

CIRCLE

Strategic acquisition to further boost growth

M&A and 1H 2019 results: In 1H 2019 CIRCLE continued to grow in terms of revenues and profitability and confirmed strategic guidelines to boost growth through M&A with the acquisition of 100% of Progetto Adele, a software house specialized in logistics and freight forwarding. With the acquisition Circle adds two new segments to its product offering and expects to be able to exploit important synergies already in 2H 2019. In FY 2018 Progetto Adele recorded revenues of Euro 2.2 m. The total consideration of the deal was of Euro 1.9 m including Euro 1.4 m of net cash.

1H 2019 revenues came in at Euro 2.6 m, up by +8.5% vs. 1H 2018 and with an EBITDA margin of 26.5% in line with last years. Growth was mainly driven by Milos (+40%) and international projects (+26%). **Net profit** was for Euro 0.3 m (-9.2% vs. 1H 2018) and **Net cash** stood at Euro 1.3 m, up from Euro 0.9 m in 1H 2018.

We revised our estimates to factor in the acquisition of Progetto Adele which we prudentially estimate should contribute with revenues just below Euro 1 m in FY 2019 for the five months of consolidation. We also revised our organic revenue forecast for Circle lowering our expected growth rate to 10% (previously +22%), with revenues in 2H 2019 up by 12%, vs. 9% in 1H 2019 as we believe that the higher than expected investments in the first six months of 2019 (Euro 0.3 m vs. Euro 0.2 m as of our previous estimates for FY 2019), will boost growth in the short term. Overall, we increased our revenue and EBITDA estimates with an average of +20% and +9% respectively.

Company Description: CIRCLE, listed on AIM Italia since October 26th, 2018 is an “Innovative SME” founded in 2012 and, specialized in the provision of innovative technological solutions for the optimization and digitization of the supply chain for the port and intermodal logistics sector. Through a vertically integrated business model, the Company completes its offering with services for focused exploitation of European funding and digital marketing.

Valuation: We set a new target price of Euro Euro 4.91 p.s. (previous 4.86 Eu p.s.) basically in line with our previous one, as the positive effect from increased estimates were partially offset by a decrease in market multiples. Our new target price implies a potential upside of +89%. At current market price (Euro 2.60 p.s.) CIRCLE is trading at significant discount to peers.

Sector: Technology

Target Price (Euro)	4.91 (4.86 pr)
Market Price (Euro)	2.60
Market Cap (Euro m)	9
EV (Euro m)	8
<i>(as of September 25th, 2019)</i>	

Share Data

Market	AIM Italia
Bloomberg/Reuters	CIRC:IM / CIRC.MI
ISIN	IT0005344996
N. of Shares	3,470,115
Free Float	20.24%
Main Shareholder	Luca Abatello (66.48%)
CEO	Luca Abatello

AIM Positioning

FY 2018	Company	AM Sector	AIM Italia
Revenues (Eu m)	5	44	44
Revenues YoY	18%	31%	30%
EBITDA Margin	27%	16%	14%
NFP (cash) (Eu m)	(2.1)	(1.7)	7.5
NFP/EBITDA (x)	(1.6)	0.1	4.1

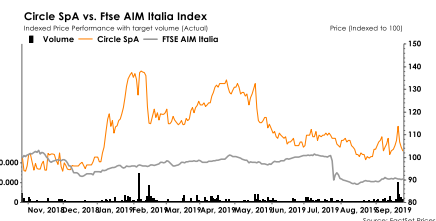
Market Data (Eu m)	Company	AM Sector	AIM Italia
Capitalisation	9	76	54
Perf. YTD	13%	31%	-7%
Free Float	20%	31%	35%
ADTT YTD (Eu)	33,234	198,214	116,367

Performance

	1M	3M	6M
Absolute	2.34%	-2.24%	-6.26%
Relative (TSE AIM Italia)	1.53%	8.44%	1.91%
52-week High/Low (Eu)	3.34 / 2.09		

IR TOP RESEARCH

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Key Figures (Eu m)	Sales	Yoy %	EBITDA	EBITDA %	EBIT	EBIT %	Net Profit	Net Debt
2018A	4.8	+18%	1.3	27%	0.8	16%	0.5	(2.1)
2019E	6.2	+29%	1.6	25%	0.9	14%	0.7	(2.3)
2020E	8.9	+43%	2.1	24%	1.2	14%	1.1	(3.8)
2021E	10.8	+22%	2.6	24%	2.1	19%	1.9	(6.4)

AIM POSITIONING

CIRCLE positions itself in the "Technology" Sector.

