

## Hewlett-Packard Enterprise

# Guided down FY24, back end weighted year; Reiterate Neutral

Reiterate Rating: NEUTRAL | PO: 17.00 USD | Price: 15.23 USD

## Revenue below expectations, guides down FY24

Hewlett-Packard Enterprise (HPE) reported F1Q rev of \$6.8bn (-14% y/y in CC) below our/Street estimates of \$7.1bn/\$7.1bn and below the guided range of \$6.9-7.3bn. F1Q rev came in lower than expected in large part due to soft networking demand and a lack of GPU supply. In the quarter however, APU (accelerated processing unit) backlog grew to \$3bn on strong APU demand. In F1Q, Greenlake ARR of \$1.4bn grew +41% y/y. Intelligent Edge (IE) revs grew +3% y/y (+2% y/y in CC) and segment OM was 29.4% (+10% y/y, +230bps q/q). IE contributed 17% of total revenue and 46% of total company operating profit. The company lowered F24 guidance and now expects rev growth of 0-2% in constant currency (vs prior +2-4% in CC), and EPS of \$1.82-\$1.92 (vs prior \$1.82-\$2.02). F24 continue to remain a back half loaded year. F24 FCF was guided to greater than \$1.9bn. Reiterate Neutral on risk/reward balance as long-term mix shift to higher margin software/aaS revs is balanced by near-term weaker Enterprise spend environment and slowing orders.

## F2Q24 rev & EPS guidance below expectations

Mgmt noted that the order pipeline is robust despite constrained GPU supply and that improving GPU supply will push server revenues sequentially higher throughout FY24 creating a heavier weighted 2H24. Intelligent edge was guided to remain soft throughout FY24 but FY margin was guided to mid-20%. Hybrid Cloud is expected to see sequential increases through the year on improving traditional storage and increased momentum in HPE GreenLake. HPE guided F2Q rev of \$6.8bn at the mid-point, below Street (\$7.1bn), but in line with BofA est. F2Q EPS was guided to \$0.38 at the mid-point which is below BofA & Street estimates of \$0.45 & \$0.44.

## Compute now part of Server segment with HPC

Sever revenues (formally Compute & HPC segments) revenues declined 23% y/y in CC on a difficult compare against F1Q23 which had a strong tailwind from backlog reduction. OM was 11.4%, +130bps q/q, and down 430bps y/y.

## Adjusting estimates; PO lower to \$17 (from \$19)

Our F24 revenue/EPS move to \$29.3bn/\$1.86, from \$29.4bn/\$1.88. PO lower to \$17 on 9x (was 10x) C24E EPS of \$1.94. We use a lower multiple as both rev and FCF are trending worse than prior expectations.

Estimates (Oct) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.01	2.15	1.86	2.24	2.33
GAAP EPS	0.66	1.54	1.67	2.24	2.33
EPS Change (YoY)	2.6%	7.0%	-13.5%	20.4%	4.0%
Consensus EPS (Bloomberg)			1.91	2.11	2.29
DPS	0.48	0.48	0.52	0.52	0.52
Valuation (Oct)					
P/E	7.6x	7.1x	8.2x	6.8x	6.5x
GAAP P/E	23.1x	9.9x	9.1x	6.8x	6.5x
Dividend Yield	3.1%	3.1%	3.4%	3.4%	3.4%
EV / EBITDA*	6.0x	5.8x	5.8x	5.2x	4.9x
Free Cash Flow Yield*	10.5%	11.1%	10.1%	10.8%	11.7%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 6.

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### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	19.00	17.00
2024E Rev (m)	29,350.7	29,293.5
2025E Rev (m)	30,137.0	30,095.0
2026E Rev (m)	30,703.6	30,676.1
2024E EPS	1.88	1.86
2025E EPS	2.11	2.24
2026E EPS	2.20	2.33

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### Stock Data

Price	15.23 USD
Price Objective	17.00 USD
Date Established	1-Mar-2024
Investment Opinion	B-2-7
52-Week Range	13.66 USD - 18.14 USD
Mrkt Val (mn) / Shares Out (mn)	19,796 USD / 1,299.8
Free Float	99.6%
Average Daily Value (mn)	155.26 USD
BofA Ticker / Exchange	HPE / NYS
Bloomberg / Reuters	HPE US / HPE.N
ROE (2024E)	11.0%
Net Dbt to Eqty (Oct-2023A)	38.1%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

