

## Genpact Ltd

# A lowered outlook for the near-term; good win rates to help in the medium run

Reiterate Rating: BUY | PO: 45.00 USD | Price: 34.75 USD

## Weak Q3; incremental pressure in Data-Tech-AI

Genpact's revenue growth of 2.2%yoy (cc) was 3% below our estimate & the miss was accompanied by a commensurate cut in CY23 revenue guidance. This was lowered to 2.5%yoy (cc) vs. 5.5%-6.5% earlier, implying deceleration to 1.3%yoy in Q4. The weakness was more visible in the Data-tech-AI segment which was down 2%yoy cc (vs. +3.4%yoy in Q2) as it faced incremental pressure in short-cycle discretionary spends. In particular, BFSI, consumer & healthcare verticals saw higher headwinds. Digital Operations grew 5.6%yoy cc (vs. 2.2% in Q2) on account of ramps in large deals which went as per plan. Given the additional uncertainty since late Q3, management highlighted that it now has lesser visibility of returning to double-digit growth in CY24 vs. last qtr. Adj. EBIT margins were up 20bps yoy to 17.2%.

## Deal wins provide comfort on win rates

Bookings remain on track to grow more than 25%yoy in CY23. This provides comfort on win rates which are tracking higher than historic levels. New logo addition which was below average in Q1/Q2 at 17/24, improved to 32 in Q3, catching up with CY22 trend. Baking in the Q3 miss, we revise our CY24E/CY25E EPS downwards by c.5% & thus adjust PO to \$45, now valuing stock at 14x (vs. 15x earlier for the 12 months ending Dec. 2024) given near-term uncertainty. Current valuation of 10x on CY24E EPS is at a 10-yr low & looks attractive given structural demand levers for the BPO business remain intact, in our view.

## Other highlights of the quarter

(i) The company announced CEO succession plan as part of which Balkrishan Kalra will take over post current CEO's retirement in Feb. We expect the transition to be smooth given Kalra has been with Genpact for 23+ years & was already leading verticals of BFSI and Consumer & Healthcare (60%+ of revenues). (ii) Company reiterated its stance that generative AI can be an enabler to move up the value chain as engagements shift from headcount-based to outcome-based pricing & also drive-up demand for data services. It currently has 90+ solutions in testing & now shifting focus on implementation in live production with 10 solutions deployed or nearing go live.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
Net Income (Adjusted - mn)	469	516	538	592	644
EPS	2.43	2.74	2.90	3.21	3.48
EPS Change (YoY)	17.5%	12.7%	5.8%	10.5%	8.4%
Dividend / Share	0.428	0.255	0.330	0.360	0.395
Free Cash Flow / Share	3.39	2.11	2.31	2.41	2.56
<b>Valuation (Dec)</b>					
P/E	14.29x	12.67x	11.98x	10.83x	9.99x
Dividend Yield	1.23%	0.734%	0.949%	1.04%	1.14%
EV / EBITDA*	11.56x	11.84x	9.87x	8.82x	8.08x
Free Cash Flow Yield*	10.11%	6.18%	6.69%	6.99%	7.49%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 7.

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**Refer to important disclosures on page 8 to 10. Analyst Certification on page 6. Price Objective Basis/Risk on page 6.**

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09 November 2023

## Equity

### Key Changes

(US\$)	Previous	Current
Price Obj.	51.00	45.00
2023E EPS	2.93	2.90
2024E EPS	3.37	3.21
2025E EPS	3.66	3.48
2023E EBITDA (m)	783.2	758.7
2024E EBITDA (m)	905.2	848.5
2025E EBITDA (m)	990.5	926.7

