

27 February 2014

USG PEOPLE

Back in the game

SUPPORT SERVICES
NETHERLANDS

CURRENT PRICE €12.56
TARGET PRICE €12.00

BUY
RATING UNCHANGED

Performance over	1M	3M	12M
Absolute	16%	33%	107%
Rel. AEX	14%	32%	74%
12m Hi/Lo	€ 13.19/5.00		
Bloomberg	USG NA		
Reuters	USGP.AS		
Market Cap	€ 976m		
Next corporate event			
Results 4Q13: 28 February 2014			
www.usgpeople.com			

FY/e 31.12	2012	2013E	2014E	2015E
Sales (€ m)	2,876.2	2,483.2	2,391.3	2,500.4
REBITDA (€ m)	106.0	84.4	109.0	110.5
Net earnings (€ m)	-191.7	-2.3	36.9	38.6
Diluted adj. EPS (€)	0.35	0.31	0.56	0.60
Dividend (€)	0.12	0.10	0.18	0.20
P/E	18.02	39.96	22.53	20.99
EV/REBITDA	6.70	13.51	10.06	9.69
Free cash flow yield	2.0%	1.9%	4.3%	3.5%
Dividend yield	1.9%	0.8%	1.5%	1.6%

Source: KBC Securities

USG reports its FY13 results tomorrow, 28 Feb. 2014, and will host an analyst meeting at 9.30am CET. We count on €584m sales in 4Q13, up 1% y/y organically. The gross margin is expected to come in at 21.2%, with €96m operating expenses and €4m depreciations leading to a REBITA estimate of €23.8m (up from €23.1m in 3Q13). As such, the REBITA margin stands at 4.1%, up from 3.9% in 3Q13. We bank on reported net earnings of €8.5m and adjusted net earnings of €12.2m. Net debt is expected to reach €158.6m by the end of 2013, which would put the leverage ratio of 2.8x, well below the 3.75x covenant. Ahead of the results, we reiterate our Buy rating and will review our target price after tomorrow's release.

HIGHLIGHTS

- **Back in line market in Belgium, ahead in France and behind in Germany.** In 4Q13, we believe USG closed the gap with the Belgian market, while we believe they continued to outperform in France, with growth accelerating further during the last months of the year. As USG was able to conclude both the AMP case and the case against former management of Allgeier, the German business is ready to finally close the gap with the market in the coming months. For 4Q13, we count on a German sales growth of -3% y/y.
- **Again +€20m REBITA in 4Q13.** After €10m REBITA reported in 1Q13 and 2Q13 and jumping to €23m in 3Q13, we now count on a virtually stable level q/q of €24m in 4Q13. Note that the bulk of savings from the United restructuring plan is expected to materialise in 2014. Pencilling in €3m for 3Q13 and €4m for 4Q13, a remaining €31m cost savings is assumed for 2014. However, we expect some cost savings to be offset by increasing marketing expenses. As staffing markets are picking up, extra marketing in 1Q14 can be assumed.
- **Positive trends seem to continue in 1Q14.** The positive growth trend visible in 4Q13 seems to be continuing in Belgium and Germany in 2014, while the sustainability of the trend is less certain in France and the Netherlands. Note that USG operates in niche segments in France, which are outperforming the market and will continue to do so. For the Netherlands, it will be interesting to hear management's comments, but we hope to see some market share gains there.

ANALYSTS

Yves Franco

Financial Analyst - Brussels

+32 2 429 45 04

yves.franco@kbcsecurities.be

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4Q13 OFFERS CONFIRMATION

We believe total sales for 4Q13 will come in at € 584m, down 15% y/y, mostly because of the divestments of USG Energy and non-core Generalist Staffing segments. On an organic basis, sales are expected to grow by 0.8% y/y, an acceleration of the positive trend seen in 3Q13 (-2.6% y/y organically). Operational expenses of € 96m and € 4m depreciations lead to a REBITA figure of € 23.8m, up from € 23.1m in 3Q13. The REBITA margin as such comes in at 4.1%, against 1.8% in 2Q13 restated and 3.9% in 3Q13. With one-off costs of € 3.7m, € 4.5m amortizations, € 2.5m financial costs and a tax cost of € 3.8m, net earnings land at € 8.5m. Adjusted net earnings are forecast at € 12.2m. The balance sheet is still stretched, with net debt expected to reach € 158.6m by the end of 2013. This leads us to a leverage ratio of 2.8x, still well below the 3.75x covenant.

