

Ralph Lauren

Sticking with quality; Reiterate Buy

Reiterate Rating: BUY | PO: 165.00 USD | Price: 142.64 USD

We think F25E EPS is too low (we are 5% above cons)

We reiterate our Buy rating; we think continued progress toward the F25 margin target will help debunk concerns about a margin unwind. RL trades at 7.7x EV/EBITDA (12.8x P/E), in line/a discount to the stock's 8.1x/16.6x historical avg. We think improving visibility on a soft landing will support current valuation for the group; the next leg of o/p will need to be driven by better visibility that F25 EPS ests are too low. Our F25E EPS of \$11.10 is 5% above cons due to higher sales (Asia) and GM. We are increasing our PO to \$165 (prev \$145), or 9x EV/EBITDA (prev 8x) to reflect the rerating in market multiples.

Cost flexibility key to reaching F25 margin target

We think mgmt will remain nimble on flexing cost savings to reach the 15% ccy EBIT margin target in F25. Our F25 base case forecast includes 5.4% sales growth (with growth over indexed to Asia), 70bp of gross margin expansion (benefits from cotton, DTC, Asia offset by lingering promo pressure in US/Europe) and 30bp of SG&A leverage. This equates to 13.4% reported op. margin or 15.1% holding FX constant.

Bull case: North America recovers

One glaring opportunity for further improvement is in the NA segment, with operating margins in the high teens today compared to low 20% range pre Covid. Outside of improvements in cotton costs (we have visibility this will improve in '24) and lower promos (less certainty near term), a rebound in US wholesale could be a material driver of margin improvement not captured in consensus. Importantly, we think the stock can still outperform in a bleak wholesale environment, given high quality and lower relative exposure. Although we expect the gap has narrowed, the company used to report EBIT margins by channel; in F17 company wholesale margins were 25% vs DTC at 11.8%.

Bear case: pricing unwind; watching Europe and US DTC

The perpetual bear case continues to be driven by fears of a pricing unwind and consumer pushback to the brand elevation strategy since AURs are up over 70% cumulatively in the last six years. The other thing to watch is whether the brand can gain traction in US and European retail segments while wholesale remains depressed. Any sign that either the US or Europe can't grow will make the F25 algo tougher to hit and the stock harder to own if all focus is on Asia (24% of sales) to drive sales growth.

Estimates (Mar) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	8.38	8.35	9.61	11.10	12.53
GAAP EPS	8.07	7.58	9.31	11.10	12.53
EPS Change (YoY)	392.9%	-0.4%	15.1%	15.5%	12.9%
Consensus EPS (Bloomberg)			9.49	10.54	11.95
DPS	2.06	3.00	3.00	3.00	3.00
Valuation (Mar)					
P/E	17.0x	17.1x	14.8x	12.9x	11.4x
GAAP P/E	17.7x	18.8x	15.3x	12.9x	11.4x
Dividend Yield	1.4%	2.1%	2.1%	2.1%	2.1%
EV / EBITDA*	10.2x	11.0x	10.4x	9.2x	8.4x
Free Cash Flow Yield*	5.2%	1.8%	3.8%	4.9%	7.6%

* For full definitions of *IQmethod*SM measures, see page 5.

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Timestamp: 05 January 2024 12:01AM EST

05 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	145.00	165.00
2024E Rev (m)	6,534.8	6,579.9
2025E Rev (m)	6,871.0	6,934.3
2026E Rev (m)	7,279.4	7,321.0
2024E EPS	9.58	9.61
2026E EPS	12.62	12.53

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Stock Data

Price	142.64 USD
Price Objective	165.00 USD
Date Established	4-Jan-2024
Investment Opinion	B-1-7
52-Week Range	103.17 USD - 148.04 USD
Mrkt Val (mn) / Shares Out (mn)	10,470 USD / 73.4
Free Float	83.0%
Average Daily Value (mn)	107.60 USD
BofA Ticker / Exchange	RL / NYS
Bloomberg / Reuters	RL US / RL.N
ROE (2024E)	26.5%
Net Dbt to Eqty (Mar-2023A)	-17.6%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

DTC: Direct to consumer

AUR: Average unit retail

MSD: Mid single digit

iQprofileSM Ralph Lauren

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	10.3%	9.9%	11.4%	12.7%	13.3%
Return on Equity	24.2%	23.2%	26.5%	28.2%	27.9%
Operating Margin	13.4%	12.0%	12.3%	13.4%	13.8%
Free Cash Flow	549	194	398	511	791