# iQprofile<sup>SM</sup> Hewlett-Packard Enterprise

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	6.6%	6.9%	6.2%	7.0%	6.8%
Return on Equity	13.4%	13.8%	11.0%	12.0%	11.3%
Operating Margin	10.2%	10.8%	10.3%	11.9%	12.1%
Free Cash Flow	2,073	2,202	2,004	2,128	2,312

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.7x	1.6x	1.9x	1.8x	1.8x
Asset Replacement Ratio	1.0x	0.9x	1.0x	1.1x	1.1x
Tax Rate	14.0%	14.0%	14.2%	14.0%	14.0%
Net Debt-to-Equity Ratio	41.7%	38.1%	28.7%	20.0%	12.3%
Interest Cover	16.1x	20.2x	13.4x	17.8x	18.5x

## Income Statement Data (Oct)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	28,496	29,135	29,293	30,095	30,676
% Change	2.6%	2.2%	0.5%	2.7%	1.9%
Gross Profit	9,667	10,273	10,182	10,447	10,634
% Change	2.6%	6.3%	-0.9%	2.6%	1.8%
EBITDA	5,506	5,761	5,677	6,418	6,759
% Change	1.1%	4.6%	-1.5%	13.0%	5.3%
Net Interest & Other Income	72	147	(163)	(137)	(137)
<b>Net Income (Adjusted)</b>	<b>2,664</b>	<b>2,832</b>	<b>2,448</b>	<b>2,951</b>	<b>3,070</b>
<b>% Change</b>	<b>2.4%</b>	<b>6.3%</b>	<b>-13.6%</b>	<b>20.6%</b>	<b>4.0%</b>

## Free Cash Flow Data (Oct)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	2,664	2,832	2,448	2,951	3,070
Depreciation & Amortization	2,480	2,616	2,659	2,849	3,052
Change in Working Capital	(570)	(1,032)	(287)	(512)	(590)
Deferred Taxation Charge	(249)	(67)	(22)	0	0
Other Adjustments, Net	268	79	(45)	0	0
Capital Expenditure	(2,520)	(2,226)	(2,749)	(3,160)	(3,221)
<b>Free Cash Flow</b>	<b>2,073</b>	<b>2,202</b>	<b>2,004</b>	<b>2,128</b>	<b>2,312</b>
<b>% Change</b>	<b>-44.3%</b>	<b>6.2%</b>	<b>-9.0%</b>	<b>6.2%</b>	<b>8.6%</b>
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	(631)	(629)	(690)	(684)	(684)
Change in Debt	(596)	(209)	327	0	0

## Balance Sheet Data (Oct)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	4,163	4,270	6,104	7,604	9,287
Trade Receivables	4,101	3,481	3,979	4,063	4,582
Other Current Assets	12,242	11,197	11,503	11,496	11,679
Property, Plant & Equipment	5,784	5,989	6,381	6,956	7,389
Other Non-Current Assets	30,833	32,216	32,361	32,361	32,361
<b>Total Assets</b>	<b>57,123</b>	<b>57,153</b>	<b>60,329</b>	<b>62,480</b>	<b>65,298</b>
Short-Term Debt	4,612	4,868	4,957	4,957	4,957
Other Current Liabilities	18,562	17,014	17,551	17,115	17,227
Long-Term Debt	7,853	7,487	7,840	7,840	7,840
Other Non-Current Liabilities	6,187	6,546	6,659	6,659	6,659
<b>Total Liabilities</b>	<b>37,214</b>	<b>35,915</b>	<b>37,007</b>	<b>36,571</b>	<b>36,683</b>
<b>Total Equity</b>	<b>19,909</b>	<b>21,238</b>	<b>23,322</b>	<b>25,909</b>	<b>28,614</b>
<b>Total Equity &amp; Liabilities</b>	<b>57,123</b>	<b>57,153</b>	<b>60,329</b>	<b>62,480</b>	<b>65,298</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 6.

## Company Sector

IT Hardware

## Company Description

HP Enterprise consists of six segments: 1) Compute (provides servers), 2) HPC&AI (portfolio includes HPE Apollo and Cray), 3) Storage, 4) Intelligent Edge (enterprise networking and connectivity for campus and branch environments, operating under the Aruba brand), 5) Financial Services (enables flexible IT consumption models), and 6) Corporate Investments and Other (incl. HP labs and business incubation projects). Through GreenLake, HPE offers most of its products as-a-Service.

