

SCM SIM

Assets Under Control +25% in 1H20

1H20 Results: SCM SIM, private banking and wealth management company authorized to managed portfolio, provide investment advice and placement services, released 1H20 results. After a very positive FY19 with a sharp increase in fee income and profitability, SCM Sim closed 1H20 with revenues below those of prior year following the lack of performance fees due to the overall situation on financial markets caused by the Covid pandemic.

More in detail, Asset Under Control stood at Euro 964 m, Fee income fees came in at Euro 2.0 m, down by -45.5% (Euro 3.7 m of 1H19) after an inevitable drop during the lockdown months. Fee expenses was of Euro 0.9 m, down by -47.3% vs 1H19. Fee expenses on Fee income reached 42.8%, down from 44.3% in 1H19, reflecting a more efficient pay-out. Brokerage margin came in at Euro 1.1 m, vs. Euro 2.0 m of 1H19. Brokerage Margin on Fee income ratio increased to 56.4% (55.7% of June 2019). Net Result was negative for Euro 0.5 m, compared to Net Profit of Euro 19 k in 1H19. Net Cash stood at Euro 0.9 m, in line with Euro 1.0 m of FY19. Total Equity was of Euro 2.9 m.

Sharp increase in AUC and expanded sales network. In 1H20 Management continued to focus on the expansion of the sales network which at the end of June 2020 reached 39 consultants (23 in FY19), and the increase in Assets Under Control (AUC) which at the end of the period considered stood at Euro 964 m, +25% vs. FY19 tanks to the acquisition of c. 20 senior consultants from Pramerica Marketing (Eurovita).

Positive outlook and estimates: Management stated that due to the uncertainties regarding the duration and spread of the Covid-19 pandemic it is still difficult to make any assumptions on the effects on FY20 financials. We remain confident that the current level of AuC (close to Euro 1 b) and the recent reinforcement of the operating structure (new consultants and the new deputy general manager) represent important opportunities for future.

Given the above and based on 1H20 results we reviewed our forecast for FY20 fees income, now assuming a contraction of -17.5% (+4.1% previously) to reach Euro 5.7 m (vs Euro 7.2 m previously). We increased brokerage margin to align with 1H20 results as we believe the improvement seen in the first semester to be structural.

Valuation: Following our estimates, we set a target price of Euro 6.96 per share, (Euro 7.32 p.s. previously), providing for a +69% upside on current stock price and obtained by the application of DCF model.

Key Figures (Euro m)	Fee Income	YoY growth	Net Fees	Brokerage margin	EBT	EBT/Brokerage margin	Net Profit	Net Debt (Cash)
2019A	6.9	+9%	3.9	3.8	0.1	2.1%	0.0	(1.0)
2020E	5.7	-18%	3.2	3.2	(0.1)	-3.1%	(0.1)	(1.1)
2021E	7.1	+25%	4.0	4.0	0.4	11.1%	0.3	(1.5)
2022E	8.2	+15%	4.6	4.6	1.1	24.2%	0.8	(2.1)

Sector: Finance

Target Price (Euro)	6.96 (7.32 pr)
Market Price (Euro)	4.12
Market Cap (Euro m)	8
EV (Euro m)	7

(as of October 19th, 2020)

Share Data

Market	AIM ITALIA
Bloomberg/Reuters	SCM IM / SCM.MI
ISIN	IT0005200248
N. of Shares	2,006,240
Free Float	16.92%
Main Shareholder	HPS Holding Partecipazioni Societarie (83.08%)
CEO	Antonello Sanna

AIM Positioning

Market Data	Company	AIM Italia
Mkt Cap (Eu m)	8	44
Perf. YTD	+4%	-11%
Free Float	16%	32%
ADIT YTD (Eu)	3,973	73,769

Peers Comparison

Market Cap/AuM (x)	20E	21E
SCM Sim	0.9%	0.7%
Peers' median	2.4%	2.2%
Discount/Premium	-62%	-67%

