

Sysco Corporation

Industry softness continues in F2Q, but long-term initiatives position SYY well

Reiterate Rating: BUY | PO: 80.00 USD | Price: 74.90 USD

December restaurant spend accelerates vs. November ...

BAC aggregated credit & debit card data showed spending at total restaurants (which is highly correlated with SYY case volume trends, Exhibit 6) grew +3.6% y/y in December, up +140bp vs. November (Exhibit 3). This was driven by an acceleration in spending for independent/local restaurants (+210bp to +4.6% in December) while chains slowed vs. November (-60bp to +1.0%, Exhibit 4). Please see [BofA on USA](#) for more on broader retail trends as well as methodology, disclaimers and limitations regarding BAC data.

... but F2Q industry trends still soft overall

For SYY's F2Q (Oct.-Dec.), restaurant spend slowed -140bp vs. F1Q compared to our (slightly below Street) case volume forecast of +2.0% implying a modest acceleration (see Exhibit 5 + Exhibit 8 for more on BofA vs. Street). Restaurant spending minus CPI trends imply that restaurant industry volume/traffic remained negative in F2Q but improved into Dec. (Exhibit 9 & Exhibit 10). We think a stronger F2Q exit rate supports SYY's F3Q outlook & moderating CPI trends bode well for the LT health of the industry.

Exhibit 1: Total restaurants vs. independents & chains, BAC aggregated card data (y/y % chg.)

Y/y restaurant spending accelerated in Dec. led by local/independents while chains slowed

	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
Total	7%	5%	5%	8%	12%	6%	6%	4%	2%	5%	4%	2%	3%	-1%	2%	4%
Local	6%	3%	2%	6%	10%	6%	5%	3%	2%	5%	3%	2%	3%	0%	2%	5%
Chain	11%	12%	11%	13%	16%	8%	8%	5%	3%	5%	4%	3%	3%	-2%	2%	1%

Source: BAC internal data

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See support for continued margin expansion for SYY

We reaffirm our Buy rating given our outlook for continued market share gains supported by SYY's scale and strategic reinvestments (including in customer-facing and supply chain initiatives). We see a compelling trajectory for margin expansion as SYY focuses on improving productivity and supply chain efficiency, with further support from centralized pricing, sourcing initiatives, private label, and higher-margin specialty. Moreover, we see improving momentum in SYY's local/independent customer business, which is higher margin vs. chains – see our [Key Takeaways from ICR](#) for more.

Estimates (Jun) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	3.25	4.01	4.33	4.75	5.23
GAAP EPS	2.64	3.47	4.25	4.75	5.23
EPS Change (YoY)	125.7%	23.4%	8.0%	9.7%	10.1%
Consensus EPS (Bloomberg)			4.32	4.74	5.15
DPS	1.87	1.95	2.05	2.15	2.25
Valuation (Jun)					
P/E	23.0x	18.7x	17.3x	15.8x	14.3x
GAAP P/E	28.4x	21.6x	17.6x	15.8x	14.3x
Dividend Yield	2.5%	2.6%	2.7%	2.9%	3.0%
EV / EBITDA*	14.0x	12.1x	11.0x	10.1x	9.4x
Free Cash Flow Yield*	3.3%	5.4%	5.5%	5.8%	6.2%

* For full definitions of *IQmethod*SM measures, see page 8.

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Equity

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Stock Data

Price	74.90 USD
Price Objective	80.00 USD
Date Established	31-Oct-2023
Investment Opinion	B-1-7
52-Week Range	62.24 USD - 82.38 USD
Mrkt Val (mn) / Shares Out (mn)	37,766 USD / 504.2
Free Float	98.8%
Average Daily Value (mn)	232.38 USD
BofA Ticker / Exchange	SYY / NYS
Bloomberg / Reuters	SYY US / SYY.N
ROE (2024E)	84.6%
Net Dbt to Eqty (Jun-2023A)	473.4%
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".

