

DocuSign

Strong close to FY24 but remain Neutral pending better visibility for rev accel

Reiterate Rating: NEUTRAL | PO: 72.00 USD | Price: 53.56 USD

Strong Q4 billings, though cautious commentary on Q4

DocuSign reported strong Q4 results, with revenue, margin, and billings upside. Billings was the standout metric, coming in at \$833.1 million (+13% y/y) vs our \$764.7 million estimate. Upside was equal parts attributable to renewal strength and net new customer growth. However, commentary suggests DBNR will continue to be pressured into Q1 past the 98% observed in Q4 as customers continue to optimize their DocuSign usage.

Self-serve shift drives both rev top line & OpM

Continued improvements in expense discipline and the benefit from the [recently announced RIF \(see our 6 February note\)](#) inform a strong FY25E PF operating margin guide of 27.3% (+140bps from FY24) at the midpoint. Efforts to streamline the go-to-market via an increasing mix of self-serve should enable further leverage on the sales/marketing line item over time as well. DocuSign is making good progress here, exemplified by a >\$1 million customer acquired through its Microsoft relationship (Azure customers can use Azure credits to procure DocuSign). The full year guide does not assume additional contribution from the partnership, which could prove to be an additional source of upside in FY25E.

Large customer cohort stabilizes

A “de minimis” number of customer contracts are now from the COVID period. Average contract duration lengthened to 19 months, DocuSign’s >\$300K ACV cohort grew again sequentially to 1,060, and commentary from the call suggests gross retention was flat y/y. The summation of these three datapoints suggest to us stability in DocuSign’s core large customer cohort. That said, the company indicated it expects dollar net retention to be flat to down slightly in Q1, suggesting a trough in growth could be near.

Remain Neutral; raise PO to \$72

At a valuation of 11x C25E FCF, we continue to see limited downside risk. Also, billings growth may be bottoming soon (+3% y/y billings at the midpoint of guide for FY24E) and growth initiatives via new product development and a more natural self-serve motion have potential to drive some reacceleration. However, these initiatives remain relatively unproven. We remain Neutral pending better visibility for accelerating growth and continued margin leverage beyond FY25E. We raise our PO to \$72 (from \$60) based on 14x C25E FCF (was 13x) to reflect the billings and FCF upside.

Estimates (Jan) (US\$)	2023A	2024A	2025E	2026E	2027E
EPS	2.09	3.00	3.31	3.47	3.63
GAAP EPS	(0.47)	0.35	0.28	0.32	0.35
EPS Change (YoY)	6.1%	43.5%	10.3%	4.8%	4.6%
Consensus EPS (Bloomberg)			2.92	3.16	NA
DPS	0	0	0	0	0
Valuation (Jan)					
P/E	25.6x	17.9x	16.2x	15.4x	14.8x
GAAP P/E	NM	153.0x	191.3x	167.4x	153.0x
EV / EBITDA*	17.7x	13.2x	12.0x	11.2x	10.5x
Free Cash Flow Yield*	3.8%	8.1%	8.9%	9.2%	9.8%

* For full definitions of *IQmethod*SM measures, see page 9.

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Timestamp: 08 March 2024 01:06AM EST

08 March 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	60.00	72.00
2025E Rev (m)	2,918.2	2,921.3
2026E Rev (m)	3,128.3	3,103.5
2027E Rev (m)	NA	3,296.8
2025E EPS	2.54	3.31
2026E EPS	2.81	3.47
2027E EPS	NA	3.63

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Stock Data

Price	53.56 USD
Price Objective	72.00 USD
Date Established	7-Mar-2024
Investment Opinion	C-2-9
52-Week Range	38.11 USD - 66.90 USD
Mrkt Val (mn) / Shares Out (mn)	10,923 USD / 203.9
Free Float	98.8%
Average Daily Value (mn)	186.73 USD
BofA Ticker / Exchange	DOCU / NAS
Bloomberg / Reuters	DOCU US / DOCU.OQ
ROE (2025E)	43.3%
Net Dbt to Eqty (Jan-2024A)	48.2%
ESGMeter TM	Medium

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".

