



February 9, 2022

Cameco Corporation

Well-positioned to benefit from positive trends in uranium

Our view: We are encouraged by increased long-term contracting activity signaling that the contract cycle is gaining momentum, which is a long-term positive for Cameco. We also think the company is well-positioned to benefit from improving trends as utilities increasingly focus on the projected long-term deficit and the importance of origin of supply. We remain neutral, as we view the shares as fairly valued.

Key points:

Contracting cycle coming into focus, expect more to come: We think recent high contract activity, for both Cameco and the market, likely signals that a renewed contract cycle is gaining momentum. Overall, we believe stronger contracting activity and a gradually tightening uranium S&D should support continued improvement in uranium prices over time.

- **Utilities are becoming more long-term focused:** We think utilities are starting to focus more on the projected long-term market deficit in the late-2020s/early-2030s. Global renewed interest in and government support for nuclear has likely given utilities more confidence to plan long-term. Contract coverage for utilities remains relatively high for the next several years, but contract discussions are turning to longer durations that stretch into the next decade.
- **Competition for base-escalated term prices remains elevated:** While term market activity has been high, term prices have remained in the \$40–45/lb range, primarily due to significant competition from some sellers that are less economically sensitive. This competition could limit near-term upside in term prices, but high activity means that the lower-priced competitive pounds should eventually be absorbed.
- **Cameco focusing on market-related terms in the out-years:** Cameco management states that it has not been competing with low-priced term business and instead has been focused on market-related long-duration contracting. We think this should ultimately benefit the company long-term as Cameco gains leverage to a uranium market set to move into a deficit later this decade.
- **Origin of supply may start to matter:** Rising geopolitical tensions and increasing focus on ESG could mean that origin of supply finally matters to utilities. Recent unrest in Kazakhstan and tensions between Russia/US highlight potential security-of-supply risks. ESG factors are becoming more important for utilities that adopt sustainable mandates. Cameco should benefit as a stable and proven North American producer, and it should be viewed as a go-to supplier for utilities looking to secure supply.

Maintaining supply discipline even as McArthur restarts: We think Cameco has rightly balanced restarting McArthur below full capacity while dialing back production at Cigar, to ensure a smooth transition in the market. Additionally, a lower production rate at Cigar pushes back a decision and capex on phase 2, which is positive for our valuation.

Reiterating Sector Perform, raising PT to \$30 from \$29: We raise our 2022E and 2023E EBITDA to \$205M and \$468M (from \$184M and \$228M).

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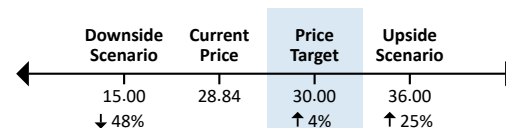
Sector Perform

TSX: CCO; CAD 28.84; NYSE: CCJ

Price Target CAD 30.00 ↑ 29.00

WHAT'S INSIDE	
<input type="checkbox"/> Rating/Risk Change	<input checked="" type="checkbox"/> Price Target Change
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Scenario Analysis*



*Implied Total Returns

Key Statistics

Shares O/S (MM):	398.3	Market Cap (MM):	11,487
Dividend:	0.12	Yield:	0.4%
NAVPS:	17.13	P/NAVPS:	1.68x
		Tr. 12 ROE:	2.90%
		Enterprise Val. (MM):	11,244
		Avg. Daily Volume:	2,672,137
		3-Yr. Est. EPS Growth:	65.00%

RBC Estimates

FY Dec	2021A	2022E	2023E	2024E
EPS, Adj Diluted	(0.25)	(0.07)	0.19	0.68
Prev.	(0.29)	(0.05)	(0.10)	
P/AEPS	NM	NM	NM	42.4x
EBITDA, Adj	107.1	205.3	467.9	725.6
Prev.	81.4	184.1	227.8	
FCFPS	0.81	(0.30)	0.24	0.92
Prev.	0.26	(0.11)	0.40	
P/FCF	35.8x	nm	nm	31.3x
EPS, Adj Diluted	Q1	Q2	Q3	Q4
2021	(0.07)A	(0.10)A	(0.14)A	0.06A
Prev.				0.02E
2022	(0.06)E	(0.04)E	(0.02)E	0.06E
Prev.	(0.03)E	(0.02)E		0.02E
2023	0.07E	0.03E	0.07E	0.02E
Prev.	0.00E	(0.03)E	(0.02)E	(0.05)E
EBITDA, Adj				
2021	17.0A	(2.4)A	(0.8)A	93.3A
Prev.				67.6E
2022	19.0E	27.3E	51.3E	107.7E
Prev.	35.6E	40.6E	42.7E	65.1E
2023	126.9E	109.9E	101.3E	129.8E
Prev.	70.4E	55.6E	42.2E	59.5E

