



## Penser Access by Carnegie

Internet Software & Services | Sweden | 26 February 2024

# Raketech Group Holding

## Guidance for cashflow to remain strong

### In line with guidance

Revenues for Q4 were reported at EUR22.8m, representing growth of 45.3%. This was driven by the Sub-affiliation segment, which has grown by 228% Y/Y. EBITDA for the quarter came in at EUR0.6m, which means a margin at 26.3%. Full-year EBITDA reached EUR23.6m, in the middle of the guidance range, versus our EUR25m forecast towards the upper end. Free cash flow was EUR4.8m for Q4. Full-year free cash flow came in at EUR14m, in line with guidance for EUR13–15m. Overall, a stable quarter for the company.

### Adjusting estimates to reflect guidance

This year has started with EUR7.3m in revenues for January, which would correspond to growth of about 38% for the whole of Q1'. The company has issued full-year guidance for EBITDA of EUR24–26m and free cash flow before earn-outs at EUR22–24m. Based on this guidance, we reduce our EBITDA estimates by 13% for 2024 and 15% for 2025. These adjustments also reflect the change in the company's revenue mix, with Sub-affiliation having a gross margin of 15% compared with Affiliation marketing's almost 90% gross margin. Growth over the forecast period will be dominated by Sub-affiliation. The large changes in our 2024–25 EPS estimates stem from EPS in euros being close to zero, and so we cut 2024e EPS from EUR0.34 to EUR0.26 and 2025e from EUR0.41 to EUR0.31. We believe, however, the company's focus should be on free cash flow.

### Potential for high capital returns to shareholders

We adjust our fair value to SEK28–32 (34–36). As we now have an understanding of the earn-outs associated with Casumba, we believe Raketech could potentially be able to return EUR25–30m to shareholders during 2024–26, representing more than 40% of its market cap. We see potential for increasing dividends or buybacks in the future. Moreover, we believe the sizeable discount at which Raketech trades versus other affiliates will be somewhat reduced now the uncertainty regarding the earn-outs has been eliminated. We expect that some of the discount will remain as Raketech has a lower proportion of revenues through revenue share than GIG or Better Collective, for example.

Change in estimates				Forecast (€m)				Value and risk		
	24e	25e	26e		2023	2024e	2025e	2026e	Fair value	SEK 28.0 - 32.0
Total Revenues	0.8%	3.5%	0.0%	Total Revenues	78	96	108	117	Share price	SEK 16.3
EBITDA, adj.	-12.8%	-14.9%	0.0%	Revenue growth	48%	23%	13%	8%	Risk level	Medium
EPS, adj.	-24.0%	-25.4%	0.0%	EBITDA, adj.	24	25	28	30	<b>Price Performance 12 months</b>	
<b>Upcoming events</b>				EBIT, adj.	12	13	16	18		
Q1 - report	08 May 2024			EPS, adj.	0.2	0.3	0.3	0.4		
Q2 - report	14 August 2024			EPS growth, adj.	-21%	67%	23%	14%		
<b>Company facts (€m)</b>				BV/share	2.3	2.5	2.6	2.8		
Number of shares	42m			Dividend per share	0.1	0.2	0.2	0.2		
Market capitalization	62			EBIT margin	15.0%	14.1%	15.1%	15.7%		
Net debt	43			ROE, adj.	6.7%	10.6%	12.3%	13.2%		
EV	105			ROCE, adj.	10.6%	12.0%	13.8%	14.7%		
Free float	74%			EV/Sales	0.9x	1.1x	1.0x	0.9x		
Daily trading volume, average	103k			EV/EBITDA	2.8x	4.1x	3.7x	3.4x		
Bloomberg Ticker	RAKE SS EQUITY			EV/EBIT	5.7x	7.8x	6.4x	5.7x		
<b>Analyst</b>				P/E, adj.	10.3x	5.7x	4.6x	4.1x		
Rikard Engberg				Dividend yield	7.3%	11.0%	13.4%	15.0%		
rikard.engberg@carnegie.se				FCF yield	23%	34%	37%	40%		
<b>Conflicts of interest</b>										
									Yes	No
Liquidity provider										✓
Certified adviser									✓	
Transactions 12m										✓

## Investment case

**Structural growth:** Raketech operates in one of the fastest-growing forms of entertainment, igambling. As an affiliate company, it has opportunities in rapidly growing markets and to ride the global growth wave we see in this industry.