- **The Netherlands (44% of sales):** Since USG managed to close the gap with the market in the course of the 4th quarter, we count on € 258m sales. This implies 0.2% y/y growth on a comparable basis (excluding USG Energy in 4Q12). ABU staffing figures reported y/y growth of 1.5% in 4Q13, accelerating to 3.0% y/y towards the last 3 weeks of 2013. The REBITA margin is set at 4.5%.
- **Belgium (26%):** 4Q13 sales are expected to land at € 152m, down 2% y/y, recovering from -6% y/y in 3Q13. This is in line with the trend visible in the sector data published by Federgon. Last week, Randstad said that the positive trend in the Belgian market is continuing in 2014. We assume the company managed to maintain the strong REBITA margin of 3Q13, hence our forecast of 7% for 4Q13.
- **France (20%):** USG's market outperformance is expected to continue in 4Q13, as management guided for an October growth rate of more than 2%, after 3Q13 y/y growth of 0%. Growth in 4Q13 is set at 5.0%, up from 0.2% in 3Q13. Note that 4Q13 Prisme industry growth was slightly below 0% for the fourth quarter. The REBITA margin is set at 4.6%, up from 4.2% in 3Q13 on the back of the accelerating growth rate and the positive impact from the CICE. We expect a one-off positive result to be recognized in 4Q13, due to an underestimation of the CICE impact throughout the year. Management did not give guidance on the number, but we estimate the annual figure to amount to around € 2.3m (adding another 50bps to the CICE impact, in line with peers).
- **Germany (9%):** Since finally concluding the AMP case and reaching a settlement with Algeier's former management USG looks to have started a new chapter. It still benefits from easy 2013 comps, resulting from last year's start-up of a new company by Allgeier's former management. Sales growth is expected to amount to -3% y/y in 4Q13, implying sales of € 54m. The German REBITA margin is set at 1.6%; a decline of 100bps q/q, because of the seasonal effect and high number of working days in 3Q13.

PROMISING START TO 2014

- **Restructuring plan United.** The bulk of savings from the United restructuring plan is expected to materialize in 2014. Pencilling in € 3m for 3Q13 and € 4m for 4Q13, a remaining € 31m cost savings is assumed for 2014. The United plan was announced at the end of 2Q13, and aims to achieve a leaner corporate structure, with less middle management, but a more direct impact on the field. The company is therefore perfectly placed to profit from positive market evolutions from an operating leverage viewpoint.
- **1Q14 looks good.** Randstad's management said that the positive trend in Belgium and Germany is continuing in 2014, while it lost some momentum in France and the Netherlands in January. Note that USG operates in niche segments in France, which are outperforming the market and will continue to do so. In the Dutch market, we are awaiting the comments of USG management itself, but hope to see USG regaining some market share.

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INCOME STATEMENT FORECASTS (PRO FORMA – EXCLUDING DIVESTED BUSINESSES)