## Investment Rationale

Our Neutral rating is based on risk/reward balance where positives including mix shift to high-margin software/SaaS revs, is balanced by risk from an economic slowdown, headwinds to on-premise deployments from customers moving to cloud, software assets relatively small vs. peers and increased competition.

## Stock Data

Average Daily Volume 10,194,587

## Quarterly Earnings Estimates

	2023	2024
Q1	0.63A	0.48A
Q2	0.52A	0.38E
Q3	0.49A	0.52E
Q4	0.52A	0.48E

## Abbreviations

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CC: Constant currency  
ARR: Annual Recurring Revenue  
APU: accelerated processing units  
AUP: Avg Unit Price  
HPC: High Performance Computing  
AI: Artificial Intelligence  
AaS: as a Service  
OM: Operating Margin  
l-t: long-term  
IE: Intelligent Edge

# Model

## Exhibit 1: HPE income statement

We model F24 revenue/EPS of \$29.2bn/\$1.86

### Hewlett-Packard Enterprise (HPE)

(\$ Millions Except Per Share Data)

	F2023E				F2024E				F2022A	F2023A	F2024E	F2025E	F2026E
	1/23A	4/23A	7/23A	10/23A	1/24A	4/24E	7/24E	10/24E					
<b>Income Statement</b>													
Revenue	\$7,809	\$6,973	\$7,002	\$7,351	\$6,755	\$6,807	\$7,774	\$7,958	\$28,496	\$29,135	\$29,293	\$30,095	\$30,676
Cost of Goods Sold	5,135	4,448	4,486	4,793	4,307	4,342	5,131	5,332	18,829	18,862	19,111	19,648	20,042
Gross Profit	2,674	2,525	2,516	2,558	2,448	2,465	2,643	2,626	9,667	10,273	10,182	10,447	10,634
Total Operating Expense	1,756	1,726	1,798	1,848	1,673	1,844	1,805	1,842	6,754	7,128	7,164	6,878	6,928
R&D	623	570	578	578	582	556	642	626	2,045	2,349	2,406	2,472	2,519
SG&A	1,133	1,156	1,220	1,270	1,091	1,288	1,164	1,216	4,709	4,779	4,758	4,406	4,408
Operating Income (Post Options, Pre-Amort.)	778	673	627	639	634	621	838	785	2,635	2,717	2,877	3,569	3,707
Op. Income (Pre-Options, Amortiz.)	918	799	718	710	775	621	838	785	3,026	3,145	3,018	3,569	3,707
Total Interest & Other Income/(Expense)	(25)	(54)	(50)	(27)	(88)	(46)	(46)	(46)	(188)	(156)	(226)	(200)	(200)
Pretax Income	963	796	743	790	750	575	792	739	3,098	3,292	2,855	3,432	3,570
Provision for Income Taxes (Credit)	135	111	104	110	112	80	111	103	434	460	407	480	500
Net Income (pro-forma-adj for Options)	708	577	561	619	518	494	681	635	2,328	2,464	2,328	2,951	3,070
Options Expense (net of tax)	120	108	78	61	120	0	0	0	336	368	120	0	0
