

August 17, 2020

Autonomous Control Systems Laboratory Ltd.

## **Notice of Partial Correction of Financial Results Material for the 1st Quarter of Fiscal Year Ending March 31st, 2021**

Autonomous Control Systems Laboratory Ltd. (ACSL) has made the following corrections to "Financial Results Material for the 1st Quarter of Fiscal Year Ending March 31st, 2021" disclosed on August 14, 2020 since some parts should be corrected. The corrections are underlined, and areas that have not been corrected are omitted.

### **I. Reason for correction**

ACSL has discovered that the Financial Results Material for the 1st Quarter of Fiscal Year Ending March 31st, 2021", which was disclosed on August 14, 2020, contains items that should be corrected.

### **II. Details of Corrections**

(Appendix, page 30) Sales breakdown

#### **Before correction**

Aiming for an annual shipment of more than 2,000 units by commercialization and mass production of application-specific drone toward FY22, with a significant increase in sales of drones, including subscription

#### **After correction**

Aiming for an annual shipment of more than 1,600 units by commercialization and mass production of application-specific drone toward FY22, with a significant increase in sales of drones, including subscription

The revised financial results material for the 1st quarter of fiscal year ending March 31st, 2021 is shown in the Appendix.

### **Attention**

*This document is an unofficial translation of the timely disclosure on August 17, 2020 by ACSL and this is for reference purpose only. In case of a discrepancy between the English and Japanese versions, the Japanese original shall prevail*

# AUTONOMOUS CONTROL SYSTEMS LABORATORY



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# FY21/03 1Q Highlights

- Despite delays in sales due to the expansion of COVID-19, ACSL continued to **enhance collaboration and conduct R&D activities**
- In response to **growing demands for data security**, NEDO<sup>1</sup> launched a project to develop a more secure drone. ACSL was adopted with the government's **aim to take procurement from next fiscal year**
- **Sales of 36 MM JPY in Q1**
  - ✓ Demonstrations and sales of platform drones decreased from the previous fiscal year due to postponement of project implementations
  - ✓ Others increased from the previous fiscal year due to the booking of national projects
- Although business activities are restricted due to COVID-19, ACSL actively **continued to conduct R&D with increased personnel**
- **Announced “ACSL Accelerate 2020”, a medium-term management policy**, for the future market
  - ✓ With a view on significant changes in the industrial drone market environment, ACSL set goals for the next 10 years
  - ✓ Medium-term management policy targets 5.5 billion yen in sales and 750 million yen in profit in FY23/03 as target over the next three years
- The outlook for this fiscal year is **sales of 1.4 to 1.7 billion JPY and operating loss of 2.5 to 0 JPY**
  - ✓ There is a risk that the spread of the COVID-19 infection may postpone projects and delay new acquisitions
  - ✓ ACSL will make upfront investments, mainly in R&D, in fields where demand is expected to grow in the future

# Impact of Infection Expansion of COVID-19

Delay in booking sales in Q1 due to postponement of projects. Despite delays in project implementation, demand for unmanned and labor-saving is expected to continue in the future

	Potential risks	Recent situation
Customer	<ul style="list-style-type: none"><li>Reduction of customers' investment budget for new technologies such as drones due to economic and business downturn</li></ul>	<ul style="list-style-type: none"><li>Delay in sales due to postponement of 1Q projects</li><li>While certain risk of postponement of this year project implementation, demand will continue</li></ul>
Supply chain	<ul style="list-style-type: none"><li>Delays in production due to the inability to procure major parts caused by delays in supply and the suspension of production</li></ul>	<ul style="list-style-type: none"><li>Supply chain is gradually recovering</li><li>Expects to overcome by the end of the year, despite some delays in procurement</li></ul>
Operation	<ul style="list-style-type: none"><li>Decrease in business development activities</li><li>Suspension or slowdown of business activities due to spread of infections</li></ul>	<ul style="list-style-type: none"><li>Continuously recommends remote work</li><li>Continues development and production activities while keeping the number of employees in office</li></ul>
Finance	<ul style="list-style-type: none"><li>Decrease in cash due to lower sales</li><li>Impairment risk caused by sluggish business activities of portfolio companies</li></ul>	<ul style="list-style-type: none"><li>Sufficient cash holdings (approx. 3.5 billion JPY)</li><li>Continues cost control at portfolio companies</li></ul>

# Financial Highlights

Sales decreased from the previous fiscal year due to the postponement of project implementation and recorded 36 MM JPY in Q1. Profit posted a loss due to the impact of the decline in sales

[MM JPY]

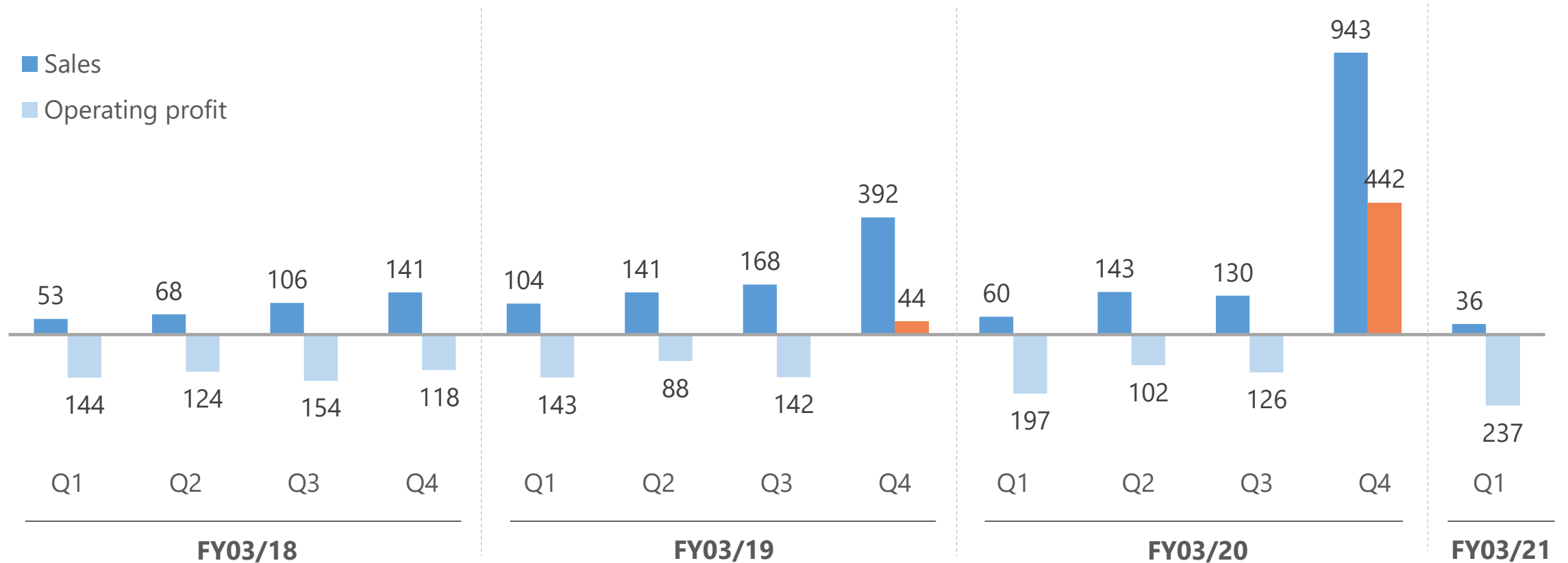
	FY21/03 1Q		FY20/03 1Q	FY20/03 Annual
	Actual	YoY Increase/Decrease	Actual	Actual
Sales	36	▲40.6%	60	1,278
Gross profit	▲6	-	8	808
Gross profit margin	▲19.1%	▲32.8 ppt	13.7%	63.2%
Operating income	▲237	-	▲197	15
Ordinary income	▲180	-	▲80	231
Net income	▲214	-	▲81	239

# Sales and Operating profit by quarter

As is typical YoY, sales is small in Q1-Q3 and tend to be biased toward Q4.