**Kunal Tayal >>**  
Research Analyst  
BofAS India  
+91 22 6632 8663  
kunal.tayal@bofa.com

**Jatin Kalra, CFA >>**  
Research Analyst  
BofAS India  
+91 22 6632 8390  
jatin.kalra3@bofa.com

## Stock Data

Price	34.75 USD
Price Objective	45.00 USD
Date Established	9-Nov-2023
Investment Opinion	B-1-7
52-Week Range	32.61 USD-48.58 USD
Mkt Val / Shares Out (mn)	6,301 USD / 181.3
Average Daily Value (mn)	35.14 USD
Free Float	99.0%
BofA Ticker / Exchange	G / NYS
Bloomberg / Reuters	G US / G.N
ROE (2023E)	26.6%
Net Dbt to Eqty (Dec-2022A)	42.69%

# iQprofile<sup>SM</sup> Genpact Ltd

Key Income Statement Data (Dec)	2021A	2022A	2023E	2024E	2025E
(US\$ Millions)					
Sales	4,022	4,371	4,455	4,792	5,204
Gross Profit	1,432	1,536	1,568	1,716	1,869
Sell General & Admin Expense	(866)	(938)	(903)	(963)	(1,046)
Operating Profit	509	502	638	709	779
Net Interest & Other Income	(27)	(32)	(42)	(50)	(50)
Associates	0	0	0	0	0
Pretax Income	482	470	596	659	729
Tax (expense) / Benefit	(114)	(112)	(143)	(165)	(182)
Net Income (Adjusted)	469	516	538	592	644
Average Fully Diluted Shares Outstanding	193	188	185	184	185

## Key Cash Flow Statement Data

Net Income	368	358	453	494	546
Depreciation & Amortization	139	130	121	140	148
Change in Working Capital	87	(147)	133	(22)	(16)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	100	102	(174)	(51)	(76)
Cash Flow from Operations	694	444	533	560	602
Capital Expenditure	(57)	(54)	(111)	(120)	(130)
(Acquisition) / Disposal of Investments	0	0	0	0	0
Other Cash Inflow / (Outflow)	(65)	18	0	0	0
Cash Flow from Investing	(123)	(37)	(111)	(120)	(130)
Shares Issue / (Repurchase)	(298)	(214)	(96)	(106)	(106)
Cost of Dividends Paid	(80)	(92)	(60)	(66)	(73)
Cash Flow from Financing	(333)	(571)	(39)	(135)	(129)
Free Cash Flow	637	389	421	440	472
Net Debt	756	780	371	66	(278)
Change in Net Debt	(503)	23	(409)	(305)	(343)

## Key Balance Sheet Data

Property, Plant & Equipment	215	181	226	278	340
Other Non-Current Assets	2,839	2,629	2,844	2,929	3,030
Trade Receivables	888	995	941	1,012	1,099
Cash & Equivalents	899	647	1,030	1,335	1,678
Other Current Assets	134	138	134	153	175
Total Assets	4,975	4,589	5,173	5,706	6,321
Long-Term Debt	1,272	1,249	1,249	1,249	1,249
Other Non-Current Liabilities	497	410	554	590	639
Short-Term Debt	383	177	151	151	151
Other Current Liabilities	925	926	1,001	1,069	1,161
Total Liabilities	3,078	2,763	2,955	3,059	3,201
Total Equity	1,897	1,826	2,219	2,647	3,121
Total Equity & Liabilities	4,975	4,589	5,173	5,706	6,321

## iQmethod<sup>SM</sup> - Bus Performance\*

Return On Capital Employed	9.9%	10.4%	12.4%	12.2%	12.0%
Return On Equity	25.1%	27.7%	26.6%	24.3%	22.3%
Operating Margin	12.7%	11.5%	14.3%	14.8%	15.0%
EBITDA Margin	16.1%	14.5%	17.0%	17.7%	17.8%

## iQmethod<sup>SM</sup> - Quality of Earnings\*

Cash Realization Ratio	1.5x	0.9x	1.0x	0.9x	0.9x
Asset Replacement Ratio	0.7x	0.6x	1.3x	1.3x	1.3x
Tax Rate (Reported)	23.6%	23.8%	24.1%	25.0%	25.0%
Net Debt-to-Equity Ratio	39.9%	42.7%	16.7%	2.5%	-8.9%
Interest Cover	8.3x	7.2x	12.9x	12.7x	13.9x

## Key Metrics

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 7.

