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infosys: The buyout strategy for vision 2020[[1]](#endnote-1)

N. P. Singh and Nakul Gupta wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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Infosys Limited (Infosys), India’s second-largest software service provider, released its annual financial report in June 2017.[[2]](#endnote-2) The report indicated that although the company had grown, it had grown slowly. However, Infosys had set an ambitious goal for the coming years, which it referred to as “Vision 2020”—achieve US$20 billion[[3]](#endnote-3) in revenue at a 30 per cent net margin and revenue of $80,000 per employee. If Infosys were to realize this goal by 2020 (which had been depicted in the media as a “far-fetched” goal),[[4]](#endnote-4) its 8–9 per cent annual growth[[5]](#endnote-5) had to be improved.

To scale up quickly, Infosys would need to leverage inorganic growth opportunities such as acquisitions.[[6]](#endnote-6) Infosys had already made nine acquisitions between 2000 and 2016 (see Exhibit 1), but of these, two had led to controversy. Lodestone Management Consultants had been bought for $345 million, then acknowledged a few years later to have been a bad acquisition.[[7]](#endnote-7) Panaya, acquired for a value of $200 million, raised questions about the price paid for the acquisition: the month before acquisition, Israel Growth Partners valued Panaya at 20 per cent less ($162 million) when they invested $20 million for a 12.31 per cent stake in Panaya.[[8]](#endnote-8)

Infosys’ growth plans were also challenged by labour and revenue uncertainty due to changes in the United States’ foreign workers visa policy.[[9]](#endnote-9) The policy had allowed U.S. companies to employ skilled foreign workers to fill certain occupations, but the Trump administration[[10]](#endnote-10) had recently changed the system to protect the jobs of U.S. workers by limiting the number of foreign workers with visas. The change was a blow to the U.S. information technology (IT) sector, which was particularly dependent on workers from overseas. A drop in output from the American IT sector would affect Infosys because it relied on North America for 65 per cent of its segmental revenues.

Infosys had improved its client base and technical knowledge[[11]](#endnote-11) and had expanded geographically with its acquisitions, but if Infosys was going to use buyouts and acquisitions as inorganic paths of growth, it needed to reconsider its strategy. Which business and geographical segments should the firm invest in, and what should be the key determining factors that drive the acquisitions: increased clientele, enhanced technology, or extended geographical reach?

Information TECHNOLOGY and IT-enabled SERVICES IN INDIA

India was the prime outsourcing country for the IT industry, accounting for a market of $154 billion in revenue.[[12]](#endnote-12) Growth in the Indian IT sector was evolving, driven more by services than software,[[13]](#endnote-13) and that involved human capital[[14]](#endnote-14) and automation.[[15]](#endnote-15) As of 2016, the Indian IT industry employed about 10 million people.[[16]](#endnote-16)

Business process outsourcing, IT consulting, and cloud-based services were becoming more important with every passing day. In a recent press release, Gartner Consulting estimated that the cloud services market in India would grow at 35.9 percent and reach a value of approximately $1.3 billion.[[17]](#endnote-17)

The improved diffusion of Internet and mobile connections in India’s urban and rural areas,[[18]](#endnote-18) coupled with the swift rise of electronic and mobile commerce, were driving continued demand for hosting and IT-enabled services in India. The telecom regulatory authority was also planning a rapid expansion based on the Internet of Things (IoT) and 5G (fifth generation mobile services infrastructure), bringing standards on par with those in the developed world.[[19]](#endnote-19) The Indian healthcare IT market was also growing at an unprecedented rate; it was estimated that by 2020, the market would be 1.5 times the size of its then valuation of $1 billion.[[20]](#endnote-20) The IT-enabled finance and payments sector was also undergoing great growth, especially after the Indian government demonetized specific currency denominations[[21]](#endnote-21) and invested in resources to upgrade unified payment interfaces.[[22]](#endnote-22)

This augmented demand in the IT-enabled finance and health sectors meant increased demand for services and platforms. International players in platform-based businesses and innovative IT tools were entering India, and the competition from these international companies (both start-ups and larger firms) was becoming a threat to the domestic Indian IT sector.[[23]](#endnote-23) These international companies included some of the pioneers of automation and artificial intelligence (AI) technologies. Head Hunters India founder and managing director, Kris Lakshmikanth, observed this trend and commented:

