

## Starbucks

# 1Q24 Earnings: Lower F24 SSSG as expected; efficiencies support reit. EPS

Reiterate Rating: BUY | PO: 127.00 USD | Price: 94.08 USD

## F2Q SSSG trough; menu, promos, media should drive 2H

1Q's modest SSSG miss vs consensus (global 5.0% vs 7.3% cons) was in-line with our expectations (BofAE 5.3%), as was the lower F24 SSSG guide given slower US trends apparent in [high frequency spending data](#) (see report) as well as China macro softness. December's US traffic recovery (from negative in Nov. to positive in Dec.) is encouraging as it suggests menu news (Gingerbread, cold) and promos resonated across loyal and occasional customers. We expect SBUX's continued product innovation, more targeted promotional approach, and use of new social media channels to rebuild traffic in 2H.

## Reit. EPS guide reflects conservatism, new savings

SBUX's continued outlook for 15-20% EPS growth – despite a lower revenue guide (7-10% vs 10-12% prior) – is consistent with its history of conservative margin guidance as well as the identification of new sources of savings (in-store and out-of-store efficiencies, G&A). The 230 bps of N. America margin expansion in 1Q – despite the sudden mid-quarter SSSG slowdown and broader promotional efforts – speaks to opportunities to extract increasing efficiencies as it rolls out new hardware (single-cup brewers, Clover Vertica) and deploys software (new scheduling tool).

## Lowering 2Q and F24 EPS on slower start to the year

We lower our 2Q SSSG estimate to 3% (vs 4% prior) to reflect slower transaction growth in the U.S. and China. WE lower our 2Q EPS to \$0.81 (vs \$0.86). We expect improved transaction growth and continued margin expansion in 2H to drive sequential EPS improvement thereafter. Our F24 EPS moves to \$4.06 (vs \$4.10 prior).

## Lowering PO on limited near-term visibility; Reiterate Buy

Relative to the S&P, SBUX is trading at a relative multiple of 1.0x, below its 5-year and 10-year average (of 1.5x and 1.5x, respectively). We believe SBUX should trade closer to historical averages as it proves its ability to achieve consistent earnings growth. Given more limited near-term visibility however, we lower our target relative multiple to 1.4x (from 1.5x prior), 1 st dev below avg. The higher market multiple is a partial offset (implies 25.3x absolute, lower vs. 26.6x prior). Applied against our EPS estimates 12 months from now (2Q25-1Q26: \$5.02) we arrive at a PO of \$127 (vs \$128 prior).

Estimates (Sep) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.96	3.54	4.06	4.79	5.61
GAAP EPS	2.83	3.58	4.05	4.79	5.61
EPS Change (YoY)	-7.5%	19.6%	14.7%	18.0%	17.1%
Consensus EPS (Bloomberg)			4.11	4.79	5.51
DPS	1.95	2.11	2.28	2.40	2.40
Valuation (Sep)					
P/E	31.8x	26.6x	23.2x	19.6x	16.8x
Dividend Yield	2.1%	2.2%	2.4%	2.6%	2.6%
EV / EBITDA*	21.5x	18.9x	16.6x	14.5x	12.7x
Free Cash Flow Yield*	2.4%	3.5%	1.3%	4.4%	5.3%

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

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Timestamp: 31 January 2024 05:00AM EST

31 January 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	128.00	127.00
2024E Rev (m)	39,309.9	38,935.1
2025E Rev (m)	43,175.3	42,822.8
2026E Rev (m)	47,365.4	46,987.4
2024E EPS	4.10	4.06
2025E EPS	4.81	4.79
2026E EPS	5.62	5.61
2024E DPS	2.40	2.28

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### Stock Data

Price	94.08 USD
Price Objective	127.00 USD
Date Established	31-Jan-2024
Investment Opinion	B-1-7
52-Week Range	89.21 USD - 115.48 USD
Mkt Val (mn) / Shares Out (mn)	106,517 USD / 1,132.2
Free Float	97.9%
Average Daily Value (mn)	752.01 USD
BofA Ticker / Exchange	SBUX / NAS
Bloomberg / Reuters	SBUX US / SBUX.OQ
ROE (2024E)	NA
Net Dbt to Eqty (Sep-2023A)	NA
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"](#).

