

financial modeling tutorial

financial modeling tutorial provides a comprehensive guide to building accurate and effective financial models essential for business decision-making and investment analysis. This tutorial covers fundamental concepts, practical steps, and advanced techniques for constructing financial projections, valuation models, and scenario analyses. Whether you are a finance professional, analyst, or student, mastering financial modeling skills is crucial for interpreting financial data and forecasting future performance. The article discusses key components including data gathering, Excel functions, model structuring, and common pitfalls to avoid. Additionally, it explains how to analyze financial statements and incorporate assumptions into dynamic models. The tutorial concludes with tips on refining and auditing models for reliability and usability. Below is the table of contents outlining the main topics covered in this financial modeling tutorial.

- Understanding Financial Modeling Basics
- Preparing Data and Financial Statements
- Building the Financial Model Structure
- Incorporating Assumptions and Drivers
- Performing Valuation and Scenario Analysis
- Common Excel Functions and Tools for Modeling
- Model Auditing and Best Practices

Understanding Financial Modeling Basics

Financial modeling is the process of creating a mathematical representation of a company's financial performance. It uses historical data and assumptions to project future revenues, expenses, cash flows, and valuation metrics. Models serve as decision-making tools for investors, corporate managers, and analysts to assess business opportunities, risks, and financial viability.

At its core, a financial model is built on several key principles such as accuracy, flexibility, and transparency. Understanding the purpose of the model—whether for budgeting, valuation, or strategic planning—is critical before development begins. This section introduces the foundational concepts of financial modeling and the typical types of models used in practice.

Types of Financial Models

Different scenarios require different modeling approaches. Common types include:

- **Three-Statement Models:** Integrate income statement, balance sheet, and cash flow statement to create a comprehensive forecast.
- **Discounted Cash Flow (DCF) Models:** Estimate the present value of future cash flows to determine intrinsic company value.
- **Merger and Acquisition (M&A) Models:** Analyze financial impact of business combinations.
- **Budget Models:** Plan and control company budgets and operational expenses.

Importance of Financial Modeling

Financial models facilitate informed decision-making by quantifying potential outcomes. They enable scenario analysis, sensitivity testing, and valuation under various assumptions. Investors rely on robust models to evaluate investment opportunities, while companies use them for capital budgeting and forecasting. Hence, proficiency in financial modeling enhances strategic financial management and risk assessment.

Preparing Data and Financial Statements

Accurate data preparation is a critical step in any financial modeling tutorial. Reliable input information forms the foundation of credible models. This stage involves gathering historical financial statements, operational data, and market research to establish a baseline.

Financial statements—income statement, balance sheet, and cash flow statement—must be properly formatted and adjusted for non-recurring items or accounting anomalies. This ensures consistency and comparability across periods.

Extracting and Cleaning Data

Data extraction requires attention to detail to capture all relevant figures. Cleaning involves removing errors, standardizing formats, and reconciling discrepancies. Common adjustments include:

- Normalizing one-time expenses or revenues
- Correcting classification errors
- Adjusting for changes in accounting policies

Understanding Key Financial Metrics

Before modeling, it is important to analyze key financial ratios and metrics such as gross margin, EBITDA, working capital, and debt levels. These indicators guide the assumptions and drivers incorporated into the model. Familiarity with financial statement line items and their interrelationships facilitates accurate forecasting and scenario planning.

Building the Financial Model Structure

Creating a well-organized model structure enhances usability and clarity. A typical financial model consists of input sections, calculation sheets, and output summaries. Separating these components aids in auditing and updating the model.

Logical flow and consistent formatting improve readability. Color coding input cells differently from formulas helps users identify editable fields. Modular design allows individual sections to be updated independently without affecting the entire model.

Designing Input Sheets

Input sheets contain all assumptions, historical data, and parameters driving the model. These are usually placed at the beginning of the workbook for easy access. Inputs should be clearly labeled with units and explanations to minimize errors.

Constructing Calculation Sheets

Calculation sheets perform all intermediate computations such as projecting revenues, expenses, and working capital changes. Formulas should be transparent and use consistent referencing. Breaking down complex calculations into smaller steps facilitates troubleshooting.