Compared to the average AIM Italia "Technology" Sector, CIRCLE shows:

- Lower revenue growth rates (+18% vs +31%);
- Higher EBITDA margin (27% vs 16%);
- Lower level of indebtedness (NPF/EBITDA -1.6x vs 0.1x)

FY 2018 Data	Revenues (Eu m)	Revenues YoY growth (%)	EBITDA margin (%)	Net Debt (Cash) (Eu m)	EV/EBITDA (x)	NPF/EBITDA (x)
Alkemy	71.6	68%	9%	10.7	11.0	1.7
AMM	11.6	61%	12%	(0.0)	17.0	(0.0)
Antares Vision	118.8	33%	28%	(28.7)	16.4	(0.9)
CIRCLE	4.8	18%	27%	(2.1)	5.7	(1.6)
DHH	6.3	11%	8%	(2.6)	9.5	(4.9)
Digital Value	298.1	15%	8%	(31.8)	4.7	(1.3)
Eles	22.2	57%	17%	4.9	16.8	1.3
Esautomotion	18.5	19%	27%	(7.7)	5.9	(1.5)
Expert System	28.7	12%	16%	12.4	31.1	2.7
Finlogic	29.5	32%	14%	(2.7)	8.7	(0.7)
MailUp	40.2	47%	9%	(6.4)	14.4	(1.7)
MAPS	17.6	13%	21%	3.0	9.6	0.8
Neosperience	8.6	64%	39%	3.3	21.2	1.0
Neurosoft	13.8	41%	6%	(2.2)	43.4	(2.7)
Powersoft	33.5	10%	16%	(8.3)	7.9	(1.5)
Prismi	21.2	42%	13%	25.4	17.3	9.2
Relatech	14.4	24%	14%	1.1	12.0	0.5
Softtec	9.6	15%	10%	2.0	7.7	2.1
Vetrya	59.4	1%	13%	(3.4)	5.7	(0.4)
Technology	43.6	31%	16%	(1.7)	14.0	0.1
DBA Group	49.0	+8.4%	9.1%	9.7	6.5	2.2
AIM Italia	44.2	+30%	14%	7.5	19.0	4.1

Source: Osservatorio AIM Italia and FactSet data as of September 20th, 2019

Compared to the average AIM Italia "Technology" Sector, CIRCLE shows:

- Lower capitalisation;
- Lower free float;
- Lower average daily traded turnover (ADTT).

Market Data	Market Cap (Eu m)	Free Float (%)	Perf. from IPO (%)	ADTT YTD (Eu)
Alkemy	57	54%	-13%	53,075
AMM	24	14%	15%	130,436
Antares Vision	579	12%	0%	235,223
CIRCLE	9	20%	13%	33,234
DHH	8	33%	-49%	3,123
Digital Value	145	32%	70%	64,747
Eles	59	45%	176%	693,232
Esautomotion	37	24%	6%	38,791
Expert System	132	68%	83%	959,333
Finlogic	39	24%	54%	25,738
MailUp	60	33%	110%	98,403
MAPS	32	27%	128%	297,018
Neosperience	68	22%	184%	675,571
Neurosoft	37	14%	-81%	24,718
Powersoft	50	13%	28%	22,026
Prismi	22	91%	-92%	34,038
Relatech	23	20%	16%	246,717
Softtec	5	10%	-87%	2,795
Vetrya	47	34%	19%	127,840
Technology	76	31%	31%	198,214
DBA Group	19	44%	-58%	19,487
AIM Italia	54	35%	-7%	116,367