**Solid balance sheet and cash flow generation:** In recent years, Raketech has shown solid cash flow generation, paying out dividends in 2023. Affiliate companies have historically seen low valuations on account of high turnover and less successful acquisitions. We believe Raketech has succeeded recently in proving itself through value-creating acquisitions and the generation of sufficient cash flow to resolve earn-outs, leading to a cleaner balance sheet going forward.

**AffiliationCloud:** Raketech owns the AffiliationCloud software, a business intelligence tool for both affiliates and operators. The software is expected to see annualised turnover of EUR10m and an EBITDA margin of 10–15% in H1(25). We consider the value of AffiliationCloud to be around EUR 30–50m if it can achieve this, thus representing a lasting component of Raketech's market share.

## Company profile

Raketech is an affiliate company. This means it operates websites that provide clients – in its case, gaming operators like Kindred and Betsson – with end-customers. Raketech is paid a lump sum per depositing customer or via a share of the gaming profits from the customers it refers to an operator. Affiliate marketing is especially common in high growth markets, often being the first channel to open up. It is also flexible in emerging markets that lack regulation. The key growth market for Swedish affiliate companies today is the US, where Raketech is present thanks to acquisitions. Other important growth markets are Japan and South America.

Globally, about 10% of all gambling takes place online, with physical casinos and betting shops accounting for the other 90%. Growth in the igambling sector is thus driven two factors: increased gambling when the economy expands, and online rather than offline gambling. Affiliation is the chief form of marketing in unregulated markets, where the conversion rate is the highest.

Affiliate companies in general, and Raketech in particular, are the lowest valued entities in the gambling value chain. In 2019, when the sector began to be regulated, affiliates' valuations dropped sharply. These valuations are partly the result of several players experiencing low profit growth for some time, owing to dilution, despite solid revenue growth. We believe Raketech has now tidied up its business and will start to enjoy the high structural growth from the North and Latin American markets, among others.

## Valuation

We have chosen to value Raketech using a DCF model. In our view, Raketech should see its discount minimise versus other listed affiliates in the coming six to 12 months, and we thus see a fair value of SEK 28–32 for the share. We believe the diminishing uncertainty regarding earn-outs will act as a share price catalyst.

As AffiliationCloud is still in its infancy, we do not include it in our valuation. Should it achieve the targeted revenues of EUR 10m, we would see an additional EUR 30–40m in fundamental value for Raketech.

## Brief overview of the quarter

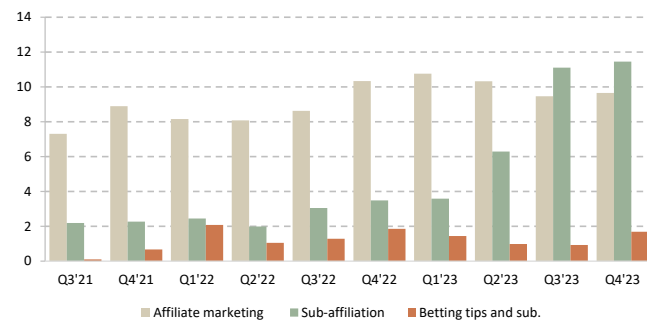
**Affiliation marketing:** The segment reported revenues of EUR9.6m, suggesting a decrease of 6.6% Y/Y. The key factor behind this poor performance was the challenging Swedish market. Thanks to its solid exposure to the Japanese market, Casumba delivered according to expectations.

**Sub-affiliation:** The business reported revenues of EUR11.4m, implying growth of 228% Y/Y. All markets performed well. The AffiliationCloud software continues to grow and demand is robust. Owing to ongoing investments in the product, the company has chosen to postpone the run rate of EUR10m in revenues from the end of 2024 to H1(25).

**Betting tips and subscription income:** Revenues reached EUR1.7m in the quarter, implying a decrease of 9% y/y.

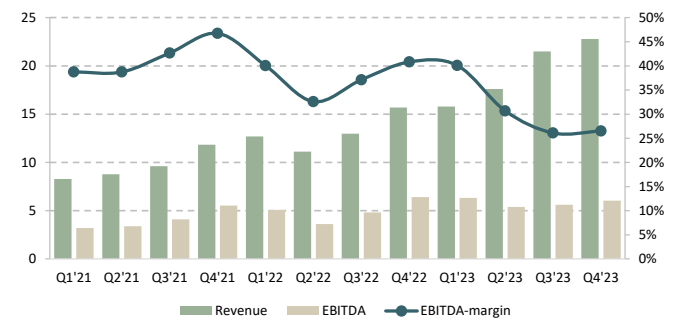
All in all, Raketech finished the year strongly. We consider the guidance for 2024 achievable thanks to the solid growth in Sub-affiliation and as Q2-Q3 will see strong customer streams on account of the forthcoming Euro championship in football. We also expect the company to continue reporting solid cash flow conversion, which will provide for high capital returns to shareholders and the ability to pay coming earn-outs without significant dilution.

