AUTO PARTNER

Pilot Support Program for Analytical Coverage

Reuters: APR.WA Bloomberg: APR PW

CEE Equity Research

Car Parts distribution, Poland

23 September 2019, 08:19 CET

Setbacks likely to be overcome

Buy maintained, TP down to PLN7.5

We reiterate our Buy rating though decrease 12-month target price to PLN7.5 from PLN8.9. 2Q19 missed our expectations on investments in prices and a surge in logistic costs. While we believe the setbacks were temporary we have decreased our net profit forecast by 9% to PLN64mn for 2019E and by 5% to PLN79mn for 2020E. The investment case in the mid run has not changed, however. Auto Partner should continue increasing its market share thanks to its still small scale, effective logistics and favourable competitive environment. We forecast Auto Partner to sustain is double- digit growth momentum, with revenue and EPS 3-year CAGR of respectively 24% and 15%. We therefore think that 2019E P/E and EV/EBITDA ratios of 8.8x and 7.4x are attractive as they offer 26% and 17% discount to their historical averages at 11.9x and 9.0x, respectively.

2Q19 review. Results came in weak across the board and much below our expectations due to lower-than-projected gross margin and inflated operating costs. Weaker-than-expected gross margin was a result of higher share of promotional sale in May/June period. The results were also hit by higher operating expenses due to pressure on wages and higher costs of logistics stemming from the opening of new logistics capacity and higher fares. All in all, EBITDA and net profit came in at PLN13.3mn (-20%, SANe PLN21mn) and PLN21.5mn (-10%, SANe PLN30.2mn), respectively.

Forecast change. We cut our forecast for 2019/21E mainly due to higher-than-expected logistics and G&A costs, which reflects pressure on wages. We also think that AP is likely to postpone the opening of a local warehouse in the Western Poland to 2021E, as otherwise it could adversely impact margins in the ramp-up period. On the other hand, we increase sales forecast to reflect higher impact of maturing of newly opened sales branches. All in all, we increase 2019/21E sales forecast by 3%/5%/7%, while cut EBITDA and net profit forecast by 9%/5%/12% and 12%/7%/15%, respectively. Also, we do not assume 2018 record margins in any year of our long-term forecast while 2018 margins level remains to the company's own target.

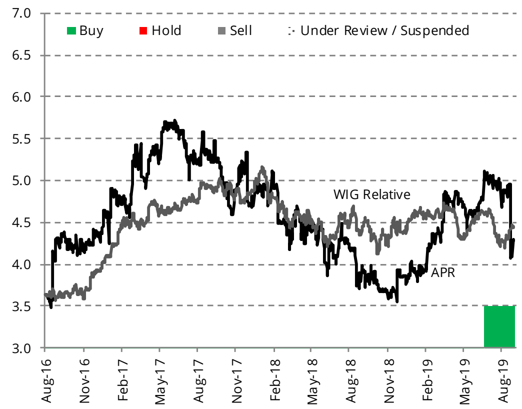
Valuation and risks. An update to the DCF model implies a value of PLN9.2 per share, while a comparable valuation implies an equity value at PLN5.8 per share. Assuming a 50% weight to DCF and comparable valuations, we set our 12M TP at PLN7.5 (down from PLN8.9), which offers a 73% upside vs. the current price. Key risks include: higher-than-expected pressure on wages and faster–than-assumed development of logistics (high costs at the start).

Auto Partner: Financial summary and ratios*

PLNmn	2016	2017	2018	2019E	2020E	2021E
Revenue	705	915	1,155	1,470	1,802	2,220
EBITDA	49	62	90	99	118	133
EBIT	44	55	81	90	108	122
Net profit	34	35	59	64	79	90
P/E (x)	14.1	18.8	9.1	8.8	7.2	6.3
EV/EBITDA (x)	11.8	12.9	7.6	7.4	6.1	5.1
Dividend yield	0.0%	0.0%	0.0%	0.5%	0.5%	0.6%

*Source: Company data, Santander Brokerage Poland, * forecast exclude impact of IFRS16*

Recommendation	Buy
Portfolio weighting	-
Price (PLN, 19 September 2019)	4.33
Target price (PLN, 12M)	7.5
Market cap. (PLNmn)	566
Free float (%)	50.0
Number of shares (mn)	131



The chart measures performance against the WIG index.

