EQUITY RESEARCH

RBC Capital Markets

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June 16, 2014

SCYNEXIS Inc.

SCY-078 progress on track; We think still a good entry point

Our view: SCYX reported 1Q:14 results; key updates include an on-track start of clinical studies and cash to finish Phase I and Phase IIs.

Key points:

We think SCYX shares represent an attractive and as yet under-appreciated opportunity for a new mechanism targeting systemic anti-fungal infections because SCY-078 benefits from the GAIN Act and the FDA's QIDP designation process yet targets systemic fungal infections, which are serious and life threatening but nowhere near as competitive an area as the antibiotics or anti-viral space. The company is preparing a Phase II study with oral SCY-078 and developing an i.v. formulation as well, which would allow the start of potentially pivotal studies in 2016, assuming FDA sign off. We reiterate our Outperform rating and like the valuation at current levels with an enterprise value of only ~$45M and expect value to be created with progress in the clinic.

Phase II and Phase I plans on track for SCY-078. SCYX will initiate the Phase II study with oral SCY-078 in invasive candida infections in 2H:14. This will be followed by a Phase I study with intravenous SCY-078 in 1H:15. Results from both are likely in 2015. The intravenous form is also likely to seek and receive the QIDP designation given that the oral form already has it.

Data in 2015 important; potentially sets up a pivotal in 2016. SCYX needs the intravenous and oral formulations to commence pivotal studies in patients with invasive fungal infections. News flow in 2015 that demonstrates the viability of the oral and intravenous forms could allow the start of the potentially pivotal Phase II/III study in patients with resistant organisms. We also expect SCYX to update us on its interactions with the FDA regarding further development, including plans for the Phase II/III.

Business development remains a wild-card. Though SCYX will focus on its proprietary enfumafungin anti-fungal program, its other assets, which include cyclophilin inhibitors, could be partnered out opportunistically. Should any deals occur, they could be another source of non-dilutive capital to advance SCY-078.

1Q:14 results; cash into 2016. 1Q:14 results beat with higher revenues but the key metric is cash which we estimate at ~$40M pro forma (~$4.60 net cash per share) and should be enough to fund operations into 2016, after data from the oral and i.v. Phase II and Phase I studies will already have read out and plans for further studies likely outlined.

Outperform

Speculative Risk

NASDAQ: SCYX; USD 9.74

Price Target USD 17.00

WHAT'S INSIDE	
☐ Rating/Risk Change	☐ Price Target Change
☐ In-Depth Report	☑ Est. Change
☐ Preview	☑ News Analysis

Scenario Analysis*

Downside Scenario	Current Price	Price Target	Upside Scenario
5.00	9.74	17.00	34.00
↓ 49%		↑ 75%	↑ 249%

*Implied Total Returns

Key Statistics

Shares O/S (MM):	9.7	Market Cap (MM):	94
Dividend:	0.00	Yield:	0.0%

RBC Estimates

FY Dec	2013A	2014E	2015E	2016E
Revenue	16.9	17.5	17.1	17.2
Prev.		17.0		
EPS, Ops Diluted	(6.84)	(1.77)	(2.33)	(2.00)
Prev.		(1.69)	(2.05)	(1.83)
P/E	NM	NM	NM	NM

Revenue	**Q1**	**Q2**	**Q3**	**Q4**
2014	4.7A	4.3E	4.3E	4.3E
Prev.	4.3E			
2015	4.3E	4.3E	4.3E	4.3E
EPS, Ops Diluted				
2014	(3.65)A	(0.39)E	(0.45)E	(0.55)E
Prev.	(0.48)E	(0.37)E	(0.42)E	(0.44)E
2015	(0.53)E	(0.56)E	(0.58)E	(0.66)E
Prev.	(0.47)E	(0.49)E	(0.51)E	(0.58)E

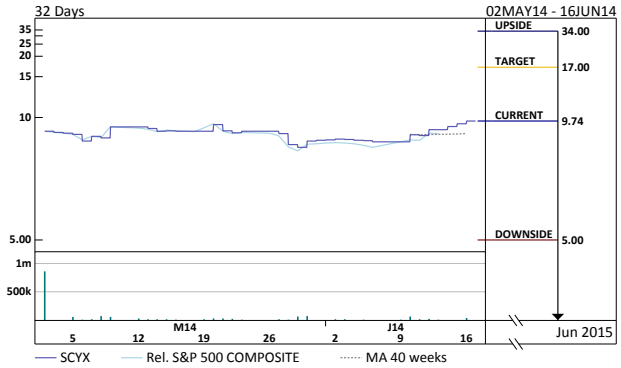
EPS, Ops Diluted: Basic shares used when EPS are negative.
All values in USD unless otherwise noted.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Conflicts Disclosures, see Page 7

Target/Upside/Downside Scenarios

Exhibit 1: SCYNEXIS Inc.



