

Dream Finders Homes, Inc.

Raise PO on improving new home demand; Reiterate Neutral on valuation vs. peers

Reiterate Rating: NEUTRAL | PO: 18.00 USD | Price: 16.76 USD

Raise PO to reflect better end market demand

On May 4th, DFH reported 1Q23 EPS, ahead of our and consensus forecasts. We raise our PO to \$18 (from \$13), based on 1.8x our 2023E P/B (vs. previous 1.4x) to reflect the ongoing recovery in the housing market and higher peer multiples. We reiterate our Neutral rating. We see balanced risk-reward – DFH's asset-light model and higher leverage ratio will support a higher return-on-equity relative to the other homebuilders, however, DFH now trades at a premium to the group.

1Q orders impacted by BTR comp, but April improved

DFH's 1Q net orders declined (40%) YoY, below our expectations, but we estimate orders would have been roughly flattish excluding the benefit of built-for-rent (BTR) orders in 1Q22. Cancellation rates also increased to 20.9% (up from 13.4% last year, but declined from 32.1% in 4Q22). By region, Orlando, Colorado and the Carolinas outperformed, while Jacksonville and Texas underperformed. Absorptions slowed to 2.3 sales per community per month, down from 3.9 in 1Q22, however, orders were higher YoY in April. Going forward, we expect BTR/investor sales (9% of community count) to remain lumpy on a quarterly basis and may continue to lag for-sale demand.

Higher rates will continue to weigh on gross margin

1Q23 gross margin (GM) was 17.0%, down 170 bps YoY, driven by the impact of higher interest exp. Homebuilding revenues increased 16% YoY and the line of credit balance increased 19%, but interest expense in cost of goods sold increased more than 150%, driving a gross margin headwind. Interest rate on DFH's construction line of credit is variable and will likely continue to be a headwind to gross margin if rates stay elevated. We are modeling a 150 bps decline in GM in 2023.

1Q23 beat on deliveries (better cycle times) and SG&A

DFH reported adj. 1Q23 EPS of \$0.45, above our \$0.34 forecast and consensus of \$0.26. Home sales revenue grew 16% YoY to \$769M (above our \$590M estimate). Deliveries grew 19% YoY partially driven by better build cycle times, and higher average selling prices (+6% YoY). SG&A as a percent of revenues declined to 7.9% (down 140 bps YoY), partially offsetting pressure from lower gross margins. Management is maintaining its guidance for ~6,000 deliveries in 2023. We raise our 2023/2024E EPS estimates by 6%/2% to reflect a slightly higher delivery outlook.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	1.27	2.46	1.86	1.99	2.17
GAAP EPS	1.27	2.46	1.86	1.99	2.17
EPS Change (YoY)	46.8%	93.4%	-24.5%	7.4%	8.9%
Consensus EPS (Bloomberg)			1.77	1.97	NA
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	13.2x	6.8x	9.0x	8.4x	7.7x
GAAP P/E	13.2x	6.8x	9.0x	8.4x	7.7x
Dividend Yield	0%	0%	0%	0%	0%
EV / EBITDA*	10.9x	5.2x	6.5x	5.9x	5.4x
Free Cash Flow Yield*	3.9%	-2.1%	13.2%	11.7%	8.9%

* For full definitions of *IQmethod*SM measures, see page 6.

23 May 2023

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	13.00	18.00
2023E EPS	1.75	1.86
2024E EPS	1.96	1.99
2025E EPS	2.09	2.17

Rafe Jadrosich

Research Analyst
BofAS
+1 646 855 5815
rafe.jadrosich@bofa.com

Shaun Calnan, CFA

Research Analyst
BofAS
+1 646 855 1362
shaun.calnan@bofa.com

Stock Data

Price	16.76 USD
Price Objective	18.00 USD
Date Established	23-May-2023
Investment Opinion	C-2-9
52-Week Range	8.17 USD - 18.00 USD
Mrkt Val (mn) / Shares Out (mn)	1,597 USD / 95.3
Average Daily Value (mn)	2.23 USD
BofA Ticker / Exchange	DFH / NAS
Bloomberg / Reuters	DFH US / DFH.N
ROE (2023E)	22.4%
Net Dbt to Eqty (Dec-2022A)	75.1%

ESGMeter™

NLA

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"](#).