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.1x	0.7x	1.0x	1.1x	1.4x
Asset Replacement Ratio	0.7x	1.0x	1.1x	1.2x	1.1x
Tax Rate	20.8%	24.1%	22.1%	24.0%	24.0%
Net Debt-to-Equity Ratio	-37.9%	-17.6%	-5.8%	-2.3%	-9.2%
Interest Cover	15.4x	19.1x	20.7x	22.6x	24.0x

Income Statement Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	6,219	6,444	6,580	6,934	7,321
% Change	41.3%	3.6%	2.1%	5.4%	5.6%
Gross Profit	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA
EBITDA	1,061	991	1,041	1,182	1,290
% Change	131.4%	-6.6%	5.0%	13.6%	9.1%
Net Interest & Other Income	(44)	(12)	16	11	2
Net Income (Adjusted)	623	576	642	712	768
% Change	390.8%	-7.6%	11.5%	10.9%	7.9%

Free Cash Flow Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	623	576	642	712	768
Depreciation & Amortization	230	221	232	256	281
Change in Working Capital	(170)	(425)	(279)	(207)	(17)
Deferred Taxation Charge	(46)	4	(26)	(26)	(26)
Other Adjustments, Net	79	36	81	76	85
Capital Expenditure	(167)	(218)	(252)	(300)	(300)
Free Cash Flow	549	194	398	511	791
% Change	101.0%	-64.8%	105.6%	28.6%	54.6%
Share / Issue Repurchase	(493)	(489)	(450)	(400)	(400)
Cost of Dividends Paid	(150)	(198)	(198)	(192)	(184)
Change in Debt	0	(500)	0	0	0

Balance Sheet Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	2,598	1,566	1,280	1,199	1,406
Trade Receivables	405	448	481	545	616
Other Current Assets	1,214	1,311	1,368	1,429	1,494
Property, Plant & Equipment	970	956	930	974	993
Other Non-Current Assets	2,538	2,510	2,485	2,511	2,537
Total Assets	7,725	6,790	6,545	6,659	7,046
Short-Term Debt	500	0	0	0	0
Other Current Liabilities	1,494	1,227	1,107	1,025	1,143
Long-Term Debt	1,137	1,139	1,140	1,140	1,140
Other Non-Current Liabilities	664	586	525	525	525
Total Liabilities	5,189	4,359	4,122	4,039	4,158
Total Equity	2,536	2,431	2,423	2,619	2,888
Total Equity & Liabilities	7,725	6,790	6,545	6,659	7,046

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Apparel

Company Description

Ralph Lauren designs and distributes apparel, accessories, housewares and fragrances through wholesale department stores, specialty stores, retail stores and online.

Investment Rationale

We think the shares are attractively valued given our confidence in strong revenue trends continuing given the brand's global diversification and management's ability to pull cost levers in this environment.

