

Dollar General Corporation

Lower ests as 1H faces continued challenges; Underperform

Reiterate Rating: UNDERPERFORM | PO: 118.00 USD | Price: 150.06 USD

F4Q adj. EPS \$1.83 above Street; Comps +0.7%

F4Q adj. EPS of \$1.83 was in line with our \$1.82 est. and above the Street at \$1.73. Same-store sales increased +0.7% (vs. our est. of flat) incl. traffic of ~4% partially offset by a decline in ticket. GM declined (138bps) y/y to 29.5%, driven by higher shrink and markdowns, lower inventory markups, and unfavorable mix, partially offset by a decrease in LIFO and transportation costs. SG&A as a % of sales increased 189bps y/y to 23.6% driven by retail labor and other costs partially offset by lower incentive compensation.

Lower ests as 1H faces continued challenges

We lower our F24E EPS to \$7.15 (was \$7.60) due to a \$0.50 negative impact from higher incentive compensation expense and as we expect outsized pressure in 1H from the annualizing of retail labor investments (esp. in 1Q), promotions (which are expected to revert toward pre-pandemic levels), and elevated shrink. We expect y/y improvement in 2H as comparisons ease (vs. clearance markdowns LY) and as benefits build through the year from DG's Back to Basics initiatives.

Longer-term margin recovery timing remains uncertain

DG's operating margin faces continued pressure from mix and shrink challenges. While we expect mix to remain a headwind through 2024 as customers prioritize consumables, we expect some improvement in shrink levels in 2H and into 2025 from DG's Back to Basics initiatives. DG has increased employee presence at the front-end of stores, plans to reduce / eliminate self-checkout in several stores, and has started the process to rationalize 1,000 SKUs (stock keeping units), among other actions. We also expect underlying margin drivers (including DG Media Network, private label expansion, inventory optimization, etc.) to support profitability, but see retail labor and other store-level costs as continued risks.

Maintain Underperform on continued risks

We reiterate our Underperform and see continued risks to DG's long-term algorithm including: (1) reduced store growth/remodels & SKU rationalization pressuring sales; (2) continued discretionary spending pressure from customers; (3) potential for incremental labor costs and other investments; (4) increasing competitive pressures as WMT (Walmart) increases its convenience offerings; and (5) the need for incremental promotions and markdowns to move through inventory, among others. We raise our PO to \$118 (was \$100), 14-15x (up vs. 13x given rising peer & market multiples) our F26E (was F25E) EPS of \$8.00.

Estimates (Jan) (US\$)	2023A	2024A	2025E	2026E	2027E
EPS	10.68	7.55	7.15	8.00	8.70
EPS Change (YoY)	5.0%	-29.3%	-5.3%	11.9%	8.8%
Consensus EPS (Bloomberg)			7.43	8.39	NA
DPS	2.18	2.36	2.48	2.62	2.79
Valuation (Jan)					
P/E	14.1x	19.9x	21.0x	18.8x	17.2x
Dividend Yield	1.5%	1.6%	1.7%	1.7%	1.9%
EV / EBITDA*	12.6x	15.6x	15.8x	14.6x	13.8x
Free Cash Flow Yield*	-3.3%	1.5%	3.0%	3.2%	3.7%

* For full definitions of *iQmethod*SM measures, see page 5.

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14 March 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	100.00	118.00
2025E Rev (m)	40,302.9	40,843.3
2026E Rev (m)	42,377.2	43,101.0
2027E Rev (m)	44,496.1	45,256.1
2025E EPS	7.60	7.15
2026E EPS	8.30	8.00
2027E EPS	9.02	8.70
2025E DPS	2.40	2.48

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Stock Data

Price	150.06 USD
Price Objective	118.00 USD
Date Established	14-Mar-2024
Investment Opinion	B-3-7
52-Week Range	101.09 USD - 222.99 USD
Mkt Val (mn) / Shares Out (mn)	32,938 USD / 219.5
Free Float	99.7%
Average Daily Value (mn)	349.31 USD
BofA Ticker / Exchange	DG / NYS
Bloomberg / Reuters	DG US / DG.N
ROE (2025E)	20.1%
Net Dbt to Eqty (Jan-2024A)	95.8%
ESGMeter TM	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".