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Timestamp: 23 May 2023 05:01AM EDT

iQprofileSM Dream Finders Homes, Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	15.0%	17.8%	12.0%	12.3%	12.1%
Return on Equity	31.5%	38.7%	22.4%	19.4%	17.5%
Operating Margin	8.5%	10.4%	9.4%	9.7%	9.7%
Free Cash Flow	62	(33)	212	187	143

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	0.5x	-0.1x	1.1x	0.9x	0.6x
Asset Replacement Ratio	0.5x	0.5x	0.8x	1.0x	1.0x
Tax Rate	16.9%	23.0%	23.6%	23.0%	23.0%
Net Debt-to-Equity Ratio	96.3%	75.1%	36.4%	15.2%	3.5%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	1,924	3,342	2,947	3,045	3,294
% Change	69.7%	73.7%	-11.8%	3.3%	8.2%
Gross Profit	314	620	503	524	567
% Change	NA	NA	NA	NA	NA
EBITDA	195	412	329	364	394
% Change	63.5%	111.1%	-20.0%	10.5%	8.3%
Net Interest & Other Income	(1)	7	3	7	7
Net Income (Adjusted)	121	262	202	217	236
% Change	51.3%	116.5%	-23.0%	7.4%	8.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	121	262	202	217	236
Depreciation & Amortization	12	21	18	16	16
Change in Working Capital	(97)	(338)	(7)	(38)	(101)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	29	27	7	(1)	(1)
Capital Expenditure	(3)	(6)	(7)	(8)	(8)
Free Cash Flow	62	-33	212	187	143
% Change	NA	NA	NA	NA	NA

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	227	365	550	729	864
Trade Receivables	NA	NA	NA	NA	NA
Other Current Assets	1,444	1,784	1,718	1,760	1,875
Property, Plant & Equipment	7	7	7	7	6
Other Non-Current Assets	217	215	216	224	233
Total Assets	1,894	2,371	2,491	2,721	2,979
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	431	464	431	436	449
Long-Term Debt	763	966	916	916	916
Other Non-Current Liabilities	144	140	138	138	138
Total Liabilities	1,338	1,570	1,484	1,489	1,503
Total Equity	556	801	1,006	1,231	1,476
Total Equity & Liabilities	1,894	2,371	2,491	2,721	2,979

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Homebuilders

Company Description

Dream Finders Homes is a top 15 US homebuilder based on volume, with approximately 3,150 homes delivered in 2020. The company is positioned in eight states, largely targeting the entry-level and first-time move up segments. Dream Finders was founded in 2008, broke ground on its first home in 2009 and has continued to grow through both organic initiatives and strategic acquisitions.

Investment Rationale

We rate DFH Neutral. DFH is well positioned given its 100% option model, which leads to a higher ROE vs. peers and creates flexibility in a slowing market. We believe DFH will need to raise capital in the next 18 months in order to achieve its growth targets and we view its above industry financial leverage as a risk.