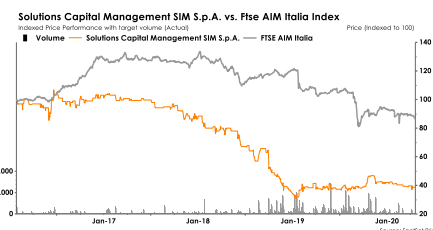
P/E (x)	20E	21E
SCM Sim	82.7	20.7
Peers' median	13.5	12.3
Discount/Premium	n.m.	68%

Performance

	1M	3M	1Y
Absolute	-1.9%	-8.8%	3.0%
Relative (FTSE AIM)	1.9%	-2.9%	23.2%
52-week H/L (Euro)	6.00 / 3.00		

IR TOP RESEARCH

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KEY FIGURES

Euro m	2018A	2019A	2020E	2021E	2022E
Assets under Control (AuC)	846	772	912	1,132	1,412
Profit & Loss Statement					
Fee income	6.4	6.9	5.7	7.1	8.2
Fees expenses	(3.3)	(3.1)	(2.5)	(3.1)	(3.6)
Net fees	3.0	3.9	3.2	4.0	4.6
Brokerage margin	3.0	3.8	3.2	4.0	4.6
Operating costs	(4.5)	(3.7)	(3.2)	(3.6)	(3.7)
Pre-tax Profit (Loss)	(1.3)	0.1	(0.1)	0.4	1.1
Taxes	0.3	(0.1)	0.0	(0.1)	(0.3)
Net Profit (Loss)	(1.1)	0.0	(0.1)	0.3	0.8
Balance Sheet					
NWC	2.4	1.8	1.7	1.9	2.1
Fixed assets	0.2	0.7	0.5	0.3	0.3
M/L Funds	0.2	0.1	0.1	0.1	0.1
Net Capital Employed	2.4	2.4	2.2	2.2	2.3
Net financial Debt (Cash)	(0.4)	(1.0)	(1.1)	(1.5)	(2.1)
Total Equity	2.9	3.4	3.3	3.6	4.4
Cash Flow					
Net Profit (Loss)	(1.1)	0.0	(0.1)	0.3	0.8
D&A	0.1	0.3	0.2	0.2	0.0
Change in M/L Funds	0.0	(0.0)	(0.0)	0.0	0.0
Gross Cash Flow	(1.0)	0.3	0.1	0.5	0.8
Change in NWC	(0.1)	0.7	0.0	(0.2)	(0.2)
Operating Cash Flow	(1.0)	1.0	0.1	0.3	0.6
Capex	(0.1)	(0.9)	(0.0)	0.0	0.0
Free Cash Flow	(1.1)	0.1	0.1	0.3	0.6
Dividends	0.0	0.0	0.0	0.0	0.0
Change in Equity	0.2	0.5	0.0	0.0	0.0
Change in Net financial Debt (Cash)	(1.0)	0.6	0.1	0.3	0.6
Per Share Data					
Current Price	€ 4.12				
Total outstanding shares (m)	1.91	2.01	2.01	2.01	2.01
EPS	(0.55)	0.01	(0.05)	0.16	0.39
DPS	0.00	0.00	0.00	0.00	0.00
FCF	(0.59)	0.04	0.05	0.16	0.32
Pay-out ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Ratios					
Fee income/AuM	0.8%	0.9%	0.6%	0.6%	0.6%
Fees expenses/Fee income (%)	-52.4%	-44.0%	-44.0%	-44.0%	-44.0%
Net fees/AuM	0.4%	0.5%	0.4%	0.4%	0.3%
Cost/Income ratio	-149.3%	-96.5%	-101.5%	-88.9%	-81.2%
EBT/Brokerage margin	-43.2%	2.1%	-3.1%	11.1%	24.2%
Net Debt/Equity (Gearing)	-15.2%	-30.8%	-34.6%	-40.2%	-47.5%
Total Equity/Total Assets	70.2%	68.4%	72.7%	76.1%	78.5%
ROE	-36.8%	0.4%	-3.0%	8.6%	17.8%
Free Cash Flow Yield	-14.2%	1.0%	1.1%	3.8%	7.6%
Growth Rates					
Assets under Control (AuC)	-21.9%	-8.8%	18.1%	24.1%	24.7%
Fee income	-19.9%	8.9%	-17.5%	25.0%	15.0%
Fees expenses	-14.1%	-8.5%	-17.6%	25.0%	15.0%
Net fees	-25.4%	28.1%	-17.4%	25.0%	15.0%
Brokerage margin	-26.5%	27.5%	-16.8%	25.0%	15.0%
Pre-tax Profit (Loss)	-377.6%	106.2%	-220.8%	554.5%	150.3%
Net Profit (Loss)	-233.6%	101.4%	-747.6%	418.2%	150.3%

