

EQUITY RESEARCH

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Industry Update

Q1/23 U.S. Software Earnings Recap – Bits & Bytes Weekly

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Strong Results Despite Low Expectations Into The Quarter

Sector:
Information Technology

Our Conclusion

Earnings results from U.S. software companies this week were better than previously feared, with 86% of the software names we track beating both revenue and EBITDA estimates, with revenue coming in ~2% above Street expectations and EBITDA beating estimates by 4.5%, on average. Post Q1 results, the Street revised its F23 revenue and EBITDA estimates upwards by an average of 1% and 3%, respectively. Artificial intelligence (AI) was a key theme throughout tech earnings, with continued investments in AI by all the major U.S. tech giants. The advancement of AI initiatives, including generative AI, also showed no sign of slowdown, with Microsoft's ChatGPT and Google's newly unveiled Bard AI continuing to increase in popularity while others work to develop their own generative AI tools as well. Cost-cutting through restructuring also remained prevalent, with over \$3B in severance charges realized in Q1 across the major U.S. tech companies.

Key Points

Restructuring Charges: Software companies are continuing to cut costs, with Meta coining 2023 a "Year of Efficiency". Google posted \$2.6B in charges during Q1/23 related to workforce reduction, which included employee severance payments and expenses related to office space reductions. Earlier in March, Meta announced three rounds of planned layoffs to further reduce the company's size by ~10,000 employees, and with Q1 results the company reported that it expects to incur ~\$1B in total pre-tax severance and related personnel costs in 2023, \$523M of which was recognized in Q1/23. These efficiencies appear to be paying off, with Alphabet's Google Cloud profitable for the first time this quarter.

AI Efforts: AI continues to be a focus, with Microsoft noting the company now has a total of 2,500 OpenAI service customers. During its Q1 earnings call, Google noted the company sees opportunities for long-term growth in advertising through Google AI. The company also highlighted its use of AI in search, where AI is being used to improve relevance.

Ad Revenue Remains Key: Advertising revenue continues to grow for the U.S. software names, comprising 53% of Meta's total Q1/23 revenue and increasing 4% Y/Y. eBay saw a 19% Y/Y increase in advertising revenue, and noted that revenue from advertising increased to 1.7% of its gross merchandise volume (GMV), up from 1.4% in Q1/22. At Google, Google Search and other advertising revenue represented 65% of revenue in Q1 and increased 2% Y/Y. Netflix's results did not provide much clarity on the new ad-supported tier, and investors will likely have to wait until Q3 to get a sense of any benefits from the program, as the company announced that the broad rollout of its paid sharing program is being deferred to Q2.

All figures in Canadian dollars unless otherwise stated.

For required regulatory disclosures please refer to "Important Disclosures" beginning on page 10.

U.S. Software Earnings Recap – A Strong Start

Microsoft (MSFT): Revenue was reported at \$52.9B (+7% Y/Y), ahead of the company's guidance of \$48.5B-\$49.3B. and consensus of \$51B. EPS was reported at \$2.45 vs. consensus of \$2.24. Microsoft Cloud revenue increased 22% Y/Y, despite concerns over slowing cloud growth amid an uncertain macro and weaker spending environment.

Google (GOOG): Google reported revenue of US\$69.8B, up 3% Y/Y and above consensus expectations of \$68.9B (+1.3% Y/Y). EPS was reported at \$1.17 for a Y/Y decline of 4.9% vs. consensus of \$1.08 (Y/Y decline of 12.2%). Google Properties and Search saw a gain of 1.9% Y/Y, where consensus had been expecting a modest decline of 0.6%, while YouTube revenue declined 2.6% Y/Y vs. consensus expectations of -4% Y/Y. Google Cloud saw a gain of 28.1% Y/Y, relatively in line with consensus expectations of +28.4% Y/Y.