Creating Output Dashboards

Output sections summarize results including projected financial statements, key ratios, and valuation metrics. These provide decision-makers with a clear overview of the company's future outlook. Visual aids such as charts and tables can enhance comprehension, although they are not the focus of this tutorial.

Incorporating Assumptions and Drivers

Assumptions form the backbone of financial models by defining expected future behavior of business variables. Drivers are the key factors that influence financial performance, such as sales growth rate, cost margins, and capital expenditure.

Accurate and realistic assumptions are essential for credible forecasts. This section explains how to identify, justify, and incorporate assumptions into the model.

Identifying Key Drivers

Drivers vary by industry and company but generally include revenue growth rates, pricing strategies, cost structure, and working capital requirements. Understanding the business model helps in selecting relevant drivers that impact profitability and cash flow.

Setting Assumptions Based on Research

Assumptions should be grounded in historical trends, industry benchmarks, and macroeconomic factors. Sensitivity analysis can test the effect of varying assumptions to assess model robustness.

Performing Valuation and Scenario Analysis

Valuation models estimate the intrinsic value of a company by projecting future cash flows and discounting them to present value. Scenario analysis evaluates how changes in key assumptions affect financial outcomes, providing insight into risks and opportunities.

Discounted Cash Flow (DCF) Valuation

DCF valuation involves forecasting free cash flows and applying a discount rate reflecting the company's cost of capital. This approach requires accurate cash flow projections and appropriate discount rate selection to generate reliable valuations.

Conducting Scenario and Sensitivity Analysis

Scenario analysis examines multiple potential futures by altering assumptions such as sales growth or cost levels. Sensitivity analysis isolates individual variables to understand their impact on results. These techniques help identify critical risk factors and guide strategic decisions.

Common Excel Functions and Tools for Modeling

Excel remains the primary tool for financial modeling due to its flexibility and powerful calculation capabilities. Mastery of key functions and shortcuts improves efficiency and accuracy.

Essential Excel Functions

Important functions include:

- **SUM, AVERAGE:** Basic aggregation tools.
- **IF, AND, OR:** Logical functions for conditional calculations.
- **VLOOKUP, INDEX, MATCH:** Data retrieval functions for dynamic referencing.
- **PMT, IRR, NPV:** Financial functions for loan payments and investment valuation.

Using Named Ranges and Data Validation

Named ranges improve formula readability by replacing cell references with descriptive names. Data validation restricts input values to acceptable ranges, reducing errors and enhancing model integrity.

Model Auditing and Best Practices

Ensuring the accuracy and reliability of a financial model is paramount. Model auditing involves cross-checking formulas, verifying inputs, and testing outputs for consistency. Adhering to best practices enhances model credibility and usability.

Techniques for Model Auditing

Effective auditing steps include:

1. Tracing precedents and dependents of key formulas.
2. Performing error checks and testing extreme input values.
3. Reconciling model outputs with historical data and known benchmarks.

Best Practices for Financial Modeling

Recommended practices include:

- Maintaining clear documentation and labeling throughout the model.
- Using consistent formatting and color coding.

- Building models that are flexible and easy to update.
- Limiting the use of hard-coded numbers within formulas.

Frequently Asked Questions

What is financial modeling and why is it important?

Financial modeling is the process of creating a mathematical representation of a company's financial performance. It is important because it helps businesses forecast future earnings, assess risks, and make informed investment decisions.

What are the essential skills needed to learn financial modeling?

Essential skills for financial modeling include proficiency in Excel, understanding of accounting and finance principles, analytical thinking, and knowledge of valuation techniques and financial statements.

Which software tools are commonly used for financial modeling tutorials?

Microsoft Excel is the most commonly used tool for financial modeling due to its flexibility and powerful functions. Additionally, some tutorials may introduce tools like Google Sheets, VBA, or specialized software such as Quantrix and MATLAB.

How can beginners start learning financial modeling effectively?

Beginners should start by learning basic accounting and finance concepts, then move on to mastering Excel functions and formulas. Following step-by-step tutorials that walk through building simple models, such as income statements or cash flow forecasts, can be very helpful.

Are there any free online resources available for financial modeling tutorials?

