

**Analyst**

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**Authorisation**

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## Imdex (IMD)

### In the sweet spot

**Recommendation**

**Buy** (unchanged)

**Price**

**\$2.63**

**Target (12 months)**

**\$3.00** (previously \$2.85)

**GICS Sector**

**Materials**

**Expected Return**

Capital growth	<b>14.1%</b>
Dividend yield	<b>1.7%</b>
Total expected return	<b>15.8%</b>

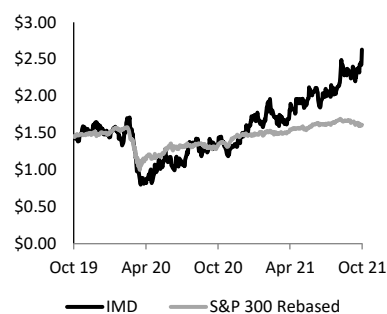
**Company Data & Ratios**

Enterprise value	<b>\$995.3m</b>
Market cap	<b>\$1,042.7m</b>
Issued capital	<b>396.5m</b>
Free float	<b>99.8%</b>
Avg. daily val. (52wk)	<b>\$2.6m</b>
12 month price range	<b>\$1.17-2.63</b>

**Price Performance**

	(1m)	(3m)	(12m)
Price (A\$)	2.35	1.99	1.32
Absolute (%)	11.91	32.16	99.24
Rel market (%)	15.50	32.76	73.54

**Absolute Price**



SOURCE: IRESS

### Record first quarter, ~10% ahead of expectations

IMD has released a record 1Q22 trading update, with unaudited revenue 13% QoQ (41% YoY) to \$86.8m. The result was driven by relatively even growth in all regions, and was ~10% ahead of our expectations (BPe 1Q22e \$79.2m). We have increased our FY22e revenue estimates 6.9% to \$322.3m and our EBITDA 8.3% to \$102.8m accounting for the result, although further upside is likely given the following:

**Upside to conservative seasonality assumptions:** We assume 2Q22e and 3Q22e decline by -15% versus 1Q22, relating to the Northern Hemisphere winter. Historically seasonality is between -5-15%, and we have assumed the bottom end of the range.

**Upside to growth assumptions:** In a growing market, we would expect 4Q22e to be larger than 1Q22, although we assume a -2.7% decline at this early stage.

**Upside to margins:** The contribution margin to EBITDA per incremental dollar of revenue was 58.9% in 2H21, versus our assumption of just 42.7% in FY22e. We see potential for operating leverage to exceed our expectations, in line with 2H21.

### Accelerating BLASTDOG development

We have updated for the \$20m acquisition (\$8m cash | \$12 deferred scrip) of cloud-based geological data modelling and visualisation technology software. The transaction is not expected to be EPS accretive until FY24e, although we see strategic value given the: (1) capacity to complement and accelerate BLASTDOG development; (2) additional software expertise to supplement IMDEXHUB and aiSIRUS developers; and, (3) potential to extend software to use cases/tools beyond BLASTDOG.

### Investment view: Retain Buy recommendation:

We increase our Underlying EPS estimates by +13.0%, +6.9% and +2.9% for FY22e, FY23e and FY24e respectively, accounting for the strong 1Q21 and slightly higher costs due to MinePortal. We continue to see a strong outlook for FY22e revenue growth and margin expansion, while the resumption of trials and new JDAs provides a free option on ongoing technology development (particularly BlastDog). We reiterate our Buy recommendation and raise our Price Target to \$3.00ps (previously \$2.85ps).

**Earnings Forecast**

June Year end	2021	2022e	2023e	2024e
Sales (\$m)	264.4	322.3	334.5	345.5
Underlying EBITDA (\$m)	75.5	102.8	109.2	114.3
NPAT (reported) (\$m)	31.7	47.5	50.6	54.3
NPAT (Adjusted) (\$m)	28.8	47.5	50.6	54.3
EPS (Adjusted) (€ps)	7.3	12.0	12.7	13.6
EPS growth (%)	54.3%	64.2%	6.1%	6.9%
PER (NPATA*) (x)	33.0	20.8	19.6	18.5
EV/EBITDA (x)	13.5	9.9	9.3	8.9
Dividend (€ps)	2.8	4.6	4.6	4.7
Yield (%)	1.1%	1.7%	1.7%	1.8%
Franking (%)	100%	100%	100%	100%
FCF Yield (%)	2.2%	3.3%	4.0%	5.4%
ROE (%)	11.4%	16.7%	16.0%	15.4%