### Superb growth in Sub-affiliation...



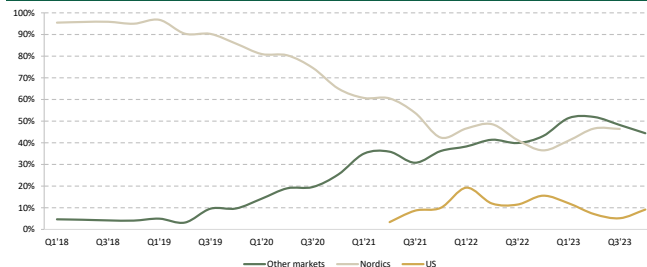
Source: Raketech, Penser by Carnegie

### ...means historical margins are not reached



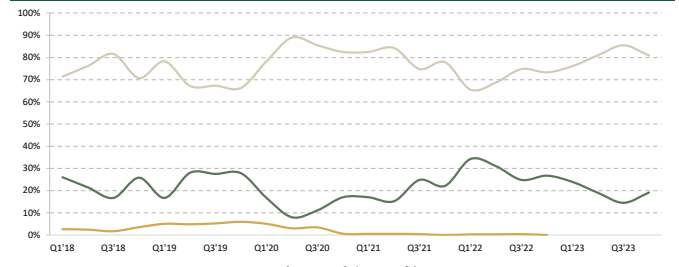
Source: Raketech, Penser by Carnegie

### Geographical mix



Source: Raketech

### Product mix



Source: Raketech

## Increased clarity regarding earnout should reduce discount to peers

Free cash flow before earnouts currently at EUR 22-24m

	2024	2025	2026
<b>Estimated earnout to settle</b>	<b>18m</b>	<b>9m</b>	<b>19m*</b>
Cash	16-18m	5-9m	11-19m
Equity (at RT discretion)	0-2m	0-4m	0-8m*

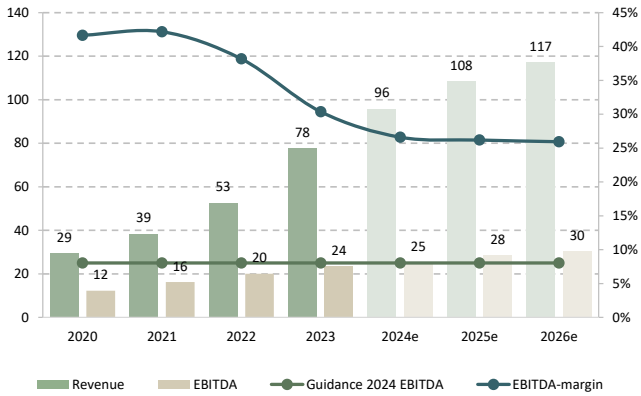
\* Can be settled at any point in time up until September 2026

- **Majority of earnout determined**
  - EUR 41m in fixed consideration
  - EUR 5m based on profit share up until July 2024
- **Current cash flow well above estimated earnout cash outflows**
  - Settlement in shares at full discretion of Raketech
- **Founders committed to stay onboard**, to oversee portfolio of assets and work on other growth projects