All values in CAD unless otherwise noted.

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



Reiterating Sector Perform rating; raising price target to \$30 from \$29

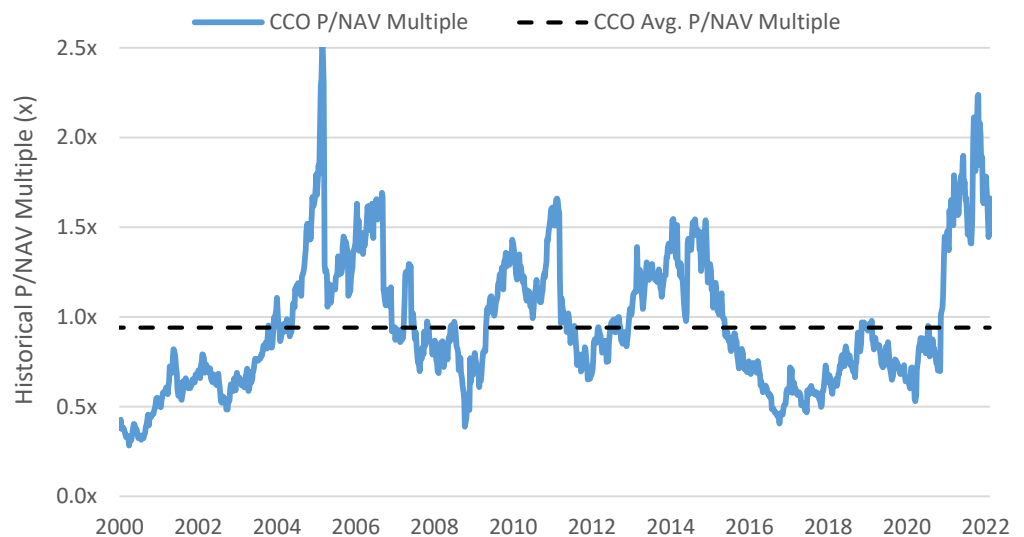
We rate Cameco shares Sector Perform with a \$30 price target. We value the company by applying a 1.75x P/NAV multiple to our NAV estimate. Our P/NAV multiple is above the average historical multiple but in line with multiples during periods of strong investor interest and rising uranium prices. Our DCF uses an 8% discount rate. Our \$30 price target supports out Sector Perform rating.

Exhibit 1 - Cameco valuation summary

VALUATION (Balance Sheet Items @ End-22E)					
Segments	CAD\$M	US\$M	Balance Sheet	CAD\$M	US\$M
Uranium	\$5,109	\$4,067	Net Debt	(\$167)	(\$133)
Fuel Services	\$1,515	\$1,206	Net Curr. Assets (excl. cash)	\$759	\$604
SG&A	(\$726)	(\$578)	Net Asset Value	\$6,825	\$5,432
F.D. Shares O/S (M)	398	398	P/NAV Multiple	1.75x	1.75x
NAV (\$/share)	\$17.1	\$13.6	Valuation (\$/share)	\$30	\$24

Source: Company reports, RBC Capital Markets estimates

Exhibit 2 - Historical P/NAV multiple based on RBCCM NAV estimates – Cameco is trading in line with historical P/NAV multiples during times of premium valuations