The seasonality may be exacerbated this fiscal year due to the impact of COVID-19

Sales and Operating profit by quarter  
[MM JPY]

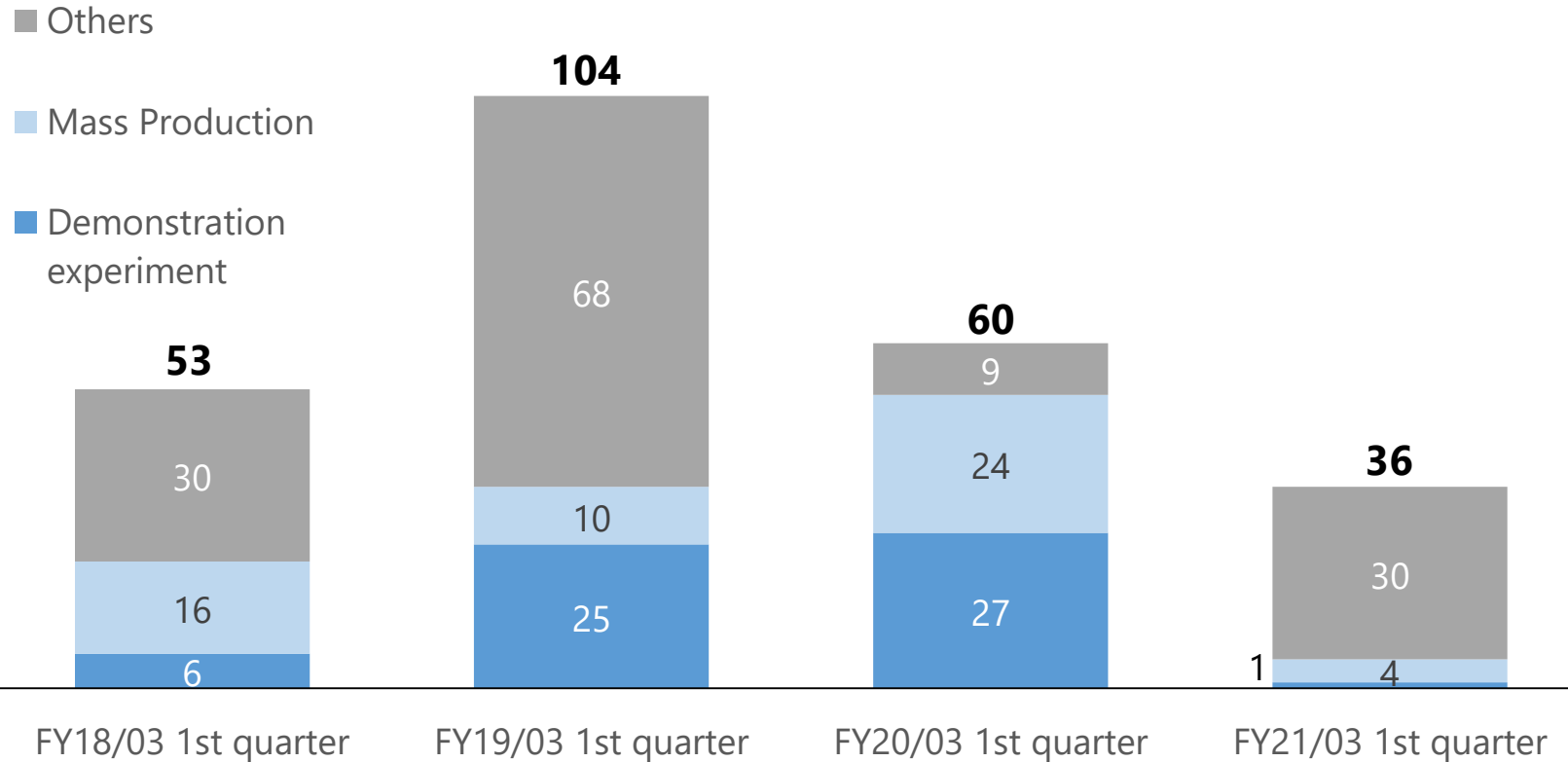




# Sales transition

Demonstrations and platform drone sales decreased from the previous fiscal year due to delays in project implementations. "Other"s increased from the previous fiscal year due to national projects

Sales by STEP<sup>1</sup>  
[MM JPY]



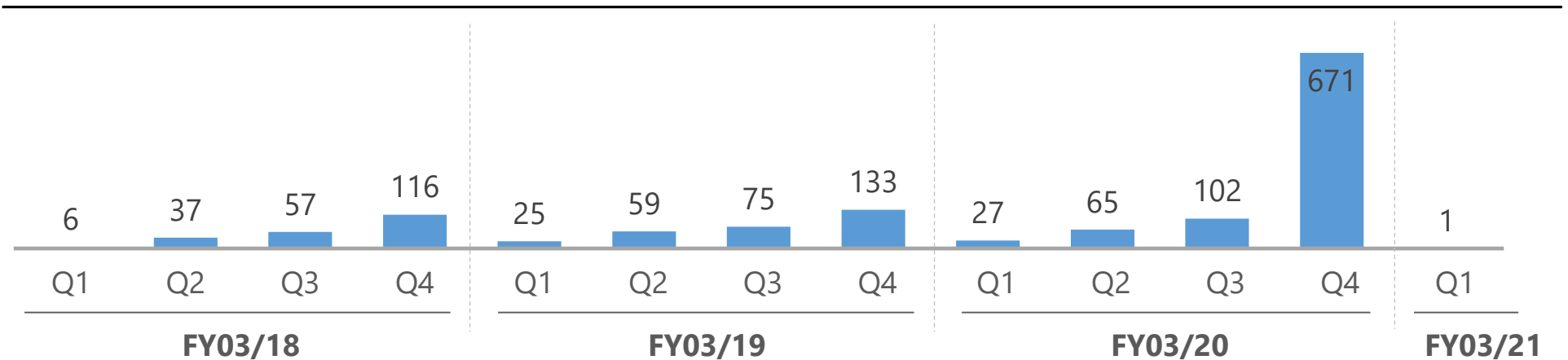
1: Solution development (STEP1, 2) and Mass production (STEP3, 4) were respectively renamed as demonstration experiment and platform drone sales from this quarter.



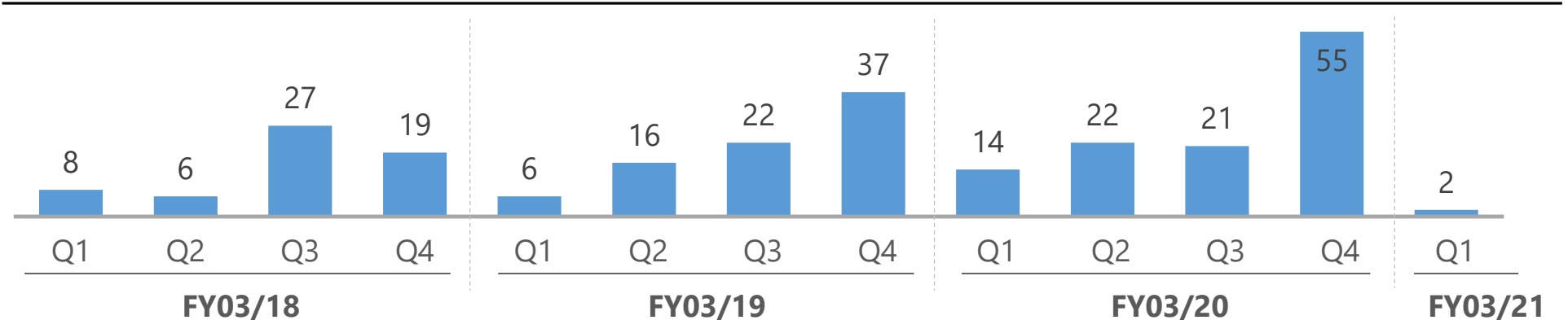
# Quarterly change in the demonstration experiments