Main share holders	% of votes
K. Gorecka	27.1%
A. Gorecki	23.1%
PZU OFE	9.1%
NN OFE	9.0%
Aegon OFE	5.6%
Santander TFI	5.2%

Source: GPW

Company description

Auto Partner is the third largest car parts distributor in Poland.

Analyst

Tomasz Sokolowski
Equity Analyst
+48 22 586 82 36 tomasz.sokolowski@santander.pl

2Q19 results review

- 2Q19 results came in weak across the board and much below our expectations due to lower-than-expected gross margin and inflated operating costs.
- The company explained weaker-than-expected gross margin (24.5% vs. SANe 25.8%) as a result of higher share of promotional sale in May and June period. The company had called it in an interview after the results publication as temporary.
- Results were also hit by higher operating expenses, which came in at PLN75mn (19.1% of sales; +0.9pp y/y). The company blamed (1) pressure on wages and (2) higher costs of logistics resulted from an opening of new branches (5 new points opened YTD, additional warehouse space opened in 1Q19; 3 point acquired from franchisors), higher fares and new export markets. Also, it wrote off PLN0.6mn receivable.
- Operating CF came in at PLN16mn, which with low Investment CF at PLN2mn resulted in FCF at PLN13mn.
- Ex-leasing net debt stood at PLN148mn or 1.6x LTM EBITDA. Net debt stood at PLN211mn or 2.2x LTM EBITDA.

Fig. 1. Auto Partner: 2Q19 results review

PLNmn	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	y/y	q/q	SAN
Sales	235.7	240.4	253.9	303.4	303.7	293.9	326.7	392.9	29%	20%	235.7
EBITDA	17.3	11.0	21.1	23.9	23.8	20.9	24.0	21.5	-10%	-10%	17.3
EBITDA margin	*7.3%*	*4.6%*	*8.3%*	*7.9%*	*7.8%*	*7.1%*	*7.3%*	*5.5%*	(239)	(186)	*7.3%*
EBIT	15.5	9.1	19.0	21.7	21.6	18.6	21.6	19.3	-11%	-11%	15.5
EBIT margin	*6.6%*	*3.8%*	*7.5%*	*7.2%*	*7.1%*	*6.3%*	*6.6%*	*4.9%*	(226)	(171)	*6.6%*
Net profit	10.5	4.5	12.9	16.7	15.9	13.2	15.4	13.3	-20%	-14%	10.5
Net margin	*4.4%*	*1.9%*	*5.1%*	*5.5%*	*5.2%*	*4.5%*	*4.7%*	*3.4%*	(210)	(134)	*4.4%*

Source: Company data, Santander Brokerage Poland

Fig. 2. Auto Partner: 2Q19 results review – IFRS 16

PLNmn	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	y/y	q/q
Sales	235.7	240.4	253.9	303.4	303.7	293.9	326.7	392.9	29%	20%
EBITDA	17.3	11.0	21.1	23.9	23.8	20.9	25.6	23.9	0%	-7%
EBITDA margin	*7.3%*	*4.6%*	*8.3%*	*7.9%*	*7.8%*	*7.1%*	*7.8%*	*6.1%*	(178)	(176)
EBIT	15.5	9.1	19.0	21.7	21.6	18.6	21.4	19.2	-12%	-10%
EBIT margin	*6.6%*	*3.8%*	*7.5%*	*7.2%*	*7.1%*	*6.3%*	*6.6%*	*4.9%*	(228)	(168)
Net profit	10.5	4.5	12.9	16.7	15.9	13.2	15.5	13.5	-19%	-13%
Net margin	*4.4%*	*1.9%*	*5.1%*	*5.5%*	*5.2%*	*4.5%*	*4.7%*	*3.4%*	(207)	(131)

Source: Company data, Santander Brokerage Poland

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Valuation

Fig. 3. Auto Partner: Valuation summary

PLN/shr	New	Previous	Change
DCF valuation	9.2	10.9	*-15.8%*
Comparable valuation (based on 2019-2021E)*	5.8	6.9	*-15.7%*
Target Price (PLN/shr)**	**7.5**	**8.9**	***-15.7%***