SOURCE: BELL POTTER SECURITIES ESTIMATES

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Figure 1 - Implied quarterly revenue (\$m)

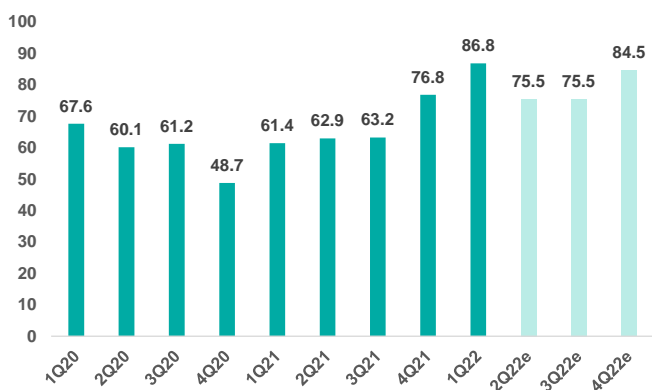
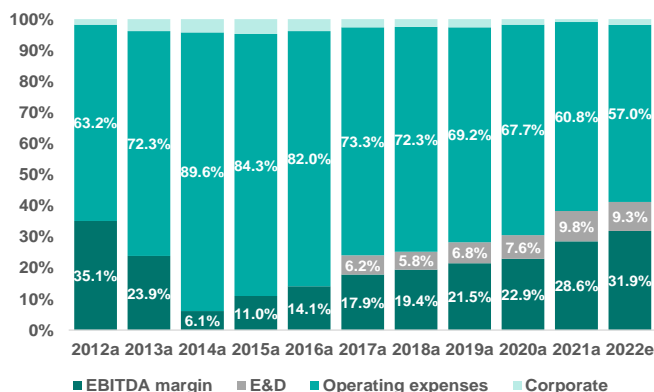


Figure 2 - Historical EBITDA margins (%)



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

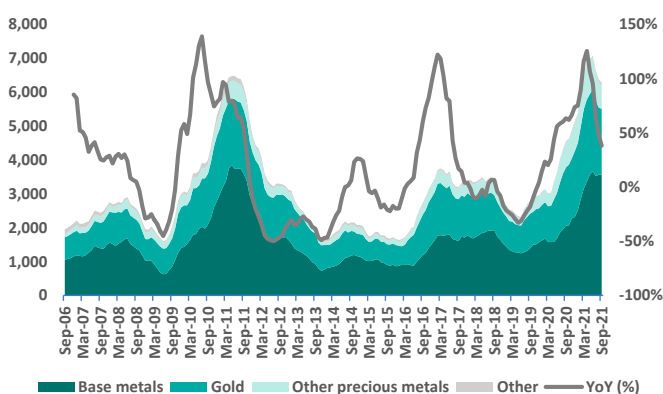
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

### Junior exploration capital raisings

Our proxy for junior exploration company capital raisings (raisions <US\$25m) is up +38.2% YoY on a R12M basis to Sep'21, although 11.2% below the Jun'21 peak as difficult comps are cycled. Monthly raisings in the Sep'21 quarter were lower than the post-COVID average of US\$462.4m, although still 53.7% above the pre-COVID 12-month average.

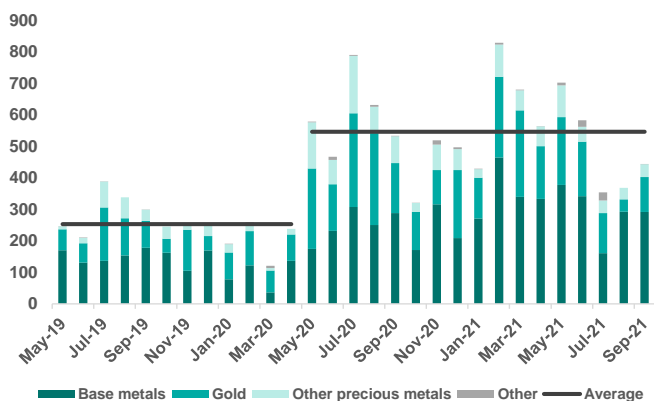
Historically, junior exploration sector capital raisings are a significant lead indicator of Australian exploration expenditure (and metres drilled) on a 12-months lead.