## Company Sector

Computer Services

## Company Description

Genpact is the pioneer and largest India centric BPM vendor with CY22 revenues at c.\$4.2bn and nearly 119k employees. Set up as the captive GE BPM arm in 1997, it became a third party vendor from 2005. The company derives approx. 54% revs from digital operations segment and approx. 46% from data-tech-AI segment, and vertically revs are split as 28% from financial services/insurance, 38% from hi-tech/manufacturing and the rest from diversified industries.

## Investment Rationale

Our Buy rating on Genpact reflects prospects of improved revenue growth driven by likely increased consistency in large, transformational project wins. We expect this to be aided by maturity in company's offerings post 3-4 years of investments. We also expect a lower near-term revenue impact on account of favorable industry exposure and improving deal-win trend.

## Stock Data

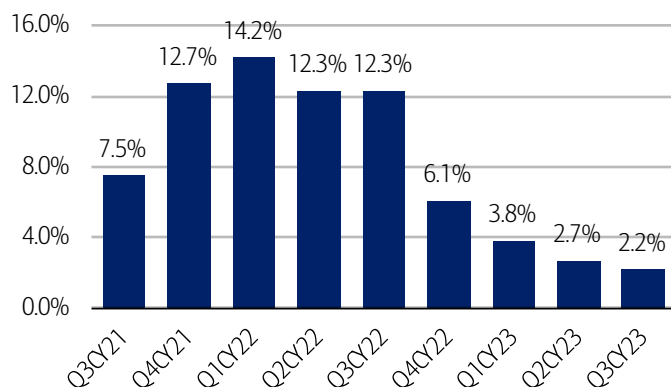
Price to Book Value

2.8x

## Q3CY23 summary

### Exhibit 1: Revenue growth – constant currency - yoy

Overall revenue growth of 2.2%yoy cc was below our estimate.

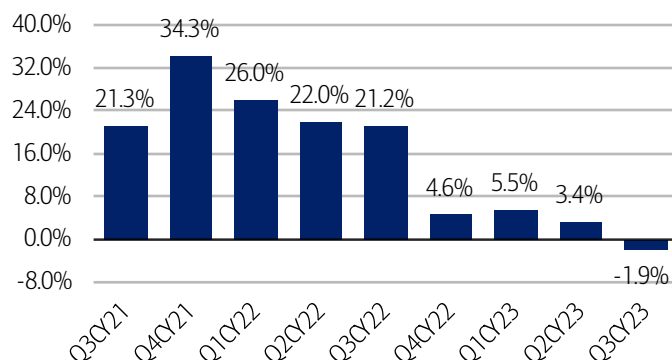


Source: Genpact, BofA Global Research

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### Exhibit 2: Data-tech-AI segment – cc revenue growth

Data-tech-AI segment decelerated to down 1.9%yoy cc from +3.4% yoy cc last quarter.

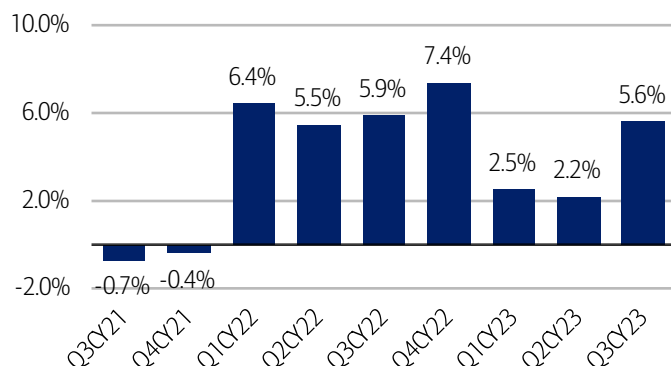


Source: Genpact, BofA Global Research

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### Exhibit 3: Digital operations segment – cc revenue growth

Digital operations grew 5.6%yoy cc.