Source: Raketech

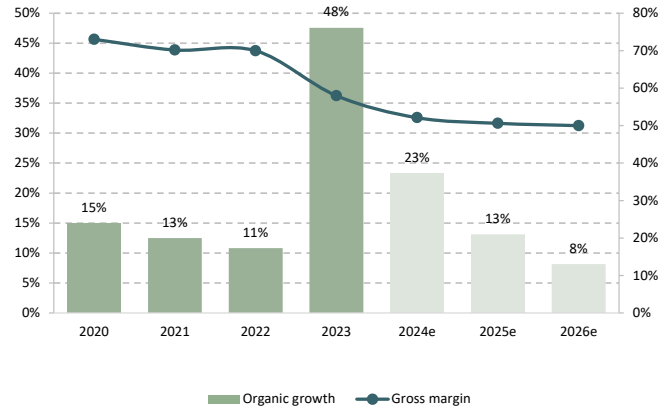
# Estimates

## We expect the company to achieve its guidance



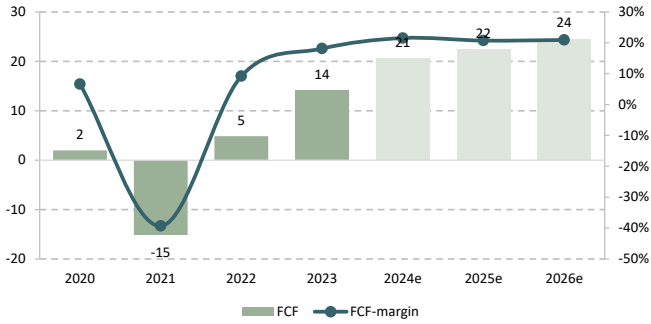
Source: Rakotech, Penser by Carnegie

## Changed mix bolsters growth but puts pressure on margins



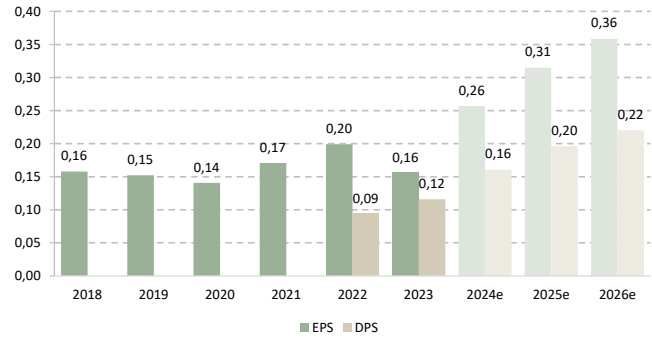
Source: Rakotech, Penser by Carnegie

## Solid cash flow can lead to...



Source: Rakotech, Penser by Carnegie

## ...high returns to shareholders



Source: Rakotech, Penser by Carnegie

# Valuation

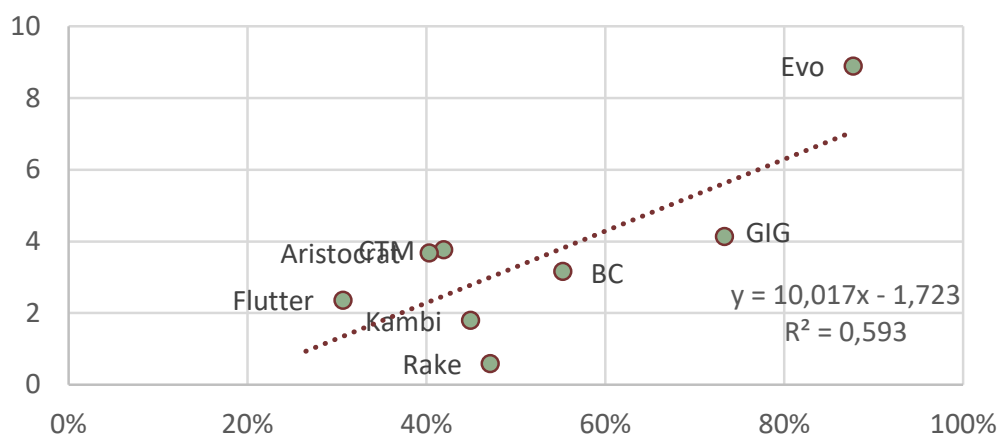
DCF		
Valuation output		
Sum of PV of FCF (explicit period)	109	
PV of terminal value (perpetuity formula)	64	
<b>Enterprise value</b>	<b>174</b>	
Latest net debt	43	
Minority interests & other	0	
<b>Equity value</b>	<b>131</b>	
No. of shares outstanding (millions)	43	
<b>Equity value per share</b>	<b>30</b>	
WACC assumptions		
Risk free nominal rate	2,5%	
Risk premium	5,5%	
Small cap premium	4,0%	
Extra risk premium	0,0	
<b>Cost of equity</b>	<b>13,0%</b>	
Cost of debt (pre-tax)	0,0%	
Tax rate	0%	
Target debt/(debt + equity)	10%	
<b>WACC</b>	<b>13,0%</b>	
Terminal value assumptions		
Long term growth rate	2,0%	
Long term EBIT margin	20,0%	
Depreciation (% of sales)	2,0%	
Capex (% of sales)	4,0%	
Working cap. (% of sales)	4,1%	
Tax rate	12%	