As is typical YoY, sales were small in Q1, and demonstration experiments were postponed due to COVID-19, resulting in a decline in revenue from the previous fiscal year

Quarterly sales (MM JPY)



Quarterly number of deals



## Demonstration experiment <sup>1</sup>

### Proof of Concept

- Private concept verification (PoC) of feasibility of drone use ideas
- Use of ACSL platform drones

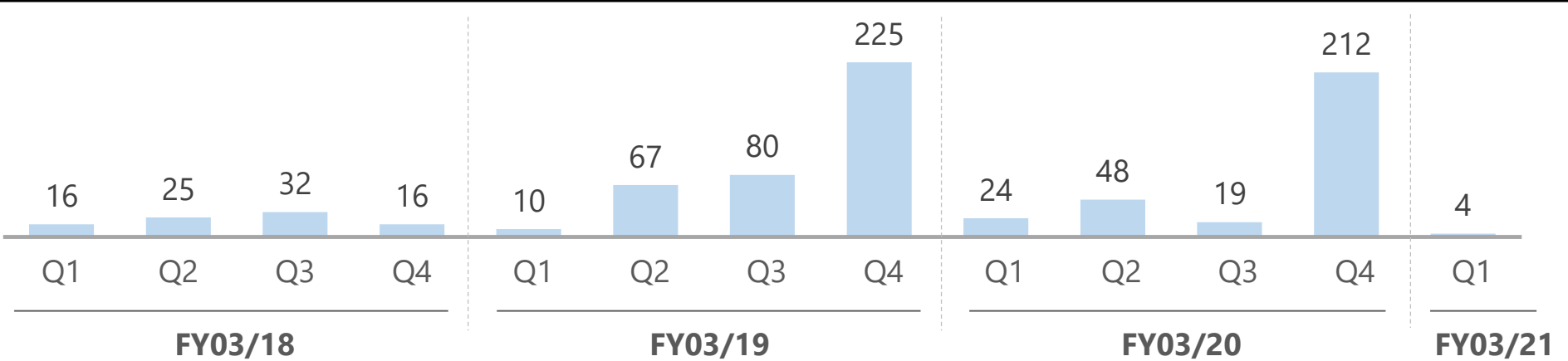
### Customized development

- Detail test designs
- Development of customized drones and systems

# Platform drones sales

Sales are usually small in Q1 of each year, and sales in Q1 of the current fiscal year were lower than in the previous fiscal year due to delays in shipments to customers caused by COVID-19

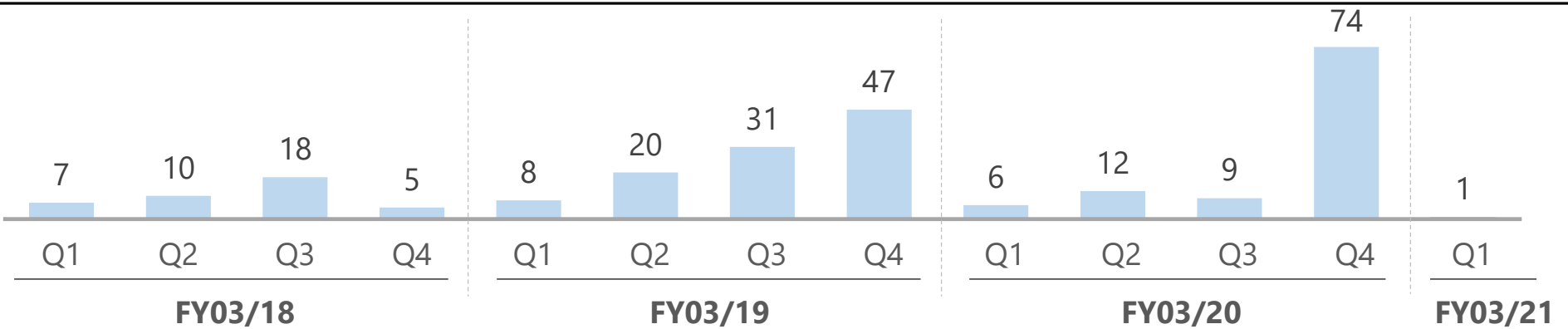
Sales by quarter (MM JPY)



## Platform drone sales <sup>1</sup>

- Sales of standard and general-purpose aircraft
- Production and supply of improved aircraft to customers based on standard aircraft

Unit by quarter (Units)



1: Mass production (STEP3, 4) was renamed to platform drone sales from this quarter

# Others

Sales of the national project for this fiscal year was JPY21 million. Maintenance services remained at the same level as the previous year.

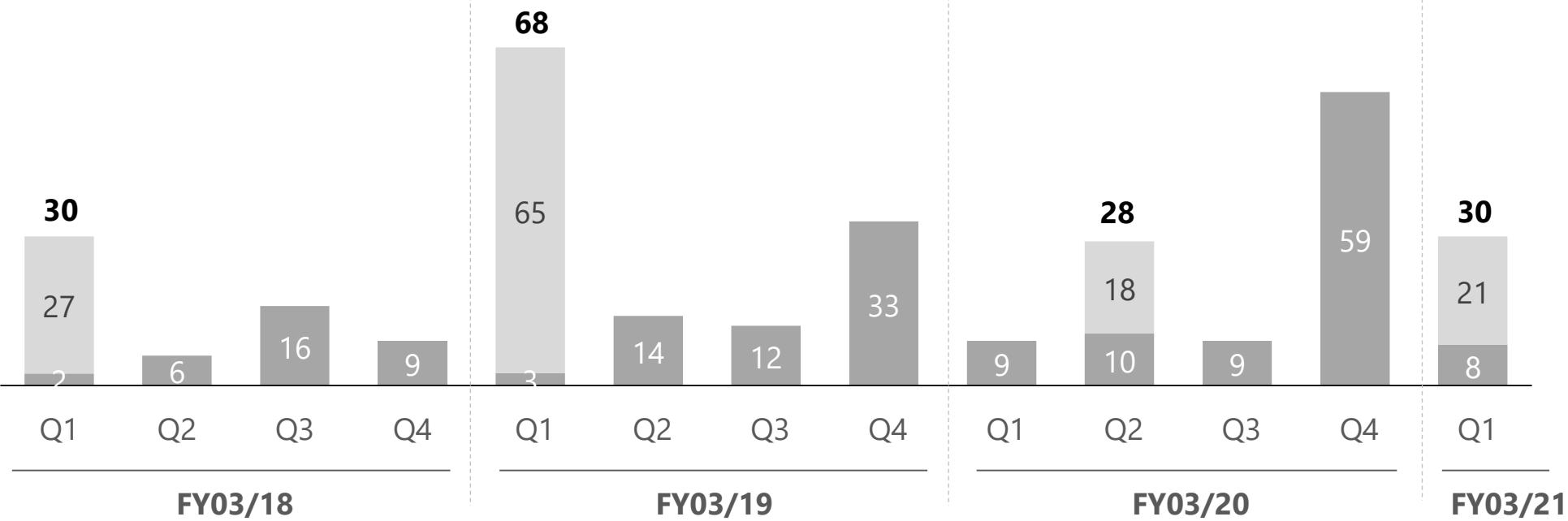
Other Sales (MM JPY)

■ National Projects

■ Maintenance services, etc.