Stock Data

Average Daily Volume

132,979

Quarterly Earnings Estimates

	2022	2023
Q1	0.42A	0A
Q2	0.60A	0E
Q3	0.64A	0E
Q4	0.78A	0E

Exhibit 1: DFH 1Q23 earnings variance compared to BofA estimates

1Q23 beat on better than expected homebuilding revenue

Income Statement	YoY Change			Variance vs BofAe		
	1Q22	1Q23	YoY	BofAe	1Q23	Δ
Total Sales (\$ in mms)	\$664	\$769	16%	\$590	\$769	30%
Homebuilding Gross Margin ex-impairments	18.7%	17.0%	-170 bps	17.0%	17.0%	-4 bps
Homebuilding SG&A % of revenue	9.3%	7.9%	-140 bps	8.5%	7.9%	-58 bps
Homebuilding Operating Margin	9.3%	9.0%	-30 bps	8.5%	9.0%	54 bps
Pre-tax Margin	9.5%	9.0%	-50 bps	9.1%	9.0%	-8 bps
Operating EPS	\$0.42	\$0.45	8%	\$0.34	\$0.45	31%
GAAP EPS	\$0.42	\$0.45	8%	\$0.34	\$0.45	31%
Regional Results	1Q22	1Q23	YoY	BofAe	1Q23	Δ
	1Q22	1Q23	YoY	BofAe	1Q23	Δ
Deliveries (units)	1,371	1,517	10.6%	1,276	1,517	19%
Average Delivered Price (\$000s)	\$470.2	\$490.6	4.3%	\$460.8	491	6%
Total Orders	2,402	1,448	(39.7%)	1,617	1,448	(10.5%)
Active communities	206	220	6.8%	206	220	6.8%
Backlog Units	7,349	5,479	(25.4%)	5,889	5,479	(7.0%)
Backlog Value (\$ in mms)	\$3,402	\$2,534	(25.5%)	\$2,633	2,534	(3.7%)
Avg Price in Backlog	\$462.9	\$462.6	(0.1%)	\$447.1	463	3.5%
Backlog Conversion Ratio	21.5%	27.3%	580 bps	23.0%	27%	434 bps

Source: BofA Global Research, Company Data

BofA GLOBAL RESEARCH

Exhibit 2: DFH Income Statement

We expect EPS to rebound in 2024 after falling in 2023

(\$000s) YE 12/31	2023E				2022	2023E	2024E
	1Q	2QE	3QE	4QE			
Revenue							
Home Sales	\$767,476	\$710,928	\$727,167	\$733,569	\$3,334,559	\$2,939,141	\$3,037,180
Other	1,944	2,000	2,000	2,000	7,776	7,944	8,000
Total Revenue	\$769,420	\$712,928	\$729,167	\$735,569	\$3,342,335	\$2,947,085	\$3,045,180
Homebuilding Cost of Goods Sold							
Home Sales	\$637,344	\$591,492	\$605,003	\$610,330	\$2,722,139	\$2,444,169	\$2,520,859
Inventory Impairments	-	-	-	-	-	-	-
Total Homebuilding Cost of Goods Sold	\$637,344	\$591,492	\$605,003	\$610,330	\$2,722,139	\$2,444,169	\$2,520,859
Homebuilding Gross Profit							
Home Sales (Ex. Other revenue & Impairments)	\$130,132	\$119,436	\$122,164	\$123,240	\$612,420	\$494,972	\$516,321
Inventory & land option charges	-	-	-	-	-	-	-
Selling General & Administrative Expenses							
Homebuilding SG&A expense	\$60,761	\$55,452	\$56,719	\$53,551	\$271,040	\$226,483	\$228,397
One-time IPO cash bonus	-	-	-	-	-	-	-
Stock-based compensation	-	-	-	-	-	-	-
Operating Income							
Homebuilding	\$69,371	\$63,984	\$65,445	\$69,689	\$341,380	\$268,489	\$287,924
Other	1,944	2,000	2,000	2,000	7,776	7,944	8,000
Total Operating Profit	\$71,315	\$65,984	\$67,445	\$71,689	\$349,156	\$276,433	\$295,924
Other							
Equity in Net Income from Unconsolidated Joint Ventures	\$2,958	\$4,000	\$4,200	\$4,500	16,122	15,658	16,700
Other Income (Expense), Net	430	500	500	500	1,931	1,930	2,000
Earn-out Contingent Consideration Expense	(5,316)	(3,000)	(3,000)	(3,000)	(11,053)	(14,316)	(12,000)
Income from Payment Protection Program Loan Forgiveness	-	-	-	-	-	-	-
Total other income (expense)	(\$1,928)	\$1,500	\$1,700	\$2,000	\$7,000	\$3,272	\$6,700
Income before provision for income taxes	\$69,387	\$67,484	\$69,145	\$73,689	\$356,156	\$279,705	\$302,624
Provision for Income Taxes	17,636	15,521	15,903	16,948	81,859	66,009	69,603
Net Income	\$51,751	\$51,962	\$53,242	\$56,741	\$274,297	\$213,696	\$233,020
Net earnings attributable to non-controlling interest	2,662	3,000	3,000	3,000	11,984	11,662	16,000
Net Income attributable to common shareholders	\$49,089	\$48,962	\$50,242	\$53,741	\$262,313	\$202,034	\$217,020
Non-Recurring Items	-	-	-	-	-	-	-
Net Income (GAAP)	\$49,089	\$48,962	\$50,242	\$53,741	\$262,313	\$202,034	\$217,020
Diluted EPS (Adjusted Shares, Cont. Ops.)	\$0.45	\$0.45	\$0.46	\$0.49	\$2.46	\$1.86	\$1.99
Adjusted Common Shares Outstanding:							
Diluted	108,822	108,822	108,822	108,822	106,705	108,822	108,822
Dividend per share	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Margins							
Home Sales Gross Margin (Ex. Other revenue & Impairments)	17.0%	16.8%	16.8%	16.8%	18.4%	16.8%	17.0%
Homebuilding Operating Margin	9.0%	9.0%	9.0%	9.5%	10.2%	9.1%	9.5%