	2Q12A	3Q12A	4Q12A	FY12A	1Q13A	2Q13A	3Q13A	4Q13E	FY13E	1Q14E	FY14E
Revenues	598	615	579	2,382	524	550	599	584	2,258	554	2,391
<i>Revenue growth</i>					-11.1%	-8.0%	-2.6%	0.8%	-5.2%	5.8%	5.9%
Gross profit	132.8	133.7	124.6	525.8	113.4	115.7	127.6	123.8	480.5	117.9	514.1
<i>Gross margin</i>	22.2%	21.7%	21.5%	22.1%	20.3%	21.0%	21.3%	21.2%	21.3%	21.3%	21.5%
Operating expenses	-112.3	-106.8	-103.8	-436.6	-103.0	-102.2	-100.1	-96.0	-401.3	-92.6	-405
REBITDA	20.5	26.9	20.8	89.3	10.4	13.5	27.5	27.8	79.2	25.3	109.0
<i>REBITDA margin</i>	3.4%	4.4%	3.6%	2.0%	2.1%	2.5%	4.6%	4.8%	3.5%	5.6%	4.6%
Depreciation	-4.4	-4.4	-4.5	-18.3	-3.9	-3.8	-4.4	-4.0	-16.1	-5.0	-17.0
REBITA	16.1	22.5	16.3	70.9	6.5	9.7	23.1	23.8	63.1	20.3	92.0
<i>% margin</i>	2.7%	3.7%	2.8%	3.0%	1.2%	1.8%	3.9%	4.1%	2.8%	3.7%	3.8%
One-offs					-1.3	-28.4	5.6	-3.7	-27.8	-2.5	-10.0
Amortization					-4.8	-4.0	-3.4	-4.5	-16.7	-4.5	-18.0
EBIT					0.4	-22.7	25.3	15.6	18.6	13.3	64.0
Financial result					-1.5	-1.9	-3.0	-2.5	-8.9	-2.3	-9.0
EBT					-1.1	-24.6	22.3	13.1	9.7	11.0	55.0
Taxes					-0.4	1.9	-11.1	-4.6	-14.2	-3.6	-18.2
Discontinued					-15.2	0	14.4	0	-0.8	0.0	0.0
Net earnings					-16.7	-22.7	25.6	8.5	-5.3	7.4	36.9
Total non-recurring					-15.3	-23.0	16.6	-3.7	-25.4	-2.5	-8.1
Adj. net earnings					-1.4	0.3	9.0	12.2	20.1	9.9	45.0

Source: Company data, KBC Securities

INCOME STATEMENT FORECASTS

	FY12A	FY13E*	FY14E	FY15E
Revenues	2,876	2,483	2,391	2,500
<i>Revenue growth</i>	-11.4%	-13.7%	-3.7%	4.6%
Gross profit	597	513	514.1	537.6
<i>Gross margin</i>	20.7%	20.6%	21.5%	21.5%
Operating expenses	-490.6	-428.4	-405	-427
REBITDA	106.0	84.4	109.0	110.5
<i>REBITDA margin</i>	3.7%	3.4%	4.6%	4.4%
Depreciations	-20.5	-16.7	-17.0	-17
REBITA	85.6	67.7	92.0	93.5
<i>% margin</i>	3.0%	2.7%	3.8%	3.7%
One-off costs	-16.2	-27.7	-10.0	-10.0
Amortization	-233.8	-16.7	-18.0	-18.0
EBIT	-164.5	23.2	64.0	65.5
Financial result	-12.0	-10.6	-9.0	-8.0
EBT	-176.4	12.6	55.0	57.5
Taxes	-20.9	-10.5	-18.2	-19.0
Discontinued	5.6	-3.5	0.0	0.0
Net earnings	-191.7	-2.3	36.9	38.6
Total non-recurring	-217.4	-27.4	-8.1	-10.0
Adj. net earnings	27.4	26.2	45.0	48.6

Source: Company data, KBC Securities

*USG Energy excluded as from 2Q, Non-core General Staffing as from 3Q

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SALES BY COUNTRY

€ m	2Q12A	3Q12A	4Q12A	1Q13A	2Q13A	3Q13A	4Q13E	1Q14E
SALES								
Netherlands	273	277	272	252	237	255	258	259
Belgium	156	164	155	135	141	154	152	135
France	126	130	113	102	116	130	118	108
Spain	48	58	52	49	55	/	/	/
Germany	59	61	56	52	54	60	54	52
Italy	30	27	30	27	29	/	/	/
Other countries	29	31	28	25	27	/	/	/
Others	/	/	/	/	/	2	2	0
TOTAL SALES	720	746	705	641	659	599	584	554
SALES GROWTH								
Netherlands	-9%	-10%	-11%	-8%	-13%	-8%	-5%	3%
Belgium	-8%	-10%	-10%	-13%	-9%	-6%	-2%	0%
France	-14%	-15%	-14%	-11%	-7%	0%	5%	6%
Spain	-7%	-4%	6%	12%	16%	/	/	/
Germany	-22%	-25%	-23%	-18%	-9%	-2%	-3%	0%
Italy	-19%	-19%	-12%	-8%	-5%	/	/	/
Other countries	-19%	-17%	-11%	-11%	-7%	/	/	/
GROUP SALES GROWTH	-12%	-12%	-11%	-9%	-8%	-20%	-16%	-14%