Figure 3 - Capital raisings <US\$25m (R12M US\$m)



SOURCE: BLOOMBERG

Figure 4 - Pre-COVID vs Post-COVID (monthly US\$m)



SOURCE: BLOOMBERG

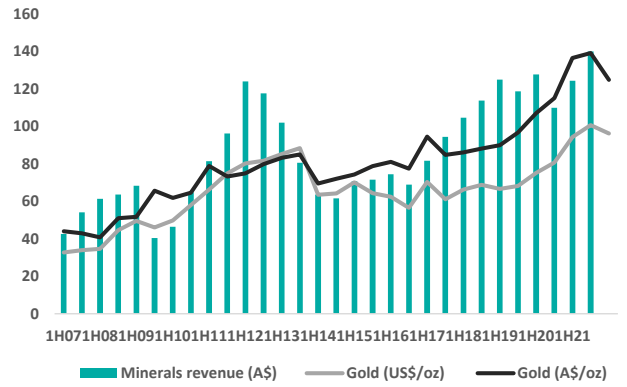
### Supportive commodity pricing

Pricing of key exploration commodities of gold and copper, which account for ~50% and ~25% of global expenditure respectively, continue to be supportive of exploration and therefore IMDs outlook.

**Gold:** In USD terms, gold is still 16.2% above since the start of CY20, despite falling 9.4% since Aug'20 highs.

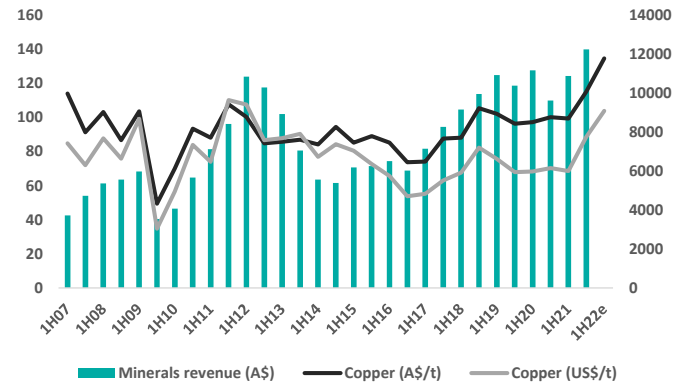
**Copper:** In USD terms, copper is up +17.5% YTD and +47.8% since the start of CY20.

Figure 5 - IMD revenue vs. avg. gold price (t-0.5)



SOURCE: COMPANY DATA AND BLOOMBERG

Figure 6 - IMD revenue vs. avg. copper price (t-0.5)



SOURCE: COMPANY DATA AND BLOOMBERG

# Earnings revisions and valuation

## Earnings revisions

We increase our Underlying EPS estimates by +13.0%, +6.9% and +2.9% for FY22e, FY23e and FY24e respectively, accounting for the strong 1Q21 and slightly higher costs due to MinePortal.

We continue to see a strong outlook for FY22e revenue growth given: (1) supportive commodity pricing; (2) record capital raising activity; (3) strong results from global drillers; and (4) increasing exploration forecasts from majors; while margin expansion and operating leverage present upside.

In our view, the supportive operating conditions and strong execution within the core business present the possibility of a continued upgrade cycle, while new JDAs and the resumption of client trials provides a free option on ongoing technology development (particularly BlastDog).

Figure 7 – Changes to key forecasts

Earnings Changes June Year End	2022e			2023e			2024e		
	old	new	% change	old	new	% change	old	new	% change
Revenue (\$m)	301.5	322.3	6.9%	319.3	334.5	4.8%	334.0	345.5	3.4%
EBITDA - post-AASB 16 (\$m)	94.9	102.8	8.3%	104.3	109.2	4.8%	111.5	114.3	2.5%
EPS (Underlying) (\$m)	10.6	12.0	13.0%	11.9	12.7	6.9%	13.2	13.6	2.9%

SOURCE: BELL POTTER SECURITIES ESTIMATES

We increase our Price Target to \$3.00ps (prev. \$2.85ps) and reiterate our Buy recommendation.