Exhibit 2: DFH Income Statement

We expect EPS to rebound in 2024 after falling in 2023

(\$000s)

Total Operating Margin	9.3%	9.3%	9.2%	9.7%	10.4%	9.4%	9.7%
Pre-tax Margin	9.0%	9.5%	9.5%	10.0%	10.7%	9.5%	9.9%
Net Margin (available to common)	6.4%	6.9%	6.9%	7.3%	7.8%	6.9%	7.1%
Net Margin (GAAP)	6.4%	6.9%	6.9%	7.3%	7.8%	6.9%	7.1%
Tax Rate	25.4%	23.0%	23.0%	23.0%	23.0%	23.6%	23.0%
% Sales							
Homebuilding SG&A expenses	7.9%	7.8%	7.8%	7.3%	8.1%	7.7%	7.5%
Total SG&A expenses	7.9%	7.8%	7.8%	7.3%	8.1%	7.7%	7.5%
Depreciation & Amortization	0.7%	0.6%	0.6%	0.6%	0.5%	0.6%	0.5%
Amortization of previously capitalized debt	0.0%	2.0%	2.0%	2.0%	1.5%	1.5%	2.0%
YoY % Change							
Home Sales	15.9%	(10.1%)	(7.2%)	(33.1%)	73.9%	(11.9%)	3.3%
Total Sales	15.9%	(10.1%)	(7.2%)	(33.1%)	73.7%	(11.8%)	3.3%
Home Sales Gross Profit	5.3%	(23.3%)	(16.0%)	(34.3%)	99.5%	(19.2%)	4.3%
Operating Income	12.3%	(28.0%)	(13.9%)	(38.0%)	113.9%	(20.8%)	7.1%
Net Income (available to common)	12.3%	(21.8%)	(27.9%)	(37.8%)	116.5%	(23.0%)	7.4%
EPS (continuing ops)	8.2%	(24.9%)	(28.2%)	(37.0%)	93.4%	(24.5%)	7.4%
YoY BPS Change							
Homebuilding Gross Margin (Excluding Impairments)	-170 bps	-289 bps	-176 bps	-30 bps	236 bps	-153 bps	16 bps
Land & Lot Sales Gross Margin	nm	nm	nm	nm	nm	nm	nm
Homebuilding Operating Margin	-30 bps	-235 bps	-78 bps	-81 bps	207 bps	-110 bps	35 bps
Total Operating Margin	-29 bps	-231 bps	-73 bps	-77 bps	196 bps	-107 bps	34 bps
Pre-tax Margin	-50 bps	-184 bps	-95 bps	-101 bps	223 bps	-117 bps	45 bps
Net Margin (available to common)	-20 bps	-103 bps	-197 bps	-55 bps	155 bps	-99 bps	27 bps
Tax Rate	-128 bps	-301 bps	1035 bps	-280 bps	604 bps	62 bps	-60 bps

Source: Company reports, BofA global research

BofA GLOBAL RESEARCH

Price objective basis & risk

Dream Finders Homes, Inc. (DFH)

Our Dream Finders Homes PO is \$18. We use price-to-book to value Dream Finders given the challenges of forecasting earnings for high growth homebuilder. Our PO is based on 1.8X 2023E P/B, which is a premium to the current peer group average of 1.4X (ex. NVR) due to DFH's faster growth outlook compared to public peers and higher ROE.

Downside risks: (1) margins could decline if DFH is outbid by larger competitors for land, labor and materials, (2) supply chain bottlenecks, (3) affordability challenges from surging home price appreciation and interest rates ticking up from current levels and (4) slowing US economic growth.