Source: Osservatorio AIM Italia and FactSet data as of September 20th, 2019

BUSINESS UPDATE

In 1H 2019 Circle continued to grow revenues and profitability and announced, in line with strategic guidelines, the **acquisition of 100% of Progetto Adele**, a software house specialized in logistics and freight forwarding. With the acquisition, Circle completes the range of vertical solutions in the supply chain. The purchase price for 100% of the shares was of Euro 0.5 m in addition to the cash of Euro 1.4 m, for a total of Euro 1.9 m. The agreement includes a price adjustment, to be paid based on the difference between the 2018 and 2021 EBITDA. In FY 2018 Progetto Adele recorded revenues of Euro 2.2 million (+ 39% vs. FY 2017), an EBITDA of Euro 0.3 m with an EBITDA margin of 11.5%

Management expects the positive trend to continue in 2H 2019, and confirms a significant growth targets vs. previous year thanks also to the important commercial results achieved in 1H 2019 (in particular the participation in the E-BRIDGE, IRAIL and FENIX projects) and despite a market slowdown due to the domestic political and macroeconomic global situation.

In April 2019, the shareholders meeting resolved upon a script dividend (dividend in the form of Company shares as an alternative to cash) for a total of Euro 21k through the issuance of 315,465 new ordinary shares.

In April and May 2019, Circle acquired 1,200, 4,200 and 660 treasury shares. Currently, the Company holds 6,060 ordinary shares, corresponding to 0.1902% of total share capital.

1H 2019 RESULTS

The Group recorded strong set of 1H 2019 results: revenues grew **by 8.5% to Euro 2.6 m** (Euro 2.4 m in 1H 2018). Growth was mainly driven by Milos (+40%) and international projects (+26%). On a pro-forma basis, including revenues of Progetto Adele, revenues would have grown at a +58% rate. **EBITDA came in at Euro 701 k**, (+8.6% vs 1H 2018), with an EBITDA margin of 26.5%, in line with 1H 2018. **EBIT** was of Euro 447k m in the first-half of 2019, down slightly vs. 1H 2018 (Euro 480k) following higher D&As mainly from IPO expenses (Euro 60 k) net of which EBIT would have been of Euro 507 k, +6% vs. previous year. **Net Profit** stood at Euro 0.3 m.

CAPEX in the first six months of 2019 reached Euro 0.3 m (vs. 0.3 in 1H 2018 and Euro 0.2 as of our expectations for FY 2019) and were mainly related to product development and activities related to the signing of the three major European projects E-BRIDGE, IRAIL and FENIX.

Net cash at the end of the period considered was of Euro 1.3 m vs. Euro 2.1 m in FY 2018.

Eu m – OIC		1H 2018	1H 2019	Var % 18-19
Value of Production (VoP)		2.4	2.6	+8.5%
	YoY	n.a.	+8.5%	
EBITDA		0.6	0.7	+8.6%
	Margin	26.5%	26.5%	
EBIT		0.5	0.4	-6.9%
	Margin	19.7%	16.9%	
EBT		0.5	0.4	-7.5%
Net Profit		0.4	0.3	-9.2%
Net Working Capital (NWC)		0.6	1.8	+183.7%
Fixed net assets		1.0	1.5	+50.6%
Funds		(0.3)	(0.3)	+11.9%
Net Capital Employed		1.3	3.0	+123.8%
Net Debt (Cash)		(0.9)	(1.3)	+54.3%
Equity		2.2	4.3	+96.7%
Sources		1.3	3.0	+123.8%

Source: Company Data

ESTIMATES 2019-2021

We revised our estimates to factor in the acquisition of Progetto Adelle which we prudentially estimate should contribute with revenues and EBITDA of Euro 0.9 and Euro 0.1 m respectively in FY 2019 for the five months of consolidation (August-December). Our estimates do not include any additional M&A activity.