DBNR = dollar-based net expansion rate

RIF = reduction in force

ACV = annual contract value

iQprofileSM DocuSign

iQmethodSM – Bus Performance*

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Return on Capital Employed	20.7%	24.9%	20.1%	16.2%	21.7%
Return on Equity	96.6%	71.6%	43.3%	28.6%	47.7%
Operating Margin	20.5%	25.9%	27.3%	27.6%	27.9%
Free Cash Flow	420	887	971	1,007	1,075

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Cash Realization Ratio	1.2x	1.6x	1.5x	1.5x	1.5x
Asset Replacement Ratio	0.9x	1.0x	1.0x	1.0x	1.1x
Tax Rate	16.6%	19.5%	20.0%	20.0%	20.0%
Net Debt-to-Equity Ratio	75.8%	48.2%	-18.2%	-43.1%	NM
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Jan)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Sales	2,516	2,762	2,921	3,103	3,297
% Change	19.4%	9.8%	5.8%	6.2%	6.2%
Gross Profit	2,065	2,282	2,392	2,557	2,725
% Change	20.2%	10.5%	4.8%	6.9%	6.6%
EBITDA	603	811	889	950	1,014
% Change	20.4%	34.5%	9.6%	6.8%	6.8%
Net Interest & Other Income	0	61	83	83	83
Net Income (Adjusted)	431	626	704	752	802
% Change	5.3%	45.1%	12.4%	6.8%	6.7%

Free Cash Flow Data (Jan)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Net Income from Cont Operations (GAAP)	431	626	704	752	802
Depreciation & Amortization	86	95	93	93	95
Change in Working Capital	(265)	(37)	45	38	61
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	245	296	220	220	220
Capital Expenditure	(78)	(92)	(91)	(96)	(102)
Free Cash Flow	420	887	971	1,007	1,075
% Change	-5.6%	111.1%	9.4%	3.7%	6.8%
Share / Issue Repurchase	(14)	(99)	40	40	40
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	(703)	0	0	0

Balance Sheet Data (Jan)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Cash & Equivalents	722	797	1,804	2,851	0
Trade Receivables	517	439	461	493	527
Other Current Assets	392	331	335	341	348
Property, Plant & Equipment	200	245	243	246	249
Other Non-Current Assets	1,182	1,158	1,182	1,207	1,242
Total Assets	3,013	2,971	4,025	5,137	2,366
Short-Term Debt	1,173	1,320	1,395	1,470	1,584
Other Current Liabilities	1,035	318	341	360	379
Long-Term Debt	17	22	23	30	32
Other Non-Current Liabilities	170	159	144	144	144
Total Liabilities	2,395	1,819	1,903	2,003	2,140
Total Equity	617	1,130	2,122	3,134	227
Total Equity & Liabilities	3,013	2,949	4,025	5,137	2,366

* For full definitions of iQmethodSM measures, see page 9.

Company Sector

Server & Enterprise Software

Company Description

DocuSign Inc, founded in 2003, is the market leader in providing electronic signature technology and automation of the agreement process through its cloud platform. DocuSign's solution addresses the core of every business transaction - the agreement - and makes the process much more efficient, resulting in lower processing cost and time.

Investment Rationale

In our view, DocuSign is a leader in the e-signature market with limited competition in the Enterprise and is well positioned to continue gaining share of the \$24bn total addressable market (TAM) across e-signature and Agreement Cloud offerings given a number of key advantages, including 1) a large installed base of >1.5mn customers, 2) distribution channel of 2,000+ sales and marketing personnel, and 3) breadth and depth of the eSignature and CLM software.

Stock Data

Average Daily Volume 3,687,924

Quarterly Earnings Estimates

	2024	2025
Q1	0.72A	0.81E
Q2	0.73A	0.83E
Q3	0.79A	0.85E
Q4	0.76A	0.82E

Q4 earnings recap

DocuSign reported strong Q4 results, with revenue, margin, and billings upside. Billings upside in the quarter was equally attributable to renewal strength and net new customer growth. Total revenue of \$712.4 million (+8% y/y) exceeded our \$697.4 million estimate, with subscription revenue of \$682.4 million (+8% y/y) also ahead of our \$682.3 million estimate. International revenue (27% of total revenue) grew 19% y/y, meaningfully ahead of total company revenue growth. Billings of \$833.1 million (+13% y/y) well exceeded our \$764.7 million estimate.