Source: Bloomberg and RBC Capital Markets estimates for Upside/Downside/Target

Target price/ base case

We value SCYX at $17 per share, which includes US and ROW sales of SCY-078. We assign a probability of success of 60% and a value of ~$10 per share to the US and $7 per share to the ROW opportunity. We assume a US launch in 2019 and an ROW launch in 2020. Currently, we assume that SCYX will sell SCY-078 in the US and a partner will commercialize these compounds outside the US. We forecast peak SCY-078 sales of $300-400MM in the US and $1.0-1.4B in the ROW.

Upside scenario

Our upside scenario includes ~$18 per share in value for the US opportunity and ~$16 per share in value for the ROW opportunity. We forecast peak SCY-078 sales of $600-700MM in the US and $1.7B-$2B in the ROW. We assign SCY-078 a 60% probability of success, a discount rate of 15%, and use a terminal growth rate of -50%.

Downside scenario

Our downside scenario assumes that SCY-078 may not be successful clinically or commercially either because efficacy against resistant organisms was not borne out or it was not long lasting or an unexpected adverse event was seen. Under such a scenario shares would trade at roughly cash per share which is currently ~$5.

Investment summary

Scynexis' (SCYX) SCY-078 treats systemic fungal infections via a new mechanism of action that attacks the fungal cell wall, a validated target. These infections are serious, have high rates of mortality, and rates of resistance to current drugs are rising. All currently available drugs have limitations, which allow SCY-078 to generate an attractive value proposition. The worldwide market for systemic anti-fungals is nearly $4B. Roughly 600,000 patients are identified with invasive fungal infections and an even higher number is treated. Phase I studies are completed for the oral version and in vitro and in vivo data shows activity in organisms both susceptible and resistant to currently approved drugs. Next up is a Phase II for the oral and a Phase I for the intravenous form with data in 2015. A Phase II/III study in resistant patients could start in 2016 and potentially provide a more rapid path to the market. SCYX essentially owns all rights to SCY-078, which is patent protected through 2030, as well as to its anti-fungal pipeline. This leaves SCYX free to commercialize the products itself, partner on a global or regional basis, and/or sell the company.

Potential catalysts for SCYX shares

- **Phase II data for oral SCY-078 in 2015.** Important catalyst as this will be the first time SCY-078 will be used in human patients.
- **Phase I data for intravenous SCY-078 in 2015.** Important as an intravenous does not yet exist and is needed to maximize the value of SCY-078 franchise.
- **Phase II/III trial design in 2015/2016.** A sign off from the FDA could determine the pace and potential path to the market.
- **Phase II/III trial start in 2016 and data by YE:17/ early 2018.** A Phase II/III study in drug resistant patients could be the first proof that SCY-078 can achieve in patients what it is designed to do and has shown in in vitro and in vivo models.
- **Business development activities in 2014/2015.** Non-core pipeline assets and even SCY-078 could be partnered opportunistically raising non-dilutive capital.

Risks to our investment thesis

- **Clinical studies for oral and intravenous SCY-078 could fail**. Expectations are based on pre-clinical and Phase I data and human studies could show a lack of efficacy or emergence of resistance.
- **Merck returned rights for SCY-078 back to SCYX**. This raises the question of whether MRK saw anything in SCY-078's clinical or commercial profile that was lacking.
- **Sales ramp of SCY-078 could lag expectations** unless rates of resistance continue to rise.
- **SCYX could fail to find a partner** outside the US for SCY-078.
- **Timelines are rapid and any delays could disappoint investors**.