**Others<sup>1</sup>:**  
**Maintenance services**

- Sales of drone components and modules
- Repair service
- Some national projects

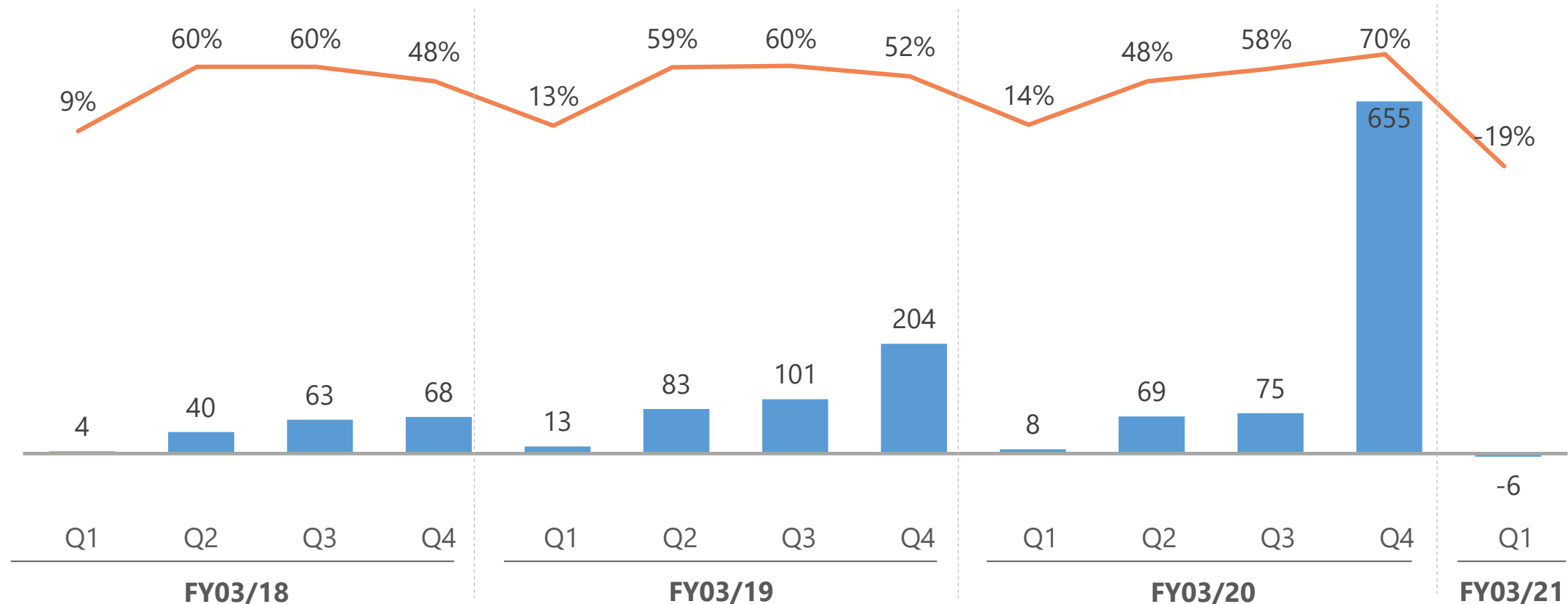


1: For national projects, subsidies received are generally posted as non-operating income. On the other hand, some projects whose main purpose is to conduct commissioned experiments are recorded as sales.  
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# Gross profit

Gross loss is 6 million JPY. Gross profit margin tends to remain low due to the small sales

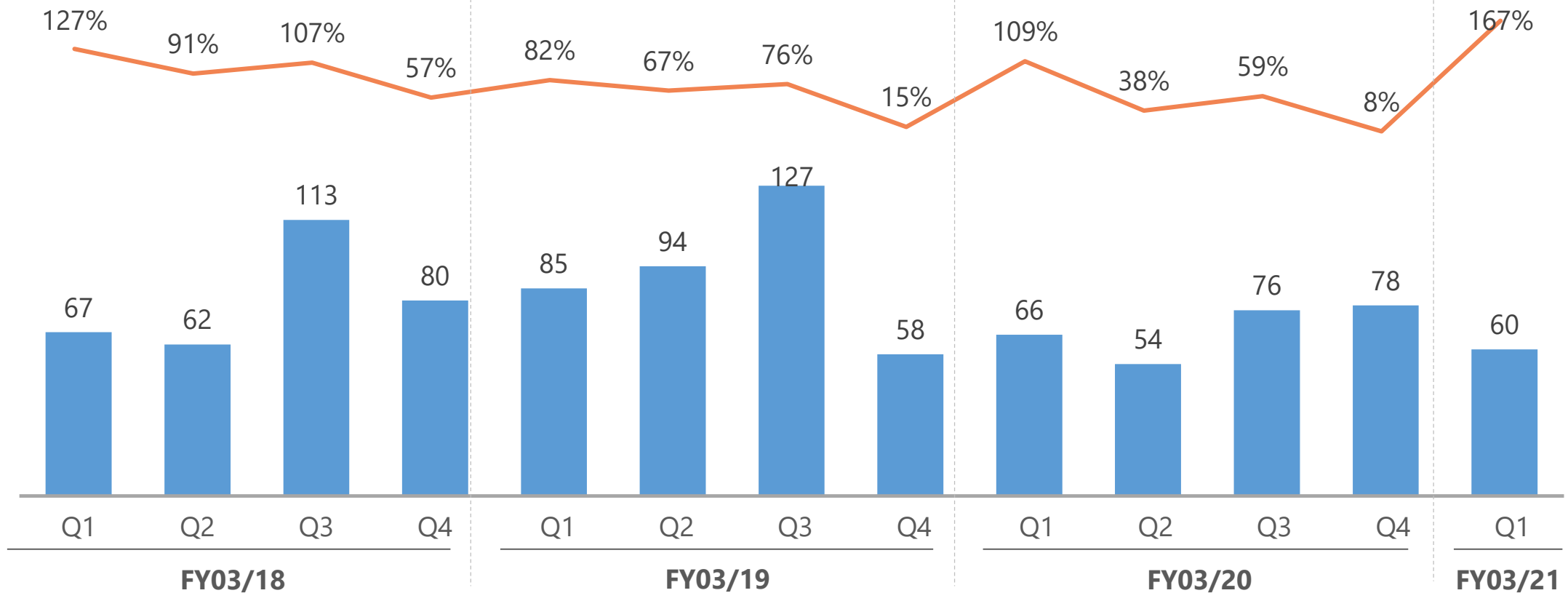
Quarterly gross profit and gross profit margin  
[MM JPY]



# R&D Expenditure

Even under the influence of COVID-19, our core R&D activities continued and posted the same R&D expenditure as last year. The ratio to sales increased due to the decrease in sales

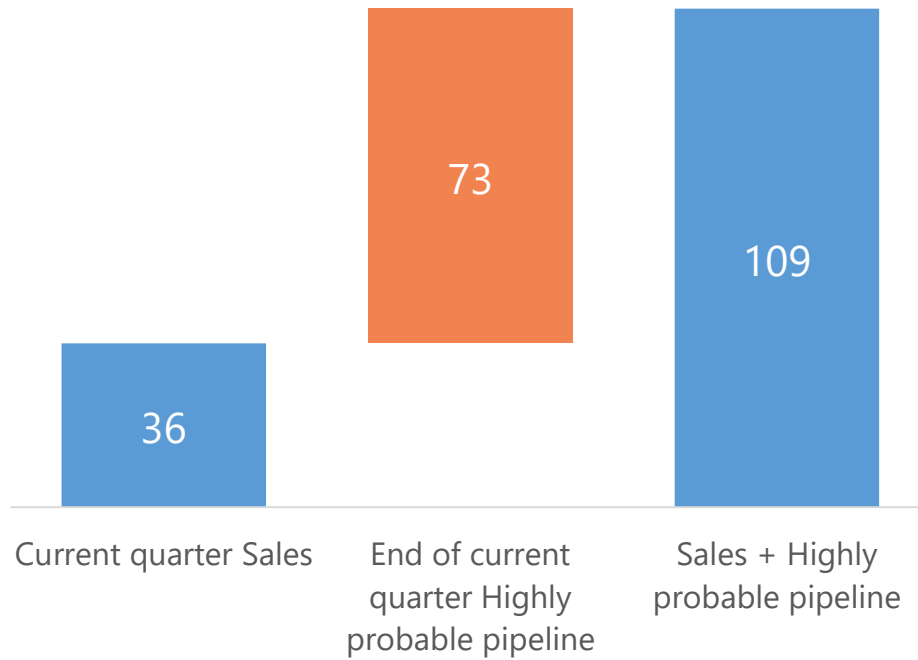
Quarterly R&D Expenses and Sales Ratio  
[MM JPY]