Key terms:

LT = long term

CPI = Consumer Price Index

iQprofileSM Sysco Corporation

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	12.6%	16.1%	17.3%	17.5%	17.4%
Return on Equity	114.0%	120.6%	84.6%	62.4%	50.0%
Operating Margin	3.5%	4.0%	4.3%	4.6%	4.7%
Free Cash Flow	1,240	2,052	2,072	2,192	2,345

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.1x	1.4x	1.3x	1.3x	1.3x
Asset Replacement Ratio	0.8x	1.0x	1.0x	1.1x	1.2x
Tax Rate	24.9%	24.5%	24.8%	24.5%	24.3%
Net Debt-to-Equity Ratio	NM	473.4%	270.4%	167.3%	105.3%
Interest Cover	5.0x	5.4x	5.7x	6.1x	6.6x

Income Statement Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	68,636	76,325	79,515	82,695	85,672
% Change	33.8%	11.2%	4.2%	4.0%	3.6%
Gross Profit	12,394	13,952	14,653	15,299	15,935
% Change	32.5%	12.6%	5.0%	4.4%	4.2%
EBITDA	3,327	3,847	4,259	4,632	4,970
% Change	54.4%	15.6%	10.7%	8.8%	7.3%
Net Interest & Other Income	(479)	(561)	(608)	(613)	(618)
Net Income (Adjusted)	1,673	2,044	2,185	2,378	2,600
% Change	126.0%	22.2%	6.9%	8.8%	9.3%

Free Cash Flow Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,452	1,870	2,134	2,378	2,600
Depreciation & Amortization	773	776	820	870	918
Change in Working Capital	(573)	25	(105)	(63)	(59)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	221	174	51	0	0
Capital Expenditure	(633)	(793)	(828)	(992)	(1,114)
Free Cash Flow	1,240	2,052	2,072	2,192	2,345
% Change	16.1%	65.5%	1.0%	5.8%	7.0%
Share / Issue Repurchase	(885)	(422)	1	1	1
Cost of Dividends Paid	(959)	(996)	(1,037)	(1,079)	(1,120)
Change in Debt	(436)	(237)	0	0	0

Balance Sheet Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	867	745	1,782	2,896	4,122
Trade Receivables	4,839	5,092	5,367	5,582	5,783
Other Current Assets	5,155	5,192	5,446	5,646	5,834
Property, Plant & Equipment	4,456	4,915	4,923	5,045	5,241
Other Non-Current Assets	6,768	6,877	6,877	6,877	6,877
Total Assets	22,086	22,821	24,394	26,046	27,857
Short-Term Debt	581	63	63	63	63
Other Current Liabilities	8,064	8,379	8,803	9,155	9,484
Long-Term Debt	10,067	10,348	10,348	10,348	10,348
Other Non-Current Liabilities	1,960	1,990	1,990	1,990	1,990
Total Liabilities	20,671	20,779	21,203	21,555	21,885
Total Equity	1,414	2,042	3,191	4,491	5,972
Total Equity & Liabilities	22,086	22,821	24,394	26,046	27,857

* For full definitions of iQmethodSM measures, see page 8.

Company Sector

Retailing-Wholesale & Logistics

Company Description

Sysco is the largest North American foodservice distributor with roughly \$69bn in sales in F22 and an estimated 17% market share in the US. SY Y distributes food and non-food items to more than 700,000 customers globally, including restaurants, healthcare facilities, hotels, educational facilities, and retail locations. Roughly 80% of SY Y's revenues were generated from its US operations in F22, and restaurants make up roughly 2/3 of total company sales.

Investment Rationale

Our Buy rating is based on our view that SY Y deserves a premium valuation to peers given its scale advantages, industry-leading margins, lower leverage and higher dividend yield (SY Y is a dividend aristocrat). This also reflects our outlook for continued market share gains and margin recovery opportunity for SY Y both near and long-term.