Figure 8 - Valuation

Methodology	Weighting	Value
DCF Valuation	80%	\$3.03
ROIC Valuation	20%	\$2.91
		<b>\$3.00</b>

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Business Overview

## Company Description

IMDEX (IMD) is a global provider of end-to-end solutions, including proprietary products and technologies, for mining exploration and development, as well as a select group of non-mining industries. The company operates via two brands that are offered as an integrated service, as outlined below –

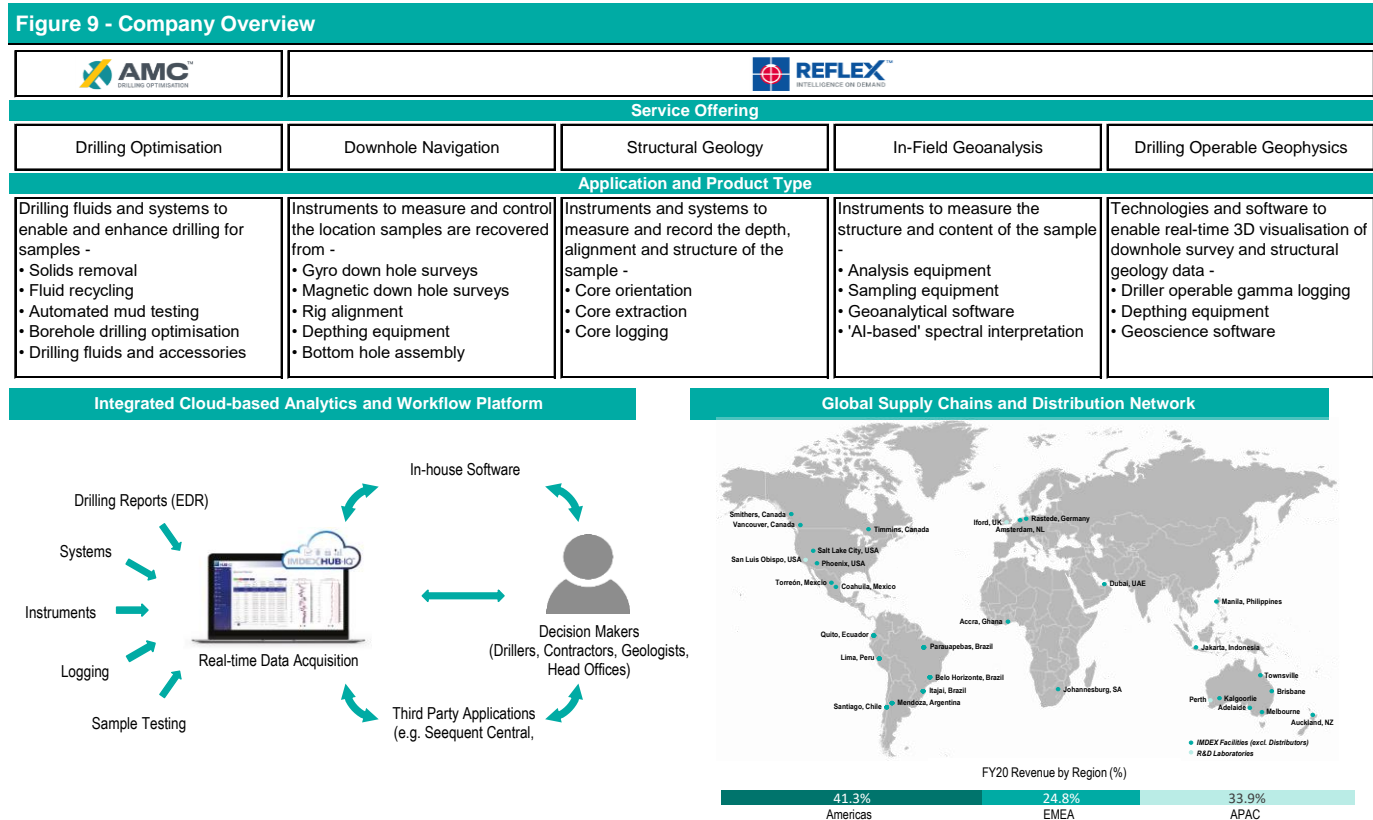
**AMC:** Provides a range of drilling fluids, equipment, technologies and software to optimise drilling programs. The equipment and technologies are rented to customers, while the drilling fluids and accessories are sold.