Source: Company reports, RBC Capital Markets estimates



Exhibit 3 - RBC Cameco model

Cameco Corporation										Price Target: C\$30.00					Rating: Sector Perform					
RBC Capital Markets / Andrew Wong (416) 842-7830																				
Market Capitalization (C\$M): \$11,487										Share Price (C\$/sh): \$28.84					Net Debt (C\$M): (\$336)					
Enterprise Value (C\$M): \$11,151										Implied Return (%): 4.0%					Issued Shares (diluted): 398					
TSX: CCO; NYSE: CCI																				
ASSUMPTIONS SUMMARY		2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E	2036E	2037E
USD/CAD		\$0.75	\$0.75	\$0.80	\$0.80	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77	\$0.77
Uranium Spot Price (US\$/lb U3O8)		\$26	\$29	\$35	\$45	\$45	\$45	\$45	\$45	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50
Uranium Term Price (US\$/lb U3O8)		\$32	\$32	\$35	\$45	\$45	\$45	\$45	\$45	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50
OPERATIONS		2019A	2020A	2021A	2022E	2023E	2024E	2025E												
Uranium Segment																				
McArthur River (70% ownership)		0.0	0.0	0.0	3.5	8.4	10.5	10.5												
Cigar Lake (50%)		9.0	5.1	6.1	7.5	7.5	6.8	6.8												
Inkai (40%)		3.4	2.8	3.6	3.7	4.1	4.1	3.8												
Total Attributable Production		12	8	10	15	20	21	21												
Sales Volume		Mlbs	31.5	30.5	24.2	24.0	25.0	23.3												
Realized Price		C\$/lb	\$45	\$46	\$43	\$51	\$53	\$54												
Market Purchases		Mlbs	15.0	29.6	5.8	8.0	5.5	2.0												
Ending Inventory		Mlbs	6.1	15.3	8.0	6.7	12.6	12.6												
Cash Production Costs		C\$M	\$164	\$87	\$92	\$176	\$270	\$293												
Cash Production Costs/lb		C\$/lb	\$20	\$29	\$16	\$16	\$17	\$17												
Cost of Product Sold			\$878	\$1,068	\$840	\$880	\$871	\$549												
Royalties			\$32	\$16	\$15	\$53	\$100	\$114												
Care and Maintenance			\$121	\$150	\$166	\$174	\$74	\$50												
Other costs			\$11	\$12	\$6	\$4	\$4	\$4												
Total Cash Costs		C\$M	\$1,042	\$1,245	\$1,027	\$1,111	\$1,050	\$732												
D&A			\$175	\$155	\$135	\$131	\$250	\$266												
Total COGS		C\$M	\$1,217	\$1,400	\$1,162	\$1,243	\$1,299	\$984												
Cash COGS/lb (incl. royalties)		C\$/lb	\$33	\$41	\$42	\$46	\$42	\$31												
Fuel Services Segment																				
Production		M KgU	13.4	11.7	12.1	13.0	13.6	13.6												
Sales Volume		M KgU	14.2	13.5	13.6	11.2	13.6	13.6												
Realized Price		C\$/KgU	\$26	\$27	\$30	\$31	\$33	\$33												
Cash Costs			\$234	\$234	\$243	\$201	\$231	\$231												
D&A			\$46	\$46	\$43	\$40	\$54	\$54												
Total COGS		C\$M	\$280	\$280	\$286	\$242	\$285	\$285												
Cash COGS/KgU		C\$/KgU	\$17	\$17	\$18	\$18	\$17	\$17												
All C\$ millions, unless noted																				
INCOME STATEMENT (C\$M)		2019A	2020A	2021A	2022E	2023E	2024E	2025E												
Revenue		\$1,863	\$1,800	\$1,475	\$1,573	\$1,771	\$1,697	\$1,684												
Operating Costs		\$1,492	\$1,646	\$1,436	\$1,457	\$1,415	\$1,083	\$1,098												
EBITDA		CAD	\$371	\$154	\$39	\$116	\$356	\$613												
EBITDA (incl. Inkai)		CAD	\$417	\$190	\$107	\$205	\$468	\$726												
D&A			(\$276)	(\$209)	(\$190)	(\$171)	(\$304)	(\$321)												
EBIT		CAD	\$512	\$136	(\$45)	\$150	\$520	\$1,018												
Other Income/Expenses			\$423	\$196	\$62	\$184	\$425	\$680												
EBT (Adj)		CAD	\$89	(\$61)	(\$106)	(\$35)	\$94	\$338												
Taxes (Adj)			(\$48)	(\$6)	\$5	\$7	(\$19)	(\$68)												
Net Income		CAD	\$41	(\$66)	(\$101)	(\$28)	\$76	\$270												
