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**Maintain BUY, target price of KRW127,000**

We maintain BUY and our TP of KRW127,000 on Studio Dragon. There were no significant revisions to 2021E-22E OP. Our DCF-based TP (7.41% WACC; 2.1% TGR) corresponds to 69.0x 12m fwd P/E.

**Robust margins noteworthy**

Studio Dragon reported 2Q21 revenue of KRW106.0bn (-34.3% YoY) and OP of KRW13.8bn (-18.2% YoY), missing the market consensus by 9.7% and 8.5%, respectively. Programming revenue plunged 56.9% YoY because of a dearth of non-captive sales (only five titles aired) and a high comparison base related to the airing of *The King: Eternal Monarch* last year. Meanwhile, Distribution revenue held up relatively well, sliding just 10.8% YoY thanks to iQiyi original *My Roommate Is a Gumiho* and Netflix-bound sales of the television shows *Vincenzo*, *Navillera* and *Mine*; an uptrend in ASP uptrend also supported Distribution revenue. Despite cost increases resulting from a rise in advanced sales, COGS-to-revenue ratio declined 5.7pp YoY and OPM improved +2.6pp YoY on strengthening Distribution revenue.

**Earnings to rebound in 2H21**

We expect earnings to rebound in 2H21, driven by increased production for Tving originals and improved Distribution revenue amid the normalization of Programming revenue. Not only is Distribution revenue trending up, sales of old libraries are sustaining stable growth, improving around 30% YoY. Furthermore, the licensing of big-budget titles aired in 1H21 to China are in progress. Accordingly, we forecast 3Q21E revenue at KRW138.2bn (+30.0% YoY) and OP at KRW20.1bn (+25.2% YoY).

## Buy Maintain

<b>Target Price (Maintain)</b>	<b>KRW127,000</b>
Dividend yield*	0.0%
Total return	37.1%
Current price (Aug 5)	KRW92,600
Consensus target price	KRW129,105
Market capitalization	USD2.4bn
* 12-month forward	

### Earnings Forecast & Valuation

Fiscal year-end	2020A	2021E	2022E	2023E
Revenue (KRWbn)	526	517	630	756
OP (KRWbn)	49	71	91	109
NP to control, int. (KRWbn)	30	55	70	83
EPS (KRW)	1,044	1,842	2,344	2,771
EPS growth (%)	10.9	76.4	27.3	18.2
P/E (x)	88.7	50.3	39.5	33.4
EV/EBITDA (x)	16.3	15.6	13.6	12.1
P/B (x)	4.6	4.0	3.6	3.3
ROE (%)	5.7	8.5	9.6	10.3
Div. yield (%)	N/A	0.0	0.0	0.0

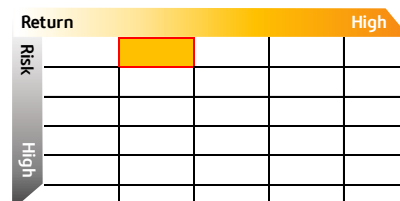
### Trading Data

Free float	44.1%
Avg. T/O val. (3m, KRWbn)	11.3
Foreign ownership	12.1%
Major shareholders	CJ ENM and 3 others 55.9%
	Naver 6.3%