Amidst fears that Indian tech companies haven’t kept pace to make the shift from traditional to cutting-edge technologies to meet customer demands, I firmly believe that our top companies, including TCS and Infosys, just as they made India the outsourcing global giant, will lead India in the digital business too.[[24]](#endnote-24)

The reach of venture capital, private equity, angel investments, and foreign direct investment[[25]](#endnote-25) had increased significantly in India, with a focus on IT-enabled sectors.[[26]](#endnote-26) Foreign investors were motivated to invest in India’s growing digital economy by increased transparency[[27]](#endnote-27) and clear taxation policies. For example, a goods and services tax (GST) was introduced as an indirect tax levied throughout India to replace the complex structure of taxes imposed separately by the central and state governments.[[28]](#endnote-28)

International technology firms, such as Microsoft Corporation and Robert Bosch GmbH, were establishing corporate start-up accelerators in India[[29]](#endnote-29) to tap Indian IT talent and the market. Indian IT firms like Tech Mahindra Limited, Wipro Limited, Infosys, and Tata Consultancy Services Limited were expanding their offerings beyond their existing capabilities in on-shore and off-shore services. They were using innovation hubs and research and development centres to showcase their leading ideas in natural language processing, blockchain technology, social media, cloud computing, analytics, and AI for clients. However, the international players were moving at a much faster pace in these sectors than their Indian counterparts.[[30]](#endnote-30)

INFOSYS Limited

Infosys was a global consulting and IT services company headquartered in Bengaluru, India, and listed on the New York Stock Exchange and the Nasdaq. The company was founded in 1981 by N. R. Narayana Murthy, Nandan Nilekani, N. S. Raghavan, Kris Gopalakrishnan, S. D. Shibulal, and Ashok Arora, with an initial investment of just $250.[[31]](#endnote-31) The chief executive officer in 2017 was Dr. Vishal Sikka. He held a bachelor of science degree in computer science from Syracuse University and a doctorate in computer science from Stanford University. Prior to joining Infosys, he had been employed at SAP SE.

As of May 2017, Infosys had a market capitalization of $36.2 billion; yearly revenues for fiscal year 2016–17 totalled $10.2 billion (see Exhibit 2).[[32]](#endnote-32) According to the company’s annual report for 2016–17,[[33]](#endnote-33) Infosys had 17 direct subsidiaries, 26 step-down subsidiaries, and one associate. Its workforce stood at 200,364 as of March 31, 2017. The company added 6,320 employees during 2016–17 and had an attrition rate of 15 per cent.

Infosys, along with its subsidiaries, provided business outsourcing, consulting, and information technology services to its clients across the globe. Its primary market business segments included financial services; manufacturing; retail, consumer packaged goods, and logistics; energy, utilities, and communications and services; hi-tech; and life sciences, health care, and insurance (see Exhibit 3).[[34]](#endnote-34) Geographical segments of Infosys, including on- and off-site locations, spanned North America, Europe—including Ireland and the United Kingdom—India, and the rest of the world.

Infosys ACQUITIONS (2000–2016)

Infosys was a cash-rich company able to buy out a number of companies (see Exhibits 2–3).

**Expert Information Services**,a Melbourne, Australia-based company, was Infosys’ first acquisition, acquired in 2003.[[35]](#endnote-35) The company earned revenues of $34.6 million and made a net profit of $5.2 million during its fiscal year ending June 30, 2003. The company specialized in designing, building, and integrating business solutions and products for medium and large clients across vertical sectors such as telecom, financial services, retail, and government.[[36]](#endnote-36)

Infosys paid $22.9 million to acquire 100 per cent of the Expert Information Services’ equity (a buyout deal). The transaction value included an up-front payment of $14.1 million and an earn-out and transition bonus of $8.9 million, payable over three years for achieving key financial targets and retaining key employees over a period of two years. The company was renamed Infosys Technologies (Australia) Pty Limited.[[37]](#endnote-37)

**Koninklijke Philips N.V.** (Philips)’s three shared services centres were Infosys’ second acquisition, completed at a cost of $28 million in 2007. At that time, Infosys had $1.4 billion in cash reserves, and the company estimated that the deal would augment revenue by $32 million. This estimated revenue was calculated at $15 per worker hour.[[38]](#endnote-38) The deal included a business contract for Infosys worth $250 million to provide Philips with finance and accounting services, and process its purchase orders.