Total customers of >1.5 million represents 2% q/q growth. Customers in the >\$300K segment appears to have stabilized and grew to 1,060 from 1,051 last quarter. Q4 dollar net retention was 98%, down from 100% in Q3 from continued spending optimization and IT budget scrutiny. Pro forma operating margin of 25.0% was well ahead of our 23.0% forecast primarily from revenue upside as well as continued operating expense discipline.

DocuSign set FY25E guidance for revenue and billings of \$2.915 billion to \$2.927 billion (+6% y/y) and \$2.970 billion to \$3.024 billion (+2% to +4% y/y), which are largely in line with our prior \$2.918 billion and \$3.001 billion estimates. Lastly, the FY25E guide for 26.5% to 28% pro forma operating margin was also well ahead of our 22.9% estimate from continued focus on expense rationalization as well as the positive impact from a previously announced reduction in force of ~6%.



Model/Exhibits

Exhibit 1: BofA estimates vs. 4Q24 actuals

Revenues landed +2% vs. our estimate for the quarter

\$ in millions (except per share data)	BofA Estimates	4Q24 Actuals	Variance
Subscription	\$682.3	\$695.7	2%
Professional services and others	\$15.1	\$16.7	11%
Total Revenues	\$697.4	\$712.4	2%
Cost of Revenues			
Subscription	\$105.8	\$97.5	-8%
Professional services and others	\$22.7	\$27.1	19%
Total Cost of Revenue	\$128.4	\$124.6	-3%
Gross Profit	\$569.0	\$587.8	3%
Operating Expenses:			
Sales and marketing	\$242.2	\$243.3	0%
Research and development	\$95.5	\$96.2	1%
General and administrative	\$71.0	\$69.7	-2%
Total Operating Costs	\$408.7	\$409.2	0%
Operating Income (Loss)	\$160.2	\$178.3	11%
Interest and other income (expense), net	\$0.0	\$20.7	NM
Income (loss) before provision for income taxes	\$160.2	\$199.1	24%
Provision for income taxes	\$32.0	\$39.8	24%
Net Income (Pro forma)	\$128.2	\$159.2	24%
EPS diluted (Pro forma)	\$0.61	\$0.76	24%
Net Income (GAAP)	(\$21.8)	\$27.2	NM
EPS diluted (GAAP)	(\$0.10)	\$0.13	NM
Weighted-average shares			
Basic	205.2	205.5	0%
Diluted shares (Non-GAAP)	208.8	209.6	0%
Margin Analysis			
Subscription	85%	86%	1.5%
Professional services and others	-50%	-62%	(12.1%)
Total Gross Margin	82%	83%	0.9%
Sales and marketing	35%	34%	(0.6%)
Research and development	14%	13%	(0.2%)
General and administrative	10%	10%	(0.4%)
Operating Margin	23%	25%	2.1%
Pretax Margin	23%	28%	5.0%
Proforma Tax Rate	20%	20%	0.0%
Net Margin	18%	22%	4.0%
Balance Sheet & Cash Flows			
Cash and cash equivalents	\$1,282	\$797	-38%
Deferred Revenues	\$1,288	\$1,342	4%
Billings	\$764.7	\$833.1	9%
Billings (y/y)	3.5%	12.7%	267%
Cash Flow from Operations	\$110	\$271	147%
Free Cash Flow	\$86	\$249	190%
Free Cash Flow (y/y)	-18%	139%	156%
Free cash Flow Margin	12%	35%	23%

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH

Exhibit 2: BofA model change summary

We are now estimating FY25E total revenue of \$2.92bn (+6% y/y)

	1Q25E				2025E				2026E			
	Previous Estimate	Previous Y/Y Growth	New Estimate	New Y/Y Growth	Previous Estimate	Previous Y/Y Growth	New Estimate	New Y/Y Growth	Previous Estimate	Previous Y/Y Growth	New Estimate	New Y/Y Growth
Subscription Revenue	\$671.3	5.0%	\$690.5	8.0%	\$2,841.0	6.3%	\$2,853.7	6.2%	\$3,047.1	7.3%	\$3,032.6	6.3%
Total Revenue	\$694.5	5.0%	\$706.1	6.8%	\$2,918.2	6.2%	\$2,921.3	5.8%	\$3,128.3	7.2%	\$3,103.5	6.2%
Billings	\$702.0	4.0%	\$689.4	2.2%	\$3,001.9	5.6%	\$2,996.9	3.0%	\$3,231.9	7.7%	\$3,183.5	6.2%
Net Income (Pro forma)	\$119.9	-20.2%	\$171.6	14.3%	\$535.2	-10.0%	\$703.6	12.4%	\$600.3	12.2%	\$751.8	6.8%
EPS diluted (Pro forma)	(\$0.15)	-20.8%	\$0.07	12.9%	\$2.54	-11.0%	\$3.31	10.4%	\$2.81	10.6%	\$3.47	4.7%
Free Cash Flow	\$255.6	19.1%	\$199.0	-7.3%	\$770.0	6.3%	\$970.7	9.4%	\$838.5	8.9%	\$1,006.8	3.7%