Meta (FB): Revenue was reported at \$28.7B, representing an increase of +3% Y/Y and coming in ahead of consensus expectations of \$27.8B. EPS was reported at \$2.20 vs the Street at \$2.02. Advertising revenue for Q1/23 totalled \$28.1B (53% of total revenue), a 4% increase Y/Y. With its first quarter results, Meta also cut the company's expense forecast for the year, to \$86-\$90B from the prior outlook of \$89-\$95B. Second quarter revenue is expected to increase to \$29.5B-\$32B based on the company's Q2 outlook.

eBay (EBAY): eBay reported first quarter revenue of \$2.5B and EPS of \$1.11, vs. consensus of \$2.5B and \$1.07/sh. First quarter revenue increased 1% Y/Y; however the company highlighted that advertising revenue increased 19% Y/Y, with revenue from first-party advertising (primarily driven by Promoted listings) increasing 27% Y/Y. Total advertising offerings generated \$317M in revenue for the first quarter, representing ~1.7% of the company's GMV, up from 1.4% in Q1/22.

Netflix (NFLX): Netflix reported EPS of \$2.88, relatively in line with consensus of \$2.86, and revenue of \$8.2B, vs. the Street at \$8.2B. Q1 marks the first quarter of the paid sharing rollout in four countries, with the broad rollout of the company's elimination of password sharing key to Netflix's ability to deliver on expectations. However, investors will now have to wait until Q3 to get a sense of any near-term benefits from the rollout, as Netflix announced with Q1 results that the broad rollout, including a rollout in the U.S. is now planned for Q2. As a result, revenue guidance of \$8.2B for Q2/23 fell short of analyst expectations.

ServiceNow (NOW): ServiceNow reported Q1/23 EPS of \$2.37, ahead of consensus of \$2.04, driven by improved margins in the quarter of 26%, 200bps above the company's guidance. Revenue of \$2.1B was in line with Street expectations of \$2.1B. The company raised its subscription revenue outlook for 2023 by \$25M to \$8.47-\$8.52B, representing 23-23.5% Y/Y growth.

Exhibit 1: U.S, FQ1/23 Software Results, April 24-26, 2023 Vs. Consensus

Company	Calendar Q1/23			Y/Y Change			Consensus			Surprise (%)					
	Revenue (\$M)	EBITDA (\$M)	EPS (\$)	Revenues (%)	EBITDA (%)	EPS (%)	Revenues (\$M)	EBITDA (\$M)	EPS (\$)	Revenue (%)	EBITDA (%)	EPS (%)			
Microsoft	52,857	25,901	2.45	7%	7%	10%	51,019	↑	24,537	↑	2.24	↑	3.6%	6%	9%
Google	69,787	25,885	1.17	3%	-9%	-5%	68,887	↑	26,277	↓	1.08	↑	1.3%	-1%	8%
Meta	28,645	13,699	2.20	3%	4%	-19%	27,787	↑	11,995	↑	2.02	↑	3.1%	14%	9%
eBay	2,510	851	1.11	1%	-8%	6%	2,485	↑	844	↑	1.07	↑	1.0%	1%	4%
Netflix	8,162	1,904	2.88	4%	-12%	-18%	8,177	↓	1,857	↑	2.86	↑	-0.2%	3%	1%
ServiceNow	2,096	678	2.37	22%	26%	37%	2,087	↑	635	↑	2.04	↑	0.4%	7%	16%
SAP SE (€)	7,441	2,240	1.27	5%	9%	27%	7,308	↑	2,177	↑	1.1	↑	1.8%	3%	15%
				6.3%	2.5%	5.4%							1.6%	4.5%	9.0%

Source: Company reports, FactSet and CIBC World Markets Inc.

News Impacting Our Coverage

Research Highlight: CGI - [Solid Results Despite The Weaker Macro Environment.](#)

CGI's solid FQ2 results illustrate the company's resiliency in an uncertain market, with double-digit constant currency revenue growth driven by broad-based growth across all segments. EBIT margins were up 20 bps Y/Y despite the inflationary environment, illustrating CGI's ability to manage costs. While the bookings mix shifted towards SI&C in the quarter, we view this as primarily timing-related, with CGI's managed services pipeline up 20% sequentially. With minimal M&A completed in H1, we see upside from an M&A pipeline that includes some larger transactions.

