

Nutanix Inc

Another quarter with many positives; PO to \$65

Reiterate Rating: BUY | PO: 65.00 USD | Price: 59.04 USD

F2Q saw a beat vs. guidance across all metrics

In F2Q24, management continued to execute well in a stable but uncertain macro environment, and reported metrics above its guidance, with strong ARR growth of 26% y/y, revenue growth of 16% y/y and ACV billings growth of 23% y/y. Our thesis is playing out and Nutanix has a growing pipeline of opportunities, some of which involve share gains from VMWare. However, the timing of those wins remain unpredictable as some VMWare customers have signed 3-5 year deals, so they have time to make a decision. NTNX saw strong operating leverage in F2Q given higher revenues, good cost management and lower OpEx from timing of hires. F2Q was also the first quarter for NTNX to report positive GAAP income, along with strong free cash flow. We continue to believe that Nutanix can march towards a rule of 40+ business over time. Reiterate Buy on higher growth and profitability and improving FCF.

FY24 guidance raised

NTNX raised F24 ACV billings guidance to \$1.09-1.11, which represents growth of 15% y/y at the mid-point. This compares to prior guidance of \$1.08-1.10. A higher mix of larger deals is causing some variability in the timing of its new and expansion business and leading to longer average sales cycle. F24 guidance assumes that the renewals business will continue to perform well. The full-year guidance continues to assume that average contract duration would be flat to slightly lower compared to fiscal year '23 as renewals continue to grow as a percent of total NTNX billings.

Other takeaways from the call

NTNX highlighted a seven-figure win with a global EMEA-based provider of automotive technology solutions. This new customer for NTNX had an existing three-tier footprint in need of a refresh, and was also looking to have the flexibility to potentially move some of their footprint to the public cloud in future. They chose the Nutanix Cloud Platform, including AHV hypervisor, as well as Nutanix Cloud Management. NTNX also continues to see early success with its partnership with Cisco and saw additional wins in F2Q.

Adjusting estimates; PO moves to \$65 (from \$55)

Our F24 revenue/EPS move to \$2.13bn/\$1.03, from \$2.12bn/\$0.89. Our PO moves to \$65 (from \$55) on 6x EV/our C25E sales estimate (prior 7x EV/our revised C24E sales estimate). We rollover to a C25E based valuation.

Estimates (Jul) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(0.46)	0.57	1.03	1.20	1.58
GAAP EPS	(3.62)	(1.14)	(0.29)	0.08	0.49
EPS Change (YoY)	68.9%	NM	80.7%	16.5%	31.7%
Consensus EPS (Bloomberg)			0.91	1.25	1.88
DPS	0	0	0	0	0
Valuation (Jul)					
P/E	NM	103.6x	57.3x	49.2x	37.4x
GAAP P/E	NM	NM	NM	738.0x	120.5x
EV / EBITDA*	NM	63.5x	40.6x	30.8x	22.8x
Free Cash Flow Yield*	0.1%	1.4%	3.0%	2.9%	4.1%

* For full definitions of *IQmethod*SM measures, see page 6.

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29 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	55.00	65.00
2024E Rev (m)	2,119.5	2,134.3
2025E Rev (m)	2,603.4	2,652.3
2026E Rev (m)	3,226.0	3,277.7
2024E EPS	0.89	1.03
2025E EPS	1.19	1.20
2026E EPS	1.59	1.58

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Stock Data

Price	59.04 USD
Price Objective	65.00 USD
Date Established	29-Feb-2024
Investment Opinion	C-1-9
52-Week Range	23.35 USD - 59.87 USD
Mkt Val (mn) / Shares Out (mn)	14,328 USD / 242.7
Free Float	99.6%
Average Daily Value (mn)	161.67 USD
BofA Ticker / Exchange	NTNX / NAS
Bloomberg / Reuters	NTNX US / NTNX.OQ
ROE (2024E)	NA
Net Dbt to Eqty (Jul-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".