**REFLEX:** Provides rental on a range of downhole instrumentation and analytical software to optimise the identification, extraction and geological modelling of mineral resources.

IMD is proactive towards new product launches throughout the cycle. The company currently has two internally developed product near-commercialisation (BlastDog™ and XTRACTA™), as well as the option to acquire two additional near-commercialisation products (CoreVIBE™ and MagHAMMER™), all of which could materially add to earnings.

## Investment Thesis

We continue to see a strong outlook for FY22e revenue growth given: (1) supportive commodity pricing; (2) record capital raising activity; (3) strong results from global drillers; and (4) increasing exploration forecasts from majors; while margin expansion and operating leverage present upside. In our view, the supportive operating conditions and strong execution within the core business present the possibility of a continued upgrade cycle, while new JDAs and the resumption of client trials provides a free option on ongoing technology development (particularly BlastDog).



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES

# Key Risks to Investment Thesis

## Risk to Investment Thesis

Key risks to the stock include, although are not limited to:

**Commodity price risk:** Exploration expenditure decisions are typically made in part based upon commodity prices that are inherently cyclical. Lower than expected prices, or adverse changes in demand for any of the key commodities (e.g. gold or copper) may have an adverse effect on demand for IMD's services;

**Exchange rate risk:** IMD reports its accounts in AUD, whilst a large proportion of the business is conducted in foreign currencies (USD, CAD, EUR, ZAR). Any adverse movements in exchange rates may cause revenues and expenses incurred in foreign currencies to fluctuate and negatively impact the overseas earnings;

**Operational and execution risk:** IMD manufactures and distributes its drilling fluids, equipment and instruments on which it generates sales and rental income. Any issues sourcing required inputs, manufacturing or with supply chains may adversely affect IMD's capacity to fulfil client demand and negatively impact revenue;

**Research and development risk:** IMD's ability to successfully research and develop new and existing products is a key competitive advantage. Prolonged failures to develop and commercialise novel products could have an adverse effect on margins and market share;

**Intellectual property risk:** IMD has 120 registered trademarks, 82 patents, and 33 domain names, and is reliant on regulations, confidentiality restrictions and other processes to safeguard its intellectual property. While IMD has successfully defended its patents, any unauthorised use or exploitation of its intellectual property may have an adverse effect on IMD's competitive advantage, or cause a significant loss;

**Key personnel risk:** Generating new intellectual property is dependent on the recruitment and retention of educated and qualified employees. The unexpected loss of any key personnel may impact operational and financial performance;

**Customer Relationships:** Customers are generally global companies with ongoing contracts and requirements for instruments and fluids. Loss of customer contracts and/or failure to secure new customers may materially impact earnings;

**Acquisition and commercialisation risks:** IMD completed the acquisition of Flexidrill Limited and is in the process of commercialising its patented technologies, CoreVIBE™ and MagHAMMER™. There is a risk that IMD will not be able adequately commercialise the technologies within a suitable time. There are also risks to integration and retention of key people if the option to acquire is exercised;

**Changes to competition:** Competitors such as Boart Longyear and Axis Mining Technology are attempting to expand and digitise their instrument offering to compete with IMD. Any entry of new competitors, development of superior products, overcapacity of supply, or aggressive pricing behaviour of existing competitors may lead to a decrease in demand and/or margins;

**Extreme weather conditions:** Extreme weather events in key mining and exploration areas can temporarily weaken demand for IMD's services.

**Regulations:** Exploration projects, drilling sites and development activities are dependent on various federal, state and local government laws and regulations globally. Any adverse change to regulatory requirements and environmental standards may have a negative impact on demand for IMD's solutions.