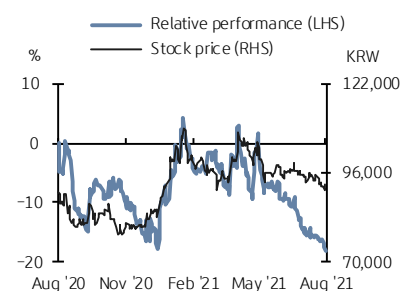
### Stock Price Performance

(%)	1M	3M	6M	12M
Absolute	-2.9	-11.8	-6.4	2.3
Relative	-4.1	-19.5	-14.5	-18.2

### Risk & Total Return (annualized over three years)



### Stock Price & Relative Performance

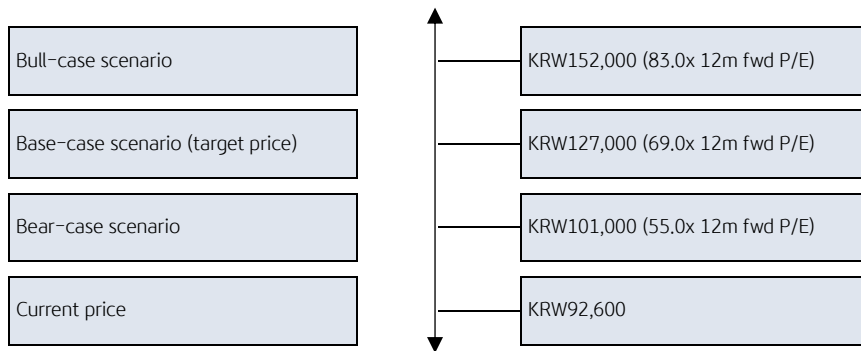


Source(s): Company data, KB Securities

## Growing to become global player

Contracts with global OTTs are progressing smoothly. Negotiations with major global OTTs (e.g., Netflix) are underway, and Studio Dragon's U.S. projects are gaining traction, demonstrated by the securing of contract for Apple TV original *The Big Door Prize* in June. As the company's track record for partnerships with global platforms continues, Studio Dragon's revenue models are diversifying from exports of domestic content to joint productions of English content. Considering the sizeable production budgets of foreign content, increases in overseas revenue should lift earnings sharply.

## Investment Opinion & Risks



### Base-case scenario: Catalysts

- 1) 2021E Distribution revenue +8.8% YoY
- 2) Global OTTs launch in Korea in 2021

### Bull-case scenario: Upside risks

- 1) 2021E Distribution revenue +13.0% YoY
- 2) Global OTTs launch in Korea/Asia in 2021

### Bear-case scenario: Downside risks

- 1) 2021E Distribution revenue +3.0% YoY
- 2) Global OTTs fail to launch in Korea in 2021

## Revised Earnings Estimates

(KRWbn, %)	Previous		Revised		Change	
	2021E	2022E	2021E	2022E	2021E	2022E
Revenue	561.3	666.9	517.1	630.3	-7.9	-5.5
OP	70.6	94.0	71.1	91.1	0.8	-3.1
NP (to control. int.)	61.7	82.1	55.3	70.4	-10.3	-14.3

Source(s): KB Securities estimates

## KB Estimates vs. Consensus

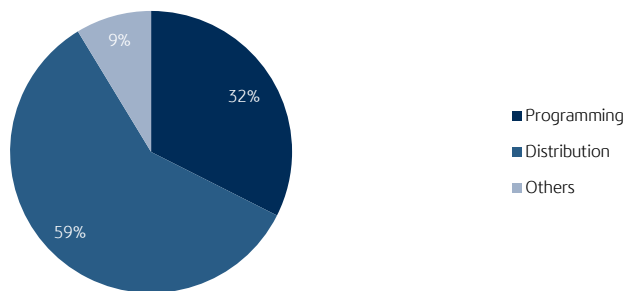
(KRWbn, %)	KB Estimates		Consensus		Difference	
	2021E	2022E	2021E	2022E	2021E	2022E
Revenue	517.1	630.3	544.2	634.8	-5.0	-0.7
OP	71.1	91.1	68.0	84.6	4.5	7.6
NP (to control. int.)	55.3	70.4	54.1	66.6	2.3	5.7

Source(s): FnGuide, KB Securities estimates

## Valuation & Target Price Calculation

- 1) Valuation method:  
Discounted cash flow model
- 2) Target price calculation:  
Target market cap of KRW3.8tn
- 3) Target price range:  
KRW101,000 – KRW152,000
- 4) Valuation at target price:  
69.0x 12m fwd P/E