*Source: Santander Brokerage Poland, * based on a comparable valution (PLN5.3/share) and mid-cycle valuation (PLN6.4), ** 50% DCF, 50% comparable valuation*

DCF

Fig. 4. Auto Partner: WACC calculation

Risk-free rate	3.0%
Un-levered beta	1.0
Levered beta	1.28
Equity risk premium	5.0%
Cost of equity	**9.4%**
Risk-free rate	3.0%
Debt risk premium	1.0%
Tax rate	19.0%
After tax cost of debt	**3.2%**
%D	26%
%E	74%
WACC	**7.8%**

Source: Santander Brokerage Poland

Fig. 5. Auto Partner: DCF analysis

PLNmn	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Sales	**1,470**	**1,802**	**2,220**	**2,392**	**2,458**	**2,495**	**2,520**	**2,545**	**2,570**	**2,596**
EBIT	90	108	122	128	127	126	123	121	120	120
Cash taxes on EBIT	19	23	26	27	27	26	26	25	25	25
NOPAT	**71**	**85**	**96**	**101**	**101**	**99**	**97**	**95**	**95**	**95**
Depreciation	9	10	12	13	15	16	18	19	19	19
Change in operating WC	64	61	50	46	18	8	5	5	5	5
Capital expenditure	13	15	19	20	20	20	20	20	20	21
FCF	**3**	**20**	**39**	**48**	**78**	**87**	**90**	**89**	**89**	**88**
WACC	7.8%									
PV FCF 2019-2028	384									
Terminal growth	2.5%									
Terminal Value (TV)	1,735									
PV TV	817									
Total EV	**1,202**									
Net debt (-)	164									
Equity value	**1,038**									
Number of shares (m)	131									
Month	9									
Current Equity Value (PLN)	**1,098**									
Current Value per share (PLN)	8.4									
12M target price (PLN)	**9.2**									
Revenue growth	27.3%	22.5%	23.2%	7.7%	2.8%	1.5%	1.0%	1.0%	1.0%	1.0%
FCF growth	-69.4%	493.8%	95.5%	22.9%	61.4%	12.1%	3.2%	-1.0%	0.3%	-1.1%
Nopat margin	4.8%	4.7%	4.3%	4.2%	4.1%	4.0%	3.9%	3.7%	3.7%	3.7%
Capex/Revenues	0.9%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%

Source: Company data, Santander Brokerage Poland

Comparable valuation

Fig. 6. Auto Partner: Comparable valuation

Name	Price	Mkt. cap. (USD)	P/E 2019E	2020E	2021E	EV/EBITDA 2019E	2020E	2021E	DY 2019E
ADVANCE AUTO	156.1	11,309	19.7	17.2	14.8	11.0	10.0	9.5	0.2%
GENUINE PARTS	98.0	14,300	17.2	16.3	15.7	11.5	10.3	0.0	3.1%
UNI-SELECT	11.9	380	17.4	12.6	14.5	6.9	6.0	7.2	3.0%
LKQ CORP	32.2	10,189	13.9	12.6	11.6	11.9	10.7	9.7	0.0%
Avg. - U.S.			**17.0**	**14.7**	**14.1**	**10.3**	**9.2**	**6.6**	**1.6%**
MEKONOMEN	76.8	448	7.1	6.5	6.1	2.9	2.8	2.7	4.2%
LOOKERS	0.5	263	6.9	6.5	6.1	3.9	3.6	3.5	7.4%
Avg. - Europe			**7.0**	**6.5**	**6.1**	**3.4**	**3.2**	**3.1**	**5.8%**
Average*			**12.0**	**10.6**	**10.1**	**6.9**	**6.2**	**4.8**	**3.7%**
Inter Cars	209	744	12.2	11.2	10.1	9.8	9.1	8.3	0.3%
Auto Partner	**4.3**	**142**	**8.8**	**7.2**	**6.3**	**7.4**	**6.1**	**5.1**	**0.3%**
prem./disc.			-26.6%	-31.8%	-37.8%	7.8%	-1.9%	6.1%	-90.7%
Implied price			5.9	6.3	7.0	3.9	4.4	4.0	
Avg. price (PLN)			**5.3**						

*Source: Bloomberg, Company data, Santander Brokerage Poland, * average of U.S. and Europe peers*