BUSINESS UPDATE AND OUTLOOK

Sharp increase in AUC and expanded sales network. After a very positive FY19 with a sharp increase in fee income and profitability, SCM Sim closed 1H20 with revenues below those of prior year following the lack of performance fees due to the overall situation on financial markets caused by the Covid pandemic, and much lower commissions from “one-shot” projects, as the Company was forced to halt commercial activity during the lockdown period. However, Management continued to focus on the expansion of the sales network which at the end of June 2020 reached 39 consultants (23 in FY19), and the increase in Assets Under Control (AUC) which at the end of the period considered stood at Euro 964 m, +25% vs. FY19 tanks to the acquisition of c. 20 senior consultants from Pramerica Marketing (Eurovita). This transaction added c. Euro 240 m to the Company’s insurance portfolio and Management stated the first positive results from the integration should start already in 2H20.

In July 2020, SCM Sim obtained the authorization of Consob (authority responsible for regulating the Italian securities market), to hold customers’ assets directly. According to Management this will further strengthen the commercial proposal as clients are no longer forced to open a position at the depositary bank.

Positive outlook thanks to current level of AUC and strengthening of operating structure. Management stated that due to the uncertainties regarding the duration and spread of the Covid-19 pandemic it is still difficult to make any assumptions on the effects on FY20 financials. We remain confident that the current level of AuC (close to Euro 1 b) and the recent reinforcement of the operating structure (new consultants and the new deputy general manager) represent important opportunities for future.

AuC	Customers
Euro 1 billion of Asset Under Control	Number of customers close to 7,000 units
Sales network #39	Business Model
# 19 financial consultants # 20 insurance consultants	<ul style="list-style-type: none"> ✓ independence ✓ transparency ✓ no conflict of interests ✓ customized approach

Source: IR Top Research on Company data

1H20 RESULTS

Maintenance of profitability margins despite a drop in revenues caused by a negative trend in financial markets. The performance of the wealth management industry largely depends on trends in the financial markets, which have been subject to the uncertainties arising from the spread of the global pandemic from Covid-19. As a result, the Company suffered a decline in fee income, which however did not affect profitability margins as Management worked on cost containment.

More in detail, at the end of June 2020 Asset Under Control stood at Euro 964 m of which Euro 476 (49%) related to advisory (including club deal), Euro 298 m (31%) to insurance portfolio, Euro 172 m (18%) to asset management and Euro 18 m to SICAV (2%).

Asset Under Control	FY 2017	FY 2018	FY 2019	1H 2020
Asset management	168,969	168,371	186,063	172,484
Advisory	852,259	577,857	503,839	475,817
Insurance portfolio	61,562	83,382	61,939	298,467
SICAV	-	16,156	19,748	17,728
Total	1,082,791	845,766	771,589	964,496

Source: Company data – Euro'000

Fees income came in at Euro 2.0 m, down by -45.5% (Euro 3.7 m of 1H19) after an inevitable drop during the lockdown months. The Company recorded a significant reduction in performance fees and fees related to “one-shot” transactions which usually represent an important part of revenues. On the other hand, fees from the insurance products grew by + 156% thanks to the acquisition of the Eurovita sales network.

Fee expenses was of Euro 0.9 m, down by -47.3% vs 1H19. Fee expenses on Fee income reached 42.8%, down from 44.3% in 1H19, reflecting a more efficient pay-out.

Brokerage margin came in at Euro 1.1 m, vs. Euro 2.0 m of 1H19. The drop was entirely to be attributed to the lower fee income, partially offset by higher profitability as the Brokerage Margin on Fee income ratio increased to 56.4% (55.7% of June 2019). Personnel and administrative costs were down by -19% and -24% respectively, thanks to the cost control activity implemented by the Management. Net Result was negative for Euro 0.5 m, compared to Net Profit of Euro 19 k in 1H19.