Yes, there are several free resources available, including websites like Investopedia, YouTube channels offering comprehensive tutorials, and free courses on platforms like Coursera and Udemy that cover the fundamentals of financial modeling.

Additional Resources

1. *Financial Modeling in Excel For Dummies*

This book offers a comprehensive introduction to financial modeling using Excel, making complex concepts accessible to beginners. It covers essential topics such as forecasting, valuation, and risk analysis, with step-by-step tutorials. Readers gain practical skills to build robust models for business decision-making.

2. *Mastering Financial Modeling: A Professional's Guide to Building Financial Models in Excel*

Designed for professionals, this guide dives deep into advanced financial modeling techniques using Excel. It emphasizes best practices, error checking, and scenario analysis, helping readers build accurate and reliable models. The book includes real-world case studies for hands-on learning.

3. *Financial Modeling and Valuation: A Practical Guide to Investment Banking and Private Equity*

This book focuses on financial modeling techniques used in investment banking and private equity. It provides detailed instructions on building valuation models, including discounted cash flow (DCF), leveraged buyout (LBO), and merger models. The tutorial approach makes complex transactions understandable.

4. *Excel Modeling in Corporate Finance*

Aimed at finance students and practitioners, this book teaches how to use Excel for corporate finance modeling. Topics include capital budgeting, financial statement analysis, and capital structure optimization. The book combines theory with practical Excel exercises to reinforce learning.

5. *Financial Modeling: Theory, Implementation, and Practice with MATLAB Source*

This resource expands beyond Excel to introduce financial modeling using MATLAB. It covers theoretical foundations and practical implementation of models for asset pricing, risk management, and portfolio optimization. The included MATLAB source code helps readers apply concepts effectively.

6. *Building Financial Models with Microsoft Excel: A Guide for Business Professionals*

Targeting business professionals, this book provides clear guidance on constructing financial models to support strategic decisions. It explains how to plan, design, and audit models to ensure accuracy and usability. The tutorial style makes it suitable for readers with limited modeling experience.

7. *Financial Modeling Using Excel and VBA*

Combining Excel and VBA programming, this book enables readers to automate and enhance their financial models. It covers basic to advanced topics, including macros, user-defined functions, and data visualization. The tutorials help improve efficiency and model sophistication.

8. *Principles of Financial Modelling: Model Design and Best Practices Using Excel and VBA*

Focusing on best practices, this book teaches how to design robust financial models that are easy to understand and maintain. It emphasizes clear structure, documentation, and error prevention techniques. The integration of Excel and VBA tutorials supports practical

skill development.

9. Financial Modeling for Business Owners and Entrepreneurs: Developing Excel Models to Raise Capital, Increase Cash Flow, Improve Operations, Plan Projects, and Make Decisions

This book is tailored for business owners and entrepreneurs who want to leverage financial models for growth and decision-making. It covers building models for fundraising, cash flow management, operational improvements, and project planning. The approachable tutorials empower readers to create actionable financial insights.

Financial Modeling Tutorial

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financial modeling tutorial: *Model Like a Boss* Julie W. Suh, 2017-05-12

financial modeling tutorial: *Building Financial Models* John S. Tjia, 2004-01-10 Financial modeling is essential for determining a company's current value and projecting its future performance, yet few books explain how to build models for accurately interpreting financial statements. *Building Financial Models* is the first book to correct this oversight, unveiling a step-by-step process for creating a core model and then customizing it for companies in virtually any industry. Covering every aspect of building a financial model, it provides a broad understanding of the actual mechanics of models, as well as their foundational accounting and finance concepts.

financial modeling tutorial: *Building Financial Models with Microsoft Excel* K. Scott Proctor, 2009-11-25 A proven guide to building financial models from scratch The Second Edition of *Building Financial Models with Microsoft Excel* + CD-ROM provides beginning and intermediate level computer users with step-by-step instructions on building financial models using Microsoft Excel 2007-the most popular spreadsheet program available. The accompanying CD-ROM contains Excel worksheets that track the course of the book and allow you to build your own financial models. This comprehensive resource also covers important topics such as the concepts of valuation, sensitivity analysis, and contribution margin. Offers accessible guidance on building financial models using Excel 2007 Illustrates how to integrate financial statements such as the balance sheet, income statement, and statement of cash flows Covers the basics of building and using a Capitalization Table Discusses how to best present a financial model Incorporating financial models into business decisions has become an essential element of good business practice, and this book will show you how to excel at this endeavor.