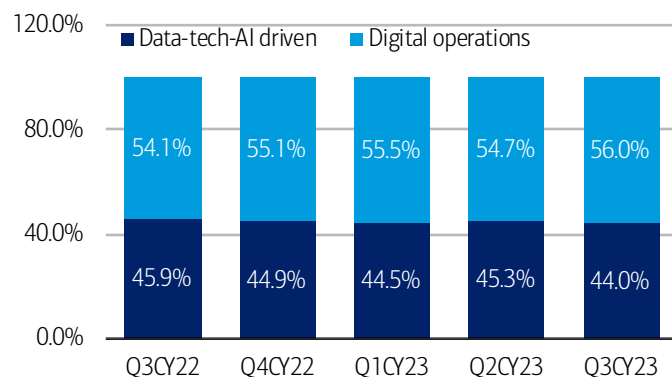


Source: Genpact, BofA Global Research

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### Exhibit 4: Split of revenues

Data-tech-AI driven segment contributes to 44% of revenues.



Source: Genpact, BofA Global Research

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### Exhibit 5: Genpact 12m fwd PE

Stock at 10.8x 12m fwd EPS (Bloomberg consensus)



Source: Bloomberg, BofA Global Research

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**Exhibit 6: Q3CY23 actuals vs. BofAe**

Revenue growth was below our estimates

USD Million	Q3CY23	Q2CY23	qoq	Q3CY22	yoy	BofA e	Variation
<b>Net revenues</b>	<b>1135.8</b>	<b>1105.5</b>	<b>2.7%</b>	<b>1111.0</b>	<b>2.2%</b>	<b>1169.6</b>	<b>-2.9%</b>
Total cost of revenue	733.0	715.5	2%	717.2	2%	752.1	-3%
Gross profit	402.8	390.0	3%	393.8	2%	417.6	-4%
Operating expenses							
Selling, general & administrative expenses	229.7	229.4	0%	231.4	-1%	238.6	-4%
<b>Amortization of acquired intangible assets</b>	<b>7.5</b>	<b>8.3</b>	<b>-9%</b>	<b>10.6</b>	<b>-29%</b>	<b>8.3</b>	<b>-9%</b>
Other operating expense	-0.1	-5.0	n/a	20.9	na	0.0	NA
EBIT (gaap)	165.7	157.3	5%	130.8	27%	170.7	-3%
EBITDA (gaap)	195.9	187.7	4%	163.7	20%	202.3	-3%
Foreign exchange (gains) losses, net	-3.0	-1.8	n/a	-3.9	n/a	1.0	n/a
<b>Other income, net</b>	<b>-13.7</b>	<b>-8.7</b>	<b>58%</b>	<b>-13.6</b>	<b>1%</b>	<b>-11.5</b>	<b>19%</b>
<b>Inc before tax, minority int &amp; loss of affiliate</b>	<b>154.9</b>	<b>150.4</b>	<b>3%</b>	<b>121.1</b>	<b>28%</b>	<b>158.2</b>	<b>-2%</b>
Equity in (earnings)/loss of affiliate	0.0	0.0	n/a	0.0	n/a	0.0	n/a
Minority Interest	0.0	0.0	n/a	0.0	n/a	0.0	n/a
<b>Income tax expense (benefit)</b>	<b>37.3</b>	<b>34.1</b>	<b>9%</b>	<b>25.2</b>	<b>48%</b>	<b>41.9</b>	<b>-11%</b>
Net income	117.6	116.3	1%	95.8	23%	116.3	1%
Adjusted net income	140.4	134.3	5%	137.8	2%	142.0	-1%

Source: Company, BofA Global Research

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**Exhibit 7: Q2CY23 actuals vs. BofAe**