Exhibit 2: 1Q:14 P&L Variance Table

(in MM; except per share)	1Q:14A	Est.	Var.
Revenue:			
SCY-078			
Other Revenue	4.7	4.3	0.5
Total Revenue	4.7	4.3	0.5
Operating expenses:			
Cost of Other Revenue	4.0	4.1	(0.1)
R&D	1.3	2.0	(0.7)
SG&A	1.2	1.3	(0.0)
Gain on sale of asset			
Total Expenses	6.5	7.4	(0.9)
Operating Income (Expense)	(1.8)	(3.1)	1.3
Other:			
Amortization of deferred financing cost and debt discount	(0.5)		(0.5)
Interest expense for beneficial conversion feature			
Interest expense-related party		(0.2)	0.2
Interest expense	(0.0)	(0.0)	
Derivative fair value adjustment	2.8		2.8
Other income	(0.0)	0.1	
Income before Tax	0.4	(3.3)	3.7
Taxes			
Net income (loss)	0.4	(3.3)	3.7
EPS, Basic (GAAP)	($3.65)	($0.48)	($3.17)
EPS, Diluted (GAAP)	($2.00)	($0.40)	($1.61)
Shares outstanding, Basic	0.3	6.9	(6.5)
Shares outstanding, Diluted	0.6	8.4	(7.8)

Source: Company reports and RBC Capital Markets estimates.

Exhibit 3: SCYX News Flow

Timing	Expected News Flow	Program
4Q:14/ YE:14	Initiate Phase II with oral SCY-078	SCY-078
Late 2014/ early 2015	Request QIDP designation for i.v. SCY-078	SCY-078
2014/2015	Potential pipeline related business development	
Early 2015	Initiate Phase I study with i.v. SCY-078	SCY-078
Mid-/2H:15	Phase I intravenous SCY-078 results	SCY-078
YE:15	Phase II results from oral SCY-078 step down study	SCY-078
2016	Initiate Phase II/III i.v. to oral SCY-078 in relapsed/ refractory patients	SCY-078
YE:2016/ early 2017	Initiate Phase III study for i.v. to oral SCY-078 in 1st line patients	SCY-078
Late 2017/ early 2018	Phase II/III i.v. to oral data	SCY-078
2018	Potential NDA for SCY-078	SCY-078
YE:18/ 2019	Potential accelerated approval	SCY-078

Source: Company reports and RBC Capital Markets estimates.

Exhibit 4: SCYX Products and Pipeline

Product	Mechanism	Stage	Indication
SCY-078	1,3 beta fl glucan synthesis inhibitor	Phase II anticipated with oral; Phase I with intravenous anticipated	Invasive fungal infections caused by Candida and Aspergillus species
SCY-635	Cyclophilin inhibitor	Phase IIa	Hepatitis C Virus (HCV)
SCYX-7158	Anti-parasitic	Phase I	Human African Trypanosomiasis (Sleeping sickness)
SCY-641	Cyclophilin inhibitor	Pre-Clinical	Dry Eye disease

Source: Company reports.

Valuation

We value SCYX at $17 per share, which includes US and ROW sales of SCY-078. We assign a probability of success of 60% and a value of ~$10 per share to the US and $7 per share to the ROW opportunity. We assume a US launch in 2019 and an ROW launch in 2020. Currently, we assume that SCYX will sell SCY-078 in the US and a partner will commercialize these compounds outside the US. We forecast peak SCY-078 sales of $300-400MM in the US and $1.0-1.4B in the ROW. We currently assign no additional value to the earlier stage pipeline. Finally, we assume product sales extend into 2030 and include a terminal value based on a terminal growth rate of -50% and a discount rate of 15%.

Price target impediments

Our price target is dependent solely on the clinical, regulatory and commercial success of SCY-078. A Phase II study for SCY-078 is expected in 2014 and data expected in 2015. Failure to demonstrate efficacy or safety in the study would be a significant setback. Furthermore, any setbacks in regulatory approvals in the US or EU, delay in launch, failure to secure a partnership outside the US for SCY-078, increased competition or other limitations to the market potential of these products either due to better efficacy and/or safety outcomes or pricing pressure due to the availability of generic drugs for glaucoma, could negatively impact our valuation.

Company description

SCYNEXIS Inc. (SCYX) SCY-078 treats systemic fungal infections via a new mechanism of action that targets the fungal cell wall. These infections are serious, kill patients, and rates of resistance to current drugs are rising, while all currently available drugs have their limitations, which is the value proposition for SCY-078. The worldwide market for systemic anti-fungals is nearly $4B. Roughly 600,000 patients are identified with invasive fungal infections and an even higher number is treated. Phase I studies are completed for the oral version and in vitro and in vivo data shows activity in organisms both susceptible and resistant to currently approved drugs. Next up is a Phase II for the oral and a Phase I for the intravenous forms with data in 2015. A Phase II/III study in resistant patients could start in 2016 and potentially provide a more rapid path to the market. SCYX essentially owns all rights to SCY-078, which is patent protected through 2030, as well as to its anti-fungal portfolio. This leaves SCYX free to commercialize the products itself, partner on a global or regional basis, and/or sell the company.