GM = Gross Margin

iQprofileSM Dollar General Corporation

iQmethodSM – Bus Performance*

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Return on Capital Employed	11.5%	7.6%	6.6%	6.8%	6.8%
Return on Equity	40.9%	27.0%	20.1%	17.5%	15.5%
Operating Margin	8.8%	6.3%	5.7%	6.0%	6.0%
Free Cash Flow	(1,095)	507	977	1,059	1,219

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Cash Realization Ratio	0.2x	1.3x	1.5x	1.4x	1.4x
Asset Replacement Ratio	2.2x	2.0x	1.5x	1.5x	1.5x
Tax Rate	22.5%	21.6%	23.0%	23.0%	22.5%
Net Debt-to-Equity Ratio	119.6%	95.8%	65.8%	47.9%	38.0%
Interest Cover	15.7x	7.5x	7.6x	8.3x	8.8x

Income Statement Data (Jan)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Sales	37,845	38,692	40,843	43,101	45,256
% Change	10.6%	2.2%	5.6%	5.5%	5.0%
Gross Profit	11,820	11,719	12,366	13,210	13,943
% Change	9.3%	-0.9%	5.5%	6.8%	5.5%
EBITDA	4,053	3,295	3,240	3,521	3,716
% Change	5.0%	-18.7%	-1.7%	8.7%	5.5%
Net Interest & Other Income	(212)	(327)	(308)	(308)	(308)
Net Income (Adjusted)	2,416	1,661	1,567	1,746	1,872
% Change	0.7%	-31.2%	-5.7%	11.4%	7.2%

Free Cash Flow Data (Jan)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Net Income from Cont Operations (GAAP)	2,416	1,661	1,567	1,746	1,872
Depreciation & Amortization	725	849	896	946	993
Change in Working Capital	(2,621)	(303)	(136)	(214)	(157)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	0	0	0	0	0
Capital Expenditure	(1,615)	(1,700)	(1,350)	(1,418)	(1,488)
Free Cash Flow	-1,095	507	977	1,059	1,219
% Change	NM	NM	92.7%	8.4%	15.1%
Share / Issue Repurchase	(3,630)	(972)	0	(135)	(450)
Cost of Dividends Paid	(494)	(518)	(544)	(571)	(600)
Change in Debt	2,837	(9)	(100)	(200)	(200)

Balance Sheet Data (Jan)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Cash & Equivalents	382	537	1,071	1,407	1,540
Trade Receivables	0	0	0	0	0
Other Current Assets	7,199	7,473	7,844	8,379	8,792
Property, Plant & Equipment	5,236	6,088	6,542	7,014	7,509
Other Non-Current Assets	16,266	16,697	17,585	18,544	19,579
Total Assets	29,083	30,796	33,041	35,343	37,421
Short-Term Debt	0	769	769	769	769
Other Current Liabilities	4,599	4,570	4,804	5,125	5,381
Long-Term Debt	7,009	6,232	6,132	5,932	5,732
Other Non-Current Liabilities	11,933	12,476	12,476	12,476	12,476
Total Liabilities	23,542	24,046	24,180	24,301	24,358
Total Equity	5,542	6,749	8,860	11,042	13,063
Total Equity & Liabilities	29,083	30,796	33,041	35,343	37,421

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Retailing-Broadline/General Merchandisers

Company Description

Dollar General is the largest dollar store chain in the United States by revenue and second largest by store count. The company generated roughly \$37.8bn in revenue in 2022 and currently operates more than 19,000 stores in 47 states offering an assortment of everyday items, including highly consumable merchandise, seasonal, home products and basic apparel.

Investment Rationale

We rate DG shares an Underperform as we expect P/E multiple compression in a decelerating comp environment. Wage pressures and traffic recovery also present risks to DG. However DG continues to make progress on several longer-term comp and profit-driving initiatives.