At the end of 1H20, Net Cash stood at Euro 0.9 m (Euro 1.0 m at the end of FY19) and Total Equity was of Euro 2.9 m.

Income Statement – Euro m

	1H 2020A	1H 2019A	Var. % 19-20
AuC	964	892	+8.1%
Fee income	2.0	3.7	-45.5%
Fee income /AuC	0.21%	0.41%	
Fee expenses	0.9	1.6	-47.3%
Fee expenses / Fee income	42.8%	44.3%	
Net Fees	1.1	2.0	-44.1%
Net Fees/AuC	0.12%	0.23%	
Brokerage margin	1.1	2.0	-44.8%
Brokerage margin / Fee income	56.4%	55.7%	
Operating Cost/Income ratio	132.6%	95.2%	
Pre-tax Profit / (Loss)	(0.5)	0.0	n.m.
EBT/Brokerage margin	-44.8%	3.1%	
Net Profit / (Loss)	(0.5)	0.0	n.m.

Source: Company data (IAS/IFRS)

Balance Sheet – Euro m

	1H 2020A	FY 2019A	Var. % 19-20
Net Working Capital (NWC)	1.5	1.8	-16.0%
Fixed net assets	0.7	0.7	-12.0%
Funds	(0.2)	(0.1)	+4.7%
Net Capital Employed	2.0	2.4	-16.0%
Net Financial Position (Cash)	(0.9)	(1.0)	-11.3%
Total Equity	2.9	3.4	-14.5%
Sources	2.0	2.4	-16.0%

Source: Company data (IAS/IFRS)

ESTIMATES REVISION

Given the above and based on 1H20 results we reviewed our forecast for FY20 fees income, now assuming a contraction of -17.5% (+4.1% previously) to reach Euro 5.7 m (vs Euro 7.2 m previously). We increased brokerage margin to align with 1H20 results as we believe the improvement seen in the first semester to be structural.

Going forward (FY21-FY22), we expect a recovery in revenues thanks to the strengthening of the corporate structure and the new products launch over the last 12 months (club deal, corporate advisory and insurance). At the end of the period (2022) brokerage margin could reach Euro 4.6 m, while Net Cash should reach Euro 2.1 m. We stress that our forecast does not include any potential opportunities arising from M&A activity.

Income Statement – Euro m

	2019A	2020E Old	2020E New	2021E Old	2021E New	2022E Old	2022E New
Fee income	6.9	7.2	5.7	8.8	7.1	10.7	8.2
YoY	+8.9%	+4.1%	-17.5%	+21.7%	+25.0%	+22.1%	+15.0%
Fee expenses	(3.1)	(3.3)	(2.5)	(4.0)	(3.1)	(4.9)	(3.6)
Net Fees	3.9	3.9	3.2	4.7	4.0	5.8	4.6
YoY	+28.1%	+0.4%	-17.4%	+21.7%	+25.0%	+22.1%	+15.0%
Brokerage margin	3.8	3.9	3.2	4.7	4.0	5.8	4.6
Cost/Income ratio	-96.5%	-96.3%	-101.5%	-88.9%	-88.9%	-82.2%	-81.2%
Pre-tax Profit / (Loss)	0.1	0.2	(0.1)	0.6	0.4	1.2	1.1
EBT/Brokerage margin	2.1%	3.9%	-3.1%	11.9%	11.1%	21.4%	24.2%
Net Profit / (Loss)	0.0	0.1	(0.1)	0.4	0.3	0.9	0.8
EPS (Euro)	0.008	0.05	n.a.	0.20	0.16	0.43	0.39

Source: Company data (IAS/IFRS) for FY 2019, IR Top Research estimates for FY 2020-2022