We also revised our organic revenue forecast for Circle lowering our expected growth rate to 10% (previously +22%), with revenues in 2H 2019 up by 12%, vs. 9% in 1H 2019 as we believe that the higher than expected investments in the first six months of 2019 (Euro 0.3 m vs. Euro 0.2 m as of our previous estimates for FY 2019), will boost growth in the short term. Overall, we increased our revenue and EBITDA estimates with an average of +20% and +9% respectively.

KEY FINANCIALS

Euro m – OIC	18A	19E Old	19E New	20E Old	20E New	21E Old	21E New
Value of Production (VoP)	4.8	5.8	6.2	7.0	8.9	8.4	10.8
VoP YoY % growth	+18.3%	+22.0%	+29.1%	+20.0%	+43.1%	+20.0%	+22.1%
EBITDA	1.3	1.6	1.6	1.9	2.1	2.3	2.6
EBITDA margin	27.1%	26.6%	25.4%	27.1%	23.5%	27.2%	24.2%
EBIT	0.8	0.9	0.9	1.2	1.2	1.9	2.1
EBIT margin	16.1%	15.1%	13.9%	16.6%	14.1%	22.0%	19.2%
Pre-tax profit	0.8	0.9	0.9	1.2	1.2	1.8	2.1
EBT margin	16.2%	15.0%	13.8%	16.5%	14.0%	21.9%	19.2%
Group's Net Profit	0.5	0.8	0.7	1.0	1.1	1.7	1.9
Net margin	9.6%	13.0%	11.8%	15.0%	12.5%	20.2%	17.6%
EPS (Eu)	0.15	0.24	0.21	0.32	0.32	0.54	0.55

Euro m – OIC	18A	19E Old	19E New	20E Old	20E New	21E Old	21E New
Net working capital (NWC)	0.7	1.1	1.5	1.1	1.8	0.9	1.6
Net fixed assets	1.5	1.0	1.4	0.5	0.8	0.3	0.5
Funds	(0.3)	(0.3)	(0.3)	(0.3)	(0.4)	(0.3)	(0.4)
Net Capital Employed	1.9	1.9	2.5	1.3	2.2	0.9	1.7
Net financial Debt (Cash)	(2.1)	(2.9)	(2.3)	(4.7)	(3.8)	(6.9)	(6.4)
Total Equity	4.0	4.8	4.8	6.0	6.1	7.8	8.1
Sources	1.9	1.9	2.5	1.3	2.2	0.9	1.7

Source: Company data (Italian accounting principles) for FY 2018, IR Top Research estimates for FY 2019-2021

We have updated our valuation for CIRCLE and in particular:

- The DCF to include new estimates and up-to-date risk-free rate and ERP;
- The relative valuation to reflect current market multiples for two separate peer groups (i) AIM Italia listed peers active in IT industry and software development, and (ii) Italian and European industry peers operating in the process consultancy, supply chain and logistics software. We have, in addition, updated our AIM Positioning Discount to reflect FY 2018 results for the AIM Italia market. The new discount applied is of 30%.

	Country	Market Cap (Eu m)	2018 revenue (Eu m)	Revenue % change 2018/2017	2019E revenue (Eu m)	2018 EBITDA margin	2019E EBITDA margin
Alkemy	Italy	57	71.6	+68%	97.7	9%	8%
DHH	Italy	8	6.3	+11%	7.5	8%	11%
Digital Value	Italy	145	298.1	+15%	310.5	8%	9%
Esautomotion	Italy	37	18.5	+19%	20.7	27%	29%
Expert system	Italy	132	28.7	+12%	33.5	16%	23%
Finlogic	Italy	39	29.5	+32%	34.1	14%	15%
MailUp	Italy	60	40.2	+47%	56.7	9%	9%
Neosperience	Italy	68	8.6	+64%	15.0	39%	25%
Powersoft	Italy	50	33.5	+10%	37.8	16%	16%
Prismi	Italy	22	21.2	+42%	24.9	13%	22%
Vetrya	Italy	47	59.4	+1%	87.1	13%	12%
DBA Group	Italy	19	49.0	+8%	54.7	9%	11%
AIM peers' median		49	31.5	+17%	35.9	13%	14%
Datalogic	Italy	765	631.0	+4.1%	620.6	16.4%	15.4%
Exprivia	Italy	45	623.2	+296.6%	582.4	6.7%	6.8%
Generix Group France	France	104	76.6	+9.0%	83.7	11.9%	13.4%
PSI Software	Germany	288	199.2	+7.0%	219.4	10.1%	11.0%
Reply	Italy	1,901	1,035.9	+17.1%	1,177.8	14.0%	14.4%
TXT e-solutions	Italy	107	40.0	+11.5%	56.7	9.9%	10.4%
Small & Mid Cap peers' median		198	623.2	+11.5%	400.9	11.0%	12.2%
CIRCLE	Italy	9	4.8	+18.3%	6.2	27.1%	25.4%