financial modeling tutorial: *The Oxford Guide to Financial Modeling* Thomas S. Y. Ho, Sang-bin Yi, 2004 The essential premise of this book is that theory and practice are equally important in describing financial modeling. In it the authors try to strike a balance in their discussions between theories that provide foundations for financial models and the institutional details that provide the context for applications of the models. The book presents the financial models of stock and bond options, exotic options, investment grade and high-yield bonds, convertible bonds, mortgage-backed securities, liabilities of financial institutions -- the business model and the corporate model. It also describes the applications of the models to corporate finance. Furthermore, it relates the models to financial statements, risk management for an enterprise, and asset/liability

management with illiquid instruments. The financial models are progressively presented from option pricing in the securities markets to firm valuation in corporate finance, following a format to emphasize the three aspects of a model: the set of assumptions, the model specification, and the model applications. Generally, financial modeling books segment the world of finance as investments, financial institutions, corporate finance, and securities analysis, and in so doing they rarely emphasize the relationships between the subjects. This unique book successfully ties the thought processes and applications of the financial models together and describes them as one process that provides business solutions. Created as a companion website to the book readers can visit www.thomasho.com to gain deeper understanding of the book's financial models. Interested readers can build and test the models described in the book using Excel, and they can submit their models to the site. Readers can also use the site's forum to discuss the models and can browse server based models to gain insights into the applications of the models. For those using the book in meetings or class settings the site provides Power Point descriptions of the chapters. Students can use available question banks on the chapters for studying.

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companies, assisting them in planning for and raising the capital that they needed to grow their businesses and ultimately exit with multiples of their initial investment. Financial Modeling for Business Owners and Entrepreneurs, a mini-MBA in entrepreneurship and finance, will show you how you can do the same. Note: This book is an updated version of Sawyer's 2009 title, Pro Excel Financial Modeling.

financial modeling tutorial: Financial Modeling and Valuation Paul Pignataro, 2013-06-18
Written by the Founder and CEO of the prestigious New York School of Finance, this book schools you in the fundamental tools for accurately assessing the soundness of a stock investment. Built around a full-length case study of Wal-Mart, it shows you how to perform an in-depth analysis of that company's financial standing, walking you through all the steps of developing a sophisticated financial model as done by professional Wall Street analysts. You will construct a full scale financial model and valuation step-by-step as you page through the book. When we ran this analysis in January of 2012, we estimated the stock was undervalued. Since the first run of the analysis, the stock has increased 35 percent. Re-evaluating Wal-Mart 9 months later, we will step through the techniques utilized by Wall Street analysts to build models on and properly value business entities. Step-by-step financial modeling - taught using downloadable Wall Street models, you will construct the model step by step as you page through the book. Hot keys and explicit Excel instructions aid even the novice excel modeler. Model built complete with Income Statement, Cash Flow Statement, Balance Sheet, Balance Sheet Balancing Techniques, Depreciation Schedule (complete with accelerating depreciation and deferring taxes), working capital schedule, debt schedule, handling circular references, and automatic debt pay downs. Illustrative concepts including detailing model flows help aid in conceptual understanding. Concepts are reiterated and honed, perfect for a novice yet detailed enough for a professional. Model built direct from Wal-Mart public filings, searching through notes, performing research, and illustrating techniques to formulate projections. Includes in-depth coverage of valuation techniques commonly used by Wall Street professionals. Illustrative comparable company analyses - built the right way, direct from historical financials, calculating LTM (Last Twelve Month) data, calendarization, and properly smoothing EBITDA and Net Income. Precedent transactions analysis - detailing how to extract proper metrics from relevant proxy statements Discounted cash flow analysis - simplifying and illustrating how a DCF is utilized, how unlevered free cash flow is derived, and the meaning of weighted average cost of capital (WACC) Step-by-step we will come up with a valuation on Wal-Mart Chapter end questions, practice models, additional case studies and common interview questions (found in the companion website) help solidify the techniques honed in the book; ideal for universities or business students looking to break into the investment banking field.