Balance Sheet – Euro m

	2019A	2020E Old	2020E New	2021E Old	2021E New	2022E Old	2022E New
Net Working Capital (NWC)	1.8	2.0	1.7	2.2	1.9	2.5	2.1
Fixed net assets	0.7	0.5	0.5	0.2	0.3	0.1	0.3
Funds	(0.1)	(0.1)	(0.1)	(0.2)	(0.1)	(0.2)	(0.1)
Net Capital Employed	2.4	2.3	2.2	2.3	2.2	2.4	2.3
Net Financial Position (Cash)	(1.0)	(1.2)	(1.1)	(1.6)	(1.5)	((2.3)	(2.1)
Total Equity	3.4	3.5	3.3	3.9	3.6	4.8	4.4
Sources	2.4	2.3	2.2	2.3	2.2	2.4	2.3
ROE	0.4%	3.1%	n.a.	10.1%	8.6%	18.2%	17.8%
Total Equity / Total Assets	68.4%	72.3%	72.7%	76.1%	76.1%	78.8%	78.5%

Source: Company data (IAS/IFRS) for FY 2019, IR Top Research estimates for FY 2020-2022

VALUATION SUMMARY

We updated our DCF model to factor in new estimates, up-to-date risk-free rate and ERP and we set a new target price of Euro 6.96 (Euro 7.32 p.s previously), providing an upside of +69% to the current share price. At our target price, SCM Sim would be trading at 1.5% and 1.2% 2020-2021 Market Cap/AuM multiple respectively.

DCF model

Our DCF model yields a fair value of Euro 6.96 per share and was run using our FCF estimates of for the 2020E-25E explicit period and based on the following assumptions:

Cost of Equity	
Perpetual growth rate	1.0%
Risk free rate (BTP 10Y 12 months average)	1.2%
β unlevered	0.92
Equity risk premium	8.46%
D/E target	0.0%
Tax rate	24.0%
Cost of equity (Ke)	8.97%

DCF Valuation		
Euro'000		
Sum of PV 2020-25 FCFs	3.2	23%
Discounted terminal value	10.8	77%
Enterprise Value	14.0	
N. of outstanding shares (m)	2.0	
Fair Value p.s.	6.96	

DCF Sensitivity analysis

Euro m		Ke				
		8.0%	8.5%	9.0%	9.5%	10.0%
g	0.5%	7.7	7.1	6.6	6.2	5.8
	1.0%	8.1	7.5	7.0	6.5	6.0
	1.5%	8.7	8.0	7.3	6.8	6.3

DETAILS PEER GROUP

SCM Sim currently trades at large discount (on average 65% for 2020-2021 Market Cap/AUM) compared to a peers group made of both Italian and international players operating in the asset management industry.

	Country	Market Cap (Euro m)	AuM 2020E (Euro m)	Net profit 2019A (Euro m)	Net profit 2020E (Euro m)
ANIMA Holding SpA	Italy	1,312	186,178	146	140
Azimut Holding SpA	Italy	2,359	53,893	372	255
Banca Generali SpA	Italy	3,227	71,367	272	229
Banca Mediolanum SpA	Italy	4,815	87,850	565	319
Ashmore Group Plc	UK	2,980	84,724	203	197
GAM Holding AG	Switzerland	271	113,770	(3)	(11)
Janus Henderson Group PLC	UK	4,314	291,796	372	386
Julius Baer Gruppe AG	Switzerland	9,202	388,447	418	757
Jupiter Fund Management Plc	UK	1,406	58,743	140	114
Liontrust Asset Management PLC	UK	874	31,416	15	44
Man Group Plc	UK	1,931	97,491	255	135
Schroders Plc	UK	8,274	602,072	563	543
Skarbiec Holding S.A.	Poland	37	975	7	5
St. James's Place Plc	UK	5,514	134,371	167	250
Standard Life Aberdeen PLC	UK	6,039	544,440	239	345
Asset management peers' median		2,980	97,491	239	229
SCM SIM	Italy	8	912	0.0	(0.1)

Source: FactSet data as of October 19th, 2020 for peers and IR Top Research estimates for SCM SIM