Teleperformance Acquires Majorel

Teleperformance announced the proposed acquisition of Majorel, a European-based company focused on the design and delivery of customer services experience (CX) on behalf of brands. It offers customer interaction, business process and tech and expert services. The transaction is valued at €3B, or €30 per share. Each Majorel shareholder will have the option to receive a full payment in cash for \$30 per share or elect to receive Teleperformance shares based on an exchange ratio of 0.1382 Teleperformance share for each Majorel share up to a maximum of one-third the share capital of Majorel.

CGI & Fraport AG Partner

CGI and Fraport AG, which operates Frankfurt Airport, announced a strategic partnership whereby CGI will provide consulting, cloud solutions and managed IT services as well as change management to accelerate the airport's digitization under a five-year agreement. A key goal of the agreement is to move more of the airport's applications to the cloud, and Fraport and CGI intend to work together to lay a foundation for the integration of other technologies including artificial intelligence (AI) and intelligent automation.

Descartes Selected By Eastern Propane & Oil

Descartes announced that Eastern Propane & Oil selected Descartes's delivery solution to supply propane to >100k residents in New Hampshire, Maine, Massachusetts, Rhode Island and Vermont. The Descartes Last Mile Delivery Solution provides same-day optimization, allowing customers to schedule non-urgent deliveries for customers in the same neighbourhood as urgent delivery, decreasing mileage and resulting in lower fuel consumption.

OpenText Cloud Editions (CE) 23.2 Announced at OpenText World EMEA

OpenText hosted its World EMEA – Innovation Summits 2023 over April 24-27, during which the company unveiled Cloud Editions (CE) 23.2 as a part of the Project Titanium roadmap. The company reported that CE 23.2 will increase and strengthen connections to customers, partners and employees across an organization as well as implement immediate and responsible business practices and protect customers and partners with a comprehensive security portfolio.

WELL Ventures Launches The WELL AI Investment Program

WELL Ventures, a subsidiary of WELL Health Technologies, announced the launch of a new investment program focused on AI, whereby WELL will provide capital and leverage its own productions, distribution and scare to help advance AI health focused technologies. The program will focus on early-stage AI companies, with the aim of making a minimum of 10 AI related investments of at least \$250k each.