Stock Data

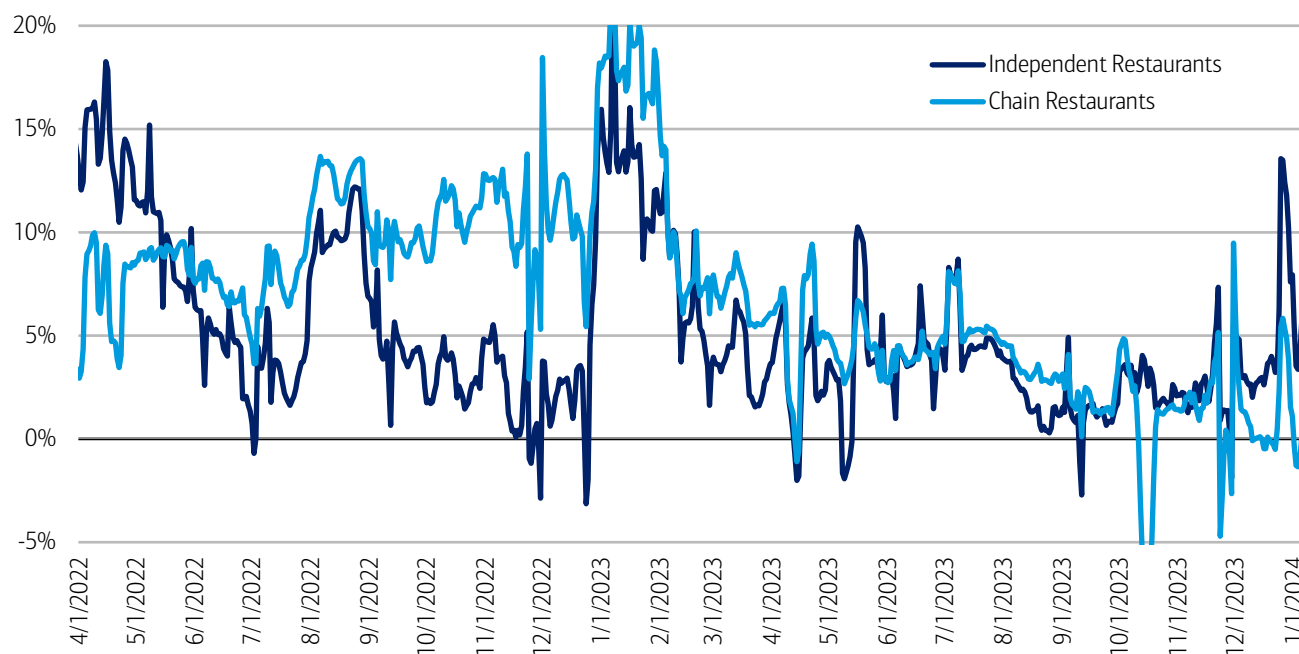
Average Daily Volume 3,102,494

Quarterly Earnings Estimates

	2023	2024
Q1	0.97A	1.07A
Q2	0.80A	0.87E
Q3	0.90A	0.97E
Q4	1.34A	1.41E

Exhibit 2: Independent vs. Chain Restaurant spend, BAC aggregated credit and debit card data (daily y/y of the 7-day mvg. avg. of spend levels)

Spending growth at independent/local restaurants outperformed chain restaurants in December

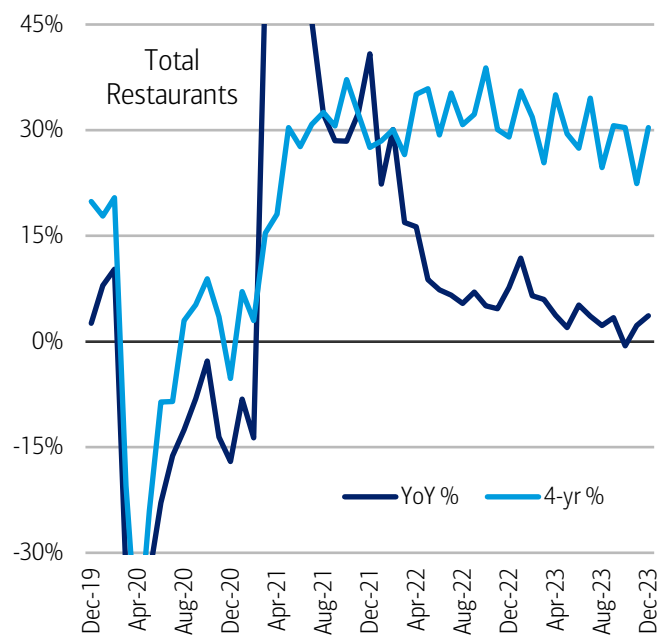


Source: BAC internal data

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Exhibit 3: Total restaurants monthly spending, BAC aggregated credit & debit card data (y/y & 4-yr % change)

Total restaurant spending in Dec. accelerated on both a YoY basis (to +3.6% vs. November +2.3%) and 4-year basis (+30.4% vs. Nov. +22.4%)