REBITA BY COUNTRY

€ m	2Q12A	3Q12A	4Q12A	1Q13A	2Q13A*	3Q13A	4Q13E	1Q14E
REBITA								
Netherlands	10.5	13.6	14.2	8.5		11.1	11.6	10.6
Belgium	12.0	13.4	9.8	5.0		10.9	10.6	9.5
France	2.7	2.3	0.3	1.6		5.4	5.4	4.2
Spain	0.4	0.3	0.3	0.8		/	/	/
Germany	-1.7	1.8	-0.8	-0.5		2.6	1.6	1.0
Italy	1.3	0.5	0.9	-0.1		/	/	/
Other countries	-0.4	0.7	-0.4	-0.1		/	/	/
Others	/	/	/	/		-0.3	0	0
Corporate	-4.7	-5.5	-5.0	-5.8		-6.6	-5.5	-5.0
GROUP REBITA	20.1	27.1	19.3	9.4	11.4	23.1	23.8	20.3
REBITA margin								
Netherlands	3.8%	4.9%	5.2%	3.4%		4.4%	4.5%	4.1%
Belgium	7.7%	8.2%	6.3%	3.7%		7.1%	7.0%	7.0%
France	2.2%	1.8%	0.3%	1.6%		4.2%	4.6%	3.9%
Spain	0.8%	0.5%	0.6%	1.6%		/	/	/
Germany	-2.9%	3.0%	-1.4%	-1.0%		4.3%	3.0%	1.9%
Italy	4.3%	1.8%	3.1%	-0.4%		/	/	/
Other countries	-1.4%	2.3%	-1.4%	-0.4%		/	/	/
Others	/	/	/	/		-19%	0%	0%
GROUP REBITA MARGIN	2.8%	3.6%	2.7%	1.5%	1.7%	3.9%	4.1%	3.7%