Scynexis - Income Statement
FYE December 31

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(in MM; except per share)	2012A	2013A	1Q:14A	2Q:14E	3Q:14E	4Q:14E	2014E	1Q:15E	2Q:15E	3Q:15E	4Q:15E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Revenue:																				
SCY-078																24.6	46.1	68.4	91.5	115.6
Other Revenue	9.4	9.6	4.7	4.3	4.3	4.3	17.5	4.3	4.3	4.3	4.3	17.1	17.2	17.3	17.4	17.5	17.6	17.7	17.8	17.9
Total Revenue	16.8	16.9	4.7	4.3	4.3	4.3	17.5	4.3	4.3	4.3	4.3	17.1	17.2	17.3	17.4	42.1	72.2	107.8	144.8	183.3
Operating expenses:																				
Cost of Other Revenue	14.4	16.3	4.0	4.1	4.1	4.1	16.3	4.1	4.1	4.1	4.1	16.5	16.6	16.7	16.8	16.9	17.0	17.1	17.2	17.3
R&D	8.9	4.4	1.3	2.3	2.8	3.7	10.0	3.3	3.5	3.8	4.5	15.0	20.0	30.0	35.0	25.0	22.5	25.0	27.5	30.0
SG&A	4.7	4.4	1.2	1.3	1.3	1.3	5.0	1.5	1.5	1.5	1.5	8.0	8.5	9.0	10.0	22.5	28.8	30.0	32.5	33.1
Gain on sale of asset	(3.4)	(1.0)																		
Total Expenses	24.6	24.1	6.5	7.6	8.1	9.0	31.2	8.9	9.1	9.4	10.1	37.5	45.1	55.7	61.8	66.9	72.9	78.9	86.4	92.0
Operating Income (Expense)	(7.8)	(7.2)	(1.8)	(3.4)	(3.9)	(4.8)	(13.8)	(4.6)	(4.9)	(5.1)	(5.9)	(20.4)	(27.9)	(38.4)	(44.4)	(24.7)	(0.7)	28.9	58.5	91.3
Other:																				
Amortization of deferred financing cost and debt discount	(2.9)	(3.5)	(0.5)				(0.5)													
Interest expense for beneficial conversion feature		(10.8)																		
Interest expense-related party	(0.7)	(0.9)																		
Interest expense	(0.2)	(0.2)	(0.0)	(0.0)	(0.0)	(0.0)	(0.2)													
Derivative fair value adjustment	0.2	(7.9)	2.8				2.8													
Other income	0.0		(0.0)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.2	0.4	0.6	0.8
Income before Tax	(11.5)	(30.5)	0.4	(3.3)	(3.8)	(4.8)	(11.6)	(4.6)	(4.9)	(5.1)	(5.9)	(20.4)	(27.9)	(38.4)	(44.4)	(24.7)	(0.7)	28.9	58.5	91.3
Taxes																		9.8	19.9	31.0
Net income (loss)	(11.5)	(30.5)	0.4	(3.3)	(3.8)	(4.8)	(11.6)	(4.6)	(4.9)	(5.1)	(5.9)	(20.4)	(27.9)	(38.4)	(44.4)	(24.7)	(0.7)	19.1	38.6	60.2
Net loss attributable to common stockholders	(11.5)	(46.8)	(1.2)	(3.3)	(3.8)	(4.8)	(11.6)	(4.6)	(4.9)	(5.1)	(5.9)	(20.4)	(27.9)	(38.4)	(44.4)	(24.7)	(0.7)	19.1	38.6	60.2
EPS, Basic (GAAP)	($1.73)	($6.84)	($3.65)	($0.39)	($0.45)	($0.55)	($1.77)	($0.53)	($0.56)	($0.58)	($0.66)	($2.33)	($2.00)	($2.69)	($3.05)	($1.25)	($0.03)	$0.92	$1.83	$2.81
EPS, Diluted (GAAP)	($1.41)	($5.61)	($2.00)	($0.37)	($0.43)	($0.53)	($1.67)	($0.49)	($0.51)	($0.54)	($0.61)	($2.15)	($1.86)	($2.52)	($2.86)	($1.19)	($0.03)	$0.88	$1.75	$2.68
Shares outstanding, Basic	6.6	6.8	0.3	8.5	8.6	8.6	6.5	8.7	8.7	8.8	8.8	8.7	14.0	14.3	14.5	19.8	20.2	20.6	21.0	21.5
Shares outstanding, Diluted	8.1	8.3	0.6	9.0	9.0	9.1	6.9	9.4	9.5	9.5	9.6	9.5	15.0	15.3	15.5	20.8	21.2	21.6	22.0	22.5
Operating Ratios	**2012A**	**2013A**	**1Q:14A**	**2Q:14E**	**3Q:14E**	**4Q:14E**	**2014E**	**1Q:15E**	**2Q:15E**	**3Q:15E**	**4Q:15E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**
COGS																10.0%	10.0%	10.0%	10.0%	10.0%
Gross Margin	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	90.0%	90.0%	90.0%	90.0%	90.0%
R&D	53.0%	25.9%	28.1%	52.9%	64.7%	86.6%	57.3%	76.0%	81.9%	87.7%	105.3%	87.7%	116.3%	173.4%	201.1%	59.3%	31.2%	23.2%	19.0%	16.4%
SG&A	28.2%	26.0%	25.6%	29.4%	29.4%	29.4%	28.4%	35.1%	35.1%	35.1%	35.1%	46.8%	49.4%	52.0%	57.5%	53.4%	39.8%	27.8%	22.4%	18.1%