**McCamish Systems** was founded in 1985 and based its 260-employee delivery centre in Atlanta, Georgia. It posted earned revenues of $38.2 million for the year ending 2008. Infosys bought it in 2009 for $58 million. According to the terms of acquisition, the up-front consideration for the deal was $38 million. Infosys agreed to pay an additional $20 million to McCamish Systems if it achieved set financial targets in the coming years.[[39]](#endnote-39) At the time of the deal, McCamish Systems had 39 clients and counted major insurance and financial companies among them, including Nolan Financial Group, Phoenix Companies, Inc., and Heritage Credit Union.[[40]](#endnote-40) The deal helped Infosys’ business process outsourcing subsidiary, Infosys BPO, develop an evolved pricing-based business model.[[41]](#endnote-41)

**Portland Group** was an Australian sourcing and category management services company founded in 1999. It had offices in Melbourne, Brisbane, Perth, New Zealand, and Shanghai. Its revenue was $29.3 million at the end of June 2011, with a workforce of 113. Portland Group was originally a procurement technology company that later expanded into cost reduction consultancy. The company had 42 clients, including two of the four major Australian banks. Its other major clients were ASX, PepsiCo, Inc., Commonwealth Bank of Australia, Westpac Banking Corporation, and QGC Pty Limited—the Australian coal, steam, and gas company. Infosys acquired Portland Group in 2012 for $32.05 million in an all-cash deal. Before acquiring Portland Group, Infosys had only one client in the natural resources sector: Rio Tinto. The deal helped Infosys establish its presence in several niche segments of the Australian market.[[42]](#endnote-42)

**Lodestone Management Consultants**,headquartered in Zurich, was bought for $345 million in 2012. Lodestone advised international companies on strategy and process optimizations, and provided business transformation solutions enabled by SAP software. Lodestone’s operations were focused primarily in Europe, particularly in the United Kingdom, Germany, France, Switzerland, the Netherlands, and Belgium. Its major clients were BMW Group, Deutsche Telekom AG, British American Tobacco plc, and Novartis Pharmaceuticals. Lodestone’s consultants billed clients at a rate of $175 per hour, one of the highest rates in the industry at the time of the deal.[[43]](#endnote-43) Lodestone employed more than 850 consultants working in 17 countries, but none were working in India. The company also had expertise and experience in the verticals of life sciences, automotive, and manufacturing.[[44]](#endnote-44)

**Panaya**,an Israeli software as a service (SaaS) company headquartered in Ra’anana, Israel, was founded in 2006 with investment support from Benchmark Capital, Hasso Plattner Ventures, and Battery Ventures. Infosys bought the company in 2015 for $200 million and incorporated the technology from Panaya’s CloudQuality Suite to bring automation to some of Infosys’ software. Using the agile SaaS model in its software, Infosys was able to mitigate risk, reduce costs, and shorten time to market for its clients. The CloudQuality Suite helped businesses to test changes to Oracle E-Business Suite and SAP and Salesforce software by identifying functions that might break and providing potential solutions, including code corrections. At the time of the acquisition, Panaya had more than 400 active customer accounts, including global marquee names such as General Electric, Mercedes-Benz (Daimler AG), Bosch, Whirlpool Corporation, GlaxoSmithKline plc, Siemens AG, Apple Inc., the Coca-Cola Company, and Johnson & Johnson. Forty per cent of Panaya’s revenue came from the United States, and another 40 per cent from Europe, the Middle East, and Africa (EMEA). Panaya earned the remainder of its revenue from other systems integrators such as IBM, Computer Sciences Corporation, Logica, and the Hewlett-Packard Company.[[45]](#endnote-45)

**Kallidus Inc.**, operating under the brand name Skava,was based in San Francisco and provided digital and mobile commerce solutions.[[46]](#endnote-46) Skava was a cloud-hosted platform for mobile websites and applications (apps), and other digital shopping experiences delivered across mobile, tablet, desktop, in-store, and emerging channels to large retail clients worldwide. In 2013, Kallidus had revenues of $22.9 million and logged a three-year revenue growth of 608 per cent.[[47]](#endnote-47) Infosys acquired Kallidus and its affiliate in 2015in an all-cash deal of $120 million, which included retention bonuses and a deferred component.

