

Analyst

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Authorisation

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Alpha HPA (A4N)

Sapphire glass startup funded

Recommendation

Buy (unchanged)

Price

\$0.885

Valuation

\$1.68 (previously \$1.54)

Risk

Speculative

GICS Sector

Materials

Expected Return

Capital growth	90%
Dividend yield	0%
Total expected return	90%

Company Data & Ratios

Enterprise value	\$779m
Market cap	\$826m
Issued capital	934m
Free float	~87%
Avg. daily val. (52wk)	0
12 month price range	\$0.47-\$1.25

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.69	1.11	0.48
Absolute (%)	28.3	-20.3	86.3
Rel market (%)	28.1	-15.7	86.0

Absolute Price



SOURCE: IRESS

Strategic placement raises \$40m for Alpha Sapphire

A4N has announced a \$40m strategic equity placement, corner-stoned by AustralianSuper and Orica Ltd (ORI, not rated), to fund the company's Alpha Sapphire Phase B rollout and working capital. The funds raised match the recently announced \$30m QIC Critical Minerals and Battery Technology Fund financing and will fully fund the roll-out of 50 sapphire growth units under agreement with Austrian-based technology provider Ebner-Fametec. Alpha Sapphire is A4N's downstream sapphire glass manufacturing subsidiary which will add value to the company's HPA production.

Sapphire financial estimates highlight value to A4N

A4N has also outlined initial earnings estimates for the Alpha Sapphire business. At 50 growth units (Phase B) ramping up from FY25, A4N estimate an annual steady-state EBITDA of US\$26-35m (\$41-54m). With \$60m capex for Phase B, payback is less than 2 years. At 100 units (Phase C) ramping up from FY26, EBITDA increases to US\$52-69m (\$81-109m). These estimates are after payment of the QCMBTF royalty, assume arms-length HPA supply from A4N's HPA First Project and electricity supply from renewable sources. In this report we outline the potential 10x value uplift per unit of HPA through processing into synthetic sapphire glass for optics and LED manufacturing applications.

Investment view – Speculative Buy, Valuation \$1.68/sh

We have updated our A4N model to account for the recent equity raise and the value potential from the Alpha Sapphire subsidiary. Our A4N valuation is \$1.68/sh (previously \$1.54/sh) and assumes a HPAe price of US\$25/kg and HPA First Project EBITDA of over \$250m at steady state. We are yet to include earnings from the Alpha Sapphire subsidiary in our estimates.

A4N's high purity aluminium products have value adding applications across lithium ion battery, micro-LED and semiconductor manufacturing, technologies at the forefront of the global decarbonising and reshoring themes.

Earnings Forecast

Year ending 30 June	2023a	2024e	2025e	2026e
Sales (A\$m)	2	17	61	373
EBITDA (A\$m)	(15)	3	22	262
NPAT (reported) (A\$m)	(16)	(5)	4	175
NPAT (adjusted) (A\$m)	(16)	(5)	4	175
EPS (adjusted) (eps)	(1.9)	(0.5)	0.4	16.3
EPS growth (%)	na	na	na	4512%
PER (x)	-47.3x	-164.4x	250.0x	5.4x
FCF Yield (%)	-3%	-19%	-28%	12%
EV/EBITDA (x)	-51.5x	291.3x	34.7x	3.0x
Dividend (eps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	-	-	-	-
ROE (%)	-30%	-3%	1%	46%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Sapphire glass startup funded

Strategic placement raises \$40m for Alpha Sapphire

On 2 November 2023, A4N announced completion of a \$40m strategic placement at \$0.73/sh, AustralianSuper and ORI as cornerstone investors. New shares issued of 54.8m represented 6.2% of A4N's shares on issue, or 5.9% on a diluted basis.