Source: Company data, KBC Securities

*No segmentation available

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FINANCIAL DATA

Income statement (€m)	2008	2009	2010	2011	2012	2013E	2014E	2015E
Sales	4,025.0	3,001.1	3,098.6	3,244.8	2,876.2	2,483.2	2,391.3	2,500.4
Gross profit	993.2	674.2	676.3	680.0	596.6	512.7	514.1	537.6
EBIT	116.5	0.9	43.1	-4.4	-164.5	23.2	64.0	65.5
Pre-tax earnings	63.7	-35.6	14.9	-23.3	-176.4	12.6	55.0	57.5
Net earnings	16.4	-30.7	15.3	-40.2	-191.7	-2.3	36.9	38.6
EBITDA	237.6	55.3	103.5	59.3	89.8	56.7	99.0	100.5
REBITDA	268.0	95.2	120.1	123.5	106.0	84.4	109.0	110.5
REBITA	226.4	67.9	93.1	96.1	85.6	67.7	92.0	93.5
Balance sheet (€m)	2008	2009	2010	2011	2012	2013E	2014E	2015E
Intangible assets	1,063.1	1,039.1	1,020.0	1,002.0	789.9	702.4	684.4	666.4
Tangible assets	78.3	63.8	50.6	33.6	26.9	26.6	27.6	35.6
Financial assets	7.9	7.9	8.6	12.4	14.7	14.7	14.7	14.7
Net other assets & liabilities	-58.5	-43.6	3.5	14.0	47.4	47.4	47.4	47.4
Net working capital	173.0	-20.0	-70.7	-90.9	-82.6	-83.8	-81.7	-73.7
Net debt	550.9	375.9	247.7	206.4	243.9	158.6	119.0	90.9
Provisions	41.8	31.9	23.5	69.0	53.8	53.8	45.8	40.8
Minorities	1.4	0.5	0.6	0.5	0.6	0.6	0.6	0.6
Equity	669.8	638.8	740.2	695.3	498.1	494.3	527.0	558.1
Capital employed	1,255.7	1,018.7	950.8	900.1	712.0	623.0	608.1	606.1
TOTAL ASSETS	1,967.2	1,643.6	1,676.6	1,654.9	1,348.4	1,282.1	1,252.0	1,286.2
Cash flow statement (€m)	2008	2009	2010	2011	2012	2013E	2014E	2015E
Cash flow from operations	183.8	226.3	105.6	104.6	29.0	35.9	61.8	60.5
Net capital expenditure	-37.0	-18.8	-29.9	-19.4	-19.0	-16.5	-18.0	-25.0
Free cash-flow	146.8	207.5	75.7	85.2	10.1	19.5	43.8	35.5
Acquisitions / disposals	-94.7	-1.3	0.9	-8.0	-18.5	70.8	0.0	0.0
Dividend payments	-33.3	-0.2	-0.1	-5.7	-6.4	-5.0	-4.2	-7.4
Shares issues	-0.3	0.3	84.8	0.0	0.0	0.0	0.0	0.0
New borrowings / reimbursements	9.0	-216.2	-127.5	-27.6	6.1	0.0	-39.3	0.0
Other	0.0	-31.3	-33.2	-30.1	-11.7	0.0	0.0	0.0
CHANGE IN CASH & EQUIVALENTS	27.6	-41.2	0.6	13.7	-20.5	85.3	0.3	28.1
Performance criteria	2008	2009	2010	2011	2012	2013E	2014E	2015E
Sales growth	3.5%	-25.4%	3.3%	4.7%	-11.4%	-13.7%	-3.7%	4.6%
Gross margin	24.7%	22.5%	21.8%	21.0%	20.7%	20.6%	21.5%	21.5%
REBITDA margin	6.7%	3.2%	3.9%	3.8%	3.7%	3.4%	4.6%	4.4%
REBITA margin	5.6%	2.3%	3.0%	3.0%	3.0%	2.7%	3.8%	3.7%
EBIT margin	2.9%	0.0%	1.4%	-0.1%	-5.7%	0.9%	2.7%	2.6%
Net debt / Equity + Minorities	82.1%	58.8%	33.4%	29.7%	48.9%	32.1%	22.6%	16.3%
Net debt / EBITDA	2.32	6.80	2.39	3.48	2.71	2.80	1.20	0.90
EBITDA / net interest	4.50	1.51	3.67	3.13	7.51	5.33	11.00	12.57
Pay-out ratio	229.9%	0.0%	79.9%	3.3%	-7.3%	-369.2%	40.3%	41.6%
= Return on Equity (avg)	2.4%	-4.7%	2.2%	-5.6%	-32.1%	-0.5%	7.2%	7.1%
Return on Capital Employed (avg)	6.5%	0.1%	3.1%	-0.3%	-14.3%	2.4%	7.3%	7.6%
Per share data (€)	2008	2009	2010	2011	2012	2013E	2014E	2015E
weighted average # shares, diluted	76,475,0	77,277,0	82,946,0	84,718,0	79,082,1	80,099,7	80,657,6	81,141,3
Basic EPS	0.23	-0.43	0.20	-0.51	-2.42	-0.03	0.46	0.48
Diluted EPS	0.21	-0.40	0.18	-0.47	-2.42	-0.03	0.46	0.48
Diluted, adjusted EPS	1.63	0.11	0.28	0.30	0.35	0.31	0.56	0.60
Net book value / share	9.48	9.04	9.53	8.86	6.25	6.14	6.52	6.85
Free cash flow / share	2.10	2.94	0.99	1.09	0.13	0.24	0.54	0.44
Dividend (€)	0.58	0.00	0.16	0.17	0.12	0.10	0.18	0.20
Valuation data	2008	2009	2010	2011	2012	2013E	2014E	2015E
Reference share price (€)	12.10	9.75	12.84	10.52	6.23	12.56	12.56	12.56
Reference market capitalisation (€ m)	854.5	688.9	997.7	825.4	496.7	1,010.9	1,015.2	1,023.0
Enterprise value (€ m)	1,441.0	1,068.8	1,208.3	1,030.2	710.6	1,139.5	1,096.3	1,071.0
P/E	7.4	91.5	45.5	35.0	18.0	40.0	22.5	21.0
EV/sales	0.4	0.4	0.4	0.3	0.2	0.5	0.5	0.4
EV/EBITDA	6.1	19.3	11.7	17.4	7.9	20.1	11.1	10.7
EV/Capital employed	1.1	1.0	1.3	1.1	1.0	1.8	1.8	1.8
P/ NBV	1.3	1.1	1.3	1.2	1.0	2.0	1.9	1.8
Free cash flow yield	17.2%	30.1%	7.6%	10.3%	2.0%	1.9%	4.3%	3.5%
Dividend yield	4.8%	0.0%	1.2%	1.6%	1.9%	0.8%	1.5%	1.6%