Fig. 7. Auto Partner: Mid-cycle valuation

	P/E(x) 2019E	2020E	EV/EBITDA(x) 2019E	2020E
Net profit & EBITDA (PLNmn)	64	79	99	118
Target multiple (x)*	11.9	11.9	9.0	9.0
Price per share (PLN)	5.9	7.1	5.5	6.9
Avg. implied price (PLN)	**6.4**			

*Source: Company data, Santander Brokerage Poland, * average mid-cycle 1Y P/E foreward and mid-cycle 1Y EV/EBITDA foreward*

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Financials

Fig. 8. Auto Partner: Income statement forecasts – IAS17*

PLNmn	2016	2017	2018	2019E	2020E	2021E
Sales	**705**	**915**	**1,155**	**1,470**	**1,802**	**2,220**
COGS	524	673	848	1,085	1,324	1,632
Gross profit	**181**	**242**	**307**	**385**	**477**	**588**
OPEX, of which	**136**	**185**	**224**	**294**	**370**	**467**
sales costs	86	113	133	168	205	253
logistics costs	35	51	64	94	127	169
management costs	10	14	18	23	27	33
depreciation	5	7	9	9	10	12
POS	**45**	**57**	**83**	**91**	**108**	**122**
other operating income	0	0	0	-	-	-
other operating costs	1	1	0	-	-	-
other profit/loss	(1)	(1)	(2)	(1)	-	-
EBIT	**44**	**55**	**81**	**90**	**108**	**122**
EBITDA	**49**	**62**	**90**	**99**	**118**	**133**
financial cost (profit)	1	11	7	8	8	8
PBT	**43**	**44**	**74**	**82**	**99**	**114**
tax	9	9	16	17	21	24
net profit	**34**	**35**	**59**	**64**	**79**	**90**
Gross margin	25.7%	26.4%	26.6%	26.2%	26.5%	26.5%
EBITDA margin	6.9%	6.8%	7.8%	6.7%	6.5%	6.0%
net margin	4.9%	3.8%	5.1%	4.4%	4.4%	4.0%
Sales growth	36.0%	29.7%	26.2%	27.3%	22.5%	23.2%
Gross profit growth	39.2%	33.3%	27.0%	25.5%	23.9%	23.2%
EBITDA growth	62.7%	26.5%	44.6%	10.5%	19.0%	13.1%
Net profit growth	111.1%	1.1%	68.1%	9.7%	22.0%	14.5%

*Source: Company data, Santander Brokerage Poland, * forecast exclude impact of IFRS16*

Fig. 9. Auto Partner: Income statement forecasts – IFRS16

PLNmn	2016	2017	2018	2019E	2020E	2021E
Sales	705	915	1,155	1,470	1,802	2,220
EBITDA	49	62	90	107	126	142
EBIT	44	55	81	90	108	122
Net profit	34	35	59	65	79	90
net debt	108	164	164	216	202	168
net debt/EBITDA	2.2	2.6	1.8	2.0	1.6	1.2

Source: Company data, Santander Brokerage Poland

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Fig. 10. Auto Partner: Balance sheet forecasts – IAS17*

PLNmn	2016	2017	2018	2019E	2020E	2021E
Current assets	**301**	**447**	**544**	**624**	**724**	**840**
cash and equivalents	11	17	22	19	33	67
accounts receivable	41	63	82	104	128	157
inventories	249	363	435	495	558	610
other assets	0	4	5	5	5	5
Fixed assets	**42**	**59**	**67**	**71**	**75**	**82**
PPE	35	52	60	63	66	73
intangibles	5	5	6	7	7	8
investments & other	2	2	2	2	2	2
Total assets	**342**	**506**	**611**	**695**	**799**	**922**
Current liabilities	**102**	**207**	**183**	**205**	**234**	**270**
bank debt	37	131	69	69	69	69
accounts payable	59	62	98	125	153	188
finance lease	4	7	8	8	8	8
other current liabilities	2	7	9	4	5	6
Long-term liabilities	**80**	**44**	**113**	**113**	**113**	**113**
bank debt	68	27	90	90	90	90
finance lease	11	16	19	19	19	19
other long-term liabilities	1	2	3	3	3	3
Equity	**161**	**255**	**315**	**377**	**452**	**539**
common stock	12	13	13	13	13	13
other capital	115	207	244	300	361	436
net profit	34	35	59	64	79	90
Total liabilities and equity	**342**	**506**	**611**	**695**	**799**	**922**
ROCE adj. goodwill	22.4%	20.5%	22.3%	19.5%	20.4%	20.0%
Net debt	108	164	164	167	153	119
Net debt/EBITDA	2.2	2.6	1.8	1.7	1.3	0.9