iQprofileSM Nutanix Inc

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-5.7%	9.8%	16.6%	18.4%	20.6%
Return on Equity	NM	NM	NM	NM	542.9%
Operating Margin	-5.4%	8.1%	13.2%	14.3%	16.0%
Free Cash Flow	18	207	433	411	587

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	1.7x	1.7x	1.4x	1.4x
Asset Replacement Ratio	0.6x	0.9x	1.1x	1.1x	1.1x
Tax Rate	NM	10.6%	6.5%	11.0%	11.0%
Net Debt-to-Equity Ratio	NM	NM	NM	NM	-165.0%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Jul)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,581	1,863	2,134	2,652	3,278
% Change	13.4%	17.8%	14.6%	24.3%	23.6%
Gross Profit	1,312	1,574	1,829	2,238	2,726
% Change	14.3%	20.0%	16.2%	22.4%	21.8%
EBITDA	2	227	355	468	633
% Change	NM	NM	56.2%	31.8%	35.4%
Net Interest & Other Income	3	27	47	36	36
Net Income (Adjusted)	(101)	159	306	369	499
% Change	66.7%	NM	92.9%	20.5%	35.3%

Free Cash Flow Data (Jul)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(446)	(153)	(36)	25	155
Depreciation & Amortization	88	76	74	89	108
Change in Working Capital	65	64	126	52	101
Deferred Taxation Charge	0	0	0	0	0
Other Adjustments, Net	361	285	347	344	344
Capital Expenditure	(49)	(65)	(79)	(98)	(122)
Free Cash Flow	18	207	433	411	587
% Change	NM	NM	109.2%	-5.0%	42.6%
Share / Issue Repurchase	(59)	0	(59)	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	89	(146)	0	0	0

Balance Sheet Data (Jul)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	403	513	816	1,227	1,814
Trade Receivables	125	157	202	351	399
Other Current Assets	1,131	1,192	1,212	1,212	1,212
Property, Plant & Equipment	113	112	120	129	142
Other Non-Current Assets	594	553	534	534	534
Total Assets	2,366	2,527	2,884	3,454	4,101
Short-Term Debt	145	0	0	0	0
Other Current Liabilities	1,005	1,136	1,233	1,434	1,583
Long-Term Debt	1,156	1,218	1,250	1,250	1,250
Other Non-Current Liabilities	849	880	928	928	928
Total Liabilities	3,156	3,234	3,412	3,612	3,761
Total Equity	(790)	(707)	(527)	(158)	342
Total Equity & Liabilities	2,366	2,527	2,885	3,455	4,103

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

IT Hardware

Company Description

Nutanix is the largest name in the nascent HyperConverged infrastructure market with 35% share, and was the first company to gain widespread acceptance among large enterprises. While the company uses a channel-only strategy, a large proportion of lead generation is currently provided internally. Nutanix ships both an "appliance" and "software-only" models, and has functionality for all three major hypervisors VMware's vSphere, Microsoft's Hyper-V, and its own open source KVM "Acropolis".

Investment Rationale

Our Buy rating is based on improving fundamentals including ACV billings, revenue, operating margin and FCF growth, competitive strength in the HyperConverged storage market, brand recognition, systems being server agnostic, and ability to move data workloads across cloud platforms.

Stock Data

Average Daily Volume 2,738,369

Quarterly Earnings Estimates

	2023	2024
Q1	0.03A	0.29A
Q2	0.26A	0.46A
Q3	0.04A	0.15E
Q4	0.24A	0.13E

Abbreviations

ACV: Annual Contract Value

ARR: Annual Recurring Revenue

CTO: Chief Technology Officer

GM: Gross Margin

OM: Operating Margin



Model

Exhibit 1: NTN Income Statement

We forecast F24 rev/EPS of \$2.1bn/\$1.03.