# Status of projects for the current fiscal year as of the end of Jun.

As of Q1, the highly probable pipeline<sup>1</sup> is 110 MM JPY. Promoting the acquisition of projects through development of new customers in addition to approach to existing customers

Sales and Pipelines as of end of FY21/03 1Q  
[MM JPY]



- Acquired approximately 109 MM JPY as projects of this fiscal year (Q2 to Q4) as of the end of Q1
- Some projects postponed from Q1 due to the spread of COVID-19 infection
- As large-scale projects will be booked toward the end of the fiscal year, sales will be concentrated in the 4Q

1: Highly probable pipelines is the total amount of sales for projects with a purchase order and related documents at the end of June

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# FY21/03 Q1 Major Business Highlights

Along with promoting partnerships with major companies in various fields, ACSL was adopted a national project and steadily expanded its business

Apr.	Jointly with <b>Nishimatsu Construction</b> , ACSL <b>developed a system that automatically measures cracks in concrete floors.</b>	
	Began collaboration with <b>Sensyn Robotics</b> to build and implement <b>B-to-B drone solutions</b>	
	Adopted in New Energy and Industrial Technology Development Organization (NEDO)'s project <b>"Development of Secure Drone Infrastructure Technology"</b>	
May.	Collaboration began with <b>VFR</b> for joint development of <b>application-specific commercial drone</b>	
Jun.	Participated as <b>the only member in the logistics field</b> of <b>Super City Open Laboratory</b>	
Jul.	Started collaboration with <b>Toko Tekko</b> to develop and sell <b>disaster prevention drones</b>	
	<b>Marine litter reduction project "Debris Watchers"</b> disclosed the development progress of a coastal drifted litter detection system	
Aug.	Developed <b>smokestack inspection drone</b> in collaboration with <b>Kansai Electric Power</b>	
	Adopted in NEDO's project <b>"Develop the operation control system for unmanned aerial vehicles and collision avoidance technology"</b>	

# Development of Foundational Technologies for Safe and Secure Drones

With the increasing importance of security for drones, the need for security-backed drones is rapidly growing

## Growing interest in security-backed drones

- The importance of introducing **drones as flying IoT** with **ensured cyber security is reaffirmed**
- NEDO launched a project of **1.61 billion JPY<sup>1</sup>** for developing a standard infrastructure for **high-security, low-cost standard drone** and **flight controllers** intended for government procurement.
- Consortium companies:



## Expansion to small aerial drone market

- In the small-scale aerial drone market, there has been **only a choice of consumer drones**, and **large demand is expected for small-scale security-backed drones**
- ACSL can **expand into markets not previously approached**
- Aiming to contribute to earnings **from the next fiscal year (FY03/22)** after the end of this project in this fiscal year

1: The size of businesses adopted is the size of the projects of all the companies and is not ACSL sole budget

# Inspection- Automatic Measurement of Cracks on Concrete Floors

In collaboration with Nishimatsu Construction, ACSL developed a system to automatically measure cracks in concrete floors, aiming to save labor and improve quality

## Detecting cracks in concrete

- The detection of the cracks in the concrete floor is currently achieved **by visual inspection**, and **labor cost is an issue**
- Developed a system consisting of a **drone that flies autonomously through a non-GPS environment** to take pictures of the floor automatically and image analysis technology to detect cracks in concrete
- It is expected to reduce the **burden on the inspector, save time, and improve the quality of the crack inspection** compared to the conventional method of marking cracks in the concrete floor



写真1 UAV本体



写真2 デジタル一眼カメラ

※撮影時のカメラは下向きです。

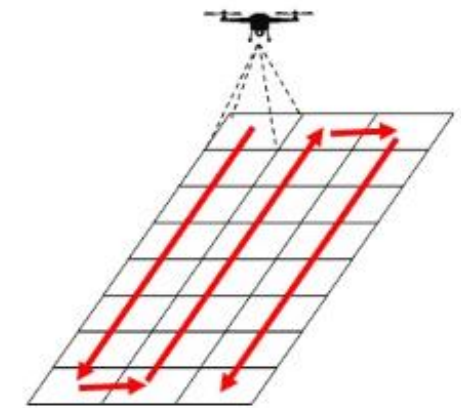


図1 自動分割撮影のイメージ

Source: Nishimatsu Construction Press Release

# Inspection- Chimney Inspection Drone with Kansai Electric Power Company

Provided PF2 as a platform drone for an autonomous drone developed with Kansai Electric Power Co. to fly in non-GPS environments for inspection inside the chimneys of thermal power plants

## Chimney interior inspections

- In cooperation with **KEPCO**, developed an autonomous drone for **inspection inside the chimney (non-GPS environment)** to **reduce inspection costs, improve work efficiency and increase safety**.
- ACSL provides ACSL-PF2 as a platform aircraft in drones that **autonomously fly even in non-GPS environments**
- **KEPCO and KANSO Technos Co., Ltd.** will cooperate in ACSL to conduct inspections of **smokestacks using this drone**.

●火力発電所の煙突内部点検で活用する非GPS環境下における自律飛行ドローンの開発について

 関西電力  
power with heart

当社は、このたび、火力発電所にある煙突内部の点検を、安全、効率的かつ経済的に点検できる自律飛行ドローンを開発しました。

火力発電所にはそれぞれ高さ最大200mほどの煙突が備わっており、様々な劣化を早期に検知するため、内部にゴンドラ足場を設置して、作業員が目視によって点検作業を行っています。

この点検方法では詳細な点検ができるものの、高所作業のため安全上のリスクが生じる点や、点検に数週間程度の時間がかかる点などの課題がありました。

これらの課題を解決するために、当社は煙突内部を自律飛行しながら撮影できるドローンを開発しました。通常、ドローンが自律飛行をするためにはGPS※1環境が必要ですが、煙突内部はGPSが届かないため、ドローンを自律飛行させることは困難でした。そこで、当社は、GPSが届かない円筒形の空間内でも、機体の位置を推定できる技術※2を国内で初めて開発し、煙突内部で安定的に自律飛行させるドローンの開発に成功しました。

本ドローンを活用することで、高所で点検を行う頻度を減らすことができるため、点検作業をより安全に行えるようになります。加えて、1回あたりにかかる点検期間を約90%短縮できるとともに、点検にかかる人員を大幅に削減できることから、50%以上の収支改善効果があると見込んでいます。

本ドローンを活用した煙突内部点検業務については、当社での活用に留まらず、株式会社KANSOテクノスおよび産業用ドローンを自社で開発し提供している株式会社自律制御システム研究所と連携し、他電力や自治体などの社外から受託することも視野に入れ、今後の活用について検討を進めています。

当社は、引き続き、イノベーションにより、生産性や経済性の向上に加え、新たな価値の創出を目指します。

※1：GPS（Global Positioning System） 全地球測位システム  
※2：特許出願中（特願 2020-063862）

以上

Source: Kansai Electric Power Co., Press Release

# Disaster Prevention - Disaster prevention drones with Toko Tekko

In line with the national policy, started collaboration for disaster prevention/mitigation drone that can be used to collect and survey information in the harsh environment of large-scale natural disasters

## Providing flight controllers for drone

- Provision of **high-performance, multi-functional, all-weather, mission-critical drones** in response to the national policy for natural disasters and accidents
- The importance of drones that can be used for lifesaving, information gathering and rescue activities at disaster sites, and the **rapid increase in demand for safe and secure drones** that can be used for secure management of confidential information
- **Toko Tekko leverages its experience and expertise** to develop a drone that is resistant to wind and dust, having a floating structure, for disaster prevention and disaster mitigation
- The airframe designed and manufactured by Toko Tekko is equipped with **flight controllers developed by ACSL.**



Toko Rescue Loan ® TSV-RQ1

Source: Press Release of Toko Tekko



# Disaster Prevention - Development of Coastal Litter Detection System

Debris Watchers, an industry-academia partnership project in which ACSL participates, discloses progress on developing coastal drifting waste detection systems.