**Noah Consulting, LLC** was a leading provider of advanced information management consulting services for the oil and gas industry, established in 2008. It had 122 employees and was headquartered in Houston, Texas, with an additional office in Calgary, Canada. Its solutions consisted of information management, strategic services, industry solutions, analytics, and acquisitions. Noah’s deep domain expertise in upstream oil and gas, coupled with its tools, solution accelerators, and proprietary methodologies, made it a leader in driving strategic data management engagements. The value of Infosys’ buyout of Noah was $70 million.[[48]](#endnote-48) The acquisition came at a time when global oil prices had fallen steeply, resulting in a need for oil and gas companies to improve operational efficiency by using data analytics and smarter information technology solutions. The acquisition helped Infosys gain expertise in providing end-to-end data management services to oil and gas industry clients.[[49]](#endnote-49)

In addition to eight other deals, Infosys invested $2 million in Airviz Inc., an air quality monitoring start-up that originated at Carnegie Mellon University.[[50]](#endnote-50) The investment was made from an innovation fund Infosys had earmarked for investments in disruptive new technologies.[[51]](#endnote-51) The innovation fund was launched in 2013 with $100 million to further Infosys’ strategic and functional interests.[[52]](#endnote-52) In 2015, the fund was expanded to $500 million. As of January 22, 2017, Infosys had invested a little more than $62 million of the fund in various start-ups covering areas such as IoT, automation, and drones.

Sikka was optimistic about the role that the companies Infosys acquired with the fund would play in achieving the firm’s Vision 2020 goals. He noted,[[53]](#endnote-53) “The start-up world is incredibly exciting. We have been investing in companies there. We have been bringing these companies to our clients and that rate at which we bring these companies to clients is just exploding. So that’s very exciting.”

THE WAY FORWARD

The coming months would be crucial for Infosys and Sikka. The clock was ticking for achieving Vision 2020; shareholder expectations were rising; international competition in the domestic and overseas markets was increasing; and the geo-political dynamics and U.S. visa policies were changing. Infosys had myriad uncertainties to deal with, and several critical decisions had to be made. Organic sources of growth were not going to be enough to reach the company’s target of $20 billion by 2020. Infosys had to devise an appropriate buyout strategy if it hoped to scale up rapidly.

In the past, buyouts had enhanced Infosys’ client base, increased its product and service portfolio, and enabled its geographical expansion. The buyouts had also enabled Infosys to become agile and better prepared for uncertainties. At the same time, some acquisitions, such as those of Panaya and Lodestone, had also created turmoil and company-wide disagreements for Infosys. With all that in mind, it was important for Sikka to strike a balance between risks and rewards in his approach to buying out companies.

Since becoming chief executive officer in August 2014, Sikka had brought several changes to the company, such as overhauling its organizational structure, increasing the focus on design thinking, and focusing efforts on AI. But AI was just one facet of the industry’s emerging technologies. Infosys had its business spread across a variety of segments and diverse geographies. To continue its swift growth and leverage the way for acquisitions and buyouts, which of these business and geographical segments should Infosys invest in? Which key determining factors should drive the acquisitions: increased clientele, enhanced technology, or increased geographical reach, and what investments were priorities? Sikka knew that the journey ahead would be challenging and that tough choices would have to be embraced.[[54]](#endnote-54)