*Source: Company data, Santander Brokerage Poland, * forecast exclude impact of IFRS16*

Fig. 11. Auto Partner: Cash flow statement forecasts *

PLNmn	2016	2017	2018	2019E	2020E	2021E
Cash flow from operations	**-45**	**-79**	**22**	**13**	**32**	**56**
Net profit	34	35	59	64	79	90
Depreciation and amortisation	5	7	9	9	10	12
Changes in WC, o/w	**-86**	**-133**	**-54**	**-56**	**-58**	**-47**
inventories	-89	-118	-73	-60	-63	-53
receivables	-14	-23	-19	-22	-23	-30
payables	16	8	38	27	28	35
Other, net	2	12	9	-5	1	1
Cash flow from investment	**-1**	**-16**	**-5**	**-13**	**-15**	**-19**
Additions to PPE and intangibles	-5	-13	-5	-13	-15	-19
Change in long-term investments	0	0	0	0	0	0
Other, net	4	-3	0	0	0	0
Cash flow from financing	**45**	**101**	**-12**	**-3**	**-3**	**-4**
Change in long-term borrowing	5	51	2	0	0	0
Change in short-term borrowing	0	0	0	0	0	0
Change in equity and profit distribution	49	58	1	0	0	0
Dividends paid	0	0	0	-3	-3	-4
Other, net	-9	-9	-16	0	0	0
Net change in cash and equivalents	**0**	**6**	**5**	**-3**	**14**	**34**

*Source: Company data, Santander Brokerage Poland, * forecast exclude impact of IFRS16*

Santander Brokerage Poland

Jana Pawla II Avenue 17
00-854 Warszawa
fax. (+48) 22 586 81 09

Equity Research Department

Kamil Stolarski, Head of Equity Research *Strategy, Banks, Financials*	tel. (+48) 22 586 81 00	kamil.stolarski@santander.pl
Paweł Puchalski, CFA, *Equity Analyst* *Telecommunications, Metals & Mining, Power*	tel. (+48) 22 586 80 95	pawel.puchalski@santander.pl
Grzegorz Balcerski, *Securities Broker, Investment Adviser* *Equity Analyst, Games, Industrials, Health Care*	tel. (+48) 22 534 16 10	grzegorz.balcerski@santander.pl
Tomasz Krukowski, CFA, *Equity Analyst* *CEE, Oil&Gas*	tel. (+48) 22 586 81 55	tomasz.krukowski@santander.pl
Adrian Kyrcz, *Equity Analyst* *Construction, Real Estate, IT*	tel. (+48) 22 586 81 59	adrian.kyrcz@santander.pl
Tomasz Sokołowski, *Equity Analyst* *Pharma, Retail*	tel. (+48) 22 586 82 36	tomasz.sokolowski@santander.pl
Michał Sopiel, *Equity Analyst* *Industrials, Oil&Gas, Chemicals, Quantitative Analysis*	tel. (+48) 22 586 82 33	michal.sopiel@santander.pl

Sales & Trading Department

Kamil Kalemba, *Head of Institutional Equities*	tel. (+48) 22 586 80 84	kamil.kalemba@santander.pl
Mateusz Choromański, CFA, Head of Sales Securities Broker, Investment Advisor	tel. (+48) 22 586 80 82	mateusz.choromanski@santander.pl
Robert Chudala	tel. (+48) 22 586 85 14	robert.chudala@santander.pl
Alex Kamiński	tel. (+48) 22 586 80 63	alex.kaminski@santander.pl
Błażej Leśków, *Securities Broker*	tel. (+48) 22 586 80 83	blazej.leskow@santander.pl
Michał Stępkowski, *Securities Broker*	tel. (+48) 22 586 85 15	michal.stepkowski@santander.pl
Marek Wardzyński, *Securities Broker*	tel. (+48) 22 586 80 87	marek.wardzynski@santander.pl