## Revenue Composition (2021E)



Source(s): KB Securities estimates

## Earnings Sensitivity Analysis

(%)	EPS Change	
	2021E	2022E
+1pp rise in interest rate	+2.1	+2.1
+1% in FX rate	+0.4	+0.4

## Peer Group Comparison

(KRWbn, x, %)	Market Cap	Fwd P/E	5y EPS CAGR	12m fwd P/B	12m fwd EV/EBITDA	5y EBITDA CAGR
Studio Dragon	2,778.4	42.7	N/A	3.9	13.5	N/A
Jcontentree	837.1	31.5	N/A	3.7	9.5	(0.8)
Walt Disney	358,312.0	38.5	(5.7)	3.4	21.1	(8.4)
Netflix	261,652.0	42.7	95.2	13.4	28.8	68.7

Source(s): Bloomberg consensus, KB Securities estimates

**Table 1. 2Q21 Earnings (Consolidated)**

(KRWbn, %, pp)	2Q21P	1Q21	QoQ	2Q20	YoY	KB Estimates	Diff.	Consensus	Diff.
Revenue	106.0	117.1	(9.5)	161.4	(34.3)	136.7	(22.4)	117.5	(9.7)
OP	13.8	17.9	(22.8)	16.9	(18.2)	14.6	(5.8)	15.1	(8.5)
<i>OPM</i>	<i>13.0</i>	<i>15.3</i>	<i>(2.2)</i>	<i>10.4</i>	<i>2.6</i>	<i>10.7</i>	<i>2.3</i>	<i>12.8</i>	<i>0.2</i>
NP (to control, int.)	9.5	15.6	(39.2)	13.4	(29.1)	13.2	(28.3)	12.5	(24.1)
<i>NPM</i>	<i>8.9</i>	<i>13.3</i>	<i>(4.4)</i>	<i>8.3</i>	<i>0.7</i>	<i>9.7</i>	<i>(0.7)</i>	<i>10.6</i>	<i>(1.7)</i>

Source(s): Quantiwise, KB Securities estimates

Note: LTL=loss to loss, TTP=turn to profit, TTL=turn to loss

**Table 2. Earnings Forecast (Consolidated)**

(KRWbn)	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21P	3Q21E	4Q21E	2019	2020P	2021E	2022E
<b>Revenue</b>	120.3	161.4	106.3	137.7	117.1	106.0	138.2	155.8	468.7	525.7	517.1	630.3
(% QoQ)	23.5	34.2	(34.2)	29.6	(15.0)	(9.5)	30.3	12.8	-	-	-	-
(% YoY)	7.6	25.9	(19.0)	41.3	(2.7)	(34.3)	30.0	13.2	23.5	12.2	(1.6)	21.9
Programming	45.2	65.4	45.7	40.7	43.8	28.2	44.6	51.2	208.7	197.0	167.7	226.9
Distribution	66.9	75.7	50.9	86.3	63.2	67.5	81.4	92.3	219.3	279.7	304.5	356.2
Other	8.2	20.4	9.7	10.8	10.1	10.3	12.1	12.4	40.7	49.0	44.9	47.2
<b>Operating expenses</b>	108.7	144.6	90.3	133.1	99.2	92.2	118.1	136.4	440.0	476.6	446.0	539.2
(% QoQ)	7.1	33.1	(37.6)	47.5	(25.4)	(7.1)	28.1	15.5	-	-	-	-
(% YoY)	7.8	23.1	(24.9)	31.2	(8.7)	(36.2)	30.9	2.5	29.5	8.3	(6.4)	20.9
<b>Operating profit</b>	11.6	16.9	16.0	4.6	17.9	13.8	20.1	19.4	28.7	49.1	71.1	91.1
(% QoQ)	TTP	44.9	(5.0)	(71.2)	287.6	(22.8)	45.4	(3.2)	-	-	-	-
(% YoY)	5.5	56.3	46.8	TTP	53.6	(18.2)	25.2	320.9	(28.1)	71.1	44.8	28.1
<i>OPM (%)</i>	<i>9.7</i>	<i>10.4</i>	<i>15.1</i>	<i>3.3</i>	<i>15.3</i>	<i>13.0</i>	<i>14.5</i>	<i>12.5</i>	<i>6.1</i>	<i>9.3</i>	<i>13.8</i>	<i>14.4</i>
<b>NP (to control, int.)</b>	8.5	13.4	10.6	(2.9)	15.6	9.5	15.5	14.8	26.4	29.6	55.3	70.4
(% QoQ)	TTP	56.5	(20.6)	TTL	TTP	(39.2)	63.4	(4.3)	-	-	-	-
(% YoY)	(7.3)	82.1	(8.0)	TTL	82.2	(29.1)	45.8	TTP	(26.3)	12.1	86.7	27.3
<i>NPM (%)</i>	<i>7.1</i>	<i>8.3</i>	<i>10.0</i>	<i>(2.1)</i>	<i>13.3</i>	<i>8.9</i>	<i>11.2</i>	<i>9.5</i>	<i>5.6</i>	<i>5.6</i>	<i>10.7</i>	<i>11.2</i>