## Coastal Litter Detection System

- ACSL joined the drone team of Debris Watchers an **industry-academic marine litter reduction project** consisting of six companies and two universities
- Using AI to analyze **images captured by a drone along the coast** to verify the practicality of **image recognition technology** for identifying plastic and other coastal debris
- Imaging of the coast is **carried out using ACSL-PF2** and other equipment



Source: Debris Watchers press release

# Started collaboration with Sensyn Robotics

Collaboration with Sensyn Robotics to develop B-to-B drone solutions and actual deployment. As a first step, completed connecting to SENSYN FLIGHT CORE and launched solutions

## Cooperation to provide solutions in all phases

- Seamlessly **provide all phases** of drone utilization for **end-user business issues**

### Examples of applications

- Development of **application-specific drone**, solutions including software systems, proof-of-effectiveness testing, and implementation into actual operations and post-implementation support
- Logistics: **Full automation of indoor inspections**, such as inventory taking, and full automation of outdoor drone logistics
- Inspection: Periodic inspections through **remote monitoring and remote management**



Source: Sensyn Robotics Press Release



# Collaboration with VFR for development of industrial drones

Collaboration with VFR began for the development of industrial drones for the Japanese market.

## About VFR

- Established in Mar. 2020 as a **subsidiary of VAIO Co., Ltd**
- **Develop airframes and components** and provide solutions to promote and accelerate innovation in social infrastructure through drones
- Aiming to **leverage the advanced engineering and manufacturing technologies cultivated in the parent company, VAIO's PC-related business**, as well as supply chain management skills in Japan and overseas

## Collaboration between ACSL and VFR

- There is an **urgent need to develop mass-production drones and solutions** that can be deployed
- Issues can be solved by combining the knowledge and technical strengths of both companies
- **VFR's computing and robotics technologies and ACSL's airframe development and autonomous control technologies** are used to update ACSL's existing aircraft and jointly **develop new aircraft optimized for each application**

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# Objectives of ACSL Accelerate

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ACSL announced its medium-term management policy at a time when it shifted from the "demonstration phase" to the "social implementation phase" for industrial drones.

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While the drone market shifts from a "Trial" phase to "Social Implementation" phase, new lifestyle and measures against infectious diseases and progression of Society 5.0 have brought great changes to our business environment.

ACSL has developed a set of mid-term management directions, goals and key milestones to ensure that all stakeholders involved, both internal and external, focus on common value creation for our clients and continuous corporate value growth:

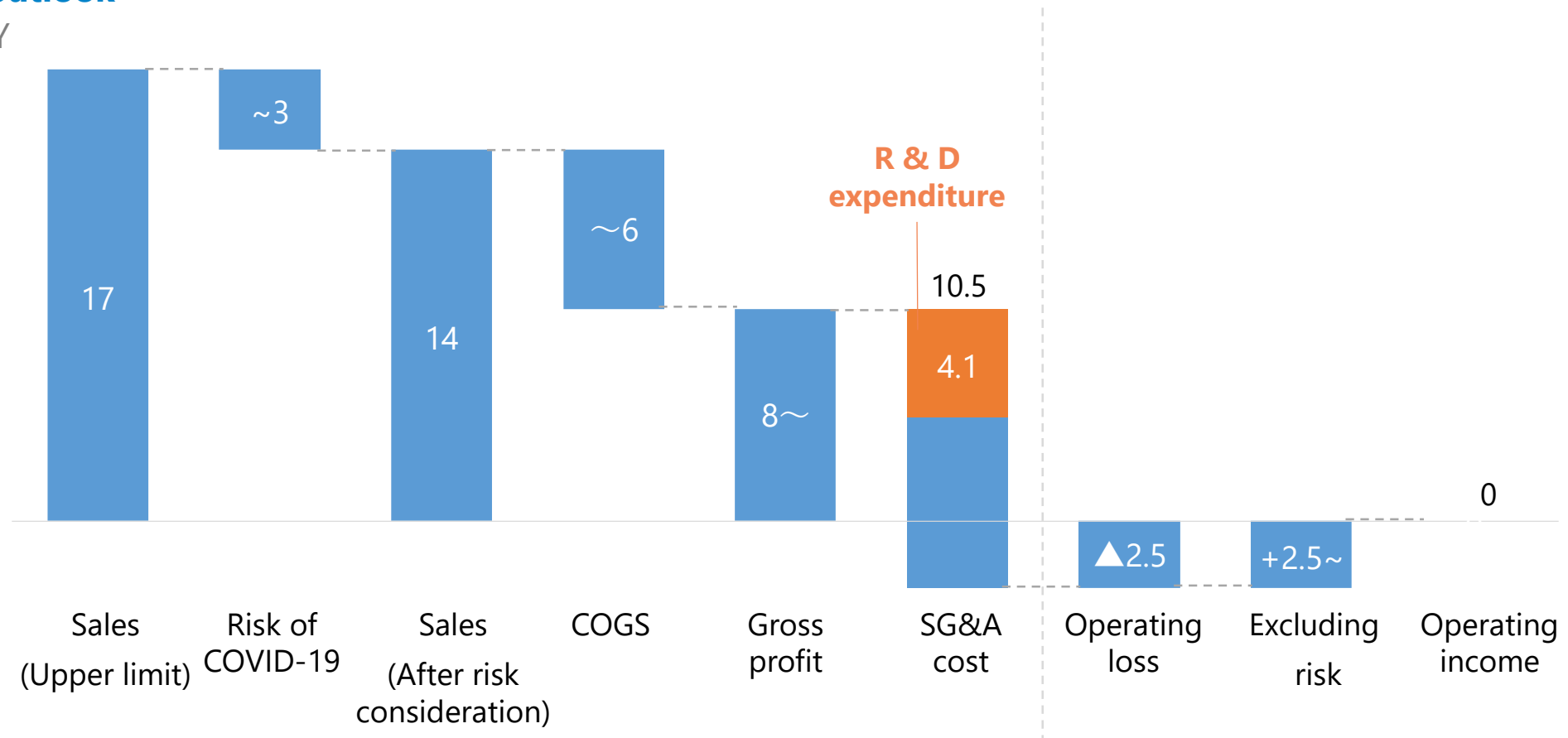
- A **Masterplan** defining the "To-Be" State in 10 years, and
- A **Mid-term Management Direction (FY20-22)** to realize the masterplan

# FY 21/03 Forecasts

Despite risk of a decline in sales due to COVID-19, ACSL will continue upfront investment, mainly in R&D, for business expansion in the future