## Sensitivity analysis

Long-term growth rate						Long-term EBIT margin					
	1,0%	1,5%	2,0%	2,5%	3,0%		15,0%	17,5%	20,0%	22,5%	25,0%
WACC 12,0%	31,5	32,7	34,0	35,5	37,1	WACC 12,0%	26,8	30,4	34,0	37,6	41,2
WACC 12,5%	29,7	30,8	32,0	33,2	34,6	WACC 12,5%	25,3	28,6	32,0	35,3	38,6
WACC 13,0%	28,1	29,0	30,1	31,2	32,5	WACC 13,0%	23,9	27,0	30,1	33,2	36,3
WACC 13,5%	26,6	27,4	28,4	29,4	30,5	WACC 13,5%	22,6	25,5	28,4	31,3	34,2
WACC 14,0%	25,2	26,0	26,8	27,7	28,7	WACC 14,0%	21,4	24,1	26,8	29,5	32,2

Source: Penser by Carnegie

X: Value creation (average growth for 2024e–25e + average EBITDA margin), Y: 2025e EV/Sales



Source: Factset

Peer group														
Valuation	MCAP (USD)	EV (USD)	EV / Sales			EV / EBITDA			EV / EBIT			Price / Earnings		
			LTM	2024	2025	LTM	2024	2025	LTM	2024	2025	LTM	2024	2025
Gaming Innovation Group	368	435	3,08x	2,31x	2,06x	8,4x	4,9x	4,1x	17,7x	7,8x	6,1x	17,1x	8,6x	6,0x
Catena Media	82	144	1,29x	1,76x	1,51x	2,9x	4,8x	3,8x	3,8x	8,0x	5,2x	--	7,9x	4,8x
Kindred Group	2 051	1 995	1,30x	1,18x	1,10x	8,7x	6,3x	5,2x	13,3x	8,3x	6,6x	14,2x	10,0x	7,9x
Kambi Group	492	426	2,04x	1,89x	1,80x	5,6x	5,5x	5,0x	11,6x	11,1x	9,8x	18,1x	16,4x	14,6x
Better Collective	1 351	1 543	4,28x	3,56x	3,16x	12,1x	10,0x	8,3x	15,1x	12,7x	10,2x	23,3x	17,6x	13,1x
Evolution	25 050	24 075	12,48x	10,36x	8,90x	17,8x	14,7x	12,6x	19,8x	16,1x	13,7x	22,0x	20,0x	17,0x
Flutter Entertainment	30 060	34 985	3,03x	2,62x	2,36x	19,3x	13,8x	11,1x	83,1x	18,7x	14,2x	(410,0x)	26,7x	19,3x
Entain	7 892	11 438	1,97x	1,80x	1,72x	23,9x	8,7x	8,1x	--	12,2x	10,8x	(11,5x)	21,3x	13,8x
Aristocrat Leisure	17 790	17 429	4,13x	3,90x	3,68x	12,5x	11,5x	10,5x	15,3x	14,1x	13,1x	18,4x	19,1x	17,4x
Rakotech Group Holding	69	68	0,87x	0,66x	0,59x	2,6x	2,2x	1,9x	4,8x	3,7x	3,0x	7,6x	4,3x	3,5x
<b>Mean</b>			<b>3,45x</b>	<b>3,00x</b>	<b>2,69x</b>	<b>11,4x</b>	<b>8,2x</b>	<b>7,1x</b>	<b>20,5x</b>	<b>11,3x</b>	<b>9,3x</b>	<b>(33,4x)</b>	<b>15,2x</b>	<b>11,7x</b>
<b>Median</b>			<b>2,54x</b>	<b>2,10x</b>	<b>1,93x</b>	<b>10,4x</b>	<b>7,5x</b>	<b>6,6x</b>	<b>15,1x</b>	<b>11,6x</b>	<b>10,0x</b>	<b>17,1x</b>	<b>17,0x</b>	<b>13,5x</b>