Source(s): Company data, KB Securities estimates

Note: LTL=loss to loss, TTP=turn to profit, TTL=turn to loss

**Table 3. Earnings Estimate Revisions**

(KRWbn, %, pp)	2021E					2022E				
	Revised	Previous	Chg.	Consensus	Diff.	Revised	Previous	Chg.	Consensus	Diff.
Revenue	517.1	561.3	(7.9)	544.2	(5.0)	630.3	666.9	(5.5)	634.8	(0.7)
OP	71.1	70.6	0.8	68.0	4.5	91.1	94.0	(3.1)	84.6	7.6
<i>OPM</i>	<i>13.8</i>	<i>12.6</i>	<i>1.2</i>	<i>12.5</i>	<i>1.3</i>	<i>14.4</i>	<i>14.1</i>	<i>0.4</i>	<i>13.3</i>	<i>1.1</i>
NP (to control, int.)	55.3	61.7	(10.3)	54.1	2.3	70.4	82.1	(14.3)	66.6	5.7
<i>NPM</i>	<i>10.7</i>	<i>11.0</i>	<i>(0.3)</i>	<i>9.9</i>	<i>0.8</i>	<i>11.2</i>	<i>12.3</i>	<i>(1.1)</i>	<i>10.5</i>	<i>0.7</i>

Source(s): Quantiwise, KB Securities estimates

**Table 4. TP Calculation: Discounted Cash Flow Model**

(KRWbn, %, '000 shares, KRW)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Cash flow projection											
Adj. FCF		136.2	163.3	168.4	164.0	176.9	189.6	202.7	215.0	226.0	235.3
FCFF	96.0	163.3	168.4	164.0	176.9	189.6	202.7	215.0	226.0	235.3	207.5
NOPLAT	51.6	67.3	73.2	70.5	82.5	98.1	110.0	120.9	130.4	138.1	113.8
(+) Depreciation & amortization	100.8	102.1	102.2	102.2	102.3	102.3	102.3	102.3	102.3	102.3	112.5
(-/+ ) Changes in working capital	-57.2	-5.2	-6.1	-6.6	-6.9	-7.0	-6.8	-6.3	-5.6	-4.5	-4.6
(-) Capital expenditure	-3.2	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.4
(-) Others	3.9	3.1	3.1	1.9	3.0	0.1	1.2	2.1	2.9	3.4	3.8
PV of cash flow											
WACC	7.41										
Discount		1.00	0.93	0.87	0.81	0.75	0.70	0.65	0.61	0.56	0.53
PV of cash flow		136.2	152.0	146.0	132.3	132.9	132.6	131.9	130.3	127.5	123.6
Terminal growth	2.1									-Average 30y KTB yield	
Terminal value	4,521.8									-2031E FCFF / (WACC - TGR)	
PV of terminal value	2,375.6									-7.41% WACC (0.79% risk-free rate; 7.37% market risk premium)	
Valuation											
EV	3,720.9										
(-) Net debt	(90.0)										-Net cash
Fair EV	3,811										
No. of shares	30,004										
Target price	127,000										
Current price	92,600										-Aug 5, 2021
Upside	37.1										

