

Datadog Inc

Good 4Q results, but 2024 guide a bit below Street; Reiterate Neutral, \$144 PO

Reiterate Rating: NEUTRAL | PO: 144.00 USD | Price: 131.68 USD

Conservative guide, sets up beat-and-raise scenario

Reiterate Neutral and \$144 PO, as the 4Q23 results were good (i.e., beat) but the initial 2024 revenue guidance is below the Street. While the guidance appears conservative given the healthy sales execution in 4Q23, we believe the debate now moves to how much potential upside there could be in 2024 (see exhibit 1). Nonetheless, the guidance appears conservative, especially given the healthy 4Q23 net-new revenue added, accelerating billings growth, and sales execution commentary. This creates an attractive beat-and-raise setup, in our view. However, with DDOG trading at 17x EV/C24E revenue, or 0.7x EV/revs/growth, vs 8x/0.7x peers, we see a balanced risk/reward until a visible path to 30%+ revenue growth is established. Update forecast for 4Q results and guide. See Exhibit 3 for summary of estimate revisions.

Large deal activity strong, RPO growth impressive

Commentary on deal activity was good, with the highlight being a nine-figure deal (three-year extension) at a global fintech company, featuring 15 products and vendor consolidation. Additional commentary on six, seven, and eight figure deals suggests Datadog is a disruptive consolidator. Also, RPO growth accelerated to 74% y/y (from 54% last quarter) and billings growth accelerated to +35% (from +30%), suggesting good sales execution. Further sales capacity investments to fuel growth are anticipated.

Positives: 4Q net-new revs suggests rev upside potential

1) Net-new revenue of \$42.1mn (+28% y/y) was the most added since 2Q22; 2) PF operating margin expanded 11pts y/y to 28.2%, although guidance implies op margins to compress a bit in 2024 as the company invests for growth; 3) generated \$201mn in FCF (34% margin) above our/Street at \$46mn/\$132mn; 4) now has 6k+ customers using one or more security products, suggesting good adoption ramp; and 5) average ARR per customer grew 5% y/y (5% q/q) to \$87k, the best sequential growth since 2Q22.

Negatives: NRR slides again, but could be stabilizing

1) NRR declined sequentially to mid-110%, the third straight sequential decline; 2) added 60 net-new \$100k+ customers (total 3,190), the lowest net-adds since 2Q20, and \$1mn+ customers grew 25% y/y to 396, slower than the 47% growth in 4Q22; and 3) North America revenue grew 21% y/y to \$406mn, decelerating from 22% growth last quarter; and 4) total customers grew 18% y/y to 27.3k, a deceleration from 22% last qtr.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.98	1.65	1.40	1.72	2.11
GAAP EPS	(0.15)	0.14	0.22	0.29	0.39
EPS Change (YoY)	100.0%	68.4%	-15.2%	22.9%	22.7%
Consensus EPS (Bloomberg)			1.83	2.27	3.27
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	134.4x	79.8x	94.1x	76.6x	62.4x
GAAP P/E	NM	940.6x	598.5x	454.1x	337.6x
EV / EBITDA*	105.5x	66.9x	57.7x	45.8x	36.7x
Free Cash Flow Yield*	1.0%	1.6%	1.8%	2.4%	3.0%

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

13 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	2,605.3	2,563.0
2025E Rev (m)	3,315.0	3,203.5
2026E Rev (m)	NA	3,932.4
2024E EPS	1.82	1.40
2025E EPS	2.29	1.72
2026E EPS	NA	2.11

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Stock Data

Price	131.68 USD
Price Objective	144.00 USD
Date Established	8-Feb-2024
Investment Opinion	C-2-9
52-Week Range	62.60 USD - 137.93 USD
Mrkt Val (mn) / Shares Out (mn)	39,789 USD / 302.2
Free Float	91.4%
Average Daily Value (mn)	619.94 USD
BofA Ticker / Exchange	DDOG / NAS
Bloomberg / Reuters	DDOG US / DDOG.OQ
ROE (2024E)	21.8%
Net Dbt to Eqty (Dec-2023A)	20.3%
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"](#).