Earnings - Adjusted (\$/sh)		CAD	\$0.10	(\$0.17)	(\$0.25)	(\$0.07)	\$0.19	\$0.68												
Weighted average diluted shares (M)			396	396	398	398	398	398												
BALANCE SHEET (C\$M)		2019A	2020A	2021A	2022E	2023E	2024E	2025E												
Cash & Equivalents		\$1,062	\$943	\$1,332	\$1,164	\$1,212	\$1,529	\$1,907												
Other Current Assets		\$745	\$1,002	\$809	\$694	\$831	\$907	\$913												
PP&E and Other		\$5,620	\$5,636	\$5,376	\$5,373	\$5,178	\$4,926	\$4,682												
Total Assets		CAD	\$7,427	\$7,581	\$7,518	\$7,231	\$7,221	\$7,362												
Current Liabilities		\$277	\$304	\$414	\$238	\$249	\$214	\$216												
Long Term Debt		\$997	\$996	\$996	\$996	\$996	\$996	\$996												
Other Long Term Liabilities		\$1,158	\$1,323	\$1,262	\$1,282	\$1,302	\$1,322	\$1,342												
Total Liabilities		CAD	\$2,432	\$2,622	\$2,672	\$2,516	\$2,547	\$2,532												
Non-controlling interest		\$0	\$0	\$0	(\$89)	(\$202)	(\$314)	(\$411)												
Shareholder Equity		\$4,995	\$4,959	\$4,846	\$4,804	\$4,875	\$5,144	\$5,359												
Total Liab. & Shareholder Equity		CAD	\$7,427	\$7,581	\$7,518	\$7,231	\$7,221	\$7,362												
URANIUM SEGMENT OPERATIONS BREAKDOWN																				
EBITDA BY SEGMENT (C\$M)																				
VALUATION (Balance Sheet Items @ End-22E)																				
Segments		CAD\$M	US\$M	Balance Sheet		CAD\$M	US\$M													
Uranium		\$5,109	\$4,067	Net Debt		(\$167)	(\$133)													
Fuel Services		\$1,515	\$1,206	Net Curr. Assets (excl. cash)		\$759	\$604													
SG&A		(\$726)	(\$578)	Net Asset Value		\$6,825	\$5,432													
F.D. Shares O/S (M)		398	398	P/NAV Multiple		1.75x	1.75x													
NAV (\$/share)		\$17.1	\$13.6	Valuation (\$/share)		\$30	\$24													
CASH FLOW STATEMENT (C\$M)		2019A	2020A	2021A	2022E	2023E	2024E	2025E												
Cash Flows from Operating Activities																				
Net Income			\$74	(\$53)	(\$103)	(\$28)	\$76	\$270	\$239											
D&A			\$276	\$209	\$190	\$171	\$304	\$321	\$321											
Non-Recurring/Other		CAD	\$64	\$102	\$60	(\$43)	(\$30)	\$22	\$7											
Operating Cash Flow		CAD	\$414	\$258	\$148	\$101	\$349	\$613	\$566											
Changes in Working Capital			\$113	(\$201)	\$310	(\$61)	(\$125)	(\$112)	(\$4)											
Net Operating Cash Flow		CAD	\$527	\$57	\$458	\$40	\$224	\$501	\$562											
Cash Flows From Investing Activities																				
Net Capital Expenditures			(\$75)	(\$77)	(\$99)	(\$161)	(\$128)	(\$136)	(\$136)											
Other			\$512	(\$24)	\$18	\$0	\$0	\$0	\$0											
Net Investing Cash Flow		CAD	\$437	(\$101)	(\$80)	(\$161)	(\$128)	(\$136)	(\$136)											
Cash Flows From Financing Activities																				
Net Issue/Red. Debt			(\$500)	(\$2)	\$0	\$0	\$0	\$0	\$0											
Net Sale/Repur. of Stock			\$0	\$5	\$27	\$0	\$0	\$0	\$0											
Other			(\$107)	(\$101)	(\$74)	(\$48)	(\$48)	(\$48)	(\$48)											
Net Financing Cash Flow		CAD	(\$607)	(\$98)	(\$47)	(\$48)	(\$48)	(\$48)	(\$48)											
Increase (Decrease) in Cash		CAD	\$351	(\$144)	\$329	(\$169)	\$48	\$317	\$378											
Financial Metrics		2019A	2020A	2021A	2022E	2023E	2024E	2025E												
EV/EBITDA (incl. Inkai)		x	26.8x	58.6x	104.1x	54.3x	23.8x	15.4x	16.3x											
Free Cash Flow		CAD	\$379	(\$86)	\$321	(\$121)	\$96	\$365	\$426											
Free Cash Flow per share		CAD	\$0.96	(\$0.22)	\$0.81	(\$0.30)	\$0.24	\$0.92	\$1.07											
Free Cash Flow Yield		%	3.3%	(0.7%)	2.8%	(1.1%)	0.8%	3.2%	3.7%											