Source: KBC Securities

*Historic valuation data are based on historic prices

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DISCLOSURE & DISCLAIMER SECTION

The company disclosures can also be consulted on our website <http://www.kbcsecurities.be/disclosures>.

KBC Securities uses an absolute rating system including terms such as Buy, Accumulate, Hold, Reduce and Sell (see definitions below).

	Definition
BUY	Expected total return (including dividends) of 10% or more over a 6-month period
ACCUMULATE	Expected total return (including dividends) between 0% and 15% over a 6-month period
HOLD	Expected total return (including dividends) between -5% and 5% over a 6-month period
REDUCE	Expected total return (including dividends) between -15% and 0% over a 6-month period
SELL	Expected total return (including dividends) of -10% or worse over a 6-month period

Due to external factors and in exceptional cases, KBC Securities allows the use of ratings such as Accept the Offer, Black Out, No Recommendation or Suspended.

Our analysts assign one of those ratings based on their investment outlook and valuation for the concerned stock. The valuation can be based on different methodologies such as DCF (discounted cash flow), absolute multiples, peer group multiples, sum-of-parts or NAV (Net Asset Value). The valuation is reflected in a 6-month target price. Occasionally, the expected total return may fall outside of these ranges because of price movement and/or volatility. Such deviations will be permitted but will be closely monitored. Investors should carefully read the definitions of all ratings used in each research report. In addition, since the report contains more complete information concerning the analyst's view, investors should carefully read the entire report and not infer its contents from the rating alone. KBC Securities may disclose the drafts of its reports to the issuers before their dissemination for the purpose of verifying the accuracy of factual statements, except when the draft includes a rating or a target price. In case the draft has been amended following this disclosure, such amendments will be indicated in the concerned report.

Stock rating	% of covered universe	% of covered universe with investment banking relationship during last year
BUY	19.50%	0.00%
ACCUMULATE	30.10%	0.00%
HOLD	44.20%	0.00%
REDUCE	5.30%	0.00%
SELL	0.90%	0.00%

USG People is the 4th largest Continental European provider of staffing services. The group generates 2/3 of sales in the Benelux.

The price target for USG People is based on following parameters: Discounted Cash Flow (DCF), Absolute Multiples, Peer Group Multiples

The risks which may impede the achievement of our price target are: Slowdown in economic growth, particularly in Benelux (67% of sales)

Any reference made to a DCF valuation for USG People is based on the following parameters: a forecast period from 2007 until 2016, a perpetual growth rate of 1.5% and a calculated WACC of 8.8%.

Below is an overview of the stock ratings and target price history in the last 12 months for the stock described in this report.

Date	Rating	Target price
25-OCT-13	Buy	€ 12.00
22-OCT-13	Buy	€ 10.00
06-MAY-13	Buy	€ 7.50

KBC Securities will provide periodic updates on companies/industries based on company-specific developments or announcements, market conditions or any other publicly available information.

27 February 2014

The company disclosures can be consulted on our website <http://www.kbcsecurities.com/disclosures>.

KBC Securities NV
Havenlaan 12
Avenue du Port
1080 Brussels
Belgium
+32 2 417 44 04
Regulated by FSMA and NBB

KBC Securities USA, Inc.
1177 Avenue of the Americas
New York, NY 10036
US
+1 212 845 2200
Regulated by NASD

KBC Securities NV Polish Branch
ul. Chmielna 85/87
00-805 Warsaw
Poland
+48 22 581 08 00
Regulated by PFSA

KBC Securities Patria
Jungmannova 745/24
110 00 Prague 1
Czech Republic
+420 221 424 111
Regulated by CNB

KBC Securities NV Hungarian Branch
Lechner Ódón fasor 10
1095 Budapest
Hungary
+361 483 4005
Regulated by PSZAF

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