### Glossary

SBUX: Starbucks

# iQprofile<sup>SM</sup> Starbucks

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	15.9%	20.7%	22.4%	25.0%	26.0%
Return on Equity	NM	NM	NM	NM	NM
Operating Margin	14.3%	16.1%	17.2%	18.2%	19.2%
Free Cash Flow	2,556	3,675	1,380	4,699	5,693

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.3x	1.5x	0.8x	1.3x	1.3x
Asset Replacement Ratio	1.2x	1.6x	1.7x	1.6x	1.5x
Tax Rate	22.4%	23.7%	25.0%	25.0%	25.0%
Net Debt-to-Equity Ratio	NM	NM	NM	NM	NM
Interest Cover	9.6x	10.4x	10.9x	11.7x	13.5x

## Income Statement Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	32,250	35,976	38,935	42,823	46,987
% Change	11.0%	11.6%	8.2%	10.0%	9.7%
Gross Profit	21,933	24,566	26,565	29,210	32,042
% Change	7.9%	12.0%	8.1%	10.0%	9.7%
EBITDA	6,304	7,163	8,175	9,370	10,659
% Change	-2.7%	13.6%	14.1%	14.6%	13.8%
Net Interest & Other Income	(386)	(383)	(531)	(586)	(586)
<b>Net Income (Adjusted)</b>	<b>3,429</b>	<b>4,076</b>	<b>4,627</b>	<b>5,395</b>	<b>6,318</b>
<b>% Change</b>	<b>-9.6%</b>	<b>18.9%</b>	<b>13.5%</b>	<b>16.6%</b>	<b>17.1%</b>

## Free Cash Flow Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	3,283	4,119	4,616	5,398	6,316
Depreciation & Amortization	1,529	1,450	1,483	1,586	1,651
Change in Working Capital	(2,133)	(1,133)	(2,248)	202	221
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	1,718	1,573	79	63	55
Capital Expenditure	(1,841)	(2,334)	(2,550)	(2,550)	(2,550)
<b>Free Cash Flow</b>	<b>2,556</b>	<b>3,675</b>	<b>1,380</b>	<b>4,699</b>	<b>5,693</b>
<b>% Change</b>	<b>-43.4%</b>	<b>43.8%</b>	<b>-62.4%</b>	<b>240.5%</b>	<b>21.1%</b>
Share / Issue Repurchase	102	167	167	167	167
Cost of Dividends Paid	(2,263)	(2,432)	(2,598)	(2,703)	(2,703)
Change in Debt	498	419	0	0	0

## Balance Sheet Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	2,818	3,552	1,022	1,477	4,710
Trade Receivables	1,176	1,184	952	1,027	1,109
Other Current Assets	3,025	2,568	4,120	4,493	4,892
Property, Plant & Equipment	6,561	7,387	8,454	9,418	10,317
Other Non-Current Assets	14,399	14,755	14,763	14,780	14,805
<b>Total Assets</b>	<b>27,978</b>	<b>29,446</b>	<b>29,311</b>	<b>31,195</b>	<b>35,833</b>
Short-Term Debt	1,924	1,852	1,852	1,852	1,852
Other Current Liabilities	7,228	7,493	6,565	7,215	7,917
Long-Term Debt	13,120	13,548	13,548	13,548	13,548
Other Non-Current Liabilities	14,405	14,540	14,540	14,540	14,540
<b>Total Liabilities</b>	<b>36,677</b>	<b>37,433</b>	<b>36,505</b>	<b>37,155</b>	<b>37,857</b>
<b>Total Equity</b>	<b>(8,699)</b>	<b>(7,988)</b>	<b>(7,194)</b>	<b>(5,960)</b>	<b>(2,024)</b>
<b>Total Equity &amp; Liabilities</b>	<b>27,978</b>	<b>29,446</b>	<b>29,311</b>	<b>31,195</b>	<b>35,833</b>

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

## Company Sector

Restaurants

## Company Description

Starbucks is the world's leading coffee retailer, with more than 29,000 global locations (with total units split roughly half company-owned and half licensed). The company purchases and roasts high-quality whole bean coffees and sells them, along with fresh, rich-brewed coffees, Italian-style espressos, teas, cold blended beverages, and complementary foods. Starbucks has recently expanded beyond its core retail business into consumer products leveraging the strength of its brand equity.

## Investment Rationale

Our Buy rating is underscored by attractive coffee market growth and economics, as the specialty coffee segment continues to outpace that of overall foodservice globally, and benefits from a strong U.S. business, which contributes 80% of EBITDA and tailwinds from growth in loyalty membership and a resilient Retail business.