Operating Margin	-46.2%	-42.7%	-37.9%	-78.8%	-90.6%	-112.5%	-78.8%	-107.6%	-113.5%	-119.3%	-136.8%	-119.3%	-162.2%	-222.0%	-255.2%	-58.7%	-0.9%	26.8%	40.4%	49.8%
Taxes	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%
Net Margin	-68.2%	-180.7%	8.8%	-78.7%	-90.4%	-112.3%	-66.2%	-107.6%	-113.5%	-119.3%	-136.8%	-119.3%	-162.2%	-222.0%	-255.2%	-58.7%	-0.9%	17.7%	26.6%	32.9%
Source: Company reports and RBC Capital Markets estimates.																				
Balance Sheet - Select Items	**2012A**	**2013A**	**1Q:14A**	**2Q:14E**	**3Q:14E**	**4Q:14E**	**2014E**	**1Q:15E**	**2Q:15E**	**3Q:15E**	**4Q:15E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**
Cash and cash equivalents	2.4	1.4	0.6	57.5	55.8	53.1	53.1	50.5	47.7	44.8	41.0	41.0	101.0	70.1	33.7	109.5	115.1	140.6	185.5	252.0
Total current assets	5.2	3.0	2.3	58.7	57.0	54.4	54.4	51.9	49.1	46.2	42.4	42.4	102.4	72.0	35.6	112.8	120.2	147.7	194.7	263.4
Total assets	12.1	12.4	13.0	58.9	57.3	54.7	54.7	52.3	49.6	46.7	43.1	43.1	103.3	73.2	37.1	114.7	122.3	150.1	197.4	266.4
Current Liabilities																				
Total current liabilities	14.2	18.5	20.5	11.0	11.3	11.6	11.6	11.9	12.2	12.5	12.8	12.8	14.0	15.7	16.9	19.5	23.0	26.5	30.1	33.8
Total liabilities	17.2	14.9	12.9	12.9	12.9	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.7	12.7	12.6	12.5	12.5	12.4	12.4	12.3
Accumulated deficit	(82.8)	(113.3)	(112.9)	(113.9)	(115.8)	(118.7)	(118.7)	(121.6)	(124.6)	(127.8)	(131.7)	(131.7)	(152.5)	(184.4)	(221.7)	(240.8)	(236.1)	(211.5)	(167.5)	(101.9)
Total stockholders' equity	(19.3)	(21.0)	(20.4)	36.2	34.3	31.4	31.4	28.5	25.5	22.3	18.4	18.4	157.4	125.5	88.2	257.1	261.8	286.4	330.4	396.0
Total liabilities and stockholders Equity	12.1	12.4	13.0	60.1	58.4	55.8	55.8	53.2	50.5	47.6	44.0	44.0	184.1	153.9	117.7	289.2	297.3	325.3	372.8	442.1
Cash Flow Statement - Select Items	**2012A**	**2013A**	**1Q:14A**	**2Q:14E**	**3Q:14E**	**4Q:14E**	**2014E**	**1Q:15E**	**2Q:15E**	**3Q:15E**	**4Q:15E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**
Net Income (loss)	(11.5)	(30.5)	0.4	(3.3)	(3.8)	(4.8)	(11.6)	(4.6)	(4.9)	(5.1)	(5.9)	(20.4)	(27.9)	(38.4)	(44.4)	(24.7)	(0.7)	19.1	38.6	60.2
Gain on sale of asset, net of transaction expenses	(3.4)	(1.0)																		
Stock-based compensation expense	0.4	0.2	0.1	0.1	0.1	0.1	0.4	0.1	0.1	0.1	0.1	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Net cash provided (used) by operating activities	(10.6)	(4.3)	0.2	(0.7)	(1.6)	(2.6)	(4.8)	(2.6)	(2.7)	(2.9)	(3.7)	(11.8)	(19.6)	(30.6)	(36.1)	(17.9)	5.9	25.8	45.2	66.8
Purchases of property and equipment	(0.4)	(0.4)	(0.1)	(0.1)	(0.1)	(0.1)	(0.3)	(0.1)	(0.1)	(0.1)	(0.1)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Net cash used in investing activities	3.1	0.6	(0.1)	(0.1)	(0.1)	(0.1)	(0.3)	(0.1)	(0.1)	(0.1)	(0.1)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Proceeds from sale of preferred stock		2.5	0.5				0.5													
Net cash provided by (used in) financing activities	6.0	2.8	(0.8)	57.7			56.8						79.9			94.0				
Decrease in cash and cash equivalents	(1.6)	(1.0)	(0.8)	56.9	(1.7)	(2.7)	51.7	(2.7)	(2.7)	(3.0)	(3.7)	(12.1)	60.0	(30.9)	(36.4)	75.8	5.6	25.5	44.9	66.5
Cash and cash equivalents at the beginning of the year	4.0	2.4	1.4	0.6	57.5	55.8	1.4	53.1	50.5	47.7	44.8	53.1	41.0	101.0	70.1	33.7	109.5	115.1	140.6	185.5
Cash and cash equivalents at the end of the year	2.4	1.4	0.6	57.5	55.8	53.1	53.1	50.5	47.7	44.8	41.0	41.0	101.0	70.1	33.7	109.5	115.1	140.6	185.5	252.0