Table 1 - Financial summary

June Year End	2020	2021	2022e	2023e	2024e
<b>Profit &amp; Loss (A\$m)</b>					
Revenue	237.7	264.4	322.3	334.5	345.5
Other income	-	(0.0)	-	-	-
Expenses	(160.9)	(160.6)	(183.6)	(189.6)	(195.2)
E&D expenses**	(18.1)	(25.8)	(30.0)	(29.6)	(29.6)
Underlying corporate expenses	(4.2)	(2.4)	(6.0)	(6.1)	(6.3)
<b>Underlying EBITDA</b>	<b>54.4</b>	<b>75.5</b>	<b>102.8</b>	<b>109.2</b>	<b>114.3</b>
... Change	4.0%	38.7%	36.1%	6.3%	4.7%
Depreciation & Amortisation	26.5	30.8	32.4	34.6	34.6
<b>EBIT</b>	<b>28.0</b>	<b>44.7</b>	<b>70.3</b>	<b>74.6</b>	<b>79.8</b>
Net Interest	(2.4)	(3.1)	(2.5)	(2.3)	(2.2)
<b>Pre-tax profit</b>	<b>25.5</b>	<b>41.6</b>	<b>67.9</b>	<b>72.3</b>	<b>77.6</b>
Tax expense	(7.3)	(12.8)	(20.4)	(21.7)	(23.3)
... tax rate	28.5%	30.7%	30.0%	30.0%	30.0%
<b>Underlying Net Profit</b>	<b>18.2</b>	<b>28.8</b>	<b>47.5</b>	<b>50.6</b>	<b>54.3</b>
Abs. & extras. (post-tax)	3.5	2.8	-	-	-
<b>Reported Profit (cont. Ops)</b>	<b>21.8</b>	<b>31.7</b>	<b>47.5</b>	<b>50.6</b>	<b>54.3</b>
<b>Underlying NPAT</b>	<b>18.2</b>	<b>28.8</b>	<b>47.5</b>	<b>50.6</b>	<b>54.3</b>
Acquired intangibles	0.9	2.7	2.7	2.7	2.7
<b>Underlying NPAT(A)*</b>	<b>19.2</b>	<b>31.5</b>	<b>50.2</b>	<b>53.3</b>	<b>57.0</b>

Cashflow (A\$m)	2020	2021	2022e	2023e	2024e
<b>Underlying EBITDA</b>	<b>54.4</b>	<b>75.5</b>	<b>102.8</b>	<b>109.2</b>	<b>114.3</b>
Change in working capital	8.6	(4.1)	(10.6)	(11.2)	(2.7)
Tax Paid	(9.6)	(7.1)	(20.4)	(21.7)	(23.3)
Net Interest Expense	(0.3)	(0.3)	(2.5)	(2.3)	(2.2)
Other	(2.2)	(7.0)	-	-	-
<b>Operating cash flow</b>	<b>50.9</b>	<b>69.3</b>	<b>74.0</b>	<b>86.1</b>	<b>90.1</b>
Capex	(23.2)	(27.1)	(29.6)	(26.0)	(24.0)
Lease liabilities principal	(4.8)	(6.9)	(5.7)	(5.7)	(5.7)
<b>Free Cash Flow</b>	<b>23.0</b>	<b>23.0</b>	<b>34.0</b>	<b>42.3</b>	<b>56.5</b>
Dividends paid	(17.1)	(6.7)	(16.3)	(18.3)	(18.4)
Acquisitions	(2.5)	(1.0)	(9.0)	(1.0)	-
Disposals	6.4	-	-	-	-
Share Issues	-	-	-	-	-
Change in borrowings	(0.3)	5.2	-	-	-
Other	(0.7)	(0.3)	-	-	-
<b>Net Change in Cash</b>	<b>8.8</b>	<b>20.2</b>	<b>8.8</b>	<b>23.1</b>	<b>38.1</b>