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EBIT – earnings before interest and tax
EBITDA – earnings before interest, taxes, depreciation, and amortization
P/E – price-earnings ratio
EV – enterprise value (market capitalisation plus net debt)
PEG - P/E to growth ratio
EPS - earnings per share
CPI – consumer price index
WACC - weighted average cost of capital
CAGR – cumulative average annual growth
P/CE – price to cash earnings (net profit plus depreciation and amortisation) ratio
NOPAT – net operational profit after taxation
FCF - free cash flows
BV – book value
ROE – return on equity
P/BV – price-book value

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Hold - indicates a stock's total return to be in range of 0%-10% over the next twelve months.
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In preparing this document Santander Brokerage Poland applied at least one of the following valuation methods: discounted cash flows (DCF), comparative, mid-cycle, dividend discount model (DDM), residual income, warranted equity method (WEV), SOTP valuation, liquidation value.

The discounted cash flows (DCF) valuation method is based on expected future discounted cash flows. One advantage of the DCF valuation method is that it takes into account all cash streams reaching Issuer and the cost of money over time. Some disadvantages of the DCF valuation method are that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.

The comparative valuation method is based on the economic rule of "one price". Some advantages of the comparative valuation method are that the analyst need only estimate a small number of parameters; the valuation is based on current market conditions; the relatively large accessibility of indicators for companies being compared; and that there is an extensive knowledge of the comparative method among investors. Some disadvantages of valuation by the comparative method are the considerable sensitivity of the results of the valuation on the choice of companies to the comparative group; the method can lead to a simplification of the picture of the company which in turn can lead to omitting certain important factors (e.g. growth dynamics, extra-operational assets, corporate governance, the repeatability of results, differences in applied accounting standards); and the uncertainty of the effectiveness of a market valuation of companies being compared.

The mid-cycle multiple valuation is based on long-term average valuation multiples of a sector or a peer group. The methodology aims to calculate a fair, through the cycle value of the company. Among its shortfalls is that at peaks and/or troughs of the cycle, the implied fair value may deviate substantially from the market's value of an analysed stock as well as the methods' reliance on the quality of external data (we usually use Bloomberg or Damodaran databases). Simplicity and average through-cycle value allowing to capture over- as well as under-valuation of a given stock are the main advantages of this methodology.

The dividend discount model (DDM) valuation is based on the net present value of the future dividends that are expected to be paid out by the company. Some advantages of the DDM valuation method are that it takes into account real cash flows to equity-owners and that the methodology is used in respect to companies with long dividend payout history. Main disadvantage of the DDM valuation method is that dividend payouts are based on a large number of parameters and assumptions, including dividend payout ratio.

Residual income method is conceptually close to the discounted cash flows method (DCF) for non-financial stocks, the difference being that it is based on expected residual income (returns over COE) rather than expected future cash flows. One advantage of this valuation method is that it captures the excess of profit potentially available to shareholders and the cost of money over time. Main disadvantage of the valuation method is that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.

The warranted equity method (WEV) is based on the formula P/BV = (two year forward ROE less sustainable growth rate)/(Cost of equity less sustainable growth rate) which allows estimating a fair value (FV) of a given stock in two years' time. Subsequently the FV is discounted back to today. The main advantage of the WEV method is that it is a transparent one and based on relatively short term forecasts, hence substantially reducing the margin of forecasting error. The main disadvantage in our view is that the model is based on the principle that stock price should converge towards its fair value implied by company's ROE and COE.

SOTP valuation - different assets of a company are being valued according to different valuation methods, and the sum of these valuations represents the final valuation of the company. SOTP valuation advantages / disadvantages are identical to advantages and disadvantages of the specific valuation methods used.

Liquidation value method – liquidation value is the estimated amount of money that an asset or company could be quickly sold for, such as if it were to go out of business. Then, the estimated assets value is adjusted for liabilities and liquidation expenses. One advantage of this valuation method is its simplicity. This method does not account for intangible assets as goodwill, which is the main disadvantage.

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The Stock performance charts in this report include line graphs of the securities' daily closing prices for one year period. Information relating to a longer period (max 3 years) is available upon request.

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