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Timestamp: 13 February 2024 04:44PM EST

iQprofileSM Datadog Inc

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	16.0%	18.4%	17.9%	18.5%	18.9%
Return on Equity	27.6%	33.5%	21.8%	21.2%	20.6%
Operating Margin	19.5%	23.0%	21.3%	22.3%	23.3%
Free Cash Flow	383	632	732	953	1,208

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.2x	1.1x	1.5x	1.6x	1.6x
Asset Replacement Ratio	1.0x	0.6x	0.8x	0.8x	0.8x
Tax Rate	NM	19.4%	1.7%	4.1%	4.0%
Net Debt-to-Equity Ratio	28.3%	20.3%	-10.8%	-35.0%	-53.8%
Interest Cover	24.8x	NM	NM	NM	NM

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,675	2,128	2,563	3,204	3,932
% Change	62.8%	27.1%	20.4%	25.0%	22.8%
Gross Profit	1,346	1,744	2,102	2,627	3,225
% Change	67.6%	29.6%	20.5%	25.0%	22.8%
EBITDA	376	593	688	867	1,081
% Change	98.8%	57.7%	16.0%	26.0%	24.7%
Net Interest & Other Income	24	97	94	94	94
Net Income (Adjusted)	338	576	505	638	797
% Change	102.7%	70.2%	-12.3%	26.3%	25.0%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(50)	49	80	106	149
Depreciation & Amortization	35	44	51	64	79
Change in Working Capital	6	45	86	141	194
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	428	522	554	690	845
Capital Expenditure	(35)	(28)	(38)	(48)	(59)
Free Cash Flow	383	632	732	953	1,208
% Change	38.5%	65.0%	15.8%	30.2%	26.7%
Share / Issue Repurchase	36	37	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	339	330	1,024	1,929	3,079
Trade Receivables	400	509	721	912	1,019
Other Current Assets	1,606	2,339	2,323	2,333	2,318
Property, Plant & Equipment	125	172	172	172	172
Other Non-Current Assets	535	586	646	688	725
Total Assets	3,005	3,936	4,886	6,034	7,312
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	760	1,003	1,327	1,686	2,002
Long-Term Debt	739	742	742	742	742
Other Non-Current Liabilities	96	165	199	214	227
Total Liabilities	1,594	1,911	2,268	2,642	2,972
Total Equity	1,411	2,025	2,617	3,392	4,341
Total Equity & Liabilities	3,005	3,936	4,886	6,034	7,312

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

Company Sector

Server & Enterprise Software

Company Description

Datadog is an observability software vendor that enables its customers to have strong visibility into the health and performance of its technology stacks to drive high quality end-user experiences. Datadog is able to achieve this with its portfolio of 15+ products that spans infrastructure monitoring, APM, log analytics, cloud security, among many others.

Investment Rationale

In our view, Datadog's platform is positioned to take share of a large \$53bn observability TAM over the long-term because it delivers enterprise-class observability tools with a low-friction adoption motion that drives fast time to value and good ROI. Furthermore, we believe enterprises will increasingly standardize its observability tools to a single vendor, to which Datadog appears positioned to take share. However, we believe there are downside revenue risks, and see a balanced risk/reward.

Stock Data

Average Daily Volume 4,707,928

Quarterly Earnings Estimates

	2023	2024
Q1	0.28A	0.34E
Q2	0.36A	0.35E
Q3	0.45A	0.34E
Q4	0.55A	0.36E

4Q23 Performance

- NRR of “mid-110%” was in-line with our/Street expectations of 115.0%/115.6%
- Total customers at quarter-end were 27,300, as compared to our/Street expectations of 27,500/27,633
- \$100,000 ARR customers at quarter-end were 3,190, as compared to consensus expectations of 3,297
- Total revenue of \$589.6mn was above our/Street \$570.5mn/\$567.5mn
- PF Operating income of \$166.6mn was above our/Street \$131.9mn/\$132.0mn
- Free cash flow was \$201.3mn, above our/Street estimates of \$146.1mn/\$132mn

FY23 Guidance

- Total revenue guidance is \$2,555-2,575mn, below our/Street \$2,605.3mn/\$2,576.5mn
- PF Operating income guidance is \$535-555mn, below our/Street \$589.7mn/\$561.7mn