## Stock Data

Average Daily Volume 7,993,261

**Exhibit 1: SBUX reported 1Q24 EPS below consensus**

Reported results vs BofA and Consensus

	Reported 1Q23	Reported 1Q24	y/y change	BofAE 1Q24E	Consensus 1Q24	Variance (vs BofAE) 1Q23	Variance (vs Cons) 1Q23
Global Comps	4.8%	5.0%	0 ppt	5.3%	7.2%	0 ppt	-2 ppt
North America Comps	10.0%	5.0%	-5 ppt	5.0%	5.6%	0 ppt	-1 ppt
International Comps	-13.0%	7.0%	20 ppt	7.0%	12.0%	0 ppt	-5 ppt
China comps	-29.0%	10.0%	39 ppt	13.0%	16.6%	-3 ppt	-7 ppt
Total Revenue	\$8,714	\$9,425	8%	\$9,446	\$9,630	0%	-2%
North America Revenue	\$6,551	\$7,121	9%	\$6,992	\$7,167	2%	-1%
International Revenue	\$1,680	\$1,846	10%	\$1,947	\$1,998	-5%	-8%
Channel Development Revenue	\$478	\$448	-6%	\$502	\$454	-11%	-1%
Adjusted EBITDA	\$1,586	\$1,851	17%	\$1,884	\$1,908	-2%	-3%
Adj. EBITDA margin	18.2%	19.6%	143 bps	19.9%	19.8%	-31 bps	-18 bps
Operating Income	\$1,259	\$1,485	18%	\$1,532	\$1,549	-3%	-4%
N. America Op. Income	\$1,218	\$1,521	25%	\$1,349	\$1,454	13%	5%
International Op. Income	\$240	\$242	0%	\$381	\$335	-37%	-28%
Channel Dev. Op. Income	\$226	\$210	-7%	\$247	\$218	-15%	-4%
Operating Margin	14.4%	16.1%	175 bps	16.2%	16.1%	-9 bps	5 bps
North America Operating Margin	18.5%	21.4%	285 bps	19.3%	20.3%	207 bps	107 bps
International Operating Margin	14.3%	13.1%	-123 bps	19.4%	16.8%	-632 bps	-370 bps
Channel Dev. Operating Margin	47.3%	46.8%	-52 bps	49.3%	48.0%	-245 bps	-119 bps
Adj. G&A	\$580.9	\$648.0	12%	\$605.4	\$642.2	7%	1%
Tax Rate	24.8%	25.7%	95 bps	24.0%	24.5%	2 ppt	127 bps
Interest Expense	-\$135.0	-\$140.1	4%	-\$150.4	-\$145.5	-7%	-4%
Adjusted Diluted EPS	\$0.74	\$0.90	21%	\$0.93	\$0.94	-3%	-5%

Source: Visible Alpha, Bloomberg, Company filings, BofA Global Research estimates

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**Exhibit 2: We forecast EPS of \$4.06 in F24 and \$4.79 in F25**

SBUX Income Statement F23-F25E

(\$ millions; FYE September)	2023	1Q24	2Q24E	3Q24E	4Q24E	2024E	1Q25E	2Q25E	3Q25E	4Q25E	2025E
<b>Revenues:</b>	81%										
Retail Sales	29,462	7,755	7,584	8,239	8,410	31,989	8,603	8,399	9,074	9,249	35,325
Licensing	4,513	1,192	1,132	1,249	1,326	4,899	1,308	1,239	1,359	1,435	5,341
CPG, Foodservice & Other	2,001	478	536	501	532	2,047	504	565	528	560	2,156
<b>Net Revenues</b>	<b>35,976</b>	<b>9,425</b>	<b>9,252</b>	<b>9,990</b>	<b>10,268</b>	<b>38,935</b>	<b>10,414</b>	<b>10,204</b>	<b>10,960</b>	<b>11,245</b>	<b>42,823</b>
Total revenue growth y/y	11.6%	8.2%	6.1%	9.0%	9.5%	8.2%	10.5%	10.3%	9.7%	9.5%	10.0%
<b>Expenses:</b>											
Cost of Sales (and rel. occupancy)	11,409	2,981	2,967	3,115	3,308	12,371	3,296	3,272	3,421	3,624	13,613
Store Operating Exp.	14,720	3,852	3,823	3,895	3,930	15,499	4,177	4,144	4,214	4,253	16,788
Other Operating Exp.	539	150	138	152	162	602	161	148	161	171	642
D&A	1,363	365.3	374	375	369	1,483	391	399	401	395	1,586
G&A	2,441	648.0	651	646	656	2,600	679	682	677	688	2,725
Restructuring and impairments	22	0.0	0	0	0	0	0	0	0	0	0
JV Income	298	55.9	53	72	125	306	58	56	75	126	314
<b>Operating Income</b>	<b>5,779</b>	<b>1,485</b>	<b>1,354</b>	<b>1,879</b>	<b>1,967</b>	<b>6,686</b>	<b>1,768</b>	<b>1,615</b>	<b>2,161</b>	<b>2,239</b>	<b>7,783</b>
Gains (losses) on sales	91	0	0	0	0	0	0	0	0	0	0
Net Interest Income & Other	81	34	20	20	7	81	20	20	20	20	81
Interest Expense	(555)	(140)	(149)	(157)	(167)	(613)	(167)	(167)	(167)	(167)	(667)
Pretax Income	5,396	1,379	1,226	1,742	1,807	6,155	1,621	1,469	2,014	2,093	7,197
Income Taxes	1,277	355	307	436	442	1,539	405	367	504	523	1,799
Tax Rate	23.7%	25.0%	25.0%	25.0%	24.5%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%