Net Income (pro-forma pre options)	828	685	639	680	638	494	681	635	2,664	2,832	2,448	2,951	3,070
Diluted Operating EPS (Pre-Options)	<b>\$0.63</b>	<b>\$0.52</b>	<b>\$0.49</b>	<b>\$0.52</b>	<b>\$0.48</b>	<b>\$0.38</b>	<b>\$0.52</b>	<b>\$0.48</b>	<b>\$2.01</b>	<b>\$2.15</b>	<b>\$1.86</b>	<b>\$2.24</b>	<b>\$2.33</b>
EPS (published)	<b>\$0.63</b>	<b>\$0.52</b>	<b>\$0.49</b>	<b>\$0.52</b>	<b>\$0.48</b>	<b>\$0.38</b>	<b>\$0.52</b>	<b>\$0.48</b>	<b>\$2.01</b>	<b>\$2.15</b>	<b>\$1.86</b>	<b>\$2.24</b>	<b>\$2.33</b>
Diluted Weighted Average Shares	1,315	1,318	1,316	1,315	1,316	1,316	1,316	1,316	1,323	1,316	1,316	1,316	1,316
<b>Income Statement Continued</b>													
<i>% of revenue</i>													
Gross Profit	34%	36%	36%	35%	36%	36%	34%	33%	34%	35%	35%	35%	35%
Opex	22%	25%	26%	25%	25%	27%	23%	23%	24%	24%	24%	23%	23%
R&D	8%	8%	8%	8%	9%	8%	8%	8%	7%	8%	8%	8%	8%
SG&A	15%	17%	17%	17%	16%	19%	15%	15%	17%	16%	16%	15%	14%
EBIT (Post-options, Pre-Amortization)	10%	10%	9%	9%	9%	9%	11%	10%	9%	9%	10%	12%	12%
Options Expense	2%	2%	1%	1%	2%	2%	1%	1%	1%	1%	0%	0%	0%
EBIT (Pre-options, Pre-Amortization)	12%	11%	10%	10%	11%	9%	11%	10%	11%	11%	10%	12%	12%
Pretax Income	12%	11%	11%	11%	11%	8%	10%	9%	11%	11%	10%	11%	12%
Tax Rate	14%	14%	14%	14%	15%	14%	14%	14%	14%	14%	14%	14%	14%
Net Income (Operating, pre-options)	11%	10%	9%	9%	9%	7%	9%	8%	9%	10%	8%	10%	10%
Net Income (Operating, post-options)	9%	8%	8%	8%	8%	7%	9%	8%	8%	8%	8%	10%	10%
Revenues (Y/Y)	12%	4%	1%	-7%	-13%	-2%	11%	8%	3%	2%	1%	3%	2%
Organic Growth (Y/Y)	12%	4%	1%	-7%	-13%	-2%	11%	8%	2%	2%	2%	2%	2%
Opex (Y/Y)	3%	4%	7%	9%	-5%	7%	0%	0%	-2%	6%	1%	-4%	1%
R&D (Y/Y)	24%	10%	14%	12%	-7%	-2%	11%	8%	3%	15%	2%	3%	2%
SG&A (Y/Y)	-6%	1%	4%	7%	-4%	11%	-5%	-4%	-4%	1%	0%	-7%	0%
EBIT Incl. SFAS 123 (Y/Y)	22%	31%	-6%	-22%	-19%	-8%	34%	23%	6%	4%	-4%	18%	4%
Pretax Income (Y/Y)	19%	18%	2%	-10%	-22%	-28%	7%	-7%	2%	6%	-13%	20%	4%
Net Income (Y/Y)	19%	17%	2%	-10%	-23%	-28%	7%	-7%	2%	6%	-14%	21%	4%
Op. EPS (Y/Y)	20%	18%	2%	-10%	-23%	-28%	7%	-7%	3%	7%	-14%	21%	4%
Op. EPS Option adj (Y/Y)	20%	18%	2%	-10%	-23%	-28%	7%	-7%	3%	7%	-14%	21%	4%
Revenues (Q/Q)	-1%	-11%	0%	5%	-8%	1%	14%	2%					
Organic Growth (Q/Q)	-1%	-11%	0%	5%	-8%	1%	14%	2%					
Opex (Q/Q)	3%	-2%	4%	3%	-9%	10%	-2%	2%					
R&D (Q/Q)	21%	-9%	1%	0%	1%	-4%	15%	-2%					
SG&A (Q/Q)	-4%	2%	6%	4%	-14%	18%	-10%	4%					
EBIT Incl. SFAS 123 (Q/Q)	-5%	-13%	-7%	2%	-1%	-2%	35%	-6%					