Balance Sheet (A\$m)	2020	2021	2022e	2023e	2024e
Cash	38.3	58.5	67.2	90.3	128.4
Receivables	43.5	58.2	61.2	63.6	65.7
Inventory	41.2	41.5	48.3	56.9	58.8
Other current assets	7.2	7.5	7.5	7.5	7.5
<b>Current assets</b>	<b>130.1</b>	<b>165.7</b>	<b>184.3</b>	<b>218.4</b>	<b>260.4</b>
Fixed assets	43.1	45.6	51.5	53.5	53.0
Right-of-Use Assets	36.5	33.0	33.0	33.0	33.0
Goodwill	57.8	62.1	70.1	70.1	70.1
Other intangibles	25.8	30.8	27.8	22.8	18.5
Deferred Tax	24.8	25.1	25.1	25.1	25.1
Other non-curr assets	-	3.7	3.7	3.7	3.7
<b>Non Current Assets</b>	<b>188.0</b>	<b>200.4</b>	<b>211.2</b>	<b>208.3</b>	<b>203.4</b>
<b>Total Assets</b>	<b>318.1</b>	<b>366.1</b>	<b>395.5</b>	<b>426.6</b>	<b>463.8</b>
Short term debt	-	-	-	-	-
Lease liabilities	6.4	4.1	4.1	4.1	4.1
Creditors	26.9	37.9	37.1	36.8	38.0
Provisions	4.6	5.7	5.7	5.7	5.7
Other current liabilities	2.5	10.3	9.3	7.8	7.8
<b>Current Liabilities</b>	<b>40.4</b>	<b>58.0</b>	<b>56.1</b>	<b>54.4</b>	<b>55.6</b>
Long term debt	6.1	11.1	11.1	11.1	11.1
Lease liabilities	35.1	34.8	34.8	34.8	34.8
Provisions	0.3	0.2	0.2	0.2	0.2
Other	14.6	8.9	8.9	8.9	8.9
<b>Non Current Liabilities</b>	<b>56.1</b>	<b>55.1</b>	<b>55.1</b>	<b>55.1</b>	<b>55.1</b>
<b>Total Liabilities</b>	<b>96.5</b>	<b>113.1</b>	<b>111.2</b>	<b>109.5</b>	<b>110.7</b>
<b>Net Assets</b>	<b>221.6</b>	<b>253.1</b>	<b>284.3</b>	<b>317.1</b>	<b>353.1</b>
Share capital	158.7	169.1	169.1	169.6	169.6
Reserves	4.5	1.1	1.1	1.1	1.1
Retained earnings	58.5	82.9	114.1	146.5	182.4
<b>Shareholders Equity</b>	<b>221.6</b>	<b>253.1</b>	<b>284.3</b>	<b>317.1</b>	<b>353.1</b>
Net debt/(cash) \$m	(32.1)	(47.3)	(56.1)	(79.2)	(117.3)

\*NPAT(A) is before the amortisation of acquired intangibles (Flexidrill and AusSpec)

SOURCE: BELL POTTER SECURITIES ESTIMATES

Price	\$2.63
Recommendation	Buy
Shares on issue (m)	396.5
Market cap (\$m)	1042.7
Target Price (A\$ps)	\$3.00

Valuation Ratios	2020	2021	2022e	2023e	2024e
<b>Underlying EPS (cpts)</b>	<b>4.7</b>	<b>7.3</b>	<b>12.0</b>	<b>12.7</b>	<b>13.6</b>
... % change	-35.9%	54.3%	64.2%	6.1%	6.9%
<b>P/E (NPATA*) (x)</b>	<b>52.9</b>	<b>33.0</b>	<b>20.8</b>	<b>19.6</b>	<b>18.5</b>
EV/EBITDA (x)	18.7	13.5	9.9	9.3	8.9
EV/EBIT(A) (x)	36.5	21.5	14.0	13.2	12.4
NTA (\$ps)	0.36	0.41	0.47	0.56	0.66
P/NTA (x)	7.4	6.5	5.6	4.7	4.0
Book Value (\$ps)	0.57	0.64	0.72	0.80	0.88
Price/Book (x)	7.4	6.5	5.6	4.7	4.0
DPS (cpts)	3.7	2.8	4.6	4.6	4.7
... % pay-out	36.0%	38.4%	38.4%	36.2%	34.6%
<b>Yield (%)</b>	<b>0.6%</b>	<b>1.1%</b>	<b>1.7%</b>	<b>1.7%</b>	<b>1.8%</b>
Franking (%)	100%	100%	100%	100%	100%