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Financial Modelling in Practice: A Concise Guide for Intermediate and Advanced Level is a practical, comprehensive and in-depth guide to financial modelling designed to cover the modelling issues that are relevant to facilitate the construction of robust and readily understandable models. Based on the authors extensive experience of building models in business and finance, and of training others how to do so this book starts with a review of Excel functions that are generally most relevant for building intermediate and advanced level models (such as Lookup functions, database and statistical functions and so on). It then discusses the principles involved in designing, structuring and building relevant, accurate and readily understandable models (including the use of sensitivity analysis techniques) before covering key application areas, such as the modelling of financial statements, of cash flow valuation, risk analysis, options and real options. Finally, the topic of financial modelling using VBA is treated. Practical examples are used throughout and model examples are included in the attached CD-ROM. Aimed at intermediate and advanced level modellers in Excel who wish to extend and consolidate their knowledge, this book is focused, practical, and application-driven, facilitating knowledge to build or audit a much wider range of financial models. Note: CD-ROM/DVD

and other supplementary materials are not included as part of eBook file.

financial modeling tutorial: *Mastering Financial Modeling: A Professional's Guide to Building Financial Models in Excel* Eric Soubeiga, 2013-07-26 All the precision of financial modeling--and none of the complexity Evidence-based decision making is only as good as the external evidence on which it is based. Financial models uncover potential risks on a company's balance sheet, but the complexity of these instruments has limited their effectiveness. Now, *Mastering Financial Modeling* offers a simplified method for building the fast and accurate financial models serious evidencebased decision makers need. What sets this practical guide apart is its learning-on-the-job approach. Unlike other books that teach modeling in a vacuum, this superior method uses a diverse collection of case studies to convey each step of the building process. Learning on the job connects the dots between the proper Excel formulas and functions and the real-world situations where you want to use them. By learning through association, you can absorb the information quickly and have it ready to use when you need it. The book starts right off on building models--from creating a standalone cash flow model through integrating it with an income statement and balance sheet. Along the way, you will master the skill set you need to build advanced financial models. With only a basic knowledge of accounting and finance, individual investors and financial professionals alike can: Create a core model and customize it for companies in most industries Understand every working component of a financial model and what each one tells you about a company Format cells and sheets in Excel for easily repeatable modeling Written with the practitioner in mind, *Mastering Financial Modeling* shows you how to ensure your model is ready for real-world application by safeguarding it against modeling errors. It covers a full array of Excel's builtin auditing and testing tools and illustrates how to build customized error-checking tools of your own to catch the inaccuracies that typically fall through the cracks. Get the most out of your data with *Mastering Financial Modeling*. *Mastering Financial Modeling* brings the power of financial models down to earth and puts it in the hands of investors, bankers, and private equity professionals who don't have a passion for crunching numbers. Nowhere else can you get step-by-step instruction on building these valuable tools from an elite World Bank investment officer. Starting from the ground up, Eric Soubeiga shows you how to interpret and build financial models in Microsoft Excel that will accurately assess any company's valuation and profit potential. Even if you have unsuccessfully tried financial modeling in the past, this book will reach you because it associates every lesson to the business world you work in daily. Chapter by chapter, you will master financial modeling, and in the end, you will: Command authority over building every aspect of a financial model Be capable of explaining the accounting and finance concepts behind the mechanics of modeling Confidently determine a company's ability to generate cash flows for its capital investors with discounted cash flow (DCF) modeling Execute powerful spreadsheet calculations in Excel Most importantly, as a decision maker, the insight you bring to the table through your sophisticated understanding and application of financial modeling will benefit every stakeholder. See what leading professionals around the world already know--*Mastering Financial Modeling* is the most comprehensive guide on the market for designing, building, and implementing valuation projection models. What it does from there is up to you.