Exhibit 1: Infosys Limited Buyouts

|  |  |  |  |
| --- | --- | --- | --- |
| **Acquired Company** | **Domain** | **Value**  **(in US$ million)** | **Year** |
| Expert Information Services,  Australia | Information technology services | 23.00 | 2003 |
| Philips BPO,  Netherlands | Finance and accounts BPO | 28.00 | 2007 |
| McCamish Systems,  United States | End-to-end business solutions for the insurance and financial services industries | 58.00 | 2009 |
| Portland Group,  Australia | Sourcing and category management services | 32.05 | 2011 |
| Lodestone Management Consultants,  Switzerland | Management consultancy firm with skills in the area of SAP software | 345.00 | 2012 |
| Marsh and McLennan Companies BPO,  United States | Group life insurance platform for claims processing, call centre, and accounting units | Not Disclosed | 2012 |
| Panaya,  Israel | Provider of automation solutions; enterprise resource planning software company | 200.00 | 2015 |
| Kallidus Inc. (Skava),  United States | Mobile digital commerce solutions | 120.00 | 2015 |
| Noah Consulting LLC,  United States | Information management consulting services to oil and gas industry | 70.00 | 2015 |

Note: BPO = business process outsourcing.

Source: Created by the case authors based on “Acquiring Organization: Infosys,” Crunchbase, accessed November 24, 2017, www.crunchbase.com/organization/infosys/acquisitions; “About Us,” Infosys (website), accessed November 24, 2017, www.infosys.com/about/Pages/history.aspx.

Exhibit 2: Infosys Limited Balance Sheet

(in US$ ’000)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** |
| **EQUITY & LIABILITIES** | | | | | | |
| **Shareholders** | | | | | | |
| Share Capital | 44,154 | 44,154 | 44,154 | 44,000 | 88,308 | 176,615 |
| Reserve & Surplus | 3,725,231 | 4,533,846 | 5,503,385 | 631,692 | 7,292,923 | 8,616,769 |
|  | **3,769,385** | **4,578,000** | **5,547,539** | **675,692** | **7,381,231** | **8,793,384** |
| **Non-Current Liabilities** | | | | | | |
| Deferred Tax Liabilities | - | - | 8,615 | - | - | - |
| Other Long-Term Liabilities | 3,846 | 3,230 | 18,461 | 56,000 | 4,615 | 11,230 |
| **Current Liabilities** | | | | | | |
| Trade Payable | 13,076 | 10,461 | 27,384 | 10,461 | - | - |
| Outstanding Dues of MSEs | - | - | - | - | - | - |
| Outstanding Dues to Creditors Except MSEs | - | - | - | - | 19,076 | 95,846 |
| Other Current Liabilities | 272,307 | 363,846 | 434,923 | 626,307 | 853,230 | 939,230 |
| Short-Term Provisions | 380,461 | 554,461 | 582,769 | 941,076 | 1,237,692 | 1,355,230 |
|  | **665,844** | **928,768** | **1,045,076** | **1,577,844** | **2,109,998** | **2,390,306** |
|  | **4,439,075** | **5,509,998** | **6,619,691** | **2,309,536** | **9,495,844** | **11,194,920** |
| **ASSETS** | | | | | | |
| **Non-Current Assets** | | | | | | |
| **Fixed Assets** | | | | | | |
| Tangible Assets | 624,000 | 622,307 | 680,769 | 879,846 | 1,130,307 | 1,268,923 |
| Intangible Assets | - | 2,461 | 4,307 | 2,000 | - | - |
| Capital Work in Progress | 38,307 | 90,461 | 174,615 | 146,769 | 118,307 | 143,692 |
|  | **662,307** | **715,229** | **859,691** | **1,028,615** | **1,248,614** | **1,412,615** |
| Non-Current Investments | 185,538 | 164,307 | 425,230 | 610,461 | 939,692 | 1,709,384 |
| Deferred Tax Assets | 35,384 | 29,076 | 58,153 | 83,384 | 66,615 | 62,307 |
| Long-Term Loan & Advances | 191,384 | 220,153 | 235,230 | 342,615 | 673,538 | 918,461 |
| Other Non-Current Assets | 0 | 2,000 | 4,769 | 8,000 | 4,000 | 307 |
|  | **1,074,613** | **1,130,765** | **1,583,073** | **2,073,075** | **2,932,459** | **4,103,074** |
| **Current Assets** | | | | | | |
| Current Investments | 18,308 | 52,462 | 243,077 | 422,923 | 115,231 | 308 |
| Trade Receivables | 648,000 | 831,385 | 979,231 | 1,128,615 | 1,327,231 | 1,507,385 |
| Cash & Cash Equivalents | 2,333,077 | 3,008,769 | 3,138,615 | 3,707,692 | 4,188,000 | 4,488,615 |
| Short-Term Loan & Advances | 365,077 | 486,615 | 675,692 | 777,231 | 869,846 | 1,095,538 |
|  | **3,364,462** | **4,379,231** | **5,036,615** | **6,036,461** | **6,500,308** | **7,091,846** |
|  | **4,439,075** | **5,509,996** | **6,619,688** | **8,109,536** | **9,432,767** | **11,194,920** |