	EV/EBITDA (x)		P/E (x)	
	19 E	20E	19E	20E
Alkemy	8.7	6.4	15.4	11.3
DHH	5.2	3.2	19.0	12.5
Digital Value	3.9	2.6	9.4	8.1
Esautomotion	4.4	3.1	10.6	8.4
Expert system	18.8	14.5	n.s.	70.0
Finlogic	6.7	5.1	14.1	11.1
MailUp	10.1	7.3	30.2	20.2
Neosperience	15.5	11.6	36.9	25.7
Powersoft	9.7	7.6	17.6	13.6
Prismi	7.9	6.0	20.4	13.6
Vetrya	4.7	3.4	10.4	7.2
DBA Group	4.1	2.9	13.8	9.9
AIM peers' average	8.3	6.1	18.0	17.6
Datalogic	8.0	7.4	14.3	13.3
Exprivia	8.0	7.0	282.9	9.5
Generix Group France	9.6	7.1	22.2	16.1
PSI Software	11.3	9.4	23.3	19.1
Reply	10.8	9.5	18.4	16.5
TXT e-solutions	9.8	7.3	28.0	24.7
Small & Mid Cap peers' average	9.6	8.0	64.8	16.5
CIRCLE	4.0	2.5	10.9	8.2
Discount/Premium to AIM peers	-52%	-59%	-40%	-53%
Discount/Premium to Small & Mid Cap peers	-58%	-69%	-83%	-50%
Discount/Premium to peers	-55%	-64%	-61%	-52%

Source: Osservatorio AIM Italia for AIM peers, FactSet data as of September 25th, 2019 for Small & Mid Cap peers, IR Top Research estimates for CIRCLE

Using 2019-2020 EV/EBITDA, our market multiple comparison yields a **fair value of 4.40 Eu** per share. At current market prices, CIRCLE trades at a significant discount to peers: average of -59% for 2019-2020 EV/EBITDA and -57% for P/E.

DISCOUNTED CASH FLOW

WACC assumptions:

- Risk-free interest rate: 2.38% (24-month average of Italian 10y BTP yield)
- Perpetual growth: 1%
- Market risk premium: 9.03%
- Beta: 0.95
- WACC: 11.0% = Cost of equity (K_E) as we expect that CIRCLE will remain cash positive

Our DCF valuation yields a fair value of **Euro 5.43 per share**.

+ Sum of PV 2019-2022 FCFO (Eu m)	5.1	27%
+ Discounted Terminal Value (Eu m)	13.5	73%
= Enterprise Value (Eu m)	18.5	100%
- Net financial Debt (Cash) 1H 2019	(1.3)	
- Minorities (6% DCF) (Eu m)	1.0	
= Equity Value (Eu m)	18.8	
÷ Number of outstanding shares after IPO (m)	3.5	
= Fair Value per share (Eu)	5.43	

Source: Company data (Italian accounting principles) and IR Top Research estimates as of September 25th, 2019