Exhibit 2: CIBC Coverage – Price Returns, For The Period Ending April 27, 2023

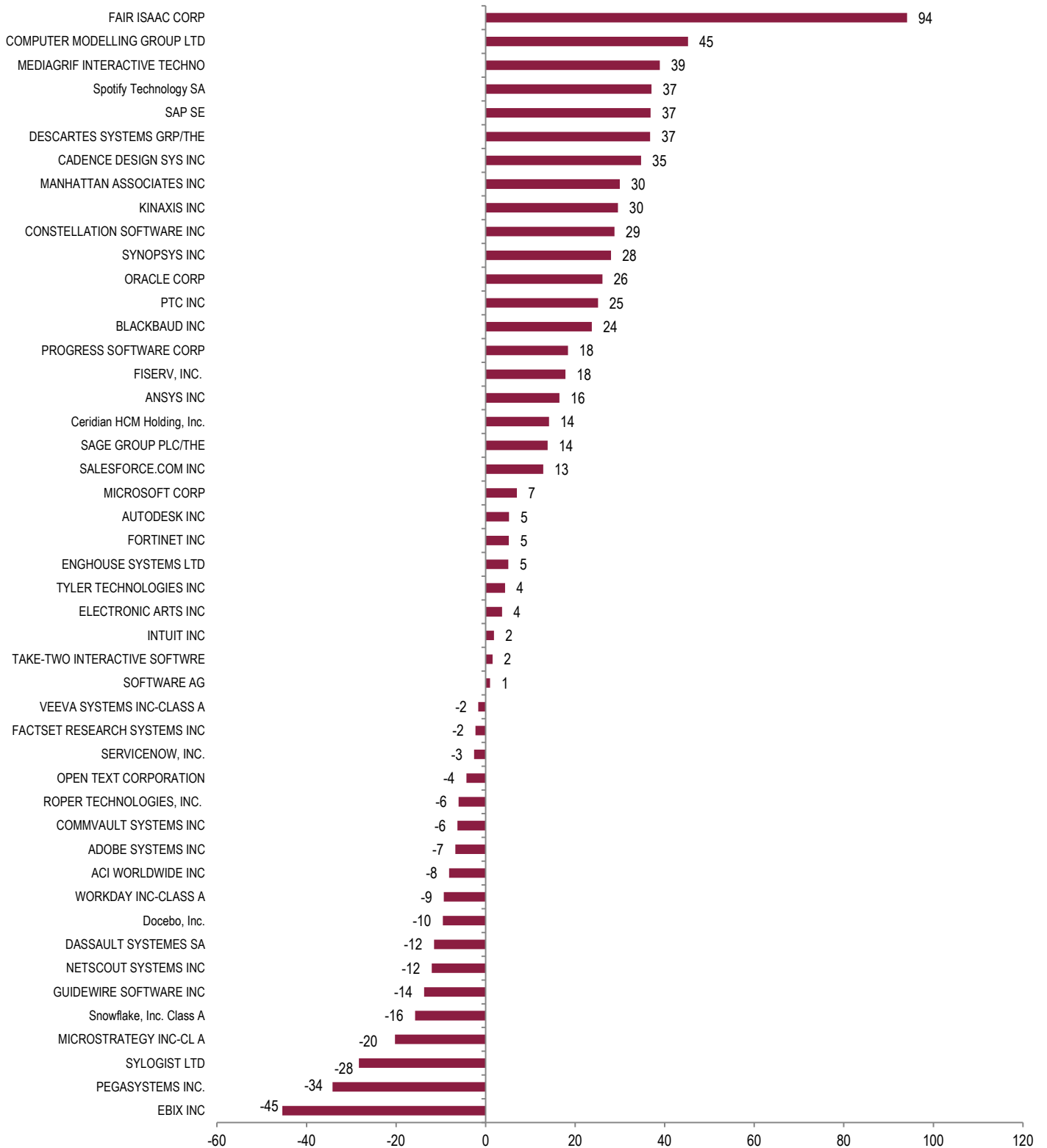
Software & Systems	Price	1 Week	1 Month	3 Month	6 Month	1 Year	YTD	52W High	52W Low
Constellation Software Inc	2,650.02	1.6	8.6	14.9	36.9	28.8	28.0	2674.98	1747.83
Descartes Systems	80.05	(1.0)	2.0	10.9	19.1	28.5	14.9	82.02	56.19
Enghouse Systems Limited	36.92	(4.5)	(3.9)	(6.1)	25.4	5.1	2.6	44.59	23.96
Open Text Corp	37.59	(2.6)	0.6	10.7	29.4	(4.3)	26.8	41.85	24.91
Kinaxis	183.97	1.3	0.4	23.3	28.8	29.6	21.1	187.01	119.48
Docebo, Inc.	50.54	(2.4)	(4.6)	3.1	26.1	(9.5)	13.0	60.29	31.66
Dye & Durham	14.47	(8.9)	(20.4)	(33.7)	(7.4)	(31.2)	(11.8)	24.68	11.62
Altus Group	53.02	(10.0)	(4.4)	(5.3)	8.1	15.6	(1.9)	61.60	41.27
Q4 Inc.	3.77	(3.2)	17.8	63.2	18.6	NA	17.4	5.04	1.88
Average		(3.3)	(0.4)	9.0	20.6	7.8	12.2		

Business Services	Price	1 Week	1 Month	3 Month	6 Month	1 Year	YTD	52W High	52W Low
CGI Group Inc	137.45	3.9	7.4	21.6	25.9	33.5	17.8	138.43	95.45
Converge Technologies	3.30	(9.5)	(19.2)	(42.7)	(44.9)	(64.0)	(28.2)	9.45	3.12
Information Services Corp	22.30	(3.0)	0.2	(3.0)	(3.0)	5.3	(7.7)	25.36	19.12
Softchoice Corporation	16.28	(10.6)	(1.2)	(9.8)	(12.4)	(27.7)	(10.9)	25.56	13.57
Telus International	27.24	(0.7)	(0.9)	(12.6)	(20.0)	(2.7)	1.9	40.55	24.11
Average		(4.2)	(3.5)	(10.9)	(12.8)	(15.2)	(4.9)		