Source: Created by the case authors based on Infosys Limited, *Annual Report 2010–11: Powered by Intellect: Driven by Values*; Infosys Limited, *Annual Report 2011–12: Infosys 3.0—Accelerating Growth*; Infosys Limited, *Annual Report 2012–13: Relevance through Innovation*; Infosys Limited, *Annual Report 2013–14: Evolving with Changing Times*; Infosys Limited, *Annual Report 2014–15: Powered by Intellect, Driven by Values*; Infosys Limited, *Annual Report 2015–16: Being Infosys. Being More.*; all accessed November 24, 2017, www.infosys.com/investors/reports-filings/annual-report/Pages/annual-reports.aspx.

Exhibit 3: distribution of revenue by Business and geographical segment

(in US$ MILLIONS)

By Business Segment

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **FSI** | **FS** | **MFG** | **ECS** | **RCL** | **LSH** | **HILFE** | **Hi-Tech** | **Other** | **Total** |
| Segment Revenues | | | | | | | | | | |
| 2013 | 1,965 | - | 1,178 | 1,154 | 1,048 | 3,096 | - | - | - | 5,656 |
| 2014 | 2,365 | - | 1,451 | 1,363 | 1,247 | 394 | - | - | - | 6,821 |
| 2015 | 2,488 | - | 1,573 | 1,500 | 1,287 | 426 | - | - | - | 7,276 |
| 2016 | - | 2,284 | 836 | 1,865 | 1,447 | - | 983 | 728 | 160 | 8,305 |
| 2017 | - | 2,420 | 936 | 2,153 | 1,581 | - | 1,086 | 754 | 188 | 9,121 |

By Geographical Segment

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **North America** | **Europe** | **India** | **Rest of the World** | **Total** |
| Segment Revenues | | | | | |
| 2013 | 3,608 | 1,234 | 128 | 684 | 5,656 |
| 2014 | 4,302 | 1,507 | 196 | 815 | 6,821 |
| 2015 | 4,657 | 1,584 | 201 | 833 | 7,276 |
| 2016 | 5,482 | 1,811 | 196 | 814 | 8,305 |
| 2017 | 5,935 | 2,002 | 276 | 906 | 9,121 |

Note: FSI = Financial Services and Insurance; FS = Financial Services; MFG = Manufacturing; ECS = Energy and Utilities, Communication and Services; RCL = Retail, Consumer Packaged Goods, and Logistics; LSH = Life Sciences and Health Care; HILIFE = Health Care, Life Sciences, and Insurance.

Source: Created by the case authors based on Infosys Limited, *Annual Report 2010–11: Powered by Intellect: Driven by Values*; Infosys Limited, *Annual Report 2011–12: Infosys 3.0—Accelerating Growth*; Infosys Limited, *Annual Report 2012–13: Relevance through Innovation*; Infosys Limited, *Annual Report 2013–14: Evolving with Changing Times*; Infosys Limited, *Annual Report 2014–15: Powered by Intellect, Driven by Values*; Infosys Limited, *Annual Report 2015–16: Being Infosys. Being More.*; Infosys Limited, *Annual Report 2016–17: Automate, Innovate, Educate*; all accessed November 24, 2017, www.infosys.com/investors/reports-filings/annual-report/Pages/annual-reports.aspx.

ENDNOTES

1. This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Infosys Limited or any of its employees. [↑](#endnote-ref-1)
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