Stock Data

Average Daily Volume 2,327,821

Quarterly Earnings Estimates

	2024	2025
Q1	2.34A	1.55E
Q2	2.13A	1.82E
Q3	1.26A	1.60E
Q4	1.83A	2.19E

Exhibit 1: DG quarterly earnings analysis

\$ millions, except per share data

	Net Sales	Cost of Sales	Total SG&A & Rent	Op Profit	EBITDA	Interest Expense	Other, net	Pre-Tax Inc.	Inc. Tax	Net Inc. bef. Extra	Extra Gain (Loss)	Net Inc.	Op. EPS	Rep. EPS	Shs. Out (MM)
Apr-Q1	\$8,751.4	\$6,013.0	\$1,992.2	\$746.2	\$918.7	\$39.7	\$0.0	\$706.5	\$153.8	\$552.7	\$0.0	\$552.7	\$2.41	\$2.41	230
Jul-Q2	\$9,425.7	\$6,377.5	\$2,134.8	\$913.4	\$1,090.6	\$43.1	\$0.0	\$870.3	\$192.3	\$678.0	\$0.0	\$678.0	\$2.98	\$2.98	227
Oct-Q3	\$9,464.9	\$6,579.7	\$2,149.7	\$735.5	\$917.9	\$53.7	\$0.4	\$681.4	\$155.3	\$526.2	\$0.0	\$526.2	\$2.33	\$2.33	226
Jan-Q4	\$10,202.9	\$7,054.6	\$2,215.1	\$933.2	\$1,125.5	\$74.8	\$0.0	\$858.4	\$199.2	\$659.1	\$0.0	\$659.1	\$2.96	\$2.96	223
F2023	\$37,844.9	\$26,024.8	\$8,491.8	\$3,328.3	\$4,052.8	\$211.3	\$0.4	\$3,116.6	\$700.6	\$2,416.0	\$0.0	\$2,416.0	\$10.68	\$10.68	226
Apr-Q1	\$9,342.8	\$6,387.4	\$2,214.6	\$740.9	\$942.8	\$83.0	\$0.0	\$657.8	\$143.4	\$514.4	\$0.0	\$514.4	\$2.34	\$2.34	220
Jul-Q2	\$9,796.2	\$6,751.5	\$2,352.4	\$692.3	\$900.7	\$84.3	\$0.0	\$608.0	\$139.1	\$468.8	\$0.0	\$468.8	\$2.13	\$2.13	220
Oct-Q3	\$9,694.1	\$6,881.6	\$2,379.1	\$433.5	\$649.0	\$82.3	\$0.0	\$351.2	\$74.9	\$276.2	\$0.0	\$276.2	\$1.26	\$1.26	220
Jan-Q4	\$9,858.5	\$6,952.2	\$2,326.7	\$579.7	\$802.6	\$77.1	\$0.0	\$502.5	\$100.7	\$401.8	\$0.0	\$401.8	\$1.83	\$1.83	220
F2024	\$38,691.6	\$26,972.6	\$9,272.7	\$2,446.3	\$3,295.1	\$326.8	\$0.0	\$2,119.5	\$458.2	\$1,661.3	\$0.0	\$1,661.3	\$7.55	\$7.55	220
Apr-Q1E	\$9,866.2	\$6,926.1	\$2,420.6	\$519.6	\$716.9	\$77.1	\$0.0	\$442.4	\$101.8	\$340.7	\$0.0	\$340.7	\$1.55	\$1.55	220
Jul-Q2E	\$10,326.5	\$7,187.3	\$2,545.3	\$594.0	\$800.5	\$77.1	\$0.0	\$516.9	\$118.9	\$398.0	\$0.0	\$398.0	\$1.82	\$1.82	219
Oct-Q3E	\$10,298.0	\$7,208.6	\$2,558.4	\$531.0	\$736.9	\$77.1	\$0.0	\$453.8	\$104.4	\$349.5	\$0.0	\$349.5	\$1.60	\$1.60	219