	F2023A					F2024E					F2022A	F2023A	F2024E	F2025E	F2026E
(\$ in millions except per share data)	1Q23A	2Q23A	3Q23A	4Q23A	1Q24A	2Q24A	3Q24E	4Q24E							
Sales	433.6	486.5	448.6	494.2	511.1	565.2	515.8	542.2	1,580.8	1,862.9	2,134.3	2,652.3	3,277.7		
Product	208.6	250.5	212.5	240.5	246.9	299.7	230.9	242.2	757.6	912.1	1,019.6	1,190.9	1,475.4		
Support and Other services	225.0	236.0	236.1	253.7	264.1	265.6	285.0	300.0	823.2	950.8	1,114.6	1,461.4	1,802.3		
Cost of Sales	71.9	74.0	72.5	70.0	71.8	71.9	77.6	84.0	269.1	288.4	305.3	414.3	551.9		
Product	7.3	8.3	8.6	6.7	7.2	7.0	9.2	9.0	34.4	30.8	32.3	38.1	47.2		
Support and Other services	64.6	65.8	63.9	63.3	64.6	65.0	68.4	75.0	234.7	257.6	273.0	376.2	504.6		
Gross Profit	361.7	412.5	376.1	424.2	439.3	493.3	438.2	458.2	1,311.7	1,574.5	1,828.9	2,238.0	2,725.8		
Product	201.3	242.3	203.9	233.8	239.7	292.7	221.6	233.2	723.2	881.3	987.3	1,152.8	1,428.2		
Support and Other services	160.4	170.2	172.1	190.4	199.5	200.6	216.6	225.0	588.5	693.2	841.7	1,085.2	1,297.6		
R&D	109.0	106.0	115.8	114.2	113.6	119.9	123.8	132.8	427.6	445.0	490.1	583.5	655.4		
Sales & Marketing	211.4	206.7	211.9	210.0	213.8	216.1	239.9	254.8	861.2	840.0	924.6	1,108.6	1,342.2		
General & Administrative	30.7	30.2	41.4	36.4	32.4	33.5	33.0	34.7	108.7	138.7	133.6	167.1	203.2		
Operating Income	10.6	69.6	7.0	63.6	79.5	123.9	41.5	35.9	(85.8)	150.8	280.8	378.7	525.0		
Interest Expense and other, net	(2.3)	(5.9)	(9.0)	(9.6)	(10.2)	(18.6)	(9.0)	(9.0)	(2.9)	(26.8)	(46.8)	(36.0)	(36.0)		
Pretax Income	12.9	75.5	16.0	73.2	89.6	142.5	50.5	44.9	(83.0)	177.6	327.5	414.7	561.0		
Taxes	4.9	3.7	4.5	5.7	4.6	6.2	5.6	4.9	18.5	18.9	21.3	45.6	61.7		
Minority Interest	-	-	-	-	-	-	-	-	-	-	-	-	-		
Rate	38.3%	4.9%	28.1%	7.8%	11.0%	11.0%	11.0%	11.0%	-22.3%	10.6%	10.6%	11.0%	11.0%		
Non-GAAP Net income excluding FAS 123R	8.0	71.7	11.5	67.5	85.0	136.3	45.0	39.9	(101.4)	158.7	306.3	369.1	499.3		
Non GAAP EPS excl FAS123	\$0.03	\$0.26	\$0.04	\$0.24	\$0.29	\$0.46	\$0.15	\$0.13	(\$0.46)	\$0.57	\$1.03	\$1.20	\$1.58		
Non-GAAP Net income including FAS 123R	(73.0)	(13.6)	(61.4)	(5.1)	1.0	50.4	(41.0)	(46.0)	(444.7)	(153.0)	(35.6)	25.2	155.4		
GAAP Diluted EPS including FAS123	(\$0.43)	(\$0.31)	(\$0.35)	(\$0.06)	(\$0.07)	\$0.11	(\$0.17)	(\$0.19)	(\$3.62)	(\$1.14)	(\$0.29)	\$0.08	\$0.49		
Avg. Basic Shares (MM)	229	231	235	238	241	244	246	248	221	233	245	253	261		
Diluted Shares - NON GAAP EPS (MM)	275	279	282	286	293	299	301	303	221	281	299	308	316		
As % of Revenue															
Product revenue	48.1%	51.5%	47.4%	48.7%	48.3%	53.0%	44.8%	44.7%	47.9%	49.0%	47.8%	44.9%	45.0%		