**Exhibit 2: We forecast EPS of \$4.06 in F24 and \$4.79 in F25**

SBUX Income Statement F23-F25E

(\$ millions; FYE September)		2023	1Q24	2Q24E	3Q24E	4Q24E	2024E	1Q25E	2Q25E	3Q25E	4Q25E	2025E
Adj. tax rate		23.6%	25.7%	25.0%	25.0%	24.5%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Non-controlling interests		0	0	0	0	0	0	0	0	0	0	0
Net income attributable to SBUX		4,119	1,024	920	1,307	1,365	4,616	1,216	1,102	1,511	1,570	5,398
<b>GAAP EPS</b>		<b>\$3.58</b>	<b>\$0.90</b>	<b>\$0.81</b>	<b>\$1.15</b>	<b>\$1.20</b>	<b>\$4.05</b>	<b>\$1.08</b>	<b>\$0.98</b>	<b>\$1.34</b>	<b>\$1.39</b>	<b>\$4.79</b>
<b>Diluted Shares Outstanding</b>		<b>1,151</b>	<b>1,141</b>	<b>1,141</b>	<b>1,140</b>	<b>1,138</b>	<b>1,140</b>	<b>1,126</b>	<b>1,126</b>	<b>1,126</b>	<b>1,126</b>	<b>1,126</b>
Adjusted operating margin bridge												
Operating income (reported)		5,779	1,485	1,354	1,879	1,967	6,686	1,768	1,615	2,161	2,239	7,783
Total operating margin adjustments		22	6	0	0	0	6	0	0	0	0	0
Operating income (adjusted)		5,801	1,492	1,354	1,879	1,967	6,692	1,768	1,615	2,161	2,239	7,784
Operating margin		16.1%	15.8%	14.6%	18.8%	19.2%	17.2%	17.0%	15.8%	19.7%	19.9%	18.2%
<b>Adjusted operating margin</b>		<b>16.1%</b>	<b>15.8%</b>	<b>14.6%</b>	<b>18.8%</b>	<b>19.2%</b>	<b>17.2%</b>	<b>17.0%</b>	<b>15.8%</b>	<b>19.7%</b>	<b>19.9%</b>	<b>18.2%</b>
<b>Adj. diluted EPS</b>		<b>\$3.54</b>	<b>\$0.90</b>	<b>\$0.81</b>	<b>\$1.15</b>	<b>\$1.20</b>	<b>\$4.06</b>	<b>\$1.08</b>	<b>\$0.98</b>	<b>\$1.34</b>	<b>\$1.39</b>	<b>\$4.79</b>
% YOY growth		20%	22%	10%	15%	13%	15%	20%	21%	17%	16%	18%
Adjusted EBITDA												
Growth y/y		7,163	1,857	1,728	2,254	2,337	8,175	2,159	2,015	2,562	2,634	9,370
		13.6%	17.1%	8.9%	16.6%	13.6%	14.1%	16.3%	16.6%	13.6%	12.7%	14.6%

Source: Company reports, BofA Global Research estimates

BofA GLOBAL RESEARCH

## Price objective basis & risk

### Starbucks (SBUX)

Starbucks should trade at 1.4x relative to the S&P 500. This translates to an absolute multiple of 25.3x. We apply this multiple to our 2Q25-1Q26 EPS of \$5.02 to arrive at our PO of \$127. This multiple is 1 st. deviation below its 5-year average. We believe it is justified as SBUX should trade within its historical range as it proves its ability to achieve consistent earnings growth.

