	33.6
Industrial Wastewater & Biogas (IWB)	8.5	7.0	8.9	13.5	20.1	25.7
Industrial Water & Reuse (IWR)	12.6	14.9	18.0	21.4	27.4	34.3
SEA & China	9.6	13.6	3.8	7.2	9.7	12.5
BOO	2.1	2.8	2.9	3.5	4.0	5.0
Revenue excl. IVC	47.6	49.3	44.6	61.3	85.9	111.1
Ivory Coast Contract (IVC)	69.5	22.2	7.0	26.0	17.0	0.0
Other incl. R&D	-0.8	-1.5	-0.1	-2.5	-3.0	0.0
Group revenue	116.3	70.0	51.5	84.8	99.9	111.1
Growth excl. IVC (%)	nm	3.6%	-9.6%	37.3%	40.2%	29.4%
... Total growth (%)	12.5%	-39.8%	-26.5%	64.6%	17.8%	11.2%
Municipal Water and Wastewater (MWW)	1.7	2.3	0.9	1.4	3.5	4.7
Industrial Wastewater & Biogas (IWB)	0.7	0.1	0.6	1.4	2.6	3.3
Industrial Water & Reuse (IWR)	1.9	1.1	3.1	3.2	3.8	4.8
SEA & China	-1.4	0.0	-1.1	0.0	0.9	1.4
BOO	0.8	0.3	0.5	0.4	0.4	0.5
Segment EBITDA excl. IVC	3.7	3.8	4.0	6.3	11.2	14.7
Ivory Coast Contract (IVC)	6.2	1.2	0.2	3.5	2.3	0.0
Corporate (unallocated)	-7.1	-4.9	-8.2	-8.4	-8.5	-8.7
Operating EBITDA	2.8	0.2	-4.0	1.5	5.0	6.0
Share based payments	-1.7	-1.9	-1.9	-1.9	-1.9	-1.9
EBITDA (normalised)	1.1	-1.7	-5.9	-0.4	3.1	4.2
... Margin (%)	0.9%	-2.4%	-11.4%	-0.5%	3.1%	3.7%
Valuation Ratios						
Adjusted NPAT (A\$m)	-7.3	-12.0	-11.2	-5.4	-1.5	0.3
Adjusted EBITDA (A\$m)	1.6	-2.4	-8.4	-0.6	4.4	2.4
Core EPS (US cps)	-0.80	-1.19	-0.72	-0.35	-0.10	0.05
Core EPS (AU cps)	-1.14	-1.70	-1.03	-0.50	-0.14	0.05
EPS growth (%)	nm	49.5%	-39.4%	-51.5%	-71.9%	-139.0%
Adjusted PE (x)	-8.5	-5.7	-9.4	16.3	-69.1	146.0
EV/Adjusted Sales	0.7	1.1	1.5	0.9	0.8	1.7
EV/Adjusted Sales excl. IVC	1.6	1.6	1.7	1.3	0.9	1.7
EV/Adjusted EBITDA (x)	100.3	-64.2	-18.6	-274.9	35.5	26.3
NTA per share (A\$ps)	nm	0.01	0.01	0.00	0.00	0.00
PNTA (x)	nm	4.62	9.15	32.46	99.54	61.67
DPS (cps)	0.0	0.0	0.0	0.0	0.0	0.0
Payout on reported EPS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Dividend Yield %	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	100%	100%	100%	100%	100%	200%
FCF per share (cps)	nm	-2.1	-1.4	-0.2	-0.1	0.1
FCF yield %	nm	-30.3%	-20.9%	-2.6%	-1.5%	1.0%
Performance Ratios						
Group EBITDA margin (%)	0.9%	-2.4%	-11.4%	-0.5%	3.1%	3.7%
Group EBIT margin (%)	-1.0%	-5.3%	-15.1%	-2.7%	1.2%	1.9%
OCF Realisation to EBITDAL (%)	nm	nm	nm	3.9%	62.7%	73.3%
FCF Realisation to NPAT (%)	nm	nm	nm	49.9%	102.9%	147.5%
ROE (%)	-175.1%	-68.7%	-115.9%	-139.3%	-64.3%	15.9%
ROIC (%)	-70.6%	-86.4%	-66.6%	-13.6%	7.5%	13.0%
Asset turns (years)	-0.4	-2.9	-10.5	-3.2	1.9	3.2
Capex/Depn excl. leases (x)	0.5	1.9	2.5	2.6	3.1	1.2
EBIT interest cover	(0.3)	(0.7)	(2.8)	(0.8)	0.5	1.5
Net debt to equity (%)	16.3%	-79.5%	236.7%	686.1%	1221.8%	249.7%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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