Stock Data

Average Daily Volume 754353

Quarterly Earnings Estimates

	2023	2024
Q1	1.88A	2.34A
Q2	2.23A	2.10A
Q3	3.35A	3.56E
Q4	0.90A	1.60E

**Exhibit 1: RL Income Statement**

We forecast F25E EPS of \$11.10, 5% higher than Visible Alpha consensus

Ralph Lauren	FY22	1Q23	2Q23	3Q23	4Q23	FY23	1Q24	2Q24	3Q24E	4Q24E	FY24E	1Q25E	2Q25E	3Q25E	4Q25E	FY25E	1Q26E	2Q26E	3Q26E	4Q26E	FY26E
Income statement	Mar-2022	Jun-2022	Sep-2022	Dec-2022	Mar-2023	Mar-2023	Jun-2023	Sep-2023	Dec-2023	Mar-2024	Mar-2024	Jun-2024	Sep-2024	Dec-2024	Mar-2025	Mar-2025	Jun-2025	Sep-2025	Dec-2025	Mar-2026	Mar-2025
Net revenues	\$6,219	\$1,491	\$1,580	\$1,832	\$1,541	\$6,444	\$1,497	\$1,633	\$1,873	\$1,577	\$6,580	\$1,560	\$1,713	\$2,000	\$1,662	\$6,934	\$1,649	\$1,804	\$2,112	\$1,755	\$7,321
COGS	2,084.3	477.6	559.2	637.6	588.0	2,262.4	466.3	564.7	633.2	573.4	2,237.6	470.4	575.4	665.8	595.9	2,307.5	495.7	604.1	701.1	627.8	2,428.8
Gross profit	4,134.2	1,013.0	1,020.7	1,194.7	952.8	4,181	1,030.2	1,068.3	1,240.2	1,003.6	4,342.3	1,089.4	1,138.0	1,333.7	1,065.7	4,626.8	1,153.4	1,200.3	1,410.9	1,127.7	4,892.2
SG&A	3,302.0	823.0	809.3	900.8	877.9	3,411.0	830.1	896.6	936.9	870.4	3,533.9	859.7	931.8	994.2	914.9	3,700.6	903.1	975.6	1,043.2	961.7	3,883.6
Operating income	831.0	190.0	211.4	293.9	74.9	770.2	200.1	171.7	303.4	133.2	808.4	229.7	206.2	339.5	150.8	926.2	250.4	224.7	367.7	166.0	1,008.6
FX gains (losses)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest expense	(54.0)	(11.8)	(9.5)	(12.0)	(7.1)	(40.4)	(10.0)	(10.0)	(9.5)	(9.5)	(39.0)	(9.5)	(10.5)	(10.5)	(10.5)	(41.0)	(10.5)	(10.5)	(10.5)	(10.5)	(42.0)
Interest and other income, net	5.5	3.6	6.6	8.6	13.4	32.2	15.7	15.8	14.0	14.0	59.5	12.0	12.0	12.0	12.0	48.0	10.0	10.0	10.0	10.0	40.0
Equity in losses of equity-method investees	4.7	(4.8)	(3.7)	1.7	2.7	(4.1)	(1.5)	(4.8)	1.0	1.0	(4.3)	1.0	1.0	1.0	1.0	4.0	1.0	1.0	1.0	1.0	4.0
Pre-tax income	787.2	177.0	204.8	292.2	83.9	757.9	204.3	172.7	308.9	138.7	824.6	233.2	208.7	342.0	153.3	937.2	250.9	225.2	368.2	166.5	1,010.6
Taxes	163.9	42.4	50.8	66.1	23.0	182.3	46.3	31.8	71.0	33.3	182.4	56.0	50.1	82.1	36.8	224.9	60.2	54.0	88.4	39.9	242.6
Tax rate	20.8%	24.0%	24.8%	22.6%	27.4%	24.1%	22.7%	18.4%	23.0%	24.0%	22.1%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%
Net income	623.3	134.6	154.0	226.1	60.9	575.6	158.0	140.9	237.8	105.4	642.1	177.3	158.6	259.9	116.5	712.3	190.6	171.1	279.8	126.5	768.1