	Market Cap / AuM		P/E	
	20E	21E	20E	21E
ANIMA Holding SpA	0.7%	0.7%	7.5	7.8
Azimut Holding SpA	4.4%	4.1%	9.9	10.1
Banca Generali SpA	4.5%	4.1%	14.1	13.8
Banca Mediolanum SpA	5.5%	5.1%	15.1	12.3
Ashmore Group Plc	3.5%	3.2%	14.8	15.7
GAM Holding AG	0.2%	0.2%	n.a.	45.4
Janus Henderson Group PLC	1.5%	1.4%	11.1	10.9
Julius Baer Gruppe AG	2.4%	2.2%	10.5	11.5
Jupiter Fund Management Plc	2.4%	2.2%	10.7	10.1
Liontrust Asset Management PLC	2.8%	2.4%	19.3	15.2
Man Group Plc	2.0%	1.8%	12.8	9.1
Schroders Plc	1.4%	1.3%	16.0	14.9
Skarbiec Holding S.A.	3.8%	3.6%	7.2	9.2
St. James's Place Plc	4.1%	3.6%	20.8	19.0
Standard Life Aberdeen PLC	1.1%	1.1%	17.5	15.0
Asset management peers' median	2.4%	2.2%	13.5	12.3
SCM SIM	0.9%	0.7%	82.7	20.7
Discount/Premium to peers	-62%	-67%	n.m.	68%

Source: FactSet data as of October 19th, 2020 for peers and PMI Capital for P/E multiple for SCM Sim

COMPANY PRIFILE

Solutions Capital Management SIM is a Private Banking and Wealth Management company authorized to manage portfolios, provide investment advice and placement services. SCM SIM, founded in 2009 by Antonello Sanna (current CEO), was the first **SIM to be listed on the Italian stock market**. The Company offers customised advisory solutions, applying a unique, innovative and sustainable business model in Italy, which is based on **independence, transparency** and the **absence of conflicts of interest**, in line with the **“fee only” advice model**.

STRATEGY

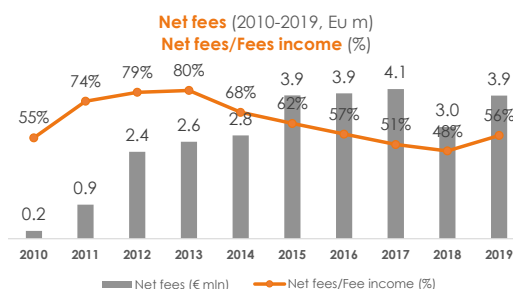
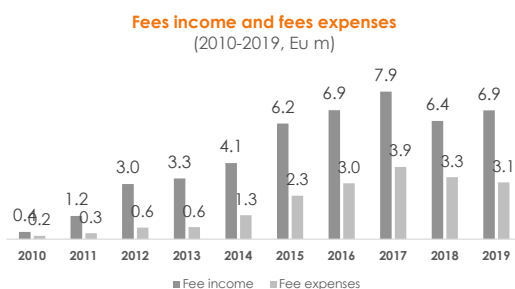
- Rationalization of the sales network, achieved through the division into territorial areas coordinated by senior managers;
- Recruitment of new financial advisors from other banking networks / institutions;
- Recruitment of private bankers employed by other networks;
- Recruitment of professionals in the field of investment insurance products;
- New fee-only financial and wealth planning services;
- Corporate strategic advisory;
- New club deals.

OPPORTUNITIES

- Unique business model based on Independence, Transparency and No conflict of interests in line with UK best practice.
- MiFID II compliant: since its authorization in 2010, SCM SIM has adopted a business model that “No rebates” (the Company does not receive fees from issuers, but only from customers).
- Management team with long experience in the financial industry.
- Skilled team of financial and insurance consultants.

MAIN RISKS

- Dependence on financial market performance.
- Regulatory environment. The Company operates in a highly regulated market, where its products are strongly impacted by changes in the current legislation.
- Reputational risk by customers, shareholders, investors or Supervisory Authorities (e.g. privacy violation).
- Low free float and stock liquidity.