Source: Factset

Income statement									
	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
<b>Net sales</b>	26	24	29	39	53	78	96	108	117
Cost of goods sold	-2	-4	-8	-11	-16	-33	-46	-53	-59
<b>Gross profit</b>	23	20	21	27	37	45	50	55	59
Other Operating Expenses	-11	-7	-9	-11	-17	-21	-24	-26	-28
<b>EBITDA</b>	13	13	12	16	20	24	25	28	30
<b>EBITDA, adjusted</b>	13	13	12	16	20	24	25	28	30
<b>EBITA, adjusted</b>	13	13	12	16	20	24	25	28	30
Amortization	-2	-5	-5	-7	-8	-12	-12	-12	-12
<b>EBIT</b>	11	8	7	9	12	12	13	16	18
<b>EBIT, adjusted</b>	11	8	7	9	12	12	13	16	18
Net Financial Items	-6	-1	-1	-2	-2	-4	-2	-2	-2
<b>Profit before tax</b>	5	7	6	8	10	7	12	15	17
<b>Profit before tax, adjusted</b>	5	7	6	8	10	7	12	15	17
Taxes	0	0	0	-1	-2	-1	-1	-1	-1
<b>Net income</b>	5	7	6	7	8	7	11	13	15
<b>Net income, adjusted</b>	5	7	6	7	8	7	11	13	15
Sales Growth	-	-6%	23%	31%	37%	48%	23%	13%	8%
Gross Margin	91.6%	85.1%	73.0%	70.2%	70.0%	57.8%	52.1%	50.6%	50.0%
EBIT Margin, Adjusted	43.8%	35.0%	23.3%	24.5%	23.6%	15.0%	14.1%	15.1%	15.7%
EPS, Adjusted	0.12	0.19	0.15	0.18	0.20	0.15	0.26	0.31	0.36
EPS Growth, Adjusted	-	57%	-19%	19%	9%	-21%	67%	23%	14%

Source: Raketech Group Holding, Carnegie

Cash flow statement									
	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
EBIT	11	8	7	9	12	12	13	16	18
Other Cash flow Items	2	3	5	7	8	12	11	11	11
Changes in working capital	-2	0	0	-2	-1	-2	0	-1	0
<b>Cash flow from operating activities</b>	11	11	12	15	19	21	25	27	28
Investments in intangible fixed assets	-17	-9	-13	-15	-13	-6	-4	-4	-4
Other Cash flow from investments	-	-	3	-14	-	-	-	-	-
<b>Cash flow from Investments</b>	-17	-9	-10	-29	-13	-6	-4	-4	-4
<b>Free cash flow</b>	-5	3	3	-14	6	16	21	23	24
New share issue / repurchase	32	-6	-2	12	-	-	-	-	-
Change in liabilities	-23	-	0	-1	-1	0	-18	-10	-15
Dividends	-	-	-	-	-	-6	-5	-7	-8
Other items	-	-	-	-	-	-2	-2	-2	-2
<b>Cash flow from financing</b>	10	-6	-2	12	-1	-8	-25	-19	-25
<b>Cash flow</b>	4	-3	1	-2	5	8	-4	4	-1
<b>Net debt</b>	0	-1	-3	12	7	-3	1	-3	-3

Source: Raketech Group Holding, Carnegie

## Balance sheet

	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
<b>ASSETS</b>									
Goodwill	0	0	0	4	1	1	1	1	1
Other intangible assets	66	73	81	124	131	139	131	123	115
<b>Total fixed assets</b>	<b>66</b>	<b>74</b>	<b>81</b>	<b>128</b>	<b>132</b>	<b>141</b>	<b>133</b>	<b>125</b>	<b>117</b>
Accounts receivable	4	4	5	6	8	12	13	14	16
Cash and cash equivalents	8	4	5	3	8	13	9	13	13
<b>Total current assets</b>	<b>12</b>	<b>8</b>	<b>10</b>	<b>9</b>	<b>16</b>	<b>25</b>	<b>22</b>	<b>28</b>	<b>28</b>
<b>TOTAL ASSETS</b>	<b>78</b>	<b>82</b>	<b>91</b>	<b>137</b>	<b>148</b>	<b>166</b>	<b>155</b>	<b>152</b>	<b>145</b>
<b>EQUITY AND LIABILITIES</b>									
Equity	59	65	71	85	97	99	105	112	119
<b>Total equity</b>	<b>59</b>	<b>65</b>	<b>71</b>	<b>85</b>	<b>97</b>	<b>99</b>	<b>105</b>	<b>112</b>	<b>119</b>
Long-term interest-bearing liabilities	8	3	0	0	0	0	0	0	0
Other long-term liabilities	5	7	10	20	26	31	31	21	6
<b>Total long-term liabilities</b>	<b>13</b>	<b>10</b>	<b>10</b>	<b>20</b>	<b>26</b>	<b>31</b>	<b>31</b>	<b>21</b>	<b>6</b>
Short-term interest-bearing liabilities	0	0	2	15	15	10	10	10	10
Accounts payable	4	2	2	3	4	7	8	9	9
Other current liabilities	3	5	6	15	6	19	0	0	0
<b>Total current liabilities</b>	<b>7</b>	<b>7</b>	<b>10</b>	<b>32</b>	<b>25</b>	<b>35</b>	<b>18</b>	<b>19</b>	<b>20</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>78</b>	<b>82</b>	<b>91</b>	<b>137</b>	<b>148</b>	<b>166</b>	<b>155</b>	<b>152</b>	<b>145</b>