Adj EPS	\$8.38	\$1.88	\$2.23	\$3.35	\$0.90	\$8.35	\$2.34	\$2.10	\$3.56	\$1.60	\$9.61	\$2.72	\$2.46	\$4.07	\$1.85	\$11.10	\$3.06	\$2.77	\$4.59	\$2.10	\$12.53
Basic weighted average shares outstanding	73.1	70.1	68.0	66.5	66.4	67.8	65.9	65.6	65.2	64.4	65.3	63.7	63.0	62.3	61.6	62.6	60.9	60.2	59.5	58.8	59.9
Diluted weighted average shares outstanding	74.4	71.5	69.0	67.6	67.8	69.0	67.4	67.2	66.8	66.0	66.8	65.2	64.5	63.8	63.1	64.1	62.4	61.7	61.0	60.3	61.3
GAAP EPS	\$8.07	\$1.73	\$2.18	\$3.20	\$0.48	\$7.58	\$1.96	\$2.19	\$3.56	\$1.60	\$9.31	\$2.72	\$2.46	\$4.07	\$1.85	\$11.10	\$3.06	\$2.77	\$4.59	\$2.10	\$12.53
GAAP shares	74.4	71.5	69.0	67.6	67.8	69.0	67.4	67.2	66.8	66.0	66.8	65.2	64.5	63.8	63.1	64.1	62.4	61.7	61.0	60.3	61.3
Margins																					
Gross margin	66.5%	68.0%	64.6%	65.2%	61.8%	64.9%	68.8%	65.4%	66.2%	63.6%	66.0%	69.8%	66.4%	66.7%	64.1%	66.7%	69.9%	66.5%	66.8%	64.2%	66.8%
bp change y/y	80	(180)	(266)	(79)	(149)	(159)	88	81	100	180	110	100	100	50	50	73	10	10	10	10	10
vs C19		347	310	299	169		435	391	399	349											
SG&A ratio	53.1%	55.2%	51.2%	49.2%	57.0%	52.9%	55.5%	54.9%	50.0%	55.2%	53.7%	55.1%	54.4%	49.7%	55.1%	53.4%	54.8%	54.1%	49.4%	54.8%	53.0%
bp change y/y	(759)	230	104	(90)	(279)	(16)	26	368	85	(178)	77	(36)	(52)	(29)	(13)	(34)	(35)	(31)	(33)	(28)	(32)
% change y/y	23.6%	13.0%	7.2%	-0.9%	-3.5%	3.3%	0.9%	10.8%	4.0%	-0.9%	3.6%	3.6%	3.9%	6.1%	5.1%	4.7%	5.1%	4.7%	4.9%	5.1%	4.9%
Operating margin	13.4%	12.7%	13.4%	16.0%	4.9%	12.0%	13.4%	10.5%	16.2%	8.4%	12.3%	14.7%	12.0%	17.0%	9.1%	13.4%	15.2%	12.5%	17.4%	9.5%	13.8%
bp change y/y	857	(404)	(368)	11	130	(141)	62	(287)	15	358	33	136	152	79	63	107	45	41	43	38	42
Operating margin (ccy)	13.2%					13.7%					14.0%					15.1%					15.5%
% change y/y																					
Revenue growth	41.3%	8.3%	5.0%	0.9%	1.2%	3.6%	0.4%	3.4%	2.2%	2.3%	2.1%	4.2%	4.9%	6.7%	5.4%	5.4%	5.7%	5.3%	5.6%	5.7%	5.6%
SG&A	23.6%	13.0%	7.2%	-0.9%	-3.5%	3.3%	0.9%	10.8%	4.0%	-0.9%	3.6%	3.6%	3.9%	6.1%	5.1%	4.7%	5.1%	4.7%	4.9%	5.1%	4.9%
Operating income growth	294.2%	-17.7%	-17.6%	1.6%	38.2%	-7.3%	5.3%	-18.8%	3.2%	77.8%	5.0%	14.8%	20.1%	11.9%	13.2%	14.6%	9.0%	8.9%	8.3%	10.1%	8.9%
Net income growth	390.8%	-21.9%	-21.8%	3.7%	70.1%	-7.7%	17.4%	-8.5%	5.2%	73.1%	11.6%	12.2%	12.6%	9.3%	10.5%	10.9%	7.6%	7.9%	7.6%	8.6%	7.8%
EPS growth	392.9%	-17.7%	-14.7%	14.3%	81.9%	-0.4%	24.5%	-6.1%	6.2%	77.9%	15.1%	16.0%	17.3%	14.4%	15.5%	15.6%	12.4%	12.8%	12.6%	13.7%	12.8%