IPO

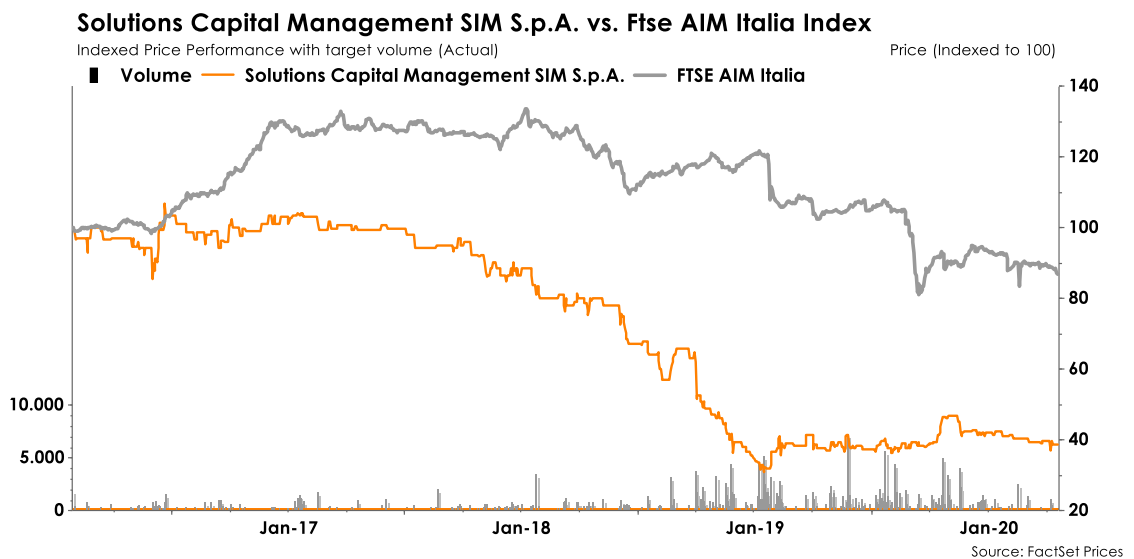
Trading Market: AIM Italia – Borsa Italiana SpA
Date: July 28th, 2016
Price: Euro 10.59
Capital raised: Euro 2.2 m
Capitalisation: Euro 20.2 m

SHARES (as of October 19th, 2020)

Code: SCM
Bloomberg: SCM IM
Reuters: SCM.MI
ISIN: IT0005200248
Shares: 2,006,240
Share capital: Euro 2,006,240
Price: Euro 4.12
Performance from IPO: -61%
Capitalisation: Euro 8 m
Free Float: 16.92%
NomAd: EnVent Capital Markets
Specialist: Banca Finnant Euramerica SpA
Auditing firm: Crowe AS SpA

Shareholder	N° of shares	%
HPS Holding Partecipazioni Societarie Srl	1,666,760	83.08%
Market	339,480	16.92%
Total	2,006,240	100.00%

Source: Company data as of October 19th, 2020



DISCLAIMER

UPDATES: This Research is an update coverage made by IR Top Consulting S.r.l. (IR Top) on SCM SIM (the "Company"). Update frequency might depend on circumstances considered to be important (corporate events and changes of recommendation, etc.) or on further advisory commitment. Last Research on the same Company was released on May 13th 2020. Opinions and estimates of this Research are as the date of this material and are subject to change. Information and opinions have been obtained from sources public and believed to be reliable, but no warranty is made as to their accuracy or correctness. Past performances of the Company are not guarantee of future results. During the last 12 months, the following indications have been disseminated:

Date	Target Price	Market Price	Validity Time
October 20 th , 2020	6.96	4.12	12 months
May 13 th , 2020	7.32	4.98	12 months
November 7 th , 2019	7.24	4.10	12 months
May 15 th , 2019	7.15	4.74	12 months
October 25 th , 2018	9.25	8.50	12 months
June 7 th , 2018	10.24	9.20	12 months

VALUATION METHODOLOGY (HORIZON: 12M): IR Top obtained a fair value using different valuation methodologies including Discounted Cash Flow method and Multiple-based models. Moreover, IR Top used a proprietary model, "AIM Positioning rating", which incorporates a number of variables selected by IR Top based on research of "Osservatorio AIM Italia", managed by IR Top and focused on research about performance of Companies listed on AIM Italia.

Detailed information about the valuation or methodology and the underlying assumptions and information about the proprietary model used is accessible at IR Top premises.

RESEARCH TEAM:

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