Source: Raketech Group Holding, Carnegie

## Growth and margins

	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
Revenue growth	-	-6%	23%	31%	37%	48%	23%	13%	8%
EBITDA growth, adjusted	-	0%	-5%	33%	24%	17%	8%	11%	7%
EBIT growth, adjusted	-	-25%	-18%	38%	32%	-6%	16%	21%	12%
EPS growth, adjusted	-	57%	-19%	19%	9%	-21%	67%	23%	14%
Gross margin	91.6%	85.1%	73.0%	70.2%	70.0%	57.8%	52.1%	50.6%	50.0%
EBITDA margin	50.5%	53.9%	41.7%	42.2%	38.2%	30.4%	26.6%	26.2%	25.9%
EBITDA margin, adjusted	50.5%	53.9%	41.7%	42.2%	38.2%	30.4%	26.6%	26.2%	25.9%
EBIT margin	43.8%	35.0%	23.3%	24.5%	23.6%	15.0%	14.1%	15.1%	15.7%
EBIT margin, adjusted	43.8%	35.0%	23.3%	24.5%	23.6%	15.0%	14.1%	15.1%	15.7%
Profit margin, adjusted	17.8%	29.9%	19.8%	18.9%	16.0%	8.5%	11.3%	12.3%	13.0%

Source: Raketech Group Holding, Carnegie

## Return

	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
ROE, adjusted	Neg.	12%	9%	9%	9%	7%	11%	12%	13%
ROCE, adjusted	Neg.	12%	10%	11%	12%	11%	12%	14%	15%
ROIC, adjusted	Neg.	14%	10%	11%	12%	12%	13%	15%	16%

Source: Raketech Group Holding, Carnegie

### Capital efficiency

	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
Accounts receivable / total revenue	17%	17%	17%	16%	15%	15%	13%	13%	13%
Accounts payable / COGS	>100%	47%	31%	22%	27%	20%	17%	16%	16%
Total short-term liabilities / total cost	52%	64%	60%	>100%	78%	65%	26%	24%	23%
Working capital / total revenue	-9%	-12%	-12%	-28%	-5%	-17%	5%	5%	5%

Source: Raketeck Group Holding, Carnegie

### Financial position

	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
Net debt	0	-1	-3	12	7	-3	1	-3	-3
Equity ratio	75%	79%	78%	62%	65%	60%	68%	73%	82%

Source: Raketeck Group Holding, Carnegie

### Per share data

	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
EPS	0.12	0.19	0.15	0.18	0.20	0.15	0.26	0.31	0.36
EPS, adjusted	0.12	0.19	0.15	0.18	0.20	0.15	0.26	0.31	0.36
FCF per share	-0.13	0.07	0.07	-0.34	0.13	0.37	0.50	0.54	0.58
Dividend per share	0.00	0.00	0.00	0.00	0.09	0.12	0.16	0.20	0.22
Book value per share	1.53	1.70	1.83	1.99	2.22	2.35	2.49	2.64	2.80
Number of shares, m	38.3	38.3	38.8	42.7	43.5	42.3	42.3	42.3	42.3
Number of shares after dilution, average	38.3	38.3	38.5	40.7	43.1	42.9	42.3	42.3	42.3