ALPHA SAPPHIRE PHASED ROLLOUT OF DOWNSTREAM VALUE-ADDING

Alpha Sapphire (100% A4N subsidiary) is A4N's entry into downstream value-adding of its high purity alumina products. It is supported by agreements with Austrian-based sapphire growth technology partner Ebner-Fametec. Under the agreements, A4N will purchase Ebner-Fametec's sapphire growth units in the following phases:

- **Phase A:** Purchase and installation of 2 synthetic sapphire growth units at A4N's HPA First Project site in Gladstone for commissioning in early 2024, enabling sapphire glass qualification with Ebner-Fametec's end customers for subsequent installations.
- **Phase B:** Increasing the installation to 50 synthetic sapphire growth units, to be housed at a facility separate to the Gladstone site, with development and ramp-up over FY25.
- **Phase C:** Doubling Phase A & Phase B capacity to 100 units with development and ramp-up over FY26.

A4N will then consider a large-scale expansion of an additional 1,000 synthetic sapphire growth units "**Nova Phase**".

NEW EQUITY TO COMPLEMENT QCMBTF FACILITY FOR ALPHA SAPPHIRE

The funds raised are to match the \$30m QIC Critical Minerals and Battery Technology Fund facility and provide general working capital. A4N announced the QCMBTF facility on 28 September 2023 which has been provided to support Phase A and Phase B of the company's Alpha Sapphire rollout.

Key parameters and conditions of the QCMBTF funding are:

- Initial funding of \$3m on 1st Financial close (expected the week beginning 6 November 2023).
- Further funding of \$27m on 2nd Financial close, available up to 31 December 2024.
- A4N to take a Final Investment Decision on Alpha Sapphire Phase B, with matched funding provided by A4N.
- Repayment via 4.35% gross revenue (less power costs) from Alpha Sapphire product sales on the first 2,500t of sapphire product sales.
- Alpha Sapphire's Phase B and Phase C facilities are to be located within the state of Queensland.

Alpha Sapphire value contribution

Initial financial estimates highlight potential value contribution

A4N has also outlined initial earnings estimates for the Alpha Sapphire business delivering product to the LED and sapphire optics markets. The following table outlines EBITDA estimates under the Phase A and Phase B, and Phase C roll-out. For the initial Phase A and Phase B project, potential annual EBITDA generation is \$41-54m implying a payback of less than 2 years.

Table 1 - Alpha Sapphire initial financial estimates (EBITDA, capex & payback)

	EBITDA	EBITDA	EBITDA	EBITDA	Capex est.	Payback
	Base case	High case	Base case	High case		
	US\$m	US\$m	A\$m	A\$m		
Phase A&B (50 growth units)	26	35	41	54	60	1.1-1.5
Phase C (100 growth units)	52	69	81	109	120	1.1-1.5

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Assumptions to the EBITDA estimates include:

- Costs consistent with Ebner-Fametec's previous operational experience.
- Pricing based on discussion with end users relating to incumbent sapphire supply counterparties.
- Electricity pricing based on indicative quotes from Queensland-based renewable generators.

COMMERCIAL ARRANGEMENTS WITH EBNER-FAMETEC

Under the agreements, A4N will purchase the sapphire growth units from Ebner-Fametec for installation and operation in Australia. We expect that A4N will pay a licencing fee to use the sapphire growth technology. Alpha Sapphire also provides Ebner-Fametec and its customers (optics and LED manufacturers) with supply chain diversification benefits.

Vertical integration: Downstream value add for A4N

A4N have previously indicated an approximate 10x per unit of alumina value uplift through the conversion of HPA to sapphire glass. At Alpha Sapphire Nova Phase (1,100 growth units), A4N have indicated the business will consume 3,000-4,000tpa HPA, which we estimate is approximately one third of the HPA First Project Stage 2 capacity.

Under these HPA feed assumptions and the EBITDA estimates provided, Alpha Sapphire will generate an EBITDA margin of around US\$190/kg of HPA feed compared with EBITDA margins from the HPA First Project alone at US\$18-23/kg.