Indices	Price	1 Week	1 Month	3 Month	6 Month	1 Year	YTD
S&P/TSX Composite Index	20,483.71	(0.7)	4.4	(1.1)	5.8	(1.3)	5.7
S&P 500 Index	4,109.30	(0.5)	3.3	1.0	7.9	(1.8)	7.0
S&P/TSX Software Index	169.55	0.8	4.2	7.0	27.7	18.9	24.3
S&P500 Software Index	5,034.05	2.9	6.7	15.5	26.5	7.1	22.9

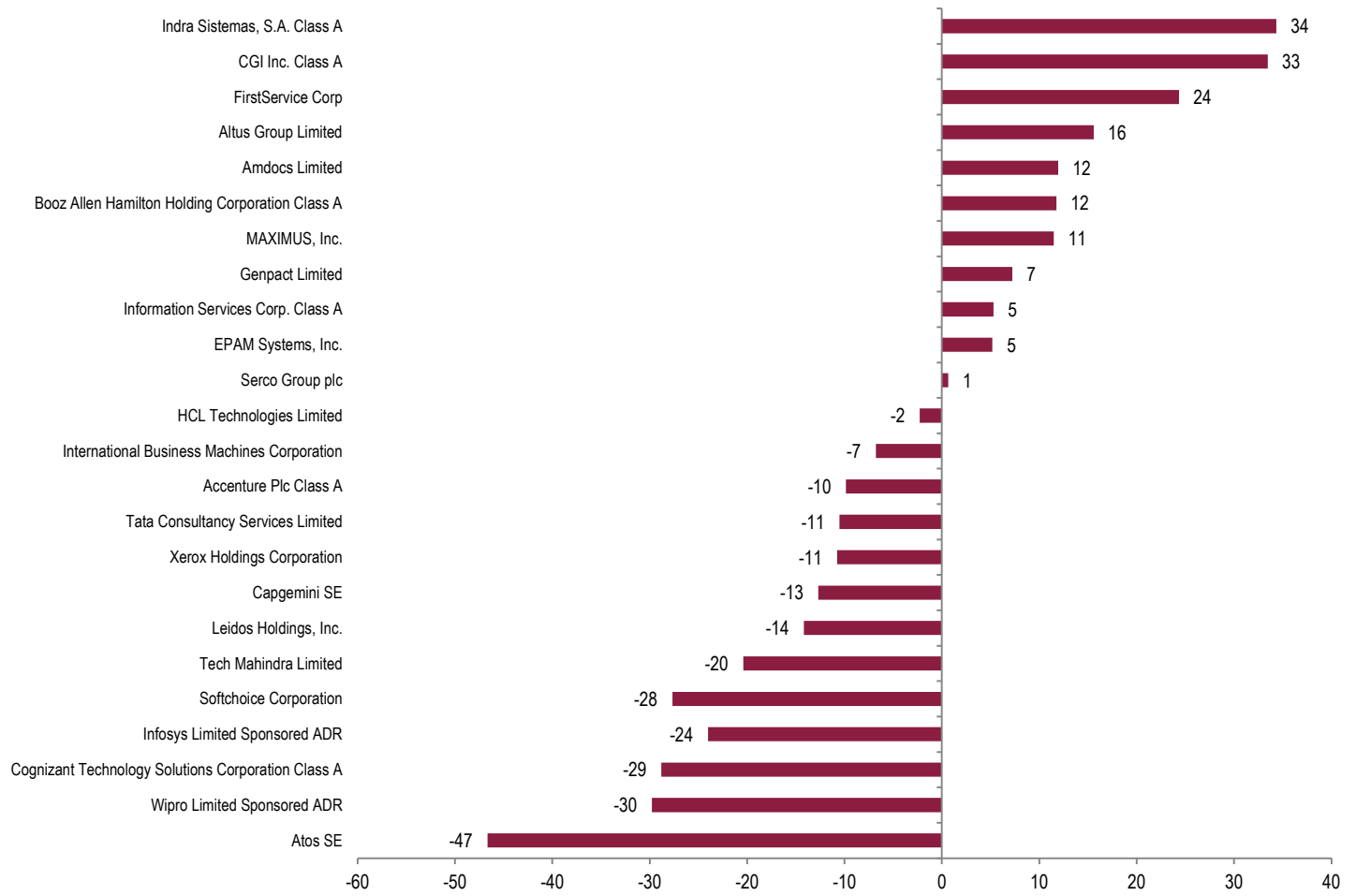
Source: Company reports, FactSet and CIBC World Markets Inc.