Source(s): KB Securities estimates

Table 5. TP Sensitivity to WACC &amp; TGR

(KRW)		TGR (%)								
		1.3	1.5	1.7	1.9	2.1	2.3	2.5	2.7	2.9
WACC (%)	6.81	128,572	131,732	135,139	138,823	142,820	147,171	151,925	157,142	162,892
	7.01	124,126	127,021	130,134	133,490	137,119	141,057	145,343	150,027	155,166
	7.21	119,983	122,642	125,494	128,560	131,867	135,442	139,322	143,544	148,159
	7.41	116,113	118,561	121,181	123,991	127,012	130,270	133,792	137,614	141,774
	7.61	112,491	114,750	117,162	119,743	122,512	125,488	128,698	132,168	135,933
	7.81	109,093	111,183	113,409	115,785	118,328	121,055	123,988	127,150	130,570
	8.01	105,900	107,836	109,895	112,088	114,429	116,935	119,622	122,512	125,627

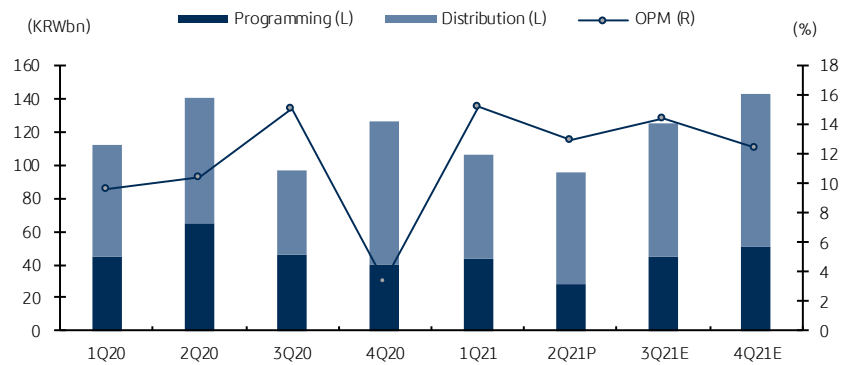
Source(s): Quantiwise, KB Securities estimates

Table 6. WACC Revision

(KRWbn, %)	Previous (Mar 13, 2021)	Revised (Aug 5, 2021)	Notes
COE (A) = a + b x c	7.29	7.41	
Risk-free rate (a)	0.67	0.79	-Avg. 1y MSB yield (last three months)
Adj. beta (b)	0.90	0.90	-Adj. beta
Risk premium (c = d - e)	7.36	7.36	
Market (d)	10.97	10.97	-2001-20 annual avg. WMI500 return
Risk-free rate (e)	3.61	3.61	-2001-20 avg. 1y MSB yield
COD (B)		1.45	-YTM of 1y KRW-based bonds
Fair EV		3,811	
Debt		-90.0	-Net debt
Weight of equity value (f)	100.00	100.00	
Weight of debt (g)	0.00	0.00	
(KRWbn, %)	7.29	7.41	

Source(s): KB Securities estimates

Fig 1. Revenue &amp; OPM



Source(s): Company data, KB Securities estimates

Income Statement					
(KRWbn)	2019A	2020A	2021E	2022E	2023E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Revenue	469	526	517	630	756
Cost of revenue	421	451	416	504	605
Gross profit	48	75	101	126	151
SG&A expenses	19	26	30	35	42
Operating profit	29	49	71	91	109
EBITDA	146	165	172	193	211
Non-operating accounts	4	-8	5	4	5
Interest income	3	2	6	9	9
Interest expenses	0	1	3	4	4
Profit on equity method	0	0	0	0	0
Net other non-operating income	1	-9	2	-1	0
Profit before tax	33	42	76	95	115
Income tax expense	7	12	21	25	31
Net profit	26	30	55	70	83
NP attributable to controlling interests	26	30	55	70	83
Adj. net profit	26	30	55	70	83