Adj. EBIT margins were in-line with our estimates

USD Million	Q3CY23	Q2CY23	qoq	Q3CY22	yoy	BofA e	Variation
<b>Income from operations as per GAAP</b>	<b>165.7</b>	<b>157.3</b>	<b>5%</b>	<b>130.8</b>	<b>27%</b>	<b>170.7</b>	<b>-3%</b>
Add: Amort of acqd intangibles from Formn ACFtg	7.5	8.3	-9%	10.5	-29%	8.0	-6%
Add: Dep due to fair value adj from Formn ACFtg	0.0	0.0	n/a	0.0	n/a	0.0	n/a
Add: ESOP charge	22.3	21.8	2%	19.2	16%	21.8	2%
Add: FBT impact on share based comp recovered from employees	0.0	0.0	n/a	0.0	n/a	0.0	n/a
Add: Gain/loss on int swap	0.0	0.0	n/a	0.0	n/a	0.0	n/a
Add: Other income	-0.5	3.4	n/a	-0.2	n/a	3.4	n/a
Less: Equity in (gain)/loss of affiliate	0.0	0.0	n/a	0.0	n/a	0.0	n/a
Less: minority int	0.0	0.0	n/a	0.0	n/a	0.0	n/a
Add: 1x costs	0.0	-4.9		47.6		0.0	
<b>Adjusted income from operations</b>	<b>195.0</b>	<b>186.0</b>	<b>5%</b>	<b>188.8</b>	<b>3%</b>	<b>204.0</b>	<b>-4%</b>
<b>Adjusted income from operations %</b>	<b>17.2%</b>	<b>16.8%</b>	<b>35</b>	<b>17.0%</b>	<b>17</b>	<b>17.4%</b>	<b>-27</b>

Source: Company, BofA Global Research

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# Financials

## Exhibit 8: Consolidated financials – Profit & Loss statement

We forecast c.2.5% yoy cc growth in revenues for CY23

Year ending Dec.	2020	2021	2022	2023E	2024E	2025E
USD mn						
<b>Total net revenues</b>	<b>3,709.4</b>	<b>4,022.2</b>	<b>4,371.2</b>	<b>4,455.1</b>	<b>4,791.9</b>	<b>5,204.5</b>
Growth (yoy)	5.4%	8.4%	8.7%	1.9%	7.6%	8.6%
<b>Cost of revenue</b>	<b>2,418.1</b>	<b>2,590.3</b>	<b>2,834.8</b>	<b>2,887.2</b>	<b>3,076.1</b>	<b>3,335.8</b>
As % of revenue	65.2%	64.4%	64.9%	64.8%	64.2%	64.1%
<b>Gross profit</b>	<b>1,291.2</b>	<b>1,431.9</b>	<b>1,536.4</b>	<b>1,567.9</b>	<b>1,715.9</b>	<b>1,868.7</b>
<b>Operating expenses</b>						
Selling, general & administrative expenses	789.8	865.7	938.4	903.1	963.2	1,046.1
As % of revenue	21.3%	21.5%	21.5%	20.3%	20.1%	20.1%
Other operating income	19.3	(1.2)	53.2	(4.8)	0.0	0.0
As % of revenue	0.5%	0.0%	1.2%	-0.1%	0.0%	0.0%
<b>EBITDA</b>	<b>556</b>	<b>648</b>	<b>632</b>	<b>759</b>	<b>849</b>	<b>927</b>
Depreciation	74.2	80.4	87.4	89.1	95.8	104.1
Amortisation of acquired intangible assets	43.3	58.4	42.7	31.5	44.0	44.0
<b>EBIT</b>	<b>438.7</b>	<b>509.0</b>	<b>502.2</b>	<b>638.1</b>	<b>708.7</b>	<b>778.6</b>
Foreign exchange (gains) losses, net	(7.5)	(12.7)	(15.4)	(3.7)	0.0	0.0
Other income (expense), net	(45.7)	(39.8)	(52.3)	(45.5)	(50.0)	(50.0)
Equity in (earnings)/loss of affiliate	(0.0)	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
<b>Income before income taxes</b>	<b>400.5</b>	<b>481.8</b>	<b>465.2</b>	<b>596.3</b>	<b>658.7</b>	<b>728.6</b>
Income tax expense (benefit)	92.2	113.7	111.8	143.5	164.7	182.1
<b>Reported Net income</b>	<b>308.3</b>	<b>368.1</b>	<b>353.4</b>	<b>452.9</b>	<b>494.0</b>	<b>546.4</b>
<b>Year ending Dec.</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
Add: Amort of acqd intangibles from Formn Acctg	43.6	57.6	42.6	32.0	32.0	32.0
Add: Dep due to fair value adj from Formn Acctg	0.0	0.0	0.0	0.0	0.0	0.0
Add: ESOP charge	74.0	82.0	77.4	88.0	88.0	88.0
Add: FBT impact on share based comp recovered from employees	0.0	0.0	0.0	0.0	0.0	0.0
Add: Gain/loss on int swap	2.7	0.0	0.0	0.0	0.0	0.0
Add: Other income	3.2	12.9	(0.1)	0.0	0.0	0.0
Less: Equity in (engs)/loss of affiliate	0.0	0.0	0.0	0.0	0.0	0.0
Less: Minority int	0.0	0.0	0.0	0.0	0.0	0.0
Amort of acqd intangibles net of tax benefit	34.0	42.2	30.0	27.2	27.2	27.2
Any one time items (related to net profit)	18.9	0.0	68.1	(7.4)	0.0	0.0
Depreciation	74.2	80.4	87.4	89.1	95.8	104.1
Less: Tax impact on stock based comp	23.2	23.1	18.1	23.0	17.6	17.6
Any one time items (related to ebit)	26.5	1.2	96.2	(2.9)	0.0	0.0
<b>Adj EBITDA</b>	<b>636.2</b>	<b>742.7</b>	<b>709.5</b>	<b>846.7</b>	<b>936.5</b>	<b>1,014.7</b>
<b>Adj EBIT</b>	<b>588.8</b>	<b>662.7</b>	<b>718.2</b>	<b>755.2</b>	<b>828.7</b>	<b>898.6</b>
<b>Adj Net Income</b>	<b>414.6</b>	<b>469.2</b>	<b>510.8</b>	<b>537.7</b>	<b>591.6</b>	<b>644.0</b>