Performance Ratios	2020	2021	2022e	2023e	2024e
Revenue growth (%)	-2.4%	11.2%	21.9%	3.8%	3.3%
EBITDA growth (%)	4.0%	38.7%	36.1%	6.3%	4.7%
EBITDA margin (%)	22.9%	28.6%	31.9%	32.7%	33.1%
EBIT growth (%)	-26.6%	63.1%	63.1%	6.6%	7.3%
OCF Realisation	105.6%	91.3%	86.7%	86.8%	96.9%
FCF Realisation	105.7%	72.7%	71.6%	83.7%	104.0%
FCF Yield %	2.3%	2.2%	3.3%	4.0%	5.4%
ROE (%)	8.2%	11.4%	16.7%	16.0%	15.4%
ROIC (%)	14.4%	23.0%	31.9%	31.6%	33.5%
Fixed Asset Turnover	5.69	6.06	6.62	6.37	6.49
Interest Cover	11.45	14.41	28.35	32.37	36.10
Current Ratio	3.22	2.86	3.28	4.01	4.68
Net Debt/EBITDA	-0.59	-0.63	-0.55	-0.72	-1.03
Net Debt/Equity (%)	-14.5%	-18.7%	-19.7%	-25.0%	-33.2%

Segments	2020	2021	2022e	2023e	2024e
<b>Minerals</b>					
Americas	98.2	115.3	145.3	147.9	150.9
APAC	80.5	81.7	95.2	98.5	100.5
EMEA	59.1	67.4	81.8	85.5	88.0
CoreVIBE assumptions	0.0	0.0	0.0	2.6	6.1
<b>Revenue from ext. custs</b>	<b>237.7</b>	<b>264.4</b>	<b>322.3</b>	<b>334.5</b>	<b>345.5</b>
Operating expenses	(183.2)	(188.9)	(219.5)	(225.3)	(231.2)
<b>Segmental EBITDA</b>	<b>76.8</b>	<b>103.8</b>	<b>138.7</b>	<b>144.9</b>	<b>150.3</b>
Segmental EBITDA margin (%)	32.3%	39.2%	43.0%	43.3%	43.5%

<b>Corporate</b>					
Engineering and R&D expenses**	(18.1)	(25.8)	(30.0)	(29.6)	(29.6)
Underlying corporate expenses	(4.2)	(2.4)	(6.0)	(6.1)	(6.3)
Other income	-	(0.0)	-	-	-
<b>Group underlying EBITDA</b>	<b>54.4</b>	<b>75.5</b>	<b>102.8</b>	<b>109.2</b>	<b>114.3</b>

Half Yearly	1H20	1H21	1H22e	1H23e	1H24e
<b>Sales revenue</b>	<b>127.7</b>	<b>124.3</b>	<b>161.2</b>	<b>167.1</b>	<b>172.6</b>
... Change	2.2%	-2.7%	29.6%	3.7%	3.3%
<b>EBITDA</b>	<b>31.3</b>	<b>33.1</b>	<b>51.4</b>	<b>54.6</b>	<b>57.1</b>
... Change	24.0%	5.9%	55.0%	6.2%	4.7%
Deprec. & amort.	10.7	15.0	15.9	17.2	17.7
<b>EBIT</b>	<b>20.6</b>	<b>18.1</b>	<b>35.5</b>	<b>37.3</b>	<b>39.4</b>
Net Interest	(0.9)	(1.4)	(1.2)	(1.2)	(1.1)
<b>Pre-tax profit</b>	<b>19.7</b>	<b>16.7</b>	<b>34.2</b>	<b>36.2</b>	<b>38.3</b>
Tax expense	(5.0)	(5.4)	(10.3)	(10.9)	(11.5)
... tax rate	25.3%	32.2%	30.0%	30.0%	30.0%
<b>Underlying Net Profit</b>	<b>14.7</b>	<b>11.3</b>	<b>24.0</b>	<b>25.3</b>	<b>26.8</b>
... Change	8.7%	-23.1%	112.0%	5.6%	5.9%
Abs. & extras. (post-tax)	3.5	2.2	-	-	-
<b>Reported Profit (cont. Ops)</b>	<b>18.2</b>	<b>13.5</b>	<b>24.0</b>	<b>25.3</b>	<b>26.8</b>

\*\* Segments EBITDA and Engineering and R&D expenses restated from FY21



**Recommendation structure**

**Buy:** Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

**Hold:** Expect total return between -5% and 15% on a 12 month view

**Sell:** Expect <-5% total return on a 12 month view

*Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.*

*Such investments may carry an exceptionally high level of capital risk and volatility of returns.*

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