Exhibit 3: Software Stocks – Return Performance (%), 4/27/2022–4/27/2023



Source: Company reports, FactSet and CIBC World Markets Inc.

Exhibit 4: Business Services Stocks – Return Performance (%), 4/27/2022–4/27/2023



Source: Company reports, FactSet and CIBC World Markets Inc.

Exhibit 5: Software Stocks – Comp Table, 2022–2024E

	Enterprise Value (\$mlns.)	EV/S			EV/EBITDA			P/E		
		C22	C23E	C24E	C22	C23E	C24E	C22	C23E	C24E
Enterprise Application Software										
Constellation Software Inc.*	42,579	6.4x	5.4x	4.8x	25.1x	21.2x	18.8x	34.1x	31.5x	27.5x
BlackBerry Limited*	2,288	3.4x	2.5x	2.2x	NEG	NEG	>50	NEG	NEG	NEG
Sage Group plc	9,046	4.5x	4.1x	3.8x	19.8x	17.6x	16.1x	30.5x	26.3x	23.6x
Tyler Technologies, Inc.	16,994	9.2x	8.7x	8.0x	35.8x	35.5x	31.4x	>50	>50	44.7x
Roper Technologies, Inc.	53,463	10.0x	9.0x	8.4x	24.4x	21.9x	20.5x	31.2x	27.6x	25.7x
Enghouse Systems Limited	1,807	4.3x	4.18x	4.11x	13.1x	13.5x	12.41x	18.6x	28.8x	25.60x
Oracle Corporation	312,067	6.7x	6.0x	5.6x	13.3x	11.9x	10.9x	18.9x	17.6x	15.7x
SAP SE	155,254	4.6x	4.9x	4.6x	19.6x	17.2x	15.0x	30.3x	23.5x	20.0x
Enterprise Application Software Average		6.1x	5.6x	5.2x	21.6x	19.8x	17.9x	27.3x	25.9x	26.1x
Extended ERP										
Adobe Incorporated	168,683	9.5x	8.7x	7.7x	19.4x	17.8x	16.1x	26.8x	23.7x	20.9x
Open Text Corporation	12,799	3.6x	2.3x	2.1x	10.3x	7.8x	5.5x	11.9x	14.6x	7.0x
Manhattan Associates, Inc.	10,313	13.4x	12.0x	10.7x	47.2x	44.6x	39.2x	>50	>50	>50
Pegasystems Inc.	4,113	3.1x	3.0x	2.7x	>50	23.7x	16.3x	>50	32.0x	21.3x
Software AG	2,470	2.6x	2.5x	2.3x	13.9x	14.2x	11.9x	33.4x	21.7x	17.8x
Fiserv, Inc.	96,002	5.7x	5.3x	5.0x	13.3x	12.1x	11.2x	18.3x	16.2x	14.2x
Extended ERP Average		6.3x	5.6x	5.1x	20.8x	20.0x	16.7x	22.6x	21.6x	16.2x
Software As A Service										
Descartes Systems Group Inc.	6,521	13.4x	11.8x	10.7x	30.3x	26.7x	23.6x	>50	>50	>50
Kinaxis, Inc.*	3,593	9.8x	8.4x	7.0x	45.2x	>50	44.2x	>50	>50	>50
Docebo, Inc.*	1,008	7.1x	5.5x	4.2x	>50	>50	32.2x	>50	>50	49.4x
Lightspeed Commerce Inc*	1,154	1.7x	1.3x	1.1x	NEG	NEG	33.9x	NEG	>50	48.3x
Veeva Systems Inc Class A	25,278	11.9x	10.8x	9.1x	29.9x	30.4x	24.6x	41.9x	41.1x	34.4x
Shopify, Inc. Class A	56,350	10.1x	8.5x	7.0x	>50	>50	>50	>50	>50	>50
Q4 Inc*	83	1.5x	1.5x	1.3x	NEG	NEG	NEG	NEG	NEG	NEG
Ceridian HCM Holding, Inc.	10,682	8.6x	7.2x	6.2x	42.7x	29.1x	23.5x	>50	>50	40.5x
ServiceNow, Inc.	90,204	12.5x	10.2x	8.4x	39.5x	32.9x	26.3x	>50	47.9x	39.1x
Workday, Inc. Class A	45,681	7.5x	6.4x	5.5x	29.1x	22.9x	19.1x	>50	37.6x	30.6x
Software As A Service Average		8.4x	7.2x	6.0x	36.1x	28.4x	28.4x	41.9x	42.2x	40.4x
Infrastructure Vendors										
Microsoft Corporation	2,226,298	10.9x	10.0x	8.9x	22.2x	20.4x	17.6x	32.3x	29.5x	25.6x
Infrastructure Vendors Average		10.9x	10.0x	8.9x	22.2x	20.4x	17.6x	32.3x	29.5x	25.6x
Software Average		7.3x	6.4x	5.7x	26.0x	22.2x	21.4x	27.4x	28.0x	28.0x