Source: BofA Global Research, company reports

BofA GLOBAL RESEARCH

Price objective basis & risk

Ralph Lauren (RL)

Our PO of \$165 is based on 9x FY25E EV/EBITDA, slightly higher than peers due stronger margins and sales growth. We think RL should trade at a slight premium to peers given its long-term brand value, strong balance sheet, and stronger margins.

Upside risks to our PO are a faster-than-expected sales turnaround, higher-than-expected benefits from ongoing cost savings initiatives, and significant improvements in the overall global apparel retail environment. Downside risks are worse-than-expected trends at wholesale, incremental US department store closures, higher-than-expected reinvestment spending, and deterioration in the global macro environment.

Analyst Certification

I, Christopher Nardone, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Bath & Body Works Inc	BBWI	BBWI US	Lorraine Hutchinson, CFA
	Burlington Stores	BURL	BURL US	Lorraine Hutchinson, CFA
	Crocs, Inc.	CROX	CROX US	Christopher Nardone
	Deckers Outdoor Corp	DECK	DECK US	Christopher Nardone
	European Wax Center	EW CZ	EW CZ US	Lorraine Hutchinson, CFA
	lululemon athletica Inc	LULU	LULU US	Lorraine Hutchinson, CFA
	Oddity Tech	ODD	ODD US	Lorraine Hutchinson, CFA
	PVH Corp	PVH	PVH US	Christopher Nardone
	Ralph Lauren	RL	RL US	Christopher Nardone
	Ross Stores Inc	ROST	ROST US	Lorraine Hutchinson, CFA
	Tapestry Inc.	TPR	TPR US	Lorraine Hutchinson, CFA
	TJX Companies	TJX	TJX US	Lorraine Hutchinson, CFA
	Urban Outfitters	URBN	URBN US	Lorraine Hutchinson, CFA
	Victoria's Secret & Co	VSCO	VSCO US	Alice Xiao
NEUTRAL				
	American Eagle	AEO	AEO US	Christopher Nardone
	Birkenstock	BIRK	BIRK US	Lorraine Hutchinson, CFA
	FIGS, Inc.	FIGS	FIGS US	Alice Xiao
	Foot Locker	FL	FL US	Lorraine Hutchinson, CFA
	Levi Strauss & Co.	LEVI	LEVI US	Christopher Nardone
	Nike	NKE	NKE US	Lorraine Hutchinson, CFA
	Signet Jewelers	SIG	SIG US	Lorraine Hutchinson, CFA
	Ulta Beauty	ULTA	ULTA US	Lorraine Hutchinson, CFA
	Under Armour Inc	UAA	UAA US	Lorraine Hutchinson, CFA
UNDERPERFORM				
	Aritzia	YATZ	ATZ CN	Alice Xiao
	Aritzia	ATZAF	ATZAF US	Alice Xiao
	Carter's Inc	CRI	CRI US	Christopher Nardone
	Gap Inc.	GPS	GPS US	Lorraine Hutchinson, CFA
	Kohl's	KSS	KSS US	Lorraine Hutchinson, CFA

US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Nordstrom	JWN	JWN US	Lorraine Hutchinson, CFA
	Revolve	RVLV	RVLV US	Alice Xiao
	V F Corp	VFC	VFC US	Lorraine Hutchinson, CFA

IQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

IQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of IQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

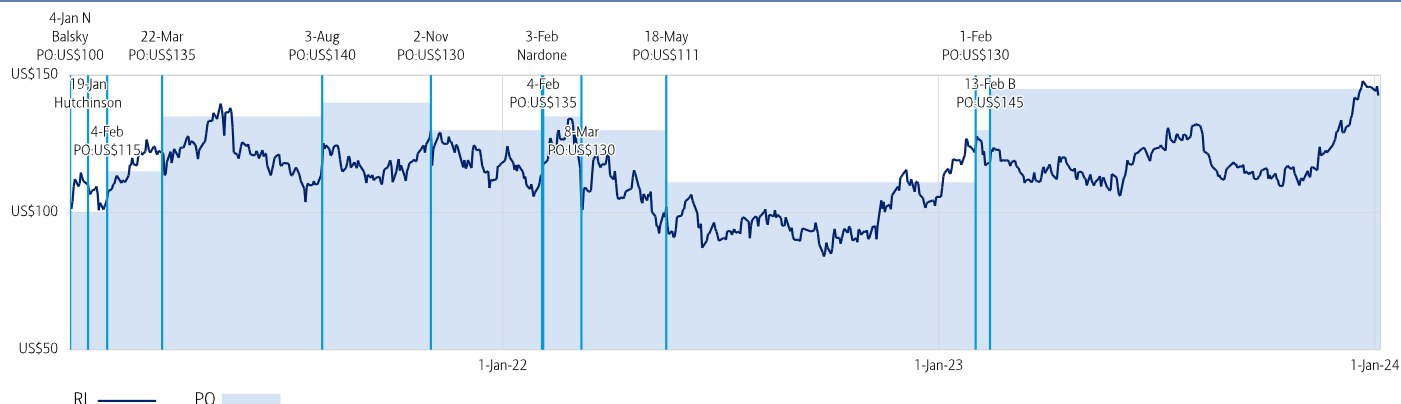
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Disclosures

Important Disclosures

Ralph Lauren (RL) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Textiles/Apparel Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	13	52.00%	Buy	8	61.54%
Hold	6	24.00%	Hold	3	50.00%
Sell	6	24.00%	Sell	2	33.33%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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