Source: Company reports, BofA Global Research estimates

BofA GLOBAL RESEARCH



## Price objective basis & risk

### Hewlett-Packard Enterprise (HPE)

Our PO is \$17 based on 9x our C24E EPS of \$1.94. Our target multiple is in line with the median (9x) of the historical range (6x-13.0x). In our opinion, this multiple is justified as it balances positives including that HPE now has a better growth profile, and lower Tier-1 server sales and free cash flow is more in-line with normalized values, vs. near-term macro headwinds and risk from high backlog and slower customer acceptances.

Downside risks to our PO are larger than expected economic slowdown due to inflation and rising interest rates, on-going component availability concerns, COVID19 related shutdowns in China, more aggressive server pricing from competitor Dell, a faster than expected adoption of As-a-Service offerings which can pressure revenues in the near-term, unexpected share loss and slower than expected mix shift to higher margin products and services, FX headwinds, restructuring and execution challenges.

Upside risks are share gains, steady margin improvement and lower than expected restructuring costs and better free cash flow.

## Analyst Certification

I, Wamsi Mohan, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - IT Hardware and Technology Supply Chain Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Amphenol	APH	APH US	Wamsi Mohan
	Apple Inc.	AAPL	AAPL US	Wamsi Mohan
	Corning Inc.	GLW	GLW US	Wamsi Mohan
	Dell Technologies Inc.	DELL	DELL US	Wamsi Mohan
	Flex Ltd.	FLEX	FLEX US	Ruplu Bhattacharya
	HP Inc.	HPQ	HPQ US	Wamsi Mohan
	International Business Machines Corp.	IBM	IBM US	Wamsi Mohan
	Jabil Inc.	JBL	JBL US	Ruplu Bhattacharya
	Nutanix Inc	NTNX	NTNX US	Wamsi Mohan
	Roku, Inc.	ROKU	ROKU US	Ruplu Bhattacharya
	Seagate Technology	STX	STX US	Wamsi Mohan
	Super Micro Computer Inc.	SMCI	SMCI US	Ruplu Bhattacharya
	TD Synnex Corp	SNX	SNX US	Ruplu Bhattacharya
	TE Connectivity Ltd.	TEL	TEL US	Wamsi Mohan
	Western Digital Corporation	WDC	WDC US	Wamsi Mohan
<b>NEUTRAL</b>				
	Arrow Electronics Inc.	ARW	ARW US	Ruplu Bhattacharya
	Avnet Inc.	AVT	AVT US	Ruplu Bhattacharya
	CDW Corp	CDW	CDW US	Ruplu Bhattacharya
	Concentrix Corporation	CNXC	CNXC US	Ruplu Bhattacharya
	Hewlett-Packard Enterprise	HPE	HPE US	Wamsi Mohan
	Pure Storage	PSTG	PSTG US	Wamsi Mohan
	Sensata Technologies Holdings Plc	ST	ST US	Wamsi Mohan
	Teradata Corporation	TDC	TDC US	Wamsi Mohan
<b>UNDERPERFORM</b>				
	DigitalOcean	DOCN	DOCN US	Wamsi Mohan
	NetApp Inc.	NTAP	NTAP US	Wamsi Mohan
	Sanmina Corporation	SANM	SANM US	Ruplu Bhattacharya
	Vishay Intertechnology, Inc.	VSH	VSH US	Ruplu Bhattacharya



## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

### Quality of Earnings

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

### Valuation Toolkit

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

### Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$   
Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

### Numerator

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

### Numerator

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
 $\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$   
Enterprise Value

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

### Denominator

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

### Denominator

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

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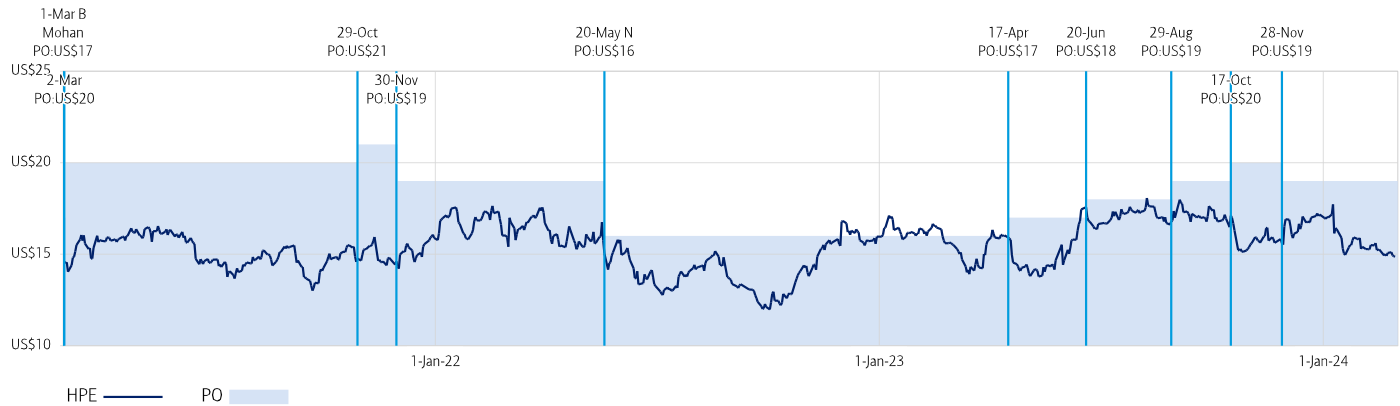
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B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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