Source: Company reports, RBC Capital Markets estimates



Key ESG questions

This section is intended to highlight key ESG discussion points relevant to this company, as well as our views on the outlook. Both the questions we highlight and our responses will evolve over time as the dialogue between management, analysts and investors continues to advance. We welcome any feedback on the topics.

What are the most material ESG issues facing this company?

Our view

Cameco produces uranium used to generate nuclear energy. Key ESG considerations are carbon emissions from mining and tailings management, relations with the local indigenous community in Saskatchewan, and acceptance of nuclear as a clean energy source. Additionally, a key ESG issue facing the company would be employee exposure to radiation, given the company's operations. Cameco reports on these factors: in 2020, the company generated 280kt of CO₂e (scope 1 & 2, operational share), which was down from 311kt of CO₂e in 2019; the average radiation dose was 0.59 mSv, which is well below typical natural background radiation exposure (2–3mSv per Cameco); and it reported no indigenous disputes in 2020.

How does the company integrate ESG considerations into its strategy?

Cameco uses the GRI Global framework, in addition to two corporate indicators that are unique to the company (Public Perception & Employee Radiation Exposure) to measure sustainability performance. Executive compensation is tied to ESG performance through the use of short-term incentives, 50% of which is tied to performance in community initiatives, safety, and environmental goals. Cameco utilizes a Safety, Health, Environment, and Quality management system that is governed by one policy, which can be found on the company's website.

What is diversity like at the board/management level?

33% (3 of 9) of Cameco's Board of Directors are female while 11% (1 of 9) are Indigenous. Additionally, Cameco has a policy that mandates at least 30% of the BoD be female, and at least one be Indigenous. 20% (1 of 5) of executive officers are female. According to the 2021 Proxy Circular, 28% of the senior management team is female and 6% identify as a visible minority. Across all of Cameco, 25% of the company's workforce are female while 46% are Indigenous. We also note that Cameco has policies in place to promote women in leadership.

Is nuclear, and by extension uranium, considered a clean energy source?

ESG considerations with regard to nuclear energy are, by extension, also relevant to uranium, as it is the primary fuel source for nuclear energy generation. Nuclear reactors produce no greenhouse gas emissions, although there are slight emissions from other parts of the nuclear fuel cycle including construction, mining, conversion, and enrichment. Many countries have incorporated nuclear as a critical part of their overall energy mix and consider nuclear to be a clean and sustainable energy source that is key to meeting climate goals. However, opponents to nuclear as a clean and sustainable energy source cite the potential risk from nuclear accidents, challenges with nuclear waste disposal, and proliferation concerns.

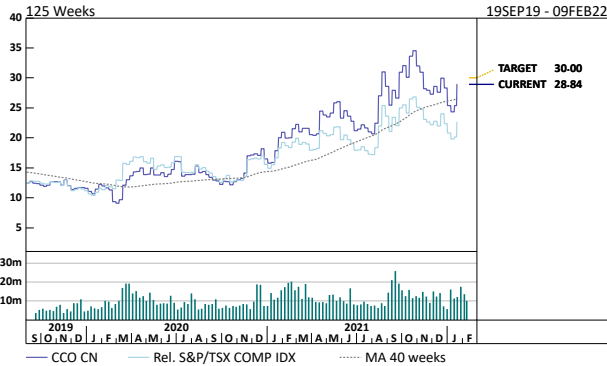
How does Cameco engage the local community?