*Share Price Converted to USD

Note: Bolded names are covered by CIBC World Markets Inc.

Source: Company reports, FactSet and CIBC World Markets Inc.

Exhibit 6: Business Services Stocks – Comp Table, 2022–2024E

	Enterprise Value (\$mlns.)	EV/EBITDA			P/E			EV/S		
		C22	C23E	C24E	C22	C23E	C24E	C22	C23E	C24E
Business & IT Services										
CGI Inc. Class A	35,339	14.3x	12.6x	12.2x	22.0x	19.7x	18.7x	2.7x	2.5x	2.4x
TELUS International (CDA), Inc.	6,309	10.4x	8.9x	7.7x	16.2x	16.2x	13.4x	2.6x	2.1x	1.9x
Accenture Plc Class A	176,473	15.4x	14.8x	13.6x	24.8x	23.0x	21.1x	2.8x	2.7x	2.5x
Booz Allen Hamilton	14,933	15.0x	14.1x	13.0x	21.5x	19.8x	17.8x	1.7x	1.5x	1.4x
CACI International Inc Class A	9,278	13.8x	12.7x	12.0x	17.2x	16.3x	14.7x	1.4x	1.4x	1.3x
DXC Technology Co.	8,746	3.6x	3.8x	3.8x	6.6x	6.0x	5.2x	0.6x	0.6x	0.6x
Genpact Limited	9,092	11.6x	10.6x	9.6x	16.0x	14.7x	13.2x	2.1x	1.9x	1.8x
International Business Machines	159,431	10.1x	10.6x	10.2x	13.8x	13.3x	12.6x	2.6x	2.6x	2.5x
Atos SE	3,072	3.1x	2.7x	2.6x	NEG	5.4x	3.9x	0.3x	0.3x	0.3x
Capgemini SE	33,621	9.6x	9.3x	8.5x	14.1x	14.5x	13.1x	1.5x	1.5x	1.4x
Sopra Steria Group SA	5,181	8.8x	7.6x	7.0x	14.0x	11.5x	10.1x	1.0x	0.9x	0.9x
Converge Technology Solutions Corp	950	6.6x	5.7x	5.3x	31.1x	19.8x	21.8x	0.4x	0.4x	0.4x
Business & IT Services Average		10.5x	9.8x	9.1x	16.6x	14.6x	13.1x	1.8x	1.6x	1.5x
HR Outsourcing										
		EV/EBITDA			P/E			EV/S		
Ceridian HCM Holding, Inc.	10,682	42.7x	29.1x	23.5x	>50	>50	40.5x	8.6x	7.2x	6.2x
Willis Towers Watson	28,283	11.9x	11.7x	10.5x	16.9x	15.7x	13.2x	3.2x	3.1x	2.9x
Aon Plc Class A	77,903	19.6x	18.1x	16.9x	24.5x	22.5x	20.1x	6.2x	5.9x	5.6x
Automatic Data Processing, Inc.	91,711	19.9x	17.8x	16.2x	28.5x	25.3x	22.7x	5.3x	5.0x	4.6x
Paychex, Inc.	38,509	17.9x	16.7x	15.4x	26.5x	24.2x	22.4x	8.0x	7.4x	7.0x
HR Outsourcing Average		22.4x	18.7x	16.5x	24.1x	21.9x	23.8x	6.3x	5.7x	5.3x
Information Services										
		EV/EBITDA			P/E			EV/S		
Broadridge Financial Solutions, Inc.	20,650	15.8x	14.6x	13.8x	21.4x	19.8x	18.1x	3.5x	3.3x	3.1x
Dye & Durham Ltd.	1,970	12.4x	11.2x	9.1x	0.1x	0.1x	0.1x	4.1x	4.2x	3.9x