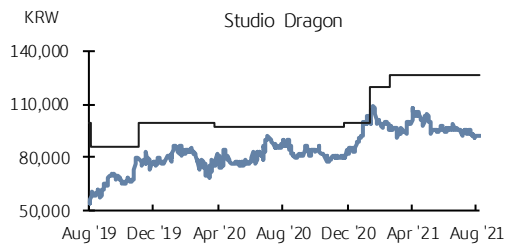
Operating Statistics & Ratios					
(%)	2019A	2020A	2021E	2022E	2023E
Revenue growth	23.5	12.2	-1.6	21.9	19.9
OP growth	-28.1	71.2	44.8	28.1	19.9
EBITDA growth	26.4	13.6	4.0	12.4	9.4
NP growth of parent	-26.3	12.1	86.6	27.3	18.3
GP margin	10.2	14.2	19.6	20.0	20.0
OP margin	6.1	9.3	13.8	14.5	14.5
EBITDA margin	31.1	31.5	33.3	30.7	28.0
EBT margin	7.1	7.9	14.7	15.1	15.2
NP margin of parent	5.6	5.6	10.7	11.2	11.0

Statement of Cash Flows					
(KRWbn)	2019A	2020A	2021E	2022E	2023E
Cash flow from operating activities	-12	5	99	167	179
Net profit	26	30	55	70	83
Depreciation & amortization	117	116	101	102	102
Other non-cash adjustments	7	19	19	25	31
Investments in working capital	-143	-144	-57	-5	-6
Decrease(Increase) in receivables	-22	-31	-13	-22	-31
Decrease(Increase) in inventory	1	0	0	0	0
Increase(Decrease) in payables	9	-11	4	1	2
Investments in other working capital	-130	-101	-49	15	22
Other operating cash flow	-19	-15	-19	-25	-31
Cash flow from investing activities	-81	-16	-75	-125	-120
Capital expenditure	0	-7	-3	-4	-4
Investments in intangibles	0	-1	-75	-100	-108
Changes in investment assets	-57	-9	12	-9	0
Other investment cash flow	-23	1	-8	-11	-8
Cash flow from financing activities	0	0	1	2	1
Proceeds from (repayment of) debt	-1	-1	1	2	1
Changes in equity	1	1	0	0	0
Dividends paid	0	0	0	0	0
Other financing cash flow	0	1	0	0	0
Other cash flow	0	0	0	0	0
Increase/decrease in cash	-93	-11	26	45	61
Cash and cash equivalents at FYE	60	49	75	119	180
Free cash flow	-13	-2	96	163	175
Net cash flow	-51	-16	10	43	68
Net cash (net debt)	107	90	101	143	211

Source(s): Company data, KB Securities estimates

Statement of Financial Position					
(KRWbn)	2019A	2020A	2021E	2022E	2023E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Total assets	582	757	860	950	1,068
Current assets	245	228	285	353	461
Cash and cash equivalents	60	49	75	119	180
Current financial assets	57	52	39	39	46
Trade receivables	84	107	132	154	185
Inventory	0	0	0	0	0
Other current assets	44	21	39	41	49
Non-current assets	337	529	575	597	607
Investment assets	13	180	227	236	236
Property, plant and equipment	1	8	8	8	8
Intangible assets	233	230	246	248	257
Other non-current assets	89	111	94	106	106
Total liabilities	153	148	161	181	215
Current liabilities	145	132	150	169	203
Trade payables	18	6	10	12	14
Short-term financial liabilities	2	2	4	5	6
Other current liabilities	125	124	136	153	183
Non-current liabilities	8	16	11	12	13
Non-current financial liabilities	8	8	8	10	10
Other non-current liabilities	0	8	2	2	3
Total equity	428	609	699	769	852
Issued capital	14	15	15	15	15
Share premium	322	470	470	470	470
Other equity interest	0	0	0	0	0
Accumulated other comprehensive income	-1	2	36	36	36
Retained earnings	94	123	178	249	332
Controlling interests	428	609	699	769	852
Non-controlling interests	0	0	0	0	0