Table 2 - Margin uplift with Alpha Sapphire

	Approx HPA feed	EBITDA range	Margin
	tpa	US\$m	US\$/kg HPA
Phase A&B (50 growth units)	136-182	26-35	190
Phase C (100 growth units)	273-364	52-69	190
Nova Phase (1,100 growth units)	3,000-4,000		

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Valuation summary

Our base case A4N valuation of \$1.68/sh (previously \$1.54/sh) is based on:

- **Timing:** HPA First Project FID by the end of 2023 for development over 2024 and first production from 1H 2025.
- **Pricing:** HPAe basket price of US\$25/kg (US\$25,000/t) compared with recent independent market studies suggesting long term prices greater than US\$30/kg and recent sales at US\$35/kg.
- **Throughput:** HPA First Project Stage 2 producing 10,000tpa HPAe compared with possible rates of 12,000tpa given revised project scope and additional product lines.
- **Opex:** US\$7/kg compared with the DFS estimate of ~US\$5.9/kg.
- **Capex & capital requirements:** Capital cost of \$500m compared with the DFS estimate of \$308m. We have assumed around \$300m will be funded by debt, \$67m from already announced government grants and around \$125m by equity, potentially from strategic investors.

Steady state HPA First Project EBITDA under these assumptions is ~\$250m.

- **Alpha Sapphire:** Stand-alone project consisting of 100 sapphire growth units generating US\$52-69m (\$81-109m) EBITDA on a conservative EBITDA multiple of 5x, less capex and with a 50% risk discount applied.

Table 3 - Risked & diluted valuation summary

Product price scenario	1	2	3
		Base case	
Price - 4N HPAe basket US\$/t	US\$20,000/t	US\$25,000/t	US\$30,000/t
HPA First Project			
Unrisked NPV (10% discount rate) \$m	936	1,532	2,127
Risk discount %	20%		
Risked NPV (10% discount rate) \$m	749	1,225	1,701
Other (Canada potential, 80% risked) \$m	94	153	213
Alpha Sapphire (100 growth units, 50% risked)	178	178	178
Other (downstream & other) \$m	37	61	85
Corporate costs \$m	-50		
Enterprise value \$m	1,008	1,567	2,127
Net debt / (cash) \$m	-48		
Equity valuation (risked, undiluted) \$m	1,056	1,615	2,175
Assumed capital raise \$m	125		
Assumed raise price \$/sh	0.797		
Government grants \$m	97		
Current shares on issue m	934		
In the money options m	0		
Assumed capital raising dilution m	157		
Diluted shares on issue m	1,091		
Net debt / (cash) (including options, assumed raising & grants) \$m	-270		
Equity valuation (risked, diluted) \$m	1,278	1,837	2,396
Equity valuation (risked, diluted) \$/sh	1.17	1.68	2.20

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Funding stack: Strong support from NAIF, EFA, grants

We estimate that the HPA First Project funding requirement will be around \$500m which will be covered by:

- **Government grants at least \$67m:** A4N has received Government Grants as outlined in the following table from both the Commonwealth Government and the Queensland Government. A4N recently announced that its Queensland Government grant has been extended to the end of January 2024 to enable time for FID. An application has been submitted to extend the Commonwealth Government grant.
- **NAIF & EFA Project Finance around \$300m:** A4N is in the final stages of due diligence with lenders NAIF and EFA. We expect binding commitments by the end of 2023 and that the project should support gearing of at least 60% (i.e. \$300m debt).
- **Strategic investments/equity/other \$100-150m:** We expect that strategic investors and equity markets (ORI is a 5% A4N shareholder) will be supportive of the remaining capital requirement.

Table 4 - A4N government grants

Source	Program	Purpose	Announced	\$m
Commonwealth Government	Modern Manufacturing Initiative	HPA First Project	16/03/2022	45
Commonwealth Government	Critical Minerals Accelerator Initiative	Stage 1 - PPF	28/04/2022	16
Queensland Government	Industry Partnership Program	HPA First Project	5/04/2023	22
Total grants				82
Stage 1 grants				16
Stage 2 grants				67
Alpha Sapphire	QCMETF	Alpha Sapphire Phase A&B	28/09/2023	30