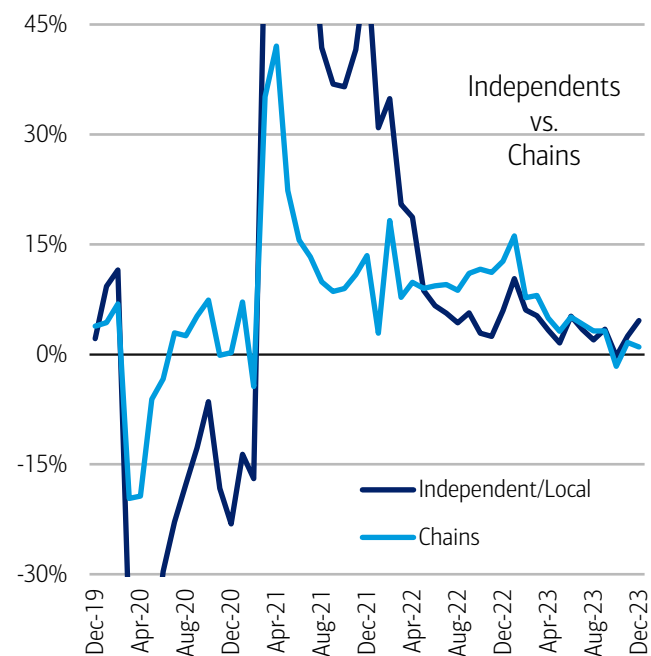


Source: BAC internal data

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Exhibit 4: Independent vs. Chain Restaurants monthly y/y spending, BAC aggregated credit & debit card data

YoY spending accelerated in Dec. for independent/local restaurants (to +4.6% vs. Nov. +2.5%) while chains slowed (-60bp to +1.0%)



Source: BAC internal data

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Exhibit 5: SY Y Case Volume Growth vs. quarterly BAC aggregated credit and debit card data for restaurant spending (weighted by month), y/y % chg.

For F2Q, we are modeling a +40bp acceleration in total case volume trends for SY Y (compared to a -140bp deceleration in total restaurant spending from F1Q to F2Q), with a +90bp acceleration in local case volume growth (compared to a -70bp deceleration we have seen in local/independent restaurant spending)

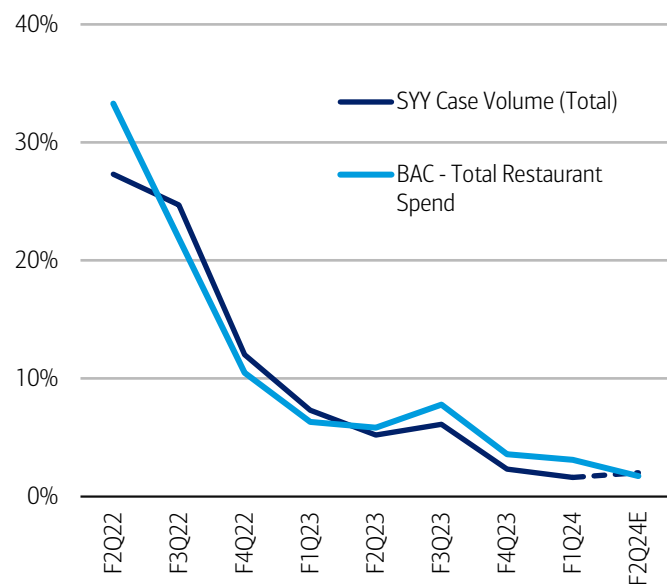
SY Y fiscal Q ending	F1Q21	F2Q21	F3Q21	F4Q21	F1Q22	F2Q22	F3Q22	F4Q22	F1Q23	F2Q23	F3Q23	F4Q23	F1Q24	F2Q24E
	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
SY Y Total Case Volume	-26.0%	-24.2%	-14.7%	57.8%	30.5%	27.3%	24.7%	12.0%	7.3%	5.2%	6.1%	2.3%	1.6%	2.0% (e)
BAC Total Restaurants	-12.4%	-10.9%	4.7%	68.4%	35.3%	33.3%	21.9%	10.5%	6.3%	5.8%	7.8%	3.6%	3.1%	1.7%
SY Y Local Case Volume	-21.5%	-19.9%	-10.4%	58.0%	26.7%	23.9%	22.3%	8.7%	5.4%	3.2%	4.2%	0.8%	-0.1%	0.8% (e)
BAC Local Restaurants	-17.8%	-15.6%	1.7%	90.5%	46.0%	42.8%	27.0%	10.8%	5.2%	3.8%	6.9%	3.3%	2.9%	2.3%