Cameco operates primarily in northern Saskatchewan, which has a large Indigenous population, and ~45% of the workforce consists of First Nations and Metis people. Cameco has formal agreements with communities in northern Saskatchewan based on workforce development, business development, community investment, community engagement, and environmental stewardship. In 2020, Cameco received the "Towards Sustainable Mining" Excellence Award from the Mining Association of Canada for the Community Based Environmental Monitoring Program, which is part of a collaboration among Cameco, Orano, and local communities to engage the local population in environmental monitoring.



Target/Upside/Downside Scenarios

Cameco Corporation



Source: Bloomberg and RBC Capital Markets estimates for Target

Valuation

We value the company by applying a 1.75x P/NAV multiple to our NAV estimate. Our P/NAV multiple is above the average historical multiple but in line with multiples during periods of strong investor interest and rising uranium prices. Our DCF uses an 8% discount rate. Our \$30 price target supports our Sector Perform rating.

Upside scenario

Our upside scenario of \$36 assumes that uranium prices recover earlier than expected and higher prices are required to incentivize new mine supply. In this scenario, we increase our price forecasts for 2022+ to \$65/lb. We decrease our P/NAV multiple to 1.5x to account for peak market conditions, and we also assume that the CRA restricted cash is returned, which adds \$1/sh to our valuation.

Downside scenario

Our downside scenario of \$15 assumes that uranium prices take longer than expected to recover and less new mine supply is required due to weak demand. In this scenario, we decrease our price forecasts for 2022–30 by \$5/lb and use a \$40/lb long-term spot price forecast. We decrease our P/NAV multiple to 1.0x to account for more normalized conditions.

Investment summary

We believe the company is well positioned to benefit from an eventual long-term recovery in uranium prices, which we expect to come on the back of growing deficits in the latter half of the decade. In the meantime, strong operations support Cameco’s very robust financial position, while the company should also benefit from improving trends in the sector. However, given our view of a longer-term recovery in uranium prices, we view the shares as being fairly valued.

Potential catalysts

Cameco is restarting the McArthur River mine, with some production being added in H2/22 and ramping up to 10.5Mlbs production (15Mlbs 100% basis) by 2024. Additionally, the company will be dialing back production at Cigar Lake to 6.8Mlbs (13.5Mlbs 100% basis) to remain aligned with a disciplined production strategy.

Cameco currently has ~\$300M in restricted cash set aside (along with lines of credit) for the CRA dispute to satisfy rules that require companies to remit or secure 50% of a tax reassessment. Given the positive ruling for Cameco, we think it is reasonably likely that the company would eventually be able to recover the restricted cash.

Cameco and Kazatomprom have restructured the Inkai JV to provide longer-term stability and potential production increases. Production at Inkai JV may increase according to the resource use contract, although the actual production plan is set annually.

Risks to rating and price target

We highlight several key risks and sensitivities that could be potentially material to our thesis on Cameco including: 1) a negative outcome in the ongoing CRA transfer pricing dispute; 2) contract cancellations; 3) potential production disruptions; 4) weaker-than-expected uranium prices; 5) currency volatility, primarily CAD/USD; and 6) a decline in uranium investor sentiment resulting in lower valuation multiples.



Company description

Cameco, headquartered in Saskatoon, Saskatchewan, is focused on uranium mining and nuclear fuel services. The company generated \$1.8B revenue in 2020, with a vast majority coming from the uranium segment. Cameco produces uranium from three major properties that are considered among the best assets globally due to high grades and low costs, and it has potential to increase production over the long term as uranium prices improve.

Required disclosures

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RBC Capital Markets has provided Cameco Corporation with non-investment banking securities-related services in the past 12 months.

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Explanation of RBC Capital Markets Equity rating system

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

Ratings

Outperform (O): Expected to materially outperform sector average over 12 months.

Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.