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH







Price objective basis & risk

DocuSign (DOCU)

Our PO of \$72 is based on an EV/FCF multiple of 15x our CY25 FCF estimate. This multiple represents a discount to mid cap peers at an average of 31x. We view a discount as warranted for DocuSign given a slower revenue and FCF growth profile.

Downside risks to our PO are 1) increased competition from Adobe, 2) slower-than-expected adoption of eSignature in key end markets, 3) declines in sales productivity ratio as measured by S&M spend divided by incremental subscription revenue.

Analyst Certification

I, Brad Sills, 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 - Enterprise Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	8x8	EGHT	EGHT US	Michael J. Funk
	Adobe	ADBE	ADBE US	Brad Sills
	Alarm.com	ALRM	ALRM US	Michael J. Funk
	Amplitude, Inc.	AMPL	AMPL US	Koji Ikeda, CFA
	Asana	ASAN	ASAN US	Michael J. Funk
	BILL	BILL	BILL US	Brad Sills
	CCC Intelligent Solutions	CCCS	CCCS US	Michael J. Funk
	Dynatrace	DT	DT US	Koji Ikeda, CFA
	Elastic NV	ESTC	ESTC US	Koji Ikeda, CFA
	GitLab Inc.	GTLB	GTLB US	Koji Ikeda, CFA
	Global-e Online Ltd.	GLBE	GLBE US	Koji Ikeda, CFA
	HubSpot	HUBS	HUBS US	Brad Sills
	Informatica Inc.	INFA	INFA US	Koji Ikeda, CFA
	Intapp Inc.	INTA	INTA US	Koji Ikeda, CFA
	Intuit	INTU	INTU US	Brad Sills
	JFrog Ltd	FROG	FROG US	Koji Ikeda, CFA
	MeridianLink, Inc.	MLNK	MLNK US	Koji Ikeda, CFA
	Microsoft Corporation	MSFT	MSFT US	Brad Sills
	Monday.com	MNDY	MNDY US	Michael J. Funk
	MongoDB Inc	MDB	MDB US	Brad Sills
	nCino, Inc.	NCNO	NCNO US	Adam Bergere
	NICE Ltd.	NICE	NICE US	Michael J. Funk
	NICE Ltd.	NCSYF	NICE IT	Michael J. Funk
	PagerDuty	PD	PD US	Koji Ikeda, CFA
	PowerSchool Holdings, Inc.	PWSC	PWSC US	Koji Ikeda, CFA
	RingCentral	RNG	RNG US	Michael J. Funk
	Salesforce.com	CRM	CRM US	Brad Sills
	ServiceNow	NOW	NOW US	Brad Sills
	UiPath	PATH	PATH US	Brad Sills
	Unity	U	U US	Michael J. Funk
	Weave	WEAV	WEAV US	Michael J. Funk
	Workday Inc.	WDAY	WDAY US	Brad Sills
	Zeta Global	ZETA	ZETA US	Koji Ikeda, CFA
	ZoomInfo	ZI	ZI US	Koji Ikeda, CFA
NEUTRAL				
	Autodesk	ADSK	ADSK US	Michael J. Funk
	Bentley Systems	BSY	BSY US	Michael J. Funk
	BigCommerce Holdings, Inc.	BIGC	BIGC US	Koji Ikeda, CFA
	Coveo	YCVO	CVO CN	Koji Ikeda, CFA
	Datadog Inc	DDOG	DDOG US	Koji Ikeda, CFA