Jan-Q4E	\$10,352.6	\$7,155.7	\$2,497.5	\$699.4	\$906.5	\$77.1	\$0.0	\$622.3	\$143.1	\$479.2	\$0.0	\$479.2	\$2.19	\$2.19	219
F2025E	\$40,843.3	\$28,477.7	\$10,021.7	\$2,343.9	\$3,160.8	\$308.5	\$0.0	\$2,035.5	\$468.2	\$1,567.3	\$0.0	\$1,567.3	\$7.15	\$7.15	219
F2026E	\$43,101.0	\$29,890.6	\$10,635.1	\$2,575.4	\$3,437.4	\$308.5	\$0.0	\$2,266.9	\$521.4	\$1,745.5	\$0.0	\$1,745.5	\$8.00	\$8.00	218
PERCENTAGE CHANGE %								MARGIN ANALYSIS (% OF NET SALES)							
	Same-Store Sales	Sales	Total SG&A Expense	Op Profit	Pre-Tax Inc	Net Inc	Op EPS		Gross Margin	Exp Ratio	EBITDA Margin	Op. Margin	Net, Interest & Other	Tax Rate	Net Margin
Apr-Q1	-0.1%	4.2%	7.9%	-17.9%	-18.7%	-18.5%	-14.7%		31.29%	22.76%	10.50%	8.53%	0.5%	21.8%	6.3%
Jul-Q2	4.6%	9.0%	13.1%	7.5%	7.4%	6.4%	10.8%		32.34%	22.65%	11.57%	9.69%	0.5%	22.1%	7.2%
Oct-Q3	6.8%	11.1%	10.0%	10.5%	8.8%	8.0%	12.0%		30.48%	22.71%	9.70%	7.77%	0.6%	22.8%	5.6%
Jan-Q4	5.7%	17.9%	16.4%	17.1%	13.2%	10.3%	15.2%		30.86%	21.71%	11.03%	9.15%	0.7%	23.2%	6.5%
F2023	4.3%	10.6%	11.8%	3.3%	1.7%	0.7%	4.9%		31.23%	22.44%	10.71%	8.79%	0.6%	22.5%	6.4%
Apr-Q1	1.6%	6.8%	11.2%	-0.7%	-6.9%	-6.9%	-2.9%		31.63%	23.70%	10.09%	7.93%	0.9%	21.8%	5.5%
Jul-Q2	-0.1%	3.9%	10.2%	-24.2%	-30.1%	-30.9%	-28.5%		31.08%	24.01%	9.19%	7.07%	0.9%	22.9%	4.8%
Oct-Q3	-1.3%	2.4%	10.7%	-41.1%	-48.5%	-47.5%	-46.1%		29.01%	24.54%	6.69%	4.47%	0.8%	21.3%	2.8%
Jan-Q4	0.7%	-3.4%	5.0%	-37.9%	-41.5%	-39.0%	-38.3%		29.48%	23.60%	8.14%	5.88%	0.8%	20.0%	4.1%
F2024	0.2%	2.2%	9.2%	-26.5%	-32.0%	-31.2%	-29.3%		30.29%	23.97%	8.52%	6.32%	0.8%	21.6%	4.3%
Apr-Q1E	2.0%	5.6%	9.3%	-29.9%	-32.7%	-33.8%	-33.7%		29.80%	24.53%	7.27%	5.27%	0.8%	23.0%	3.5%
Jul-Q2E	2.0%	5.4%	8.2%	-14.2%	-15.0%	-15.1%	-14.7%		30.40%	24.65%	7.75%	5.75%	0.7%	23.0%	3.9%
Oct-Q3E	3.0%	6.2%	7.5%	22.5%	29.2%	26.5%	27.0%		30.00%	24.84%	7.16%	5.16%	0.7%	23.0%	3.4%
Jan-Q4E	2.0%	5.0%	7.3%	20.7%	23.8%	19.3%	19.8%		30.88%	24.12%	8.76%	6.76%	0.7%	23.0%	4.6%
F2025E	2.3%	5.6%	8.1%	-4.2%	-4.0%	-5.7%	-5.3%		30.28%	24.54%	7.74%	5.74%	0.8%	23.0%	3.8%
F2026E	2.5%	5.5%	6.1%	9.9%	11.4%	11.4%	11.9%		30.65%	24.67%	7.98%	5.98%	0.7%	23.0%	4.0%