Exhibit 1: Revenue growth guidance and actual over time

Initial 2024 guidance implies 20.5% revenue growth

Guidance given	2020	2021	2022	2023	2024
4Q	48.9%	37.5%	47.7%	24.2%	20.5%
1Q	54.4%	46.7%	56.5%	24.8%	
2Q	56.8%	55.9%	57.5%	22.7%	
3Q	62.4%	64.7%	60.6%	25.7%	
Actual	66.3%	70.5%	62.8%	27.1%	
Actual y/y growth vs. initial guidance	+17.5pts	+32.9pts	+15.1pts	+2.9pts	

Source: Company filings, BofA Global Research

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Exhibit 2: Variance

Total revenue was 3.3% higher than our prior forecast

	\$ in millions		
	BofA Estimate	Actual	Variance
Total revenue	570,537	589,649	3.3%
Y/Y change %	21.5%	25.6%	407bps
Guidance (mn)	564-568		
Total billings	649,017	722,589	11.3%
Y/Y growth %	20.8%	34.5%	1370bps
Income (Loss) from Operations	131,931	166,552	26.2%
Operating Margin	23.1%	28.2%	512bps
Guidance (mn)	129-133		
Adjusted EBITDA	144,608	198,711	37.4%
Adjusted EBITDA margin	25.3%	33.7%	835bps
EPS (Pro Forma)	\$0.43	\$0.55	21.6%
Guidance	\$0.42-\$0.44		
Shares outstanding diluted	355,525	352,907	(0.7%)
Cash Flow from Operations	163,250	220,226	25.9%
OCF margin	28.6%	37.3%	874bps
Free cash flow	146,134	201,290	27.4%
FCF margin	25.6%	34.1%	852bps

Source: Company filings, BofA Global Research estimates

BofA GLOBAL RESEARCH



Exhibit 3: Estimate revisions

We now forecast 2024 revenue growth of 20.4%

	1Q24E			FY24E			FY25E			FY26E		
	BofA Est	Old Estimate	Change %	BofA Est	Old Estimate	Change %	BofA Est	Old Estimate	Change %	BofA Est	Old Estimate	Change %
Total revenue	589,145	589,425	(0.0%)	2,563,041	2,605,257	(1.6%)	3,203,549	3,314,953	(3.4%)	3,932,408	N/A	N/A
Y/Y change %	22.3%	22.4%	(6bps)	20.4%	23.6%	(323bps)	25.0%	27.2%	(225bps)	22.8%	N/A	N/A
Guidance (mn)	587-591			2,550-2,750								
Total billings	620,623	618,724	0.3%	2,858,477	2,779,029	2.9%	3,458,580	3,497,914	(1.1%)	4,143,962	N/A	N/A
Y/Y growth %	21.5%	21.2%	37bps	21.2%	21.6%	(42bps)	21.0%	25.9%	(487bps)	19.8%	N/A	N/A
Income (Loss) from Operations	129,612	123,779	4.7%	545,257	589,731	(7.5%)	713,151	782,111	(8.8%)	914,997	N/A	N/A
Operating Margin	22.0%	21.0%	100bps	21.3%	22.6%	(136bps)	22.3%	23.6%	(133bps)	23.3%	N/A	N/A
Guidance (mn)	128-132			535-555								
Adjusted EBITDA	164,419	136,091	20.8%	687,997	643,189	7.0%	866,780	847,633	2.3%	1,081,016	N/A	N/A
Adjusted EBITDA margin	27.9%	23.1%	482bps	26.8%	24.7%	215bps	27.1%	25.6%	149bps	27.5%	N/A	N/A
EPS (Pro Forma)	\$0.34	\$0.39	(16.1%)	\$1.40	\$1.82	(29.9%)	\$1.72	\$2.29	(32.7%)	\$2.11	N/A	N/A
Guidance	\$0.33-\$0.35			\$1.38-\$1.44								
Shares outstanding diluted	357,318	357,302	0.0%	361,358	359,991	0.4%	370,009	367,245	0.7%	377,465	N/A	N/A
Cash Flow from Operations	178,304	147,183	17.5%	770,540	757,686	1.7%	1,001,490	994,529	0.7%	1,267,130	N/A	N/A
OCF margin	30.3%	25.0%	529bps	30.1%	29.1%	98bps	31.3%	30.0%	126bps	32.2%	N/A	N/A
Free cash flow	160,630	129,501	19.4%	693,649	679,528	2.0%	905,383	895,080	1.1%	1,149,158	N/A	N/A
FCF margin	27.3%	22.0%	529bps	27.1%	26.1%	98bps	28.3%	27.0%	126bps	29.2%	N/A	N/A