US - Enterprise Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	DocuSign	DOCU	DOCU US	Brad Sills
	Freshworks, Inc.	FRSH	FRSH US	Adam Bergere
	HashiCorp	HCP	HCP US	Brad Sills
	Jamf	JAMF	JAMF US	Koji Ikeda, CFA
	Lightspeed Commerce Inc.	LSPD	LSPD US	Koji Ikeda, CFA
	Lightspeed Commerce Inc.	YLSPD	LSPD CN	Koji Ikeda, CFA
	Oracle Corporation	ORCL	ORCL US	Brad Sills
	Paycom	PAYC	PAYC US	Adam Bergere
	Paylocity	PCTY	PCTY US	Adam Bergere
	Shopify, Inc.	SHOP	SHOP US	Brad Sills
	Snowflake	SNOW	SNOW US	Brad Sills
	Veeva Systems, Inc.	VEEV	VEEV US	Brad Sills
	Vertex, Inc.	VERX	VERX US	Brad Sills
	Zoom Video Communications	ZM	ZM US	Michael J. Funk

UNDERPERFORM

	AvidXchange, Inc.	AVDX	AVDX US	Brad Sills
	Blackbaud, Inc.	BLKB	BLKB US	Koji Ikeda, CFA
	BlackLine, Inc.	BL	BL US	Koji Ikeda, CFA
	C3.ai	AI	AI US	Brad Sills
	Confluent	CFLT	CFLT US	Brad Sills
	CS Disco, Inc.	LAW	LAW US	Koji Ikeda, CFA
	Dropbox	DBX	DBX US	Michael J. Funk
	Enfusion, Inc.	ENFN	ENFN US	Koji Ikeda, CFA
	Five9	FIVN	FIVN US	Michael J. Funk
	Guidewire Software, Inc.	GWRE	GWRE US	Michael J. Funk
	Smartsheet	SMAR	SMAR US	Michael J. Funk
	Twilio	TWLO	TWLO US	Michael J. Funk

RSTR

	Splunk	SPLK	SPLK US	Brad Sills
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iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities

Enterprise Value

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

iQmethodSM 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.

iQdatabase[®] is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

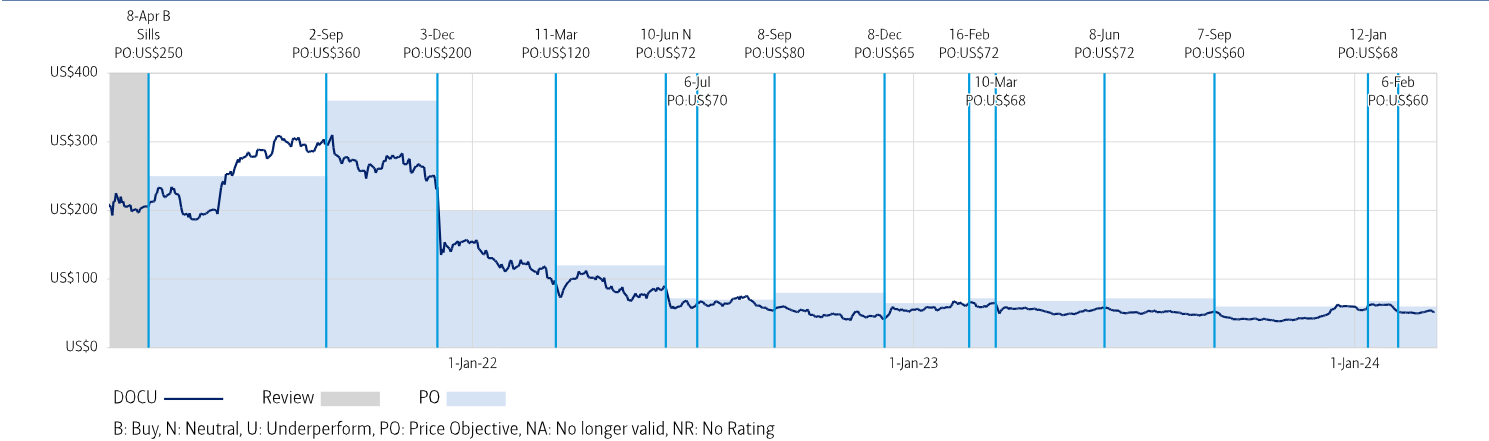
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Disclosures

Important Disclosures

DocuSign (DOCU) Price Chart



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 ^{R1}	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 ^{R1}	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%

^{R1} 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.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. VOLATILITY RISK RATINGS, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. INVESTMENT RATINGS reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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

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