Upside risks: (1) strong housing fundamentals continue to support demand, (2) continued net migration to markets where DFH has a presence, (3) ability to continue to improve margin and return metrics, 4) a potential easing in home price appreciation and/or pullback in interest rates.

Analyst Certification

I, Rafe Jadrosich, 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 - Homebuilders and Building Products Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Armstrong World Industries, Inc.	AWI	AWI US	Rafe Jadrosich
	D.R. Horton, Inc.	DHI	DHI US	Rafe Jadrosich
	Latham Group, Inc.	SWIM	SWIM US	Shaun Calnan, CFA
	NVR, Inc.	NVR	NVR US	Rafe Jadrosich
	Owens Corning	OC	OC US	Rafe Jadrosich
	PulteGroup Inc.	PHM	PHM US	Rafe Jadrosich
	The AZEK Company Inc.	AZEK	AZEK US	Rafe Jadrosich
	Toll Brothers, Inc.	TOL	TOL US	Rafe Jadrosich
	Trex Company, Inc.	TREX	TREX US	Rafe Jadrosich
NEUTRAL				
	Dream Finders Homes, Inc.	DFH	DFH US	Rafe Jadrosich
	KB Home	KBH	KBH US	Rafe Jadrosich
	Lennar Corporation	LEN	LEN US	Rafe Jadrosich
UNDERPERFORM				
	Fortune Brands Innovations Inc	FBIN	FBIN US	Rafe Jadrosich
	Hayward Holdings, Inc.	HAYW	HAYW US	Rafe Jadrosich
	Masco Corp	MAS	MAS US	Rafe Jadrosich
	Mohawk Industries	MHK	MHK US	Rafe Jadrosich
	Patrick Industries, Inc.	PATK	PATK US	Rafe Jadrosich
	Pool Corporation	POOL	POOL US	Shaun Calnan, 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

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 valuations. 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.

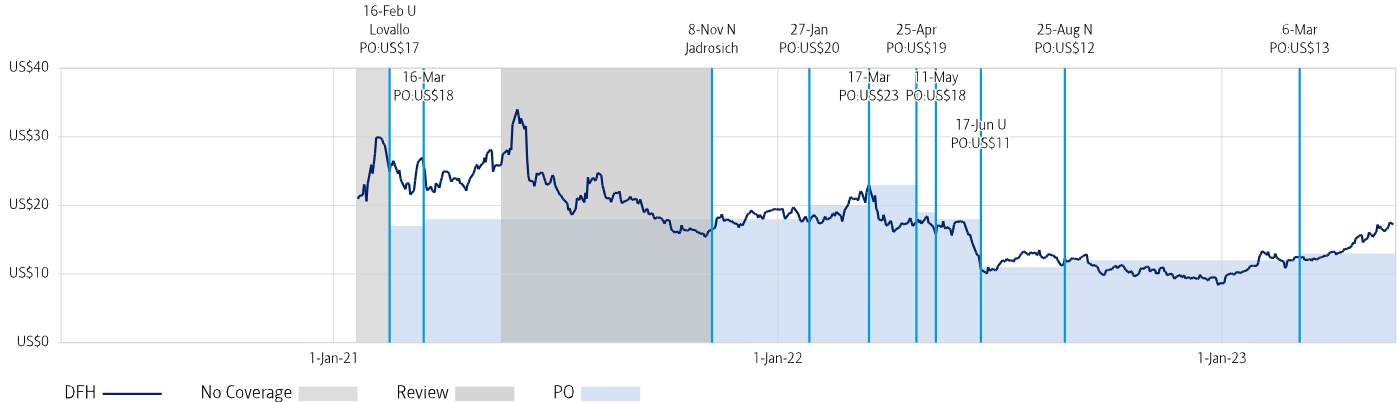
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Disclosures

Important Disclosures

Dream Finders Homes (DFH) Price Chart



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: Building Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	34	44.74%	Buy	17	50.00%
Hold	14	18.42%	Hold	9	64.29%
Sell	28	36.84%	Sell	9	32.14%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.01%	Buy	1030	55.11%
Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

^{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.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's: absolute total return potential as well as its attractiveness for investment relative to other stocks within its *Coverage Cluster* (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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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