## FY21/03 outlook

Billions JPY

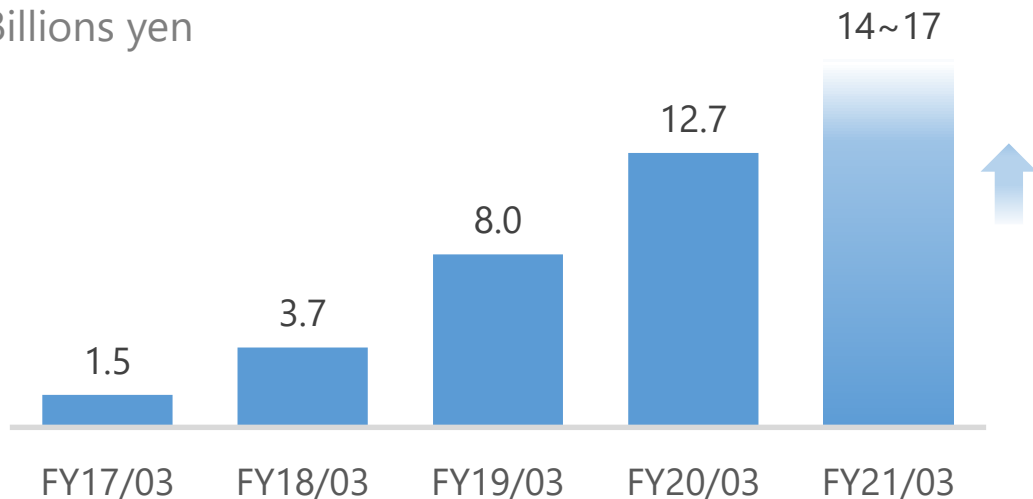


# Forecast FY20/03

Sales are expected to be 1.4 to 1.7 billion JPY, more than last fiscal year. While sales is expected to grow operating loss is expected to 0 to 250 MM JPY due to upfront investment

## Sales<sup>1</sup>

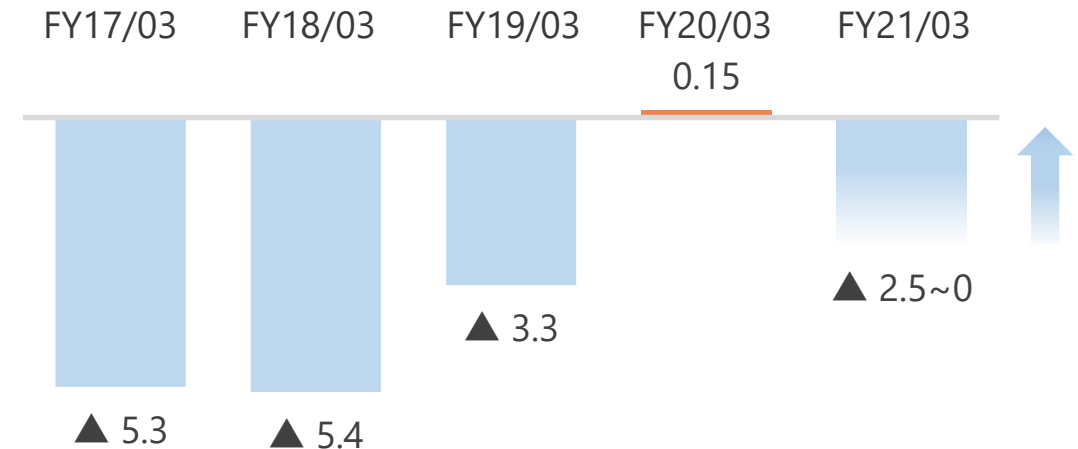
Billions yen



- Including the risk of a sales decline due to the impact of COVID-19, the forecast is JPY1.4 to JPY1.7 billion
- The number of projects for demonstration experiment is expected to remain at the same level as the previous fiscal year. (112 cases) Unit price is expected to decline due to the impact of the elimination of large-scale project in FY20/03
- Platform sales are expected to increase by more than the previous fiscal year (~200 units) in line with MINI sales. Unit price is expected to decline due changes in the product mix.

## Operating income

Billions yen



- Gross profit target of 55~60%
- R&D expenses, which are the main SG&A expenses, are expected to be 410 MM JPY
- Operating loss is expected to 250 to 0 MM JPY given COVID-19 risks

1: Solution construction (STEP1, 2) and Mass production (STEP3, 4) were renamed to Demonstration experiments and platform drone sales from the current quarter.

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# Balance Sheet

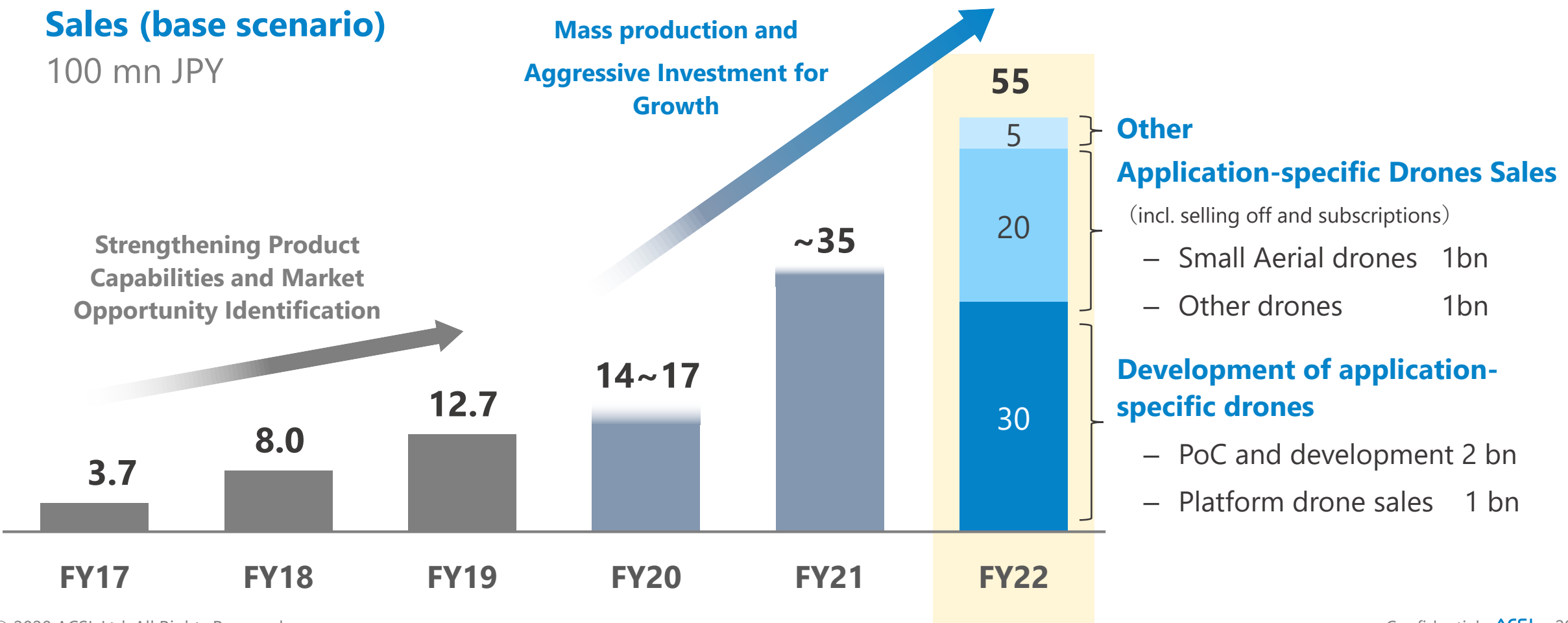
[MM JPY]

	FY21/03 End of first quarter		FY20/03 End of first quarter	FY20/03 End of the fiscal year
	Actual	YoY Increase/Decrease	Actual	Actual
Current Assets	3,872	▲19%	4,753	4,818
Cash	3,482	▲23%	4,531	3,775
Fixed Assets	1,072	+1,499%	67	449
Total Assets	4,944	+3%	4,820	5,268
Current Liabilities	124	▲38%	200	233
Long-term Liabilities	1	-	0	0
Total Liability	126	▲37%	200	233
Net Asset	4,818	+4%	4,620	5,034
Total Asset	4,944	+3%	4,820	5,268



# Sales

Aiming for sales of approximately 5.5 billion yen in FY22 in conjunction with the commercialization of application-specific drones from FY20, and steadily build up a pipeline for future sales of application-specific drones after FY22.