Source: Company reports and RBC Capital Markets estimates.

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As of 31-Mar-2014

			Investment Banking Serv./Past 12 Mos.	
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HOLD [Sector Perform]	654	41.76	170	25.99
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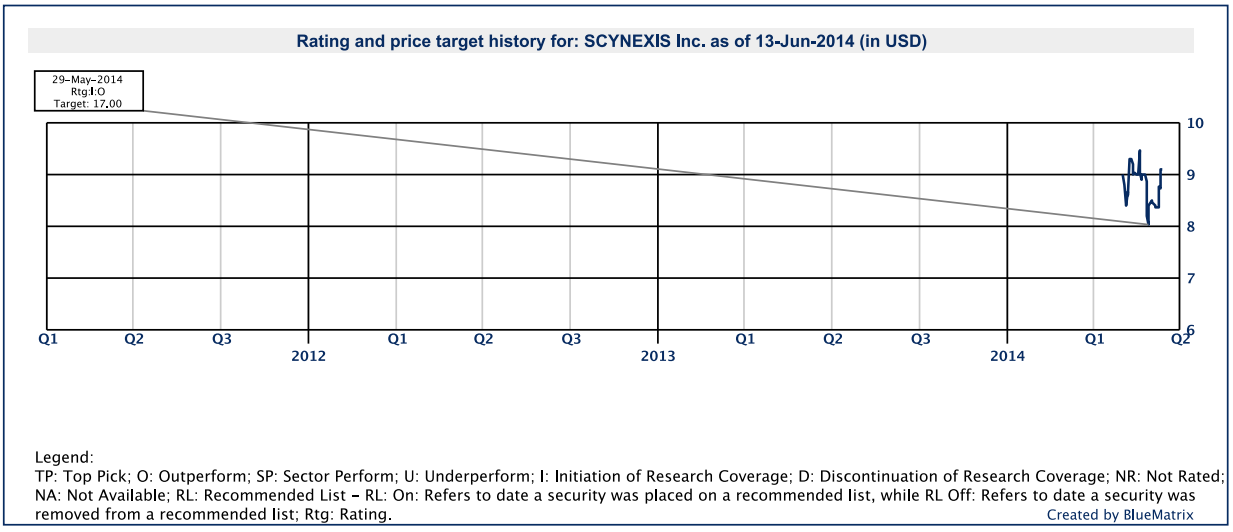

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