Source: Company filings, BofA Global Research estimates, BAC internal data

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Exhibit 6: SY Y Total Case Volume Growth vs. quarterly BAC aggregated credit and debt card data for spending at Restaurants (weighted by month)

SY Y total case volume growth is 95% correlated with BAC card spending at total restaurants

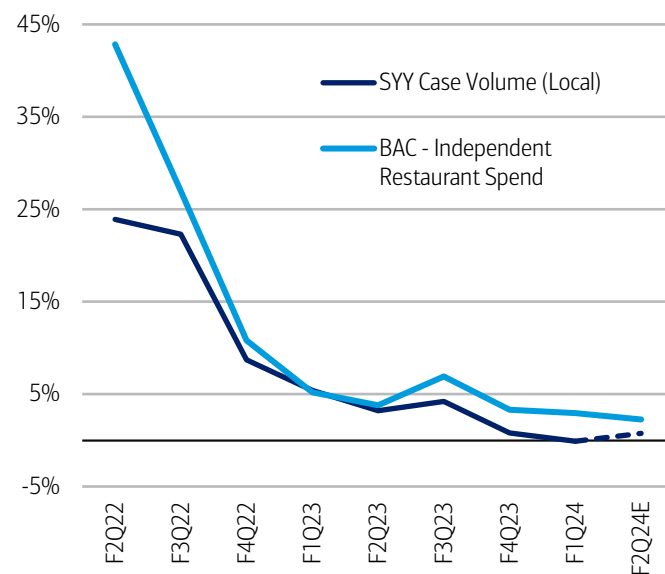


Source: Company filings, BofA Global Research estimates, BAC internal data. Quarterly values are weighted according to each month as a % of the 3-month total

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Exhibit 7: SY Y Local Case Volume Growth vs. quarterly BAC aggregated credit and debt card data for spending at Independent/Local Restaurants (weighted by month)

SY Y local case volume growth is 98% correlated with BAC card spending at independent/local restaurants



Source: Company filings, BofA Global Research estimates, BAC internal data. Quarterly values are weighted according to each month as a % of the 3-month total

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Exhibit 8: SY Y F1Q24 BofA vs. Visible Alpha Consensus Forecasts (\$mns, except per share data)

We are modeling F2Q adj. EPS of \$0.87, which is in line with Visible Alpha consensus

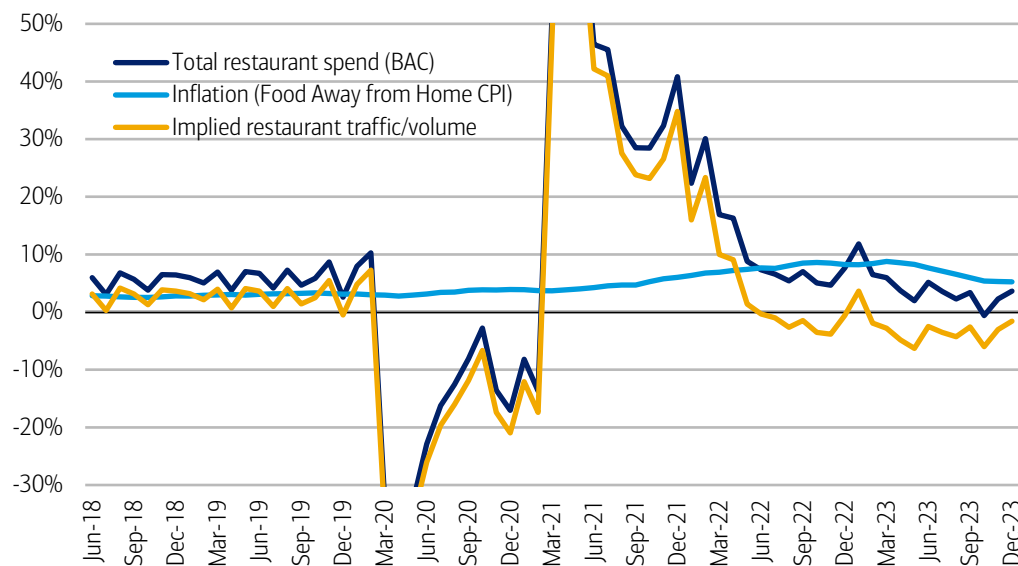
	F2Q23 (actual)	F2Q24 (BofA est.)	y/y % change (BofA est.)	F2Q24 (Consensus est.)	BofA est. difference vs. Consensus
Total Sales	\$18,594	\$19,319	3.9%	\$19,342	-0.1%
US Total Case Volume Growth	5.2%	2.0%	-320 bp	2.2%	-21 bps
US Local Case Volume Growth	3.2%	0.8%	-245 bp	0.4%	33 bps
Operating Profit	\$682	\$738	8.2%	\$736	0.2%
Adj. EPS	\$0.80	\$0.87	9.2%	\$0.87	0.2%
Gross Margin	18.0%	18.1%	7 bp	18.2%	-12 bps
SG&A Ratio	14.3%	14.3%	-9 bp	14.4%	-10 bps
Operating Margin	3.7%	3.8%	15 bp	3.8%	1 bps