Sensitivity analysis

Eu		WACC				
		10.0%	10.5%	11.0%	11.5%	12.0%
g	0,5%	5.8	5.5	5.2	5.0	4.8
	1,0%	6.0	5.7	5.4	5.2	4.9
	1,5%	6.3	6.0	5.6	5.4	5.1

VALUATION SUMMARY

Weighting the two approaches equally we set a new target price of Circle of Euro 4.91 p.s. (previous 4.86 Eu p.s.) basically in line with our previous one, as the positive effect from increased estimates were partially offset by a decrease in market multiples. Our new target price implies a potential upside of +89% and an implicit 2019-2020 EV/EBITDA multiples of 10.0x and 7.6x respectively. At current market price (Euro 2.60 p.s.) CIRCLE is trading at significant discount to peers.

Method	Weight	Price (Eu)
Multiple analysis	50%	4.40
DCF	50%	5.43
Target Price	100%	4.91

CIRCLE ON AIM ITALIA

IPO

Trading Market: AIM Italia – Borsa Italiana SpA
Date: October 26th, 2018
Price: Euro 2.40
Capital raised: Euro 1,532,160
Capitalisation: Euro 7.57 m

SHARES (as of September 25th, 2019)

Code: CIRC
Bloomberg: CIRC:IM
Reuters: CIRC.MI
ISIN: IT0005344996
Shares: 3,470,115
Share capital: Euro 233,000
Price: Euro 2.57
Performance from IPO: +9%
Capitalisation: Euro 9.0 m
Free Float: 20.24%
NomAd and Specialist: Integrae SIM SpA
Auditing firm: BDO Italia SpA

CIRCLE is owned by the co-founder, and CEO Luca Abatello, who holds 66.48% of the outstanding shares. The share capital subscribed and paid up is Euro 233,000, made up by n. 3,470,115 ordinary shares without nominal value. Innotech, LigurCapital, CapitalImpresa and Alcalela have a **lock-up agreement** with the NomAd on their shares for **30 months from the IPO date**.

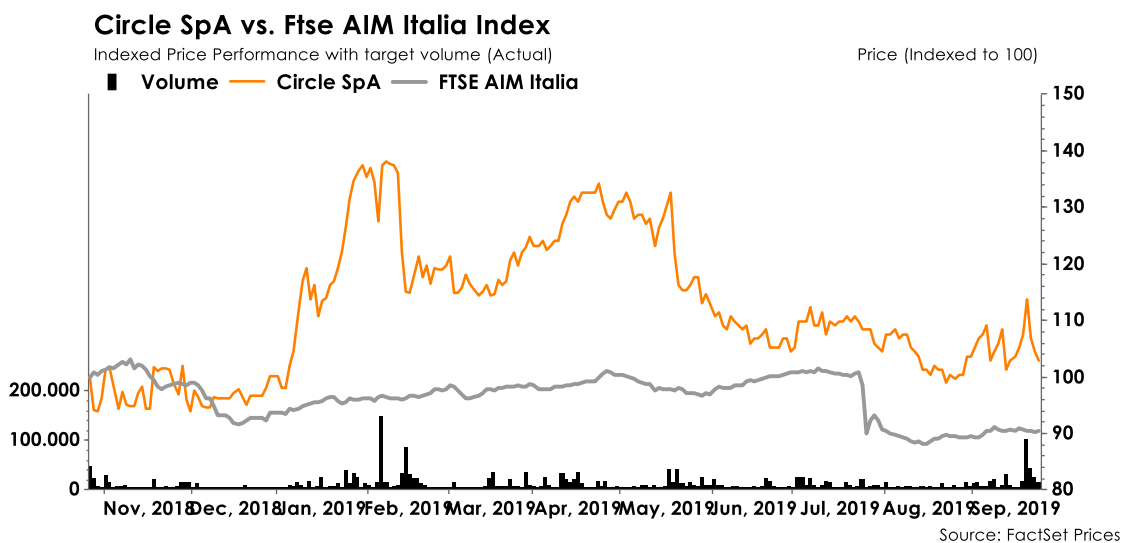
Shareholder	N° of shares	%
Innotech Srl ¹	2,306,766	66.48%
LigurCapital SpA ²	169,851	4.89%
CapitalImpresa SpA ²	169,851	4.89%
Alcalela Srl ³	121,407	3.50%
Market	702,240	20.24%
Total	3,470,115	100.00%