Deluxe Corporation	2,003	4.8x	5.1x	4.9x	3.6x	4.9x	4.5x	0.9x	0.9x	0.9x
Information Services Corp	435	6.8x	6.6x	6.3x	11.1x	10.7x	9.9x	2.3x	2.2x	2.1x
Information Services Average		9.9x	9.4x	8.5x	9.0x	8.9x	8.1x	2.7x	2.6x	2.5x
Financial Services Technology										
		EV/EBITDA			P/E			EV/S		
Fidelity National Information Services	51,935	8.4x	8.6x	8.1x	8.5x	9.6x	8.8x	3.6x	3.6x	3.5x
Fiserv, Inc.	96,002	13.3x	12.1x	11.2x	18.3x	16.2x	14.2x	5.7x	5.3x	5.0x
Jack Henry & Associates, Inc.	11,823	18.8x	17.4x	16.0x	32.7x	31.4x	28.5x	5.9x	5.6x	5.2x
ACI Worldwide, Inc.	3,703	9.9x	9.6x	8.9x	19.9x	22.7x	18.4x	2.6x	2.6x	2.4x
Temenos AG	6,291	17.2x	16.1x	14.2x	26.2x	24.6x	21.2x	6.6x	6.3x	5.8x
Global Payments Inc.	41,154	10.5x	9.6x	8.8x	11.7x	10.6x	9.2x	5.1x	4.8x	4.4x
Financial Services Technology Average		13.0x	12.2x	11.2x	19.6x	19.2x	16.7x	4.9x	4.7x	4.4x
Diversified Real Estate Services										
		EV/EBITDA			P/E			EV/S		
Colliers International Group Inc.	6,221	9.9x	8.6x	8.0x	14.9x	13.8x	12.6x	1.4x	1.3x	1.3x
Altus Group Limited	2,532	18.7x	18.5x	14.5x	27.8x	25.8x	22.5x	3.4x	3.2x	2.9x
CBRE Group, Inc. Class A	25,757	8.8x	10.0x	8.9x	13.4x	15.9x	13.2x	0.8x	0.8x	0.8x
Jones Lang LaSalle Incorporated	8,982	7.2x	8.0x	6.9x	8.7x	10.0x	8.1x	0.4x	0.4x	0.4x
Diversified Real Estate Services Average		11.1x	11.3x	9.6x	16.2x	16.4x	14.1x	1.5x	1.5x	1.3x
Software Focused IT Solutions/VARs										
		EV/EBITDA			P/E			EV/S**		
Softchoice Corporation* USD	805	9.9x	9.2x	8.4x	14.9x	14.9x	13.2x	2.6x	2.4x	2.3x
Softcat Plc*	2,569	15.1x	13.6x	12.6x	20.3x	19.1x	18.0x	6.2x	5.3x	4.8x
Crayon Group Holding ASA*	8,914	>50	>50	>50	>50	>50	>50	20.1x	17.9x	15.3x
Bytes Technology Group Plc*	935	13.9x	12.4x	11.1x	18.7x	17.4x	15.6x	NA	NA	NA
Bytes Technology Group Plc* Average		13.0x	11.8x	10.7x	18.0x	17.1x	15.6x	9.6x	8.5x	7.5x
Business Services Average		13.0x	11.9x	10.7x	17.3x	16.1x	15.1x	3.8x	3.5x	3.3x

*Share Price Converted to USD

**Software Focused IT Solutions/VARs uses EV/GP metric.

Note: Bolded names are covered by CIBC World Markets Inc.

Source: Company reports, FactSet and CIBC World Markets Inc.

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