Source: Raketeck Group Holding, Carnegie

### Valuation

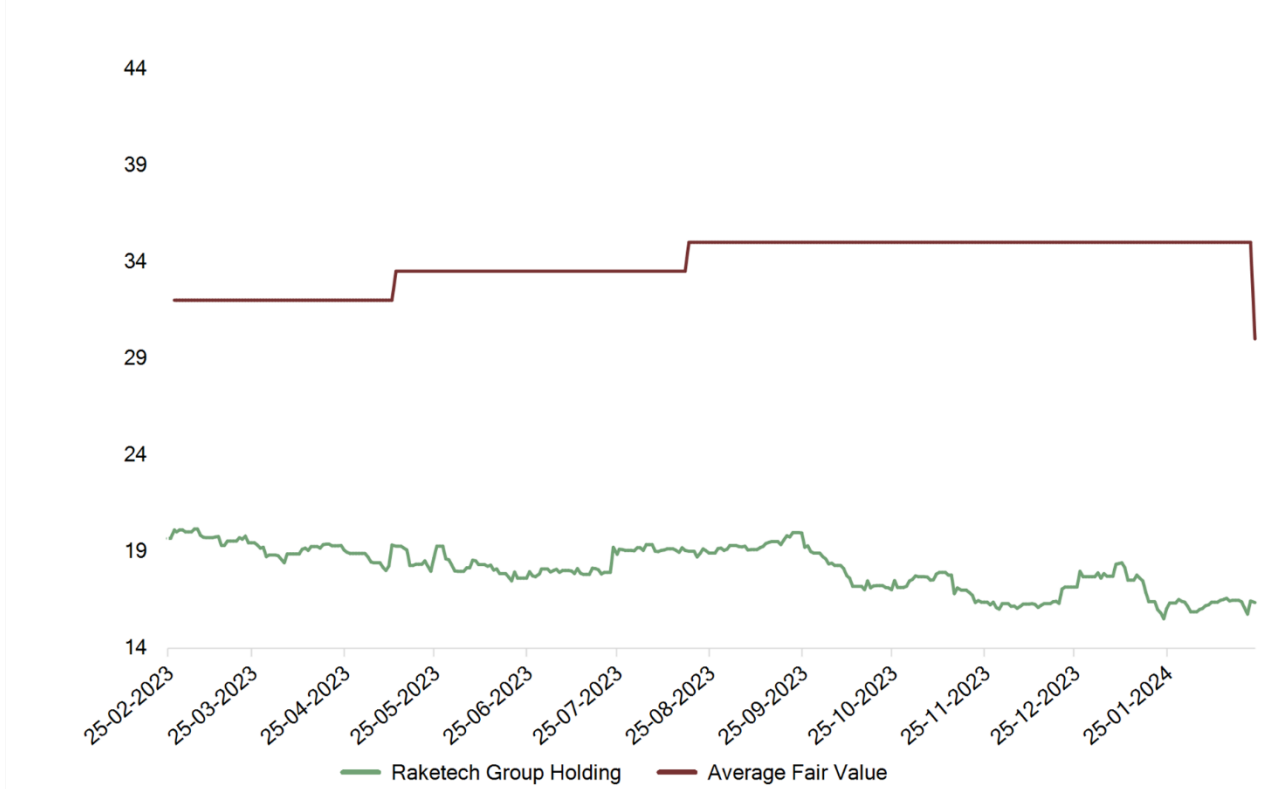
	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
P/E, adjusted	16.2x	4.8x	7.1x	13.0x	8.2x	10.3x	5.7x	4.6x	4.1x
P/BV	1.3x	0.5x	0.6x	1.2x	0.7x	0.7x	0.6x	0.6x	0.5x
P/FCF	Neg.	12.8x	15.6x	Neg.	12.1x	4.3x	2.9x	2.7x	2.5x
FCF-yield	Neg.	8%	6%	Neg.	8%	23%	34%	37%	40%
Dividend yield	0.0%	0.0%	0.0%	0.0%	5.9%	7.3%	11.0%	13.4%	15.0%
Payout ratio, adjusted	0.0%	0.0%	0.0%	0.0%	48.1%	75.4%	62.5%	62.3%	61.4%
EV/Sales	2.9x	1.4x	1.3x	2.8x	1.4x	0.9x	1.1x	1.0x	0.9x
EV/EBITDA, adjusted	5.6x	2.6x	3.0x	6.6x	3.7x	2.8x	4.1x	3.7x	3.4x
EV/EBIT, adjusted	6.5x	3.9x	5.4x	11.4x	6.0x	5.7x	7.8x	6.4x	5.7x
EV	73	33	37	107	74	67	105	105	105
Share price, year end	1.9	0.9	1.1	2.3	1.6	16.3	16.3	16.3	16.3

Source: Raketeck Group Holding, Carnegie



## Share Price and Average Fair Value Chart

### Raketech Group Holding (RAKE SS EQUITY)



Source: Penser by Carnegie, IDC

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