Support revenue	51.9%	48.5%	52.6%	51.3%	51.7%	47.0%	55.2%	55.3%	52.1%	51.0%	52.2%	55.1%	55.0%		
Cost of Goods Sold	16.6%	15.2%	16.2%	14.2%	14.1%	12.7%	15.0%	15.5%	17.0%	15.5%	14.3%	15.6%	16.8%		
COGS Products	3.5%	3.3%	4.0%	2.8%	2.9%	2.3%	4.0%	3.7%	4.5%	3.4%	3.2%	3.2%	3.2%		
COGS Support & Other Services	28.7%	27.9%	27.1%	24.9%	24.5%	24.5%	24.0%	25.0%	28.5%	27.1%	24.5%	25.7%	28.0%		
Gross Profit	83.4%	84.8%	83.8%	85.8%	85.9%	87.3%	85.0%	84.5%	83.0%	84.5%	85.7%	84.4%	83.2%		
Gross Profit Products	96.5%	96.7%	96.0%	97.2%	97.1%	97.7%	96.0%	96.3%	95.5%	96.6%	96.8%	96.8%	96.8%		
Gross Profit Support & Other Services	71.3%	72.1%	72.9%	75.1%	75.5%	75.5%	76.0%	75.0%	71.5%	72.9%	75.5%	74.3%	72.0%		
R&D	25.1%	21.8%	25.8%	23.1%	22.2%	21.2%	24.0%	24.5%	27.0%	23.9%	23.0%	22.0%	20.0%		
Sales & Marketing	48.8%	42.5%	47.2%	42.5%	41.8%	38.2%	46.5%	47.0%	54.5%	45.1%	43.3%	41.8%	41.0%		
General & Administrative	7.1%	6.2%	9.2%	7.4%	6.3%	5.9%	6.4%	6.4%	6.9%	7.4%	6.3%	6.3%	6.2%		
Operating Earnings	2.4%	14.3%	1.6%	12.9%	15.6%	21.9%	8.1%	6.6%	-5.4%	8.1%	13.2%	14.3%	16.0%		
Interest & Other Expense	-0.5%	-1.2%	-2.0%	-1.9%	-2.0%	-3.3%	-1.7%	-1.7%	-0.2%	-1.4%	-2.2%	-1.4%	-1.1%		
Pretax Earnings	3.0%	15.5%	3.6%	14.8%	17.5%	25.2%	9.8%	8.3%	-5.2%	9.5%	15.3%	15.6%	17.1%		
Non-GAAP Net income excluding FAS 123R	1.8%	14.7%	2.6%	13.7%	16.6%	24.1%	8.7%	7.4%	-6.4%	8.5%	14.4%	13.9%	15.2%		
Year-Over-Year Growth															
Sales	15%	18%	11%	28%	18%	16%	15%	10%	13%	18%	15%	24%	24%		
Product revenue	16%	20%	6%	43%	18%	20%	9%	1%	7%	20%	12%	17%	24%		
Support revenue	13%	16%	16%	17%	17%	13%	21%	18%	20%	16%	17%	31%	23%		
Cost of Sales	6%	11%	8%	4%	0%	-3%	7%	20%	9%	7%	6%	36%	33%		
Gross Profit	16%	19%	12%	33%	21%	20%	17%	8%	14%	20%	16%	22%	22%		
R&D	3%	0%	9%	4%	4%	13%	7%	16%	6%	4%	10%	19%	12%		
Sales & Marketing	-4%	-4%	2%	-4%	1%	5%	13%	21%	-7%	-2%	10%	20%	21%		
General & Administrative	15%	12%	55%	27%	5%	11%	-20%	-5%	12%	28%	-4%	25%	22%		
Operating Earnings	-125%	-6721%	-229%	-270%	650%	78%	495%	-44%	-69%	-276%	86%	35%	39%		
Interest & Other Expense	-374%	-2951%	-2670%	126%	339%	217%	0%	-6%	-149%	841%	74%	-23%	0%		
Pretax Earnings	-130%	-6104%	-378%	-320%	594%	89%	216%	-39%	-71%	-314%	84%	27%	35%		
Non-GAAP Net income excluding FAS 123R	-117%	-1269%	-212%	-275%	967%	90%	291%	-41%	-67%	-256%	93%	21%	35%		
Non GAAP EPS excl FAS123	-113%	-1017%	-188%	-238%	903%	78%	267%	-44%	-69%	-223%	81%	17%	32%		
GAAP Diluted EPS including FAS123	-78%	-41%	-31%	-92%	-85%	-136%	-52%	233%	-28%	-69%	-75%	-129%	500%		
Diluted Shares - NON GAAP EPS (MM)	28%	28%	27%	27%	6%	7%	6%	6%	7%	27%	6%	3%	3%		