Source: Visible Alpha, BofA Global Research estimates

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Exhibit 9: Implied restaurant industry volume/traffic: BAC aggregated credit and debit card data for spending at restaurants minus Food Away from Home CPI

BAC credit and debit card data for spending at restaurants minus Food Away from Home CPI trends imply that restaurant industry volume/traffic remained negative in December (-1.6% y/y) but improved vs. November (-3.0%)

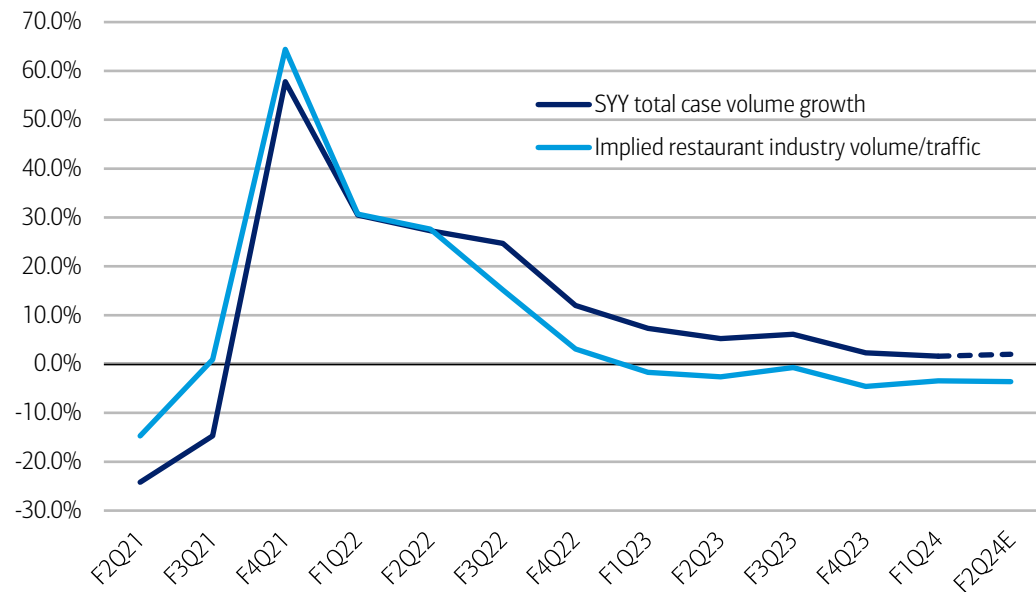


Source: BAC internal data, Bureau of Labor Statistics, BofA Global Research

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Exhibit 10: SY Y total case volume vs. implied restaurant industry volume/traffic (BAC aggregated credit and debit card data for spending at restaurants minus Food Away From Home CPI), quarterly

Total case volume growth for SY Y continues to run above implied restaurant industry volume/traffic (based on BAC credit and debit card data for spending at restaurants minus Food Away from Home CPI trends)



Source: BAC internal data, Bureau of Labor Statistics, BofA Global Research

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Price objective basis & risk

Sysco Corporation (SYN)

Our \$80 price objective is based on roughly 17x our F25 adjusted EPS estimate of \$4.75. This is in line with SYN's average two-year forward P/E of 17x over the last five years, and below its five-year high of 23x. It represents a premium to key foodservice distributor peers, which we believe is warranted given SYN's scale advantages, market share gains, higher margins, productivity improvements/supply chain transformation, lower leverage & higher dividend yield (SYN is a dividend aristocrat).