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

HPA First Project product suite

Table 5 - A4N's product suite & applications

KEY APPLICATION	Lithium ion batteries			LEDs		Semi-conductors	Other
	Cathode	Separator	Anode	LED lights	Micro-LEDs (displays)		
A4N PRODUCT							
Aluminium Precursors							
Aluminium nitrate	HPA particle coating		HPA particle coating (anode active materials)	Phosphors for white LEDs	Nano-size phosphors		Catalysts & YAG laser crystals
Aluminium sulphate	Sulphate blending (NCA & NCMA)						
High Purity Alumina							
HPA powder (gamma phase)	High nickel cathode coating			Phosphors for white LEDs			Specialty catalysts
HPA tablets (alpha phase)				Sapphire glass wafers (substrate)	Sapphire glass wafers (substrate)		Specialty ceramics
HPA powder (nano-alumina)	High nickel cathode coating	HPA layer coating			Nano-size phosphors	Chemical-Mechanical Polishing	
5N ultra high purity alumina tri-hydrate	High nickel cathode doping						HPA precursor, direct lithium extraction, aluminate glass
HPA Powder (alpha phase)		Boehmite layer coating		LED phosphors		Thermal interface material	Specialty ceramics

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Alpha HPA Ltd summary

Company description

A4N's HPA First Project is aiming to supply high-purity aluminium based products to the lithium ion battery, light emitting diode (LED) and semiconductor manufacturing sectors. The project's proprietary technology is expected to disrupt incumbent HPA production through significantly lower unit costs. Results of a March 2020 DFS outlined a 10,000tpa 4N HPA project with a capital cost of \$308m and pre-tax annual cash flow of \$133-280m at 4N HPA prices ranging US\$15,000-25,000/t.

In June 2021, a HPA First Project Stage 1 was estimated to have revenues of \$10-15m and generate free cash flow of \$1.5-5.0m from aluminium precursor production of 200tpa. This project was subsequently scaled up to produce +350ktpa aluminium nitrates and additional high purity alumina and high purity boehmite production. Production at Stage 1 commenced in late 2022.

The HPA First Project is a solvent extraction process using an aluminium chemical feedstock purchased on globally traded markets. Orica Ltd (ORI) and A4N have executed a definitive agreement for ORI's supply of process reagents and for by-product offtake. This agreement has required significant third party due diligence of the HPA First Project process. ORI is a 5% shareholder in A4N.

ALPHA SAPPHIRE: A4N'S DOWNSTREAM SUBSIDIARY

In March 2023, A4N announced it had entered a LOI with Austrian technology providers Ebner Industrieofenbau GmbH (Ebner) and Ebner subsidiary Fametec GmbH (Fametec) to establish sapphire glass manufacturing in Australia using A4N's HPA products and Ebner-Fametec's sapphire growth technology. In June 2023, the groups announced a potential expansion and the staged rollout to over 1,000 units. This business is housed under A4N's wholly owned subsidiary Alpha Sapphire.

In September 2023, Alpha Sapphire was awarded up to \$30m in project funding to accelerate the rollout of an initial 50 sapphire growth units under the LOI with Ebner Fametec.

Investment view – Speculative Buy, Valuation \$1.68/sh

We have updated our A4N model to account for the recent equity raise and the value potential from the Alpha Sapphire subsidiary. Our A4N valuation is \$1.68/sh (previously \$1.54/sh) and assumes a HP Ae price of US\$25/kg and HPA First Project EBITDA of over \$250m at steady state. We are yet to include earnings from the Alpha Sapphire subsidiary in our estimates.

A4N's high purity aluminium products have value adding applications across lithium ion battery, micro-LED and semiconductor manufacturing, technologies at the forefront of the global decarbonising and reshoring themes.