Source: Company data as of September 25th, 2019

¹ 100% Luca Abatello

² Funds

³ Related to Alexio Picco, CIRCLE's co-founder, Director and Head of the business unit Connecting EU



KEY FIGURES

Profit&Loss Statement	2018A	2019E	2020E	2021E
Sales	3.6	4.5	5.5	7.3
Revenues (VoP)	4.8	6.2	8.9	10.8
EBITDA	1.3	1.6	2.1	2.6
EBIT	0.8	0.9	1.2	2.1
Financial Income (charges)	0.0	(0.0)	(0.0)	(0.0)
Pre-tax profit (loss)	0.8	0.9	1.2	2.1
Taxes	(0.2)	0.0	0.0	(0.0)
Group net profit (loss)	0.5	0.7	1.1	1.9
Balance Sheet				
Net working capital (NWC)	0.7	1.5	1.8	1.6
Net fixed assets	1.5	1.4	0.8	0.5
M/L Funds	(0.3)	(0.3)	(0.4)	(0.4)
Net Capital Employed	1.9	2.5	2.2	1.7
Net Debt (Cash)	(2.1)	(2.3)	(3.8)	(6.4)
Net Equity	4.0	4.8	6.1	8.1
Cash Flow				
EBIT	0.8	0.9	1.2	2.1
D&A	0.5	0.7	0.8	0.5
Tax	(0.2)	0.0	0.0	(0.0)
Change in M/L Funds	(0.0)	(0.0)	0.1	0.0
Gross Cash Flow	1.1	1.5	2.2	2.6
Change in NWC	(0.4)	(0.8)	(0.3)	0.2
Operating Cash Flow	0.7	0.8	1.9	2.9
Capex	(1.2)	(0.6)	(0.3)	(0.3)
Change in other non-current asset	0.0	0.0	0.0	0.0
Financial Income (charges)	0.0	(0.0)	(0.0)	(0.0)
Free Cash Flow	(0.5)	0.2	1.6	2.6
Dividend	0.0	0.0	0.0	0.0
Change in Equity	1.7	0.0	0.0	0.0
Change in Net debt (Cash)	1.2	0.2	1.6	2.6
Per Share Data				
Current Price	€2.62			
Total shares out fully diluted (mn)	3470			
EPS	0.15	0.21	0.32	0.55
DPS	0.0	0.0	0.0	0.0
FCF	(0.5)	0.2	1.6	2.6
Pay out ratio	0%	0%	0%	0%
Ratios				
EBITDA margin	27.1%	25.4%	23.5%	24.2%
EBIT margin	16.1%	13.9%	14.1%	19.2%
Net Debt/Equity (Gearing)	-52.9%	-47.1%	-63.5%	-79.4%
Net Debt/EBITDA	-1.62	-1.44	-1.85	-2.46
Interest cover EBIT	-591.55	160.73	233.80	389.25
ROE	11.6%	15.2%	18.3%	23.5%
ROCE	49.6%	33.7%	56.4%	125.7%
Free Cash Flow Yield	-17.6%	6.5%	60.2%	98.7%
Growth Rates				
Sales	16%	25%	22%	33%
Revenues (VoP)	18.3%	29.1%	43.1%	22.1%
EBITDA	34.4%	21.4%	32.2%	25.8%
EBIT	13.0%	10.9%	45.5%	66.5%
Net Profit	-13.0%	58.6%	51.9%	71.5%

Source: Company data (Italian accounting principles) for FY 2018 and IRTop Research estimates for FY 2019-2021

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	Target Price	Market Price	Validity Time
September 26 th , 2019	4.91	2.57	12 months
March 21 st 2019	4.86	2.96	12 months
November 15 th 2018	3.71	2.50	12 months

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