# Sales breakdown

Aiming for an annual shipment of more than 1,600 units by commercialization and mass production of application-specific drone toward FY22, with a significant increase in sales of drones, including subscription

	FY20		FY22	
	Units	Value (100mn JPY)	Units	Value (100mn JPY)
<b>Sales of application-specific drones</b>	-	-	<b>1300~</b>	<b>20</b>
Small aerial photo (low ASP)			1,000~	10
Other (high ASP)			300~	10
<b>Development of application-specific drones</b>	<b>~200</b>	<b>12.5~15</b>	<b>~300</b>	<b>30</b>
PoC and Development	-	7.5~10	-	20
Sales of Platform/Evaluation drones	~200	~5.0	~300	10
<b>Other</b>	<b>-</b>	<b>~1.5</b>	<b>-</b>	<b>5</b>

# KPI in the Mid-term Management Direction

Established new KPIs in the Mid-term Management Direction in order to accurately track the progress of new business models.

## From

	Summary	KPI
<b>Drone Sales</b>	Sales of drones in STEP 3~4	Units
<b>Solution Development</b>	PoC and custom development in STEP 1~2	Projects

## To

	Summary	KPI
<b>Sales of application-specific drones</b>	<ul style="list-style-type: none"><li>▪ Sales of Development of application-specific drones (incl. selling off and subscriptions)</li></ul>	<ul style="list-style-type: none"><li>▪ Units</li><li>▪ Applications</li></ul>
<b>Development of application-specific drones</b>	<ul style="list-style-type: none"><li>▪ PoC and custom development using platform drones</li><li>▪ Sales of platform/evaluation drones</li></ul>	<ul style="list-style-type: none"><li>▪ Projects</li><li>▪ Units of platform drones</li></ul>

# Numerical targets

By commercializing small aerial photo drones, ACSL aims to achieve a solid business foundation of 5.5 billion yen in sales and 750 million yen in operating income by FY22, despite a decline in profit margins due to the rapid increase in sales.

	FY17	FY18	FY19	FY20	FY22
Revenue [JPY]	370 mn	800 mn	1.2 bn	1.4~1.7 bn	5.5 bn
Gross profit	48%	53%	63%	57%	50%
R&D	320 mn	360 mn	270 mn	410 mn	800 mn
Sales profit	▲540 mn	▲300 mn	10 mn	▲250~0 mn	750 mn

In FY22, the commercialization of small drones for public and private sector will help build a solid sales profit, despite a decline in gross margin.

	指標	FY17 (18/03)	FY18	FY19		FY20		FY22
Sales of application-specific drones								
Small aerial photo (low ASP)	Unit	-	-	-		-		1,000~
	Value (100mn JPY)							10
Other (high ASP)	Unit							300~
	Value (100mn JPY)							10
Development of application-specific drones								
PoC and Development	# of project	60	81	112		-		-
	Value (100mn JPY)	2.1	2.9	8.6		7.5~10		20
Sales of Platform/Evaluation drones	Unit	40	106	101		~200		~300
	Value (100mn JPY)	9.0	3.8	3.0		~5.0		10

# Management Team



**CEO**

**Dr. Hiroaki Ohta**

Ph.D. from Kyoto University. Assistant professor at Department of Aeronautics and Astronautics, Kyoto University, followed by research scientists at University of California, Santa Barbara. Also served as Technical Advisor for a start-up in Silicon Valley. McKinsey & Company from 2010. Joined ACSL as in July 2016.



**President  
& COO**

**Satoshi Washiya**

M.S. of Architecture from Waseda University. Served both domestic and multinational companies in corporate wide transformation projects at Tokyo and Stockholm office of McKinsey & Company. Joined ACSL in July 2016.



**CFO**

**Kensuke Hayakawa**

M.S. of Management of Technology from Tokyo institute of technology. Implemented operational improvement/transformation of Portfolio companies at KKR Capstone. Joined ACSL as CFO in March 2017.



**CTO**

**Dr. Chris Raabe**

Ph.D. from University of Tokyo. Embedded software engineer at Boeing from 2006. Assistant professor at Department of Aeronautics and Astronautics, University of Tokyo from 2014. Joined ACSL as CTO in April 2017.

**External  
Director**

**Masanori Sugiyama**

**External  
Director**

**Shinichi Suzukawa**

**Audit & Supervisory  
member**

**Akira Ninomiya**

**Audit & Supervisory  
member**

**Hideki Shimada**

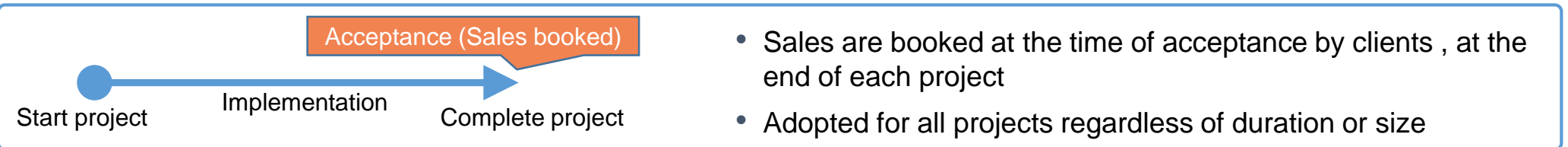
**Audit & Supervisory  
member**

**Takeshi Ohnogi**

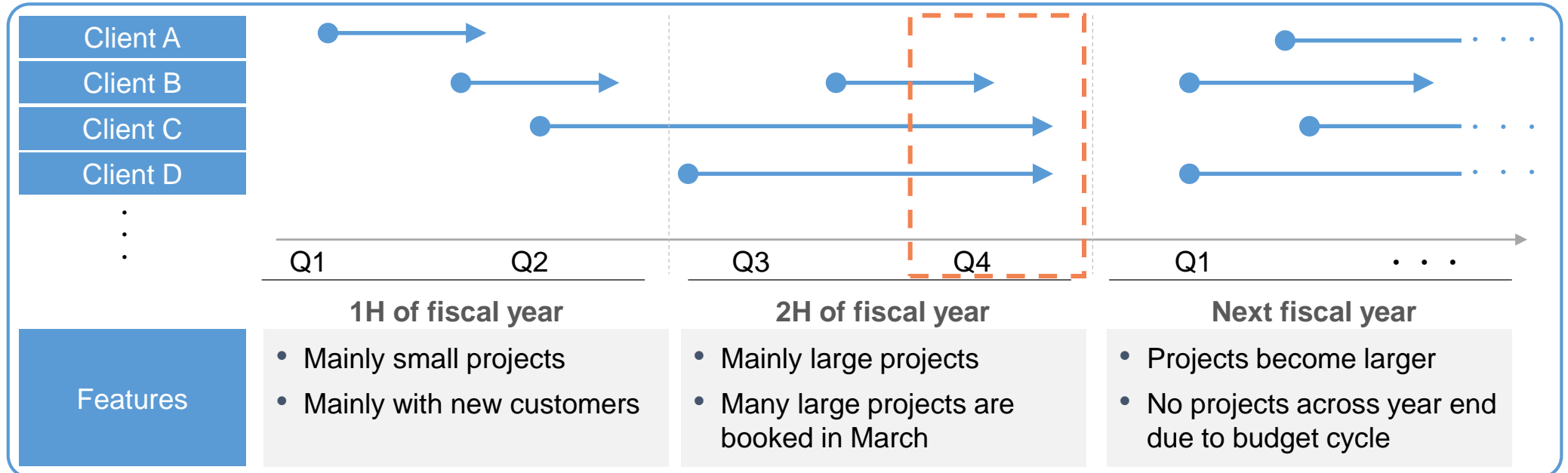
# (Reference) Sales Recognition and Seasonality

Sales are booked upon acceptance by client (at end of project). Seasonality increases towards 4Q driven by large-scale projects, mainly from existing customers

## Sales Recognition



## Large-scale projects and seasonality



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