Risks

Risk to an investment in A4N include, but are not limited to:

- **Commodity price and exchange rate fluctuations.** The future earnings and valuations of development and operating assets and companies are subject to fluctuations in underlying commodity prices and foreign currency exchange rates.
- **Technology:** Projects may be reliant on commercialisation of new production processes and methodologies which have yet been proven on a large scale. Technology may be replicated by competitors resulting in a loss of market share.
- **Infrastructure access.** Projects are reliant upon access to transport and pipeline infrastructure. Access to infrastructure is often subject to contractual agreements, permits and capacity allocations. Agreements are typically long-term in nature. Infrastructure can be subject to outages as a result of weather events or the actions of third party providers.
- **Operating and capital cost fluctuations.** Markets for raw material inputs and labour can fluctuate and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to commodity and labour markets. Companies are also exposed to costs associated with future land rehabilitation.
- **Sovereign risks.** Companies' assets are subject to the sovereign risk of the country of location and may also be exposed to the sovereign risks of major offtake customers.
- **Regulatory changes.** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuations of companies.
- **Environmental risks.** Companies are exposed to risks associated with environmental degradation as a result of their production processes.
- **Operating and development risks.** Companies' assets are subject to risks associated with their operation and development. Development assets can be subject to approvals timelines or weather events, causing delays to commissioning and commercial production.
- **Occupational health and safety (OH&S) risks.** Companies are exposed to OH&S risks.
- **Funding and capital management risks.** Funding and capital management risks can include access to debt and equity finance, maintaining covenants on debt finance, managing dividend payments and managing debt repayments.
- **Merger/acquisition risks.** Risks associated with value transferred during merger and acquisition activity.
- **Impact of pandemic infection such as Coronavirus disease (COVID-19).** This may have an adverse impact on the macro economic factors, including the mobility of labour, which can impact asset valuations.