financial modeling tutorial: *Building Financial Models, Third Edition: The Complete Guide to Designing, Building, and Applying Projection Models* John S. Tjia, 2018-04-27 The go-to-guide for building projection models for financial analysis and valuation—updated with new content and materials *Building Financial Models* is considered the best guide to designing and building financial models for use in a wide variety of finance roles. This third edition of the popular resource features updated content, new materials, and a more accessible instructional layout supported by all new exercise files available to readers from a companion website. As with previous editions, the book offers a hands-on approach for creating a core model that is supported by broad coverage of cornerstone accounting and finance principles. The author, a seasoned developer and trainer with over 25 years' experience developing financial models, takes you step by step through the entire process of developing a projection model. From the basics of accounting and Excel to the

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Financial modeling is a crucial concept for business leaders to understand and execute effectively, but few have the tools necessary to do so. While many professionals are familiar with financial statements and accounting reports, not many are truly proficient at building an accurate and practical financial model from the ground up. The Handbook of Financial Modeling provides these skills and so much more. Now in its second edition, The Handbook of Financial Modeling takes into account the new tech released since its successful initial release. Author Jack Avon uses his expertise to analyze the changes and improvements in industry-wide financial modeling through the past five years, in addition to instilling core concepts for readers of all experience levels. Approaching your company’s financial issues with a modeler’s perspective will transform and improve the rest of your business career’s trajectory. Financial professionals, students, business leaders, aspiring CFOs, and more will come away with all the tools necessary to precisely and efficiently monitor an organization’s assets and project future performance. The engaging case studies and Avon’s expert analysis leave you prepared to monitor and predict your organization’s finances effectively. Financial modeling’s latest technology is at your fingertips, and this book’s deep understanding of the topic ensures that you stay ahead of the pack. What You Will Learn Approach financial issues and solutions from a modeler's perspective Discover the importance of thinking about end users when developing a financial model Plan, design, and build a fully functional financial model Who This Book Is For Analysts who would typically be middle management, VPs, and associates. It is also written for business graduates and MBA students.

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Jae K. Shim, Joel G. Siegel, 2001-01-01 Accompanying CD-ROM ... includes spreadsheet models with ready-to-use formulas ...

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presents an insightful exploration of techniques for analysis and understanding of risk and uncertainty in business cases. By application of real options theory and Monte Carlo simulation to planning, doors are opened to analysis of what used to be impossible, such as modeling the value today of future project choices. -Bruce Wallace, Nortel

financial modeling tutorial: Crash Course in Accounting and Financial Statement

Analysis Matan Feldman, Arkady Libman, 2011-07-20 Seamlessly bridging academic accounting with real-life applications, Crash Course in Accounting and Financial Statement Analysis, Second Edition is the perfect guide to a complete understanding of accounting and financial statement analysis for those with no prior accounting background and those who seek a refresher.

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John Charnes, 2012-06-05 Updated look at financial modeling and Monte Carlo simulation with software by Oracle Crystal Ball This revised and updated edition of the bestselling book on financial modeling provides the tools and techniques needed to perform spreadsheet simulation. It answers the essential question of why risk analysis is vital to the decision-making process, for any problem posed in finance and investment. This reliable resource reviews the basics and covers how to define and refine probability distributions in financial modeling, and explores the concepts driving the simulation modeling process. It also discusses simulation controls and analysis of simulation results. The second edition of Financial Modeling with Crystal Ball and Excel contains instructions, theory, and practical example models to help apply risk analysis to such areas as derivative pricing, cost estimation, portfolio allocation and optimization, credit risk, and cash flow analysis. It includes the resources needed to develop essential skills in the areas of valuation, pricing, hedging, trading, risk management, project evaluation, credit risk, and portfolio management. Offers an updated edition of the bestselling book covering the newest version of Oracle Crystal Ball Contains valuable insights on Monte Carlo simulation—an essential skill applied by many corporate finance and investment professionals Written by John Charnes, the former finance department chair at the University of Kansas and senior vice president of global portfolio strategies at Bank of America, who is currently President and Chief Data Scientist at Syntelli Solutions, Inc. Risk Analytics and Predictive Intelligence Division (Syntelli RAPID) Engaging and informative, this book is a vital resource designed to help you become more adept at financial modeling and simulation.

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using a Capitalization Table. K. Scott Proctor, CFA, is the Director of Investor Analytics at SNL Financial, a financial information provider.

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