Key Ratios					
(x, %, KRW)	2019A	2020A	2021E	2022E	2023E
Multiples					
P/E	85.9	88.7	50.3	39.5	33.4
P/B	5.3	4.6	4.0	3.6	3.3
P/S	4.8	5.0	5.4	4.4	3.7
EV/EBITDA	14.9	16.3	15.6	13.6	12.1
EV/EBIT	75.5	54.7	37.7	28.9	23.5
Dividend yield, ordinary (%)	N/A	N/A	0.0	0.0	0.0
EPS	941	1,044	1,842	2,344	2,771
BVPS	15,242	20,309	23,285	25,629	28,400
SPS	16,698	18,532	17,236	21,008	25,185
DPS (annual, ordinary)	0	0	0	0	0
Cash dividends payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Operating performance					
ROE	6.4	5.7	8.5	9.6	10.3
ROA	4.8	4.4	6.8	7.8	8.3
ROIC	8.8	11.4	14.9	17.8	20.0
Financial structure (%)					
Total liab./equity	35.8	24.3	23.1	23.6	25.3
Net debt/equity	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Current ratio	1.7	1.7	1.9	2.1	2.3
Interest coverage (x)	58.1	84.8	22.2	22.8	27.3
Activity ratios					
Asset turnover (x)	0.9	0.8	0.6	0.7	0.8
Receivables turnover (x)	6.2	5.5	4.3	4.4	4.5
Payables turnover (x)	24.7	43.2	64.0	57.9	59.6
Inventory turnover (x)	0.0	0.0	0.0	0.0	0.0



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#### Classification and Standards for Investment Rating

##### Investment Rating for Company

(based on estimation of 12-month absolute returns)

Buy: +15% or beyond      Hold: Between 15% and -15%      Sell: -15% or beyond

Note: KB Securities' classification of investment ratings has shifted from four stages (Strong BUY, BUY, Marketperform, Underperform) to three stages (Buy, Hold, Sell) based on Korean reports since February 23, 2017.

KB Securities' standards for stock rating shifted starting on Feb 10, 2020 from an estimation of six-month absolute returns to an estimation of 12-month absolute returns.

##### Investment Rating for Industry

(based on estimation of 12-month absolute returns)

Positive:                                      Neutral:                                      Negative:  
To outperform market      To match market performance      To underperform market

Notes: The industry rating system of KB Securities has shifted from (Overweight, Neutral, Underweight) to (Positive, Neutral, Negative) as of Jun 28, 2017.

KB Securities' standards for industry rating shifted starting on Feb 10, 2020 from an estimation of six-month absolute returns to an estimation of 12-month absolute returns.

##### Studio Dragon (253450)

Date	Rating	Analyst	TP Differential (%)		
			(KRW)	Avg.	Max/Min
Jul-11-2019	Buy	Danny Lee	100,000	-36.66	
Aug-09-2019	Buy	Danny Lee	86,000	-21.88	-6.86
Nov-08-2019	Buy	Danny Lee	100,000	-20.81	-13.00
Mar-30-2020	Buy	Danny Lee	97,000	-15.46	-4.64
Nov-30-2020	Buy	Danny Lee	100,000	-9.63	3.70
Jan-18-2021	Buy	Danny Lee	120,000	-15.59	-9.00
Feb-23-2021	Buy	Danny Lee	127,000		

#### Proportion of investment rating (as of June 30, 2021)

Buy	Hold	Sell
81.1	18.9	-

\* Note: Based on reports presented with investment ratings over the past one year

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