Source: Company reports, BofA Global Research estimates

BofA GLOBAL RESEARCH



Price objective basis & risk

Nutanix Inc (NTNX)

PO of \$65 is based on 6x EV/C25 sales estimate. This multiple is at the high end of the long-term range 2-6x. In our opinion the multiple above the high end of the range is appropriate given the better growth and profitability metrics that Nutanix is delivering partially offset by weaker macro and constrained enterprise spending.

Downside risks to our PO are a more protracted downturn in the economy, delayed recovery in the supply chain, delays in hiring sales reps, increased competition from established vendors like Dell/EMC, HP Enterprise and NetApp making headway into the HyperConverged market, increasing DRAM and NAND cost hurting gross margins, sales reorganization resulting in slower billings growth or customer acquisition rate, and disruption with key partners or IT distribution channel.

Upside risks are faster than expected recovery in the macroeconomy and Enterprise IT spending, faster than expected recovery in sales rep count and higher than expected productivity, and unexpected share gains.

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
BUY				
	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
NEUTRAL				
	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
UNDERPERFORM				
	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



US - IT Hardware and Technology Supply Chain Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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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.

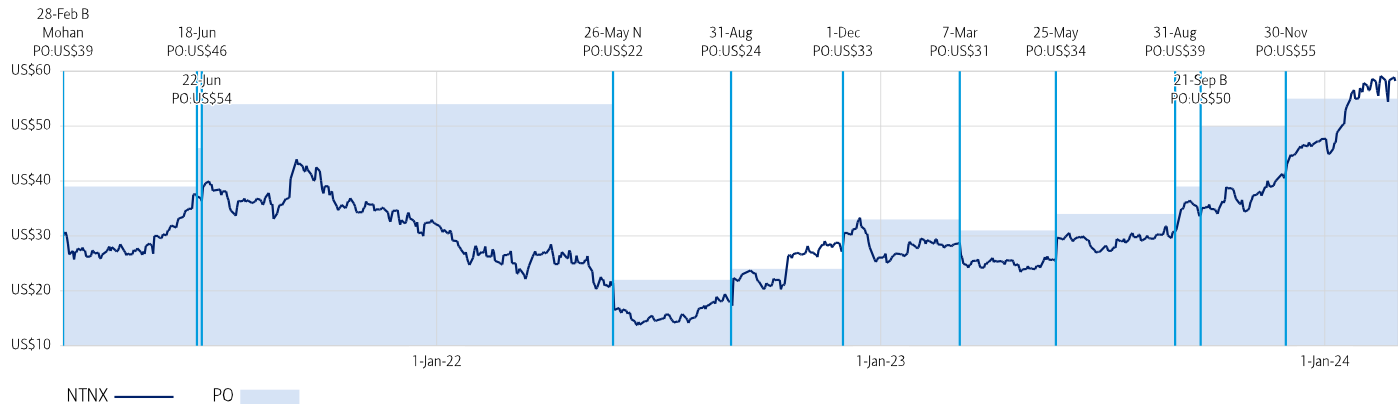
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Nutanix (NTNX) Price Chart



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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.

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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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