Source: Company filings, BofA Global Research estimates

BofA GLOBAL RESEARCH

Price objective basis & risk

Datadog Inc (DDOG)

Our \$144 PO is based on an EV/revenue multiple of 19.1x EV/CY24E (was 18.8x) to our CY24E revenue estimate of \$2.6bn. We raise our multiple to account for our increased confidence in Datadog's potential to drive upside to consensus estimates and infrastructure group multiple expansion. The 19.1x multiple represents an EV/revenue/growth multiple of 0.9x, which is above infrastructure peers at 8.3x/0.7x.

Upside risks to our PO: 1) better-than-expected revenue growth, 2) faster-than-expected AI tailwinds, 3) better-than-expected expanding free cash flow margins, 4) expanding NRR, and 5) stronger-than-expected competitive differentiation.

Downside risks to our PO: 1) valuation risk, 2) competition, 3) deteriorating NRR, 4) execution, and 5) enterprise software spend can be cyclical.

Analyst Certification

I, Koji Ikeda, 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 - 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
	BILL	BILL	BILL US	Brad Sills
	CCC Intelligent Solutions	CCCS	CCCS US	Michael J. Funk
	Dropbox	DBX	DBX 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
	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



US - Enterprise Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
	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
	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
	Enfusion, Inc.	ENFN	ENFN US	Koji Ikeda, CFA
	Five9	FIVN	FIVN US	Michael J. Funk
	Guidewire Software, Inc.	GWRE	GWRE US	Michael J. Funk
	Twilio	TWLO	TWLO US	Michael J. Funk
	Vertex, Inc.	VERX	VERX US	Brad Sills

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

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

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

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

Denominator

Total Assets – Current Liabilities + ST Debt + 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
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.

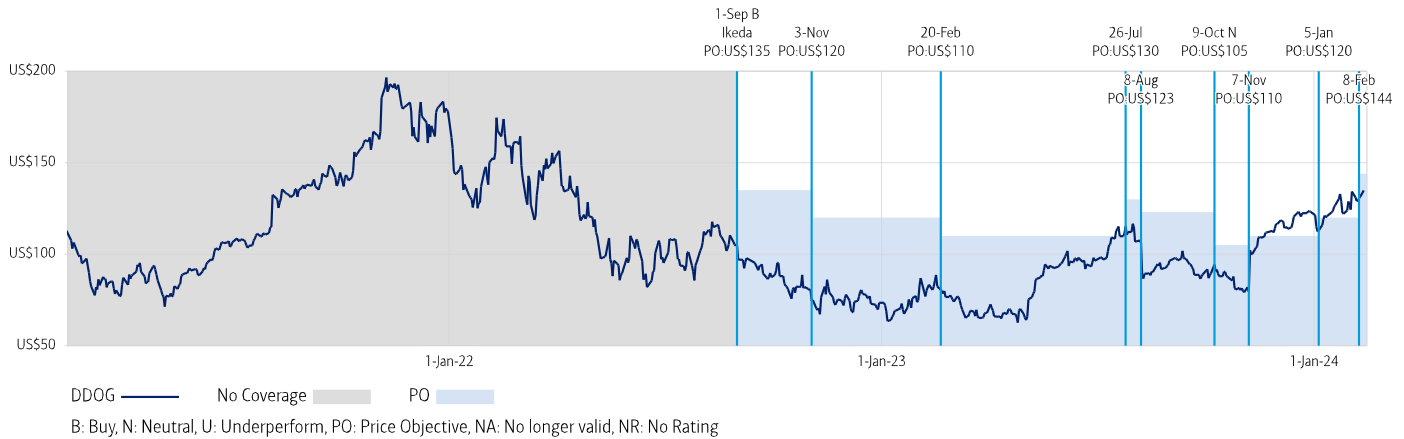
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Disclosures

Important Disclosures

Datadog Inc (DDOG) 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%

^{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.

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