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Not Rated (NR): The rating, price targets and estimates have been removed due to applicable legal, regulatory or policy constraints which may include when RBC Capital Markets is acting in an advisory capacity involving the company.

As of March 31, 2020, RBC Capital Markets discontinued its Top Pick rating. Top Pick rated securities represented an analysts best idea in the sector; expected to provide significant absolute returns over 12 months with a favorable risk-reward ratio. Top Pick



rated securities have been reassigned to our Outperform rated securities category, which are securities expected to materially outperform sector average over 12 months.

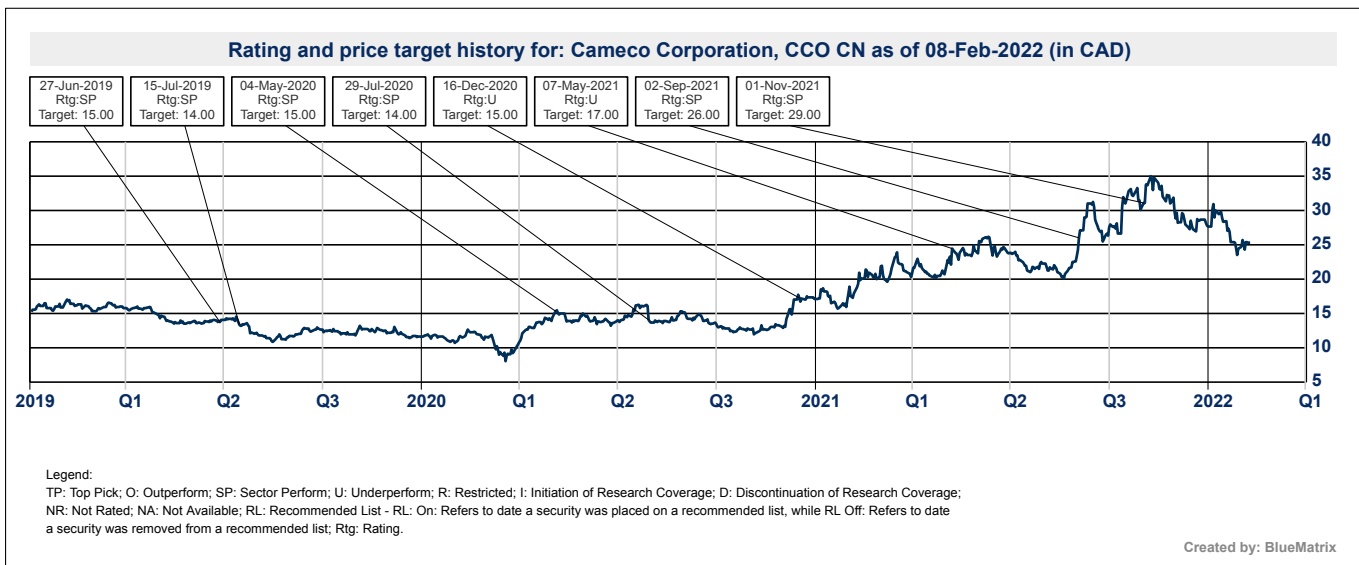
Risk Rating

The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

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Distribution of ratings				
RBC Capital Markets, Equity Research				
As of 31-Dec-2021				
Rating	Count	Percent	Investment Banking	
			Serv./Past 12 Mos.	
			Count	Percent
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HOLD [Sector Perform]	557	38.60	180	32.32
SELL [Underperform]	55	3.81	3	5.45



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Cameco Corporation

Valuation

We value the company by applying a 1.75x P/NAV multiple to our NAV estimate. Our P/NAV multiple is above the average historical multiple but in line with multiples during periods of strong investor interest and rising uranium prices. Our DCF uses an 8% discount rate. Our \$30 price target supports our Sector Perform rating.

Risks to rating and price target

We highlight several key risks and sensitivities that could be potentially material to our thesis on Cameco including: 1) a negative outcome in the ongoing CRA transfer pricing dispute; 2) contract cancellations; 3) potential production disruptions; 4) weaker-than-expected uranium prices; 5) currency volatility, primarily CAD/USD; and 6) a decline in uranium investor sentiment resulting in lower valuation multiples.

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