Downside risks: Starbucks' comps could decelerate faster than anticipated either from a lack of traction in company initiatives or a deteriorating demand environment. Margins could compress more than expected if Starbucks fails to pass through inflation in labor costs.

## Analyst Certification

I, Sara Senatore, 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 - Restaurants Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Chipotle Mexican Grill	CMG	CMG US	Sara Senatore
	Darden Restaurants	DRI	DRI US	Sara Senatore
	Domino's Pizza	DPZ	DPZ US	Sara Senatore
	Dutch Bros	BPB	BPB US	Sara Senatore
	First Watch	FWRG	FWRG US	Sara Senatore
	Jack in the Box	JACK	JACK US	Sara Senatore
	Krispy Kreme	DNUT	DNUT US	Sara Senatore
	Papa John's International	PZZA	PZZA US	Sara Senatore
	Portillo's Inc.	PTLO	PTLO US	Sara Senatore
	Starbucks	SBUX	SBUX US	Sara Senatore
	Sweetgreen	SG	SG US	Katherine Griffin
	Texas Roadhouse	TXRH	TXRH US	Sara Senatore
	Wingstop Inc	WING	WING US	Sara Senatore
<b>NEUTRAL</b>				
	Bloomin Brands	BLMN	BLMN US	Sara Senatore
	McDonald's	MCD	MCD US	Sara Senatore
	Shake Shack	SHAK	SHAK.US	Sara Senatore
	The Cheesecake Factory	CAKE	CAKE US	Katherine Griffin
	Yum Brands Inc	YUM	YUM US	Sara Senatore
<b>UNDERPERFORM</b>				
	Brinker International	EAT	EAT US	Katherine Griffin
	Cracker Barrel	CBRL	CBRL US	Katherine Griffin
	Restaurant Brands International	YQSR	QSR CN	Sara Senatore
	Restaurant Brands International Inc.	QSR	QSR US	Sara Senatore
	Wendy's Co	WEN	WEN US	Sara Senatore



## 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

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

### Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

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

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

iQmethod<sup>SM</sup> is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

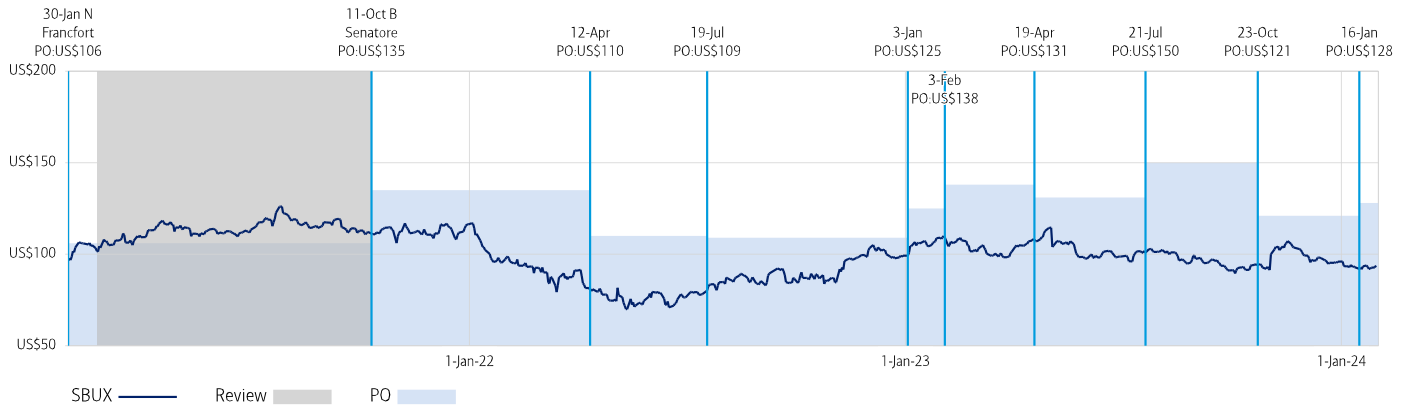
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### Starbucks (SBUX) Price Chart



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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	21	58.33%	Buy	10	47.62%
Hold	10	27.78%	Hold	3	30.00%
Sell	5	13.89%	Sell	4	80.00%

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

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

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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>
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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