Alpha HPA

as at 10 November 2023

Recommendation Buy, Speculative
 Price \$0.885
 Valuation \$1.68

Table 6 - Financial summary

Date	10/11/23					Bell Potter Securities							
Price	AS/sh 0.885					Stuart Howe (showe@bellpotter.com.au, +61 3 9235 1856)							
Valuation	AS/sh 1.68												
PROFIT AND LOSS													
Year ending 30 June	Unit	2022a	2023a	2024e	2025e	2026e	FINANCIAL RATIOS						
Revenue	\$m	2	2	17	61	373	VALUATION						
Expenses	\$m	(9)	(17)	(14)	(38)	(111)	EPS	Ac/sh	(1)	(2)	(1)	0	16
EBITDA	\$m	(7)	(15)	3	22	262	EPS growth (Acps)	%	na	na	na	na	4512%
Depreciation & amortisation	\$m	(0)	(1)	(2)	(6)	(18)	PER	x	-95.2x	-47.3x	-164.4x	250.0x	5.4x
EBIT	\$m	(7)	(16)	1	17	244	DPS	Ac/sh	-	-	-	-	-
Net interest expense	\$m	0	0	(6)	(13)	(20)	Franking	%	0%	0%	0%	0%	0%
Profit before tax	\$m	(7)	(16)	(5)	4	224	Yield	%	0%	0%	0%	0%	0%
Tax expense	\$m	-	-	-	-	(49)	FCF/share	Ac/sh	(4.4)	(2.3)	(17.2)	(24.9)	10.9
NPAT (reported)	\$m	(7)	(16)	(5)	4	175	FCF yield	%	-5%	-3%	-19%	-28%	12%
NPAT (adjusted)	\$m	(7)	(16)	(5)	4	175	EV/EBITDA	x	-108.4x	-51.5x	291.3x	34.7x	3.0x
CASH FLOW STATEMENT													
Year ending 30 June	Unit	2022a	2023a	2024e	2025e	2026e	LIQUIDITY & LEVERAGE						
OPERATING CASH FLOW							Net debt / (cash)	\$m	(17)	(21)	(23)	245	128
Receipts from customers	\$m	-	0	15	58	305	Net debt / Equity	%	-36%	-37%	-8%	84%	27%
Payments to suppliers and employees	\$m	(4)	(15)	(17)	(36)	(104)	Net debt / Net debt + Equity	%	-56%	-58%	-9%	46%	22%
Tax paid	\$m	-	-	-	-	(49)	Net debt / EBITDA	x	2.3x	1.4x	-8.7x	10.9x	0.5x
Net interest	\$m	0	0	(6)	(13)	(20)	EBITDA / net int expense	x	432.5x	35.4x	0.4x	1.8x	13.4x
Other	\$m	-	4	-	-	-	PROFITABILITY RATIOS						
Operating cash flow	\$m	(4)	(11)	(8)	9	132	EBITDA margin	%	-352%	-932%	16%	37%	70%
INVESTING CASH FLOW							EBIT margin	%	-362%	-993%	5%	27%	65%
Capex	\$m	(31)	(24)	(225)	(277)	(15)	Return on assets	%	-14%	-26%	-2%	1%	24%
Acquisitions	\$m	0	-	-	-	-	Return on equity	%	-15%	-30%	-3%	1%	46%
Other	\$m	-	16	67	-	-	ASSUMPTIONS - Prices (nominal)						
Investing cash flow	\$m	(31)	(8)	(158)	(277)	(15)	Year ending 30 June	Unit	2022a	2023a	2024e	2025e	2026e
FINANCING CASH FLOW							4N HPA price	US\$/t	25,000	25,000	25,000	25,000	25,000
Debt proceeds/(repayments)	\$m	(0)	(0)	100	225	-	4N HPA price	AS/t	34,321	37,144	36,702	35,714	35,714
Dividends paid	\$m	-	-	-	-	-	FX	US\$/A\$	0.73	0.67	0.68	0.70	0.70
Proceeds from share issues (net)	\$m	1	23	169	-	-	ASSUMPTIONS - Sales (equity)						
Other	\$m	-	-	-	-	-	Year ending 30 June	Unit	2022a	2023a	2024e	2025e	2026e
Financing cash flow	\$m	1	23	269	225	-	4N HPAe sales	t	-	-	-	1,247	10,000
Change in cash	\$m	(34)	4	103	(43)	117	5N Al-Precursor #1 - Al-Nitrate	t	103	98	175	175	175
Free cash flow	\$m	(35)	(19)	(166)	(268)	117	5N Al-Precursor #2 - Al-Sulfate	t	-	98	175	175	175
BALANCE SHEET							VALUATION						
Year ending 30 June	Unit	2022a	2023a	2024e	2025e	2026e	Product price scenario						
ASSETS													
Cash	\$m	17	21	123	80	197							
Receivables	\$m	3	2	3	6	75							
Inventories	\$m	0	1	1	4	11							
Capital assets	\$m	28	38	261	532	529							
Other assets	\$m	6	6	6	6	6							
Total assets	\$m	55	67	395	629	819							
LIABILITIES													
Creditors	\$m	7	5	3	8	22							
Borrowings	\$m	-	-	100	325	325							
Provisions	\$m	-	-	-	-	-							
Other liabilities	\$m	1	6	6	6	6							
Total liabilities	\$m	8	11	108	338	353							
NET ASSETS													
Share capital	\$m	102	128	363	363	363							
Reserves	\$m	10	8	8	8	8							
Accumulated losses	\$m	(64)	(80)	(85)	(82)	94							
Non-controlling interest	\$m	-	-	-	-	-							
SHAREHOLDER EQUITY	\$m	47	56	287	290	466							
Weighted average shares	m	794	839	966	1,074	1,074							
							4N HPAe price US\$/t						
							HPA First project \$m						
							Unrisked NPV (8% discount rate)						
							Risk discount						
							Risked NPV						
							Other (Canada potential, 90% risked)						
							Alpha Sapphire (100 growth units, 50% risked)						
							Other (downstream & other)						
							Corporate costs \$m						
							Enterprise value \$m						
							Net debt / (cash) \$m						
							Equity valuation (risked, undiluted) \$m						
							Assumed capital raise \$m						
							Assumed raise price \$/sh						
							Current shares on issue m						
							In the money options m						
							Assumed capital raising dilution m						
							Diluted shares on issue m						
							Net debt / (cash) (including options & assumed raising) \$m						
							Equity valuation (risked, diluted) \$m						
							Equity valuation (risked, diluted) \$/sh						

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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