Source: Company reports, BofA Global Research estimates

BofA GLOBAL RESEARCH



Price objective basis & risk

Dollar General Corporation (DG)

Our \$118 price objective is based on 14-15x our F2026E EPS estimate of \$8.00. Our PO assumes that DG stock trades at the middle of its historical 11x-18x P/E range. We believe this valuation is justified given potential benefits from strategic investments and initiatives offset by lower traffic vs. peers, and continued profitability pressures.

Upside risks to our PO are a consumer-led recession driving accelerated trade down to the dollar store space, food inflation driving higher-than-expected comparable sales, success of international expansion and accelerated store growth as a result.

Downside risks to our PO are increased price competition given the highly competitive food retail industry, pressures from a macroeconomic slowdown or lower consumer confidence, SNAP benefit cuts, and volatility in food product costs or gas prices.

Analyst Certification

I, Robert F. Ohmes, CFA, 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 - Broadlines, Hardlines, Food Retailers & Leisure Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Academy Sports + Outdoors	ASO	ASO US	Robert F. Ohmes, CFA
	Arhaus, Inc	ARHS	ARHS US	Robert F. Ohmes, CFA
	BJ's Wholesale Club Holdings	BJ	BJ US	Robert F. Ohmes, CFA
	Costco Wholesale Corporation	COST	COST US	Robert F. Ohmes, CFA
	Grocery Outlet Holding Corp.	GO	GO US	Robert F. Ohmes, CFA
	Harley-Davidson	HOG	HOG US	Alexander Perry
	Life Time	LTH	LTH US	Alexander Perry
	Mattel	MAT	MAT US	Alexander Perry
	Mister Car Wash	MCW	MCW US	Robert F. Ohmes, CFA
	O'Reilly Automotive, Inc.	ORLY	ORLY US	Robert F. Ohmes, CFA
	Planet Fitness, Inc.	PLNT	PLNT US	Alexander Perry
	Sprouts Farmers Market, Inc.	SFM	SFM US	Robert F. Ohmes, CFA
	Sysco Corporation	SY	SY US	Kendall Toscano
	Target Corp.	TGT	TGT US	Robert F. Ohmes, CFA
	The Kroger Co.	KR	KR US	Robert F. Ohmes, CFA
	Topgolf Callaway Brands Corp	MODG	MODG US	Alexander Perry
	Upbound Group Inc.	UPBD	UPBD US	Vicky Liu
	Walmart Inc	WMT	WMT US	Robert F. Ohmes, CFA
NEUTRAL				
	Dick's Sporting Goods	DKS	DKS US	Robert F. Ohmes, CFA
	Fox Factory Holding Corp	FOXF	FOXF US	Alexander Perry
	Hasbro	HAS	HAS US	Alexander Perry
	Williams-Sonoma	WSM	WSM US	Robert F. Ohmes, CFA
	Xponential Fitness	XPOF	XPOF US	Alexander Perry
	YETI Holdings, Inc.	YETI	YETI US	Robert F. Ohmes, CFA
UNDERPERFORM				
	Advance Auto Parts, Inc.	AAP	AAP US	Robert F. Ohmes, CFA
	Canada Goose Holdings Inc	YGOOS	GOOS CN	Alexander Perry
	Canada Goose Holdings Inc	GOOS	GOOS US	Alexander Perry
	Columbia Sportswear	COLM	COLM US	Alexander Perry
	Dollar General Corporation	DG	DG US	Robert F. Ohmes, CFA
	Dollar Tree, Inc.	DLTR	DLTR US	Robert F. Ohmes, CFA
	Hibbett Sports, Inc.	HIBB	HIBB US	Alexander Perry
	National Vision	EYE	EYE US	Robert F. Ohmes, CFA
	Tractor Supply Company	TSCO	TSCO US	Robert F. Ohmes, CFA

US - Broadlines, Hardlines, Food Retailers & Leisure 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.

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.

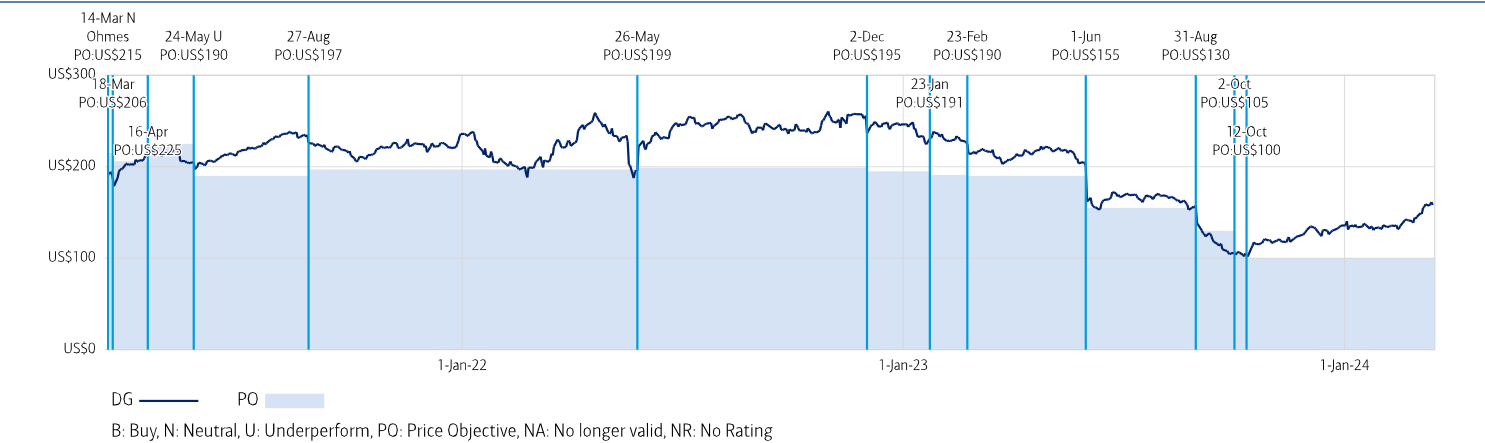
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Disclosures

Important Disclosures

Dollar General (DG) 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: Retailing Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

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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