Downside risks are: 1) a highly competitive foodservice distribution industry with low switching costs, 2) risks associated with a macroeconomic slowdown or lower consumer confidence that could negatively affect food away from home consumption, 3) sales headwinds from product cost deflation or margin pressures from product cost inflation, 4) potential pressures on profitability from high fuel costs, and 5) inability to achieve productivity improvements, which could pressure operating margins.

Analyst Certification

I, Kendall Toscano, 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
	BJ's Wholesale Club Holdings	BJ	BJ US	Robert F. Ohmes, CFA
	Costco Wholesale Corporation	COST	COST US	Robert F. Ohmes, CFA
	Fox Factory Holding Corp	FOXF	FOXF US	Alexander Perry
	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
	Planet Fitness, Inc.	PLNT	PLNT US	Alexander Perry
	Sysco Corporation	SYN	SYN 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
	Walmart Inc	WMT	WMT US	Robert F. Ohmes, CFA
NEUTRAL				
	Dick's Sporting Goods	DKS	DKS US	Robert F. Ohmes, CFA
	Xponential Fitness	XPOF	XPOF US	Alexander Perry
	YETI Holdings, Inc.	YETI	YETI US	Robert F. Ohmes, CFA
UNDERPERFORM				
	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
	Sprouts Farmers Market, Inc.	SFM	SFM US	Robert F. Ohmes, CFA



iQmethodSM 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

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.

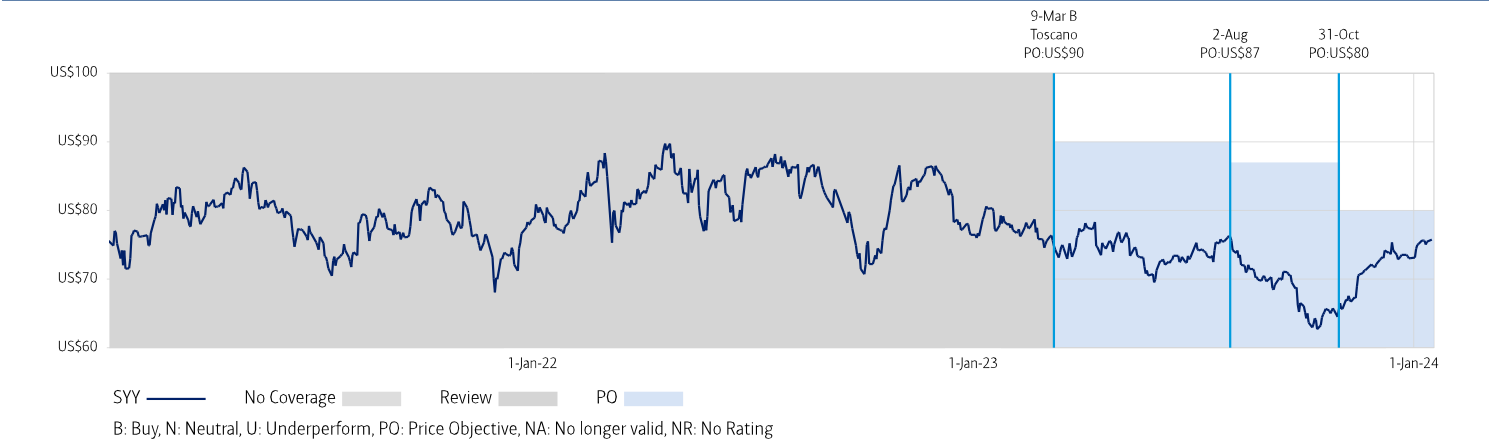
iQdatabase[®] is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

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Disclosures

Important Disclosures

Sysco (SYY) 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.

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%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. Coverage Cluster is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

Price Charts for the securities referenced in this research report are available on the [Price Charts website](#), or call 1-800-MERRILL to have them mailed.

BofAS or one of its affiliates acts as a market maker for the equity securities recommended in the report: Sysco.

BofAS or an affiliate was a manager of a public offering of securities of this issuer within the last 12 months: Sysco Corporation.

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