Source: Company, BofA Global Research estimates

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## Price objective basis & risk

### Genpact Ltd (G)

Our PO of USD45 is based on a target non-GAAP P/E multiple of 14x for the 12 months ending Dec 2024. Our target multiple is at 15% discount to the company's 5 year average 12m forward non-GAAP PE multiple given near-term demand uncertainty. Our adjusted EPS excludes intangible amortization and stock compensation charges.

Upside risks are (1) faster-than-expected closure of large, transformative deals and (2) faster than expected traction in the AI offerings. Downside risks are 1) longer than expected sales cycle on account of macro induced uncertainty and 2) higher than expected investments in digital services that can weigh on profitability.

## Analyst Certification

I, Kunal Tayal, 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.

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### India - Software & IT Services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>	ExlService Holdings, Inc.	EXLS	EXLS US	Kunal Tayal
	Genpact Ltd	G	G US	Kunal Tayal
	WNS Holdings Ltd	WNS	WNS US	Kunal Tayal
<b>NEUTRAL</b>	HCL	XHCLF	HCLT IN	Kunal Tayal
	Infosys	INFYF	INFO IN	Kunal Tayal
	Infosys Tech - A	INFY	INFY US	Kunal Tayal
	Tata Consultancy	TACSF	TCS IN	Kunal Tayal
<b>UNDERPERFORM</b>	L&T Technology Services	XLNSF	LTTS IN	Kunal Tayal
	Tech Mahindra	TECHM	TECHM IN	Kunal Tayal
	Wipro	WIPRF	WPRO IN	Kunal Tayal
	Wipro	WIT	WIT US	Kunal Tayal

### iQmethod<sup>SM</sup> Measures Definitions

#### Business Performance

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

#### 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

#### 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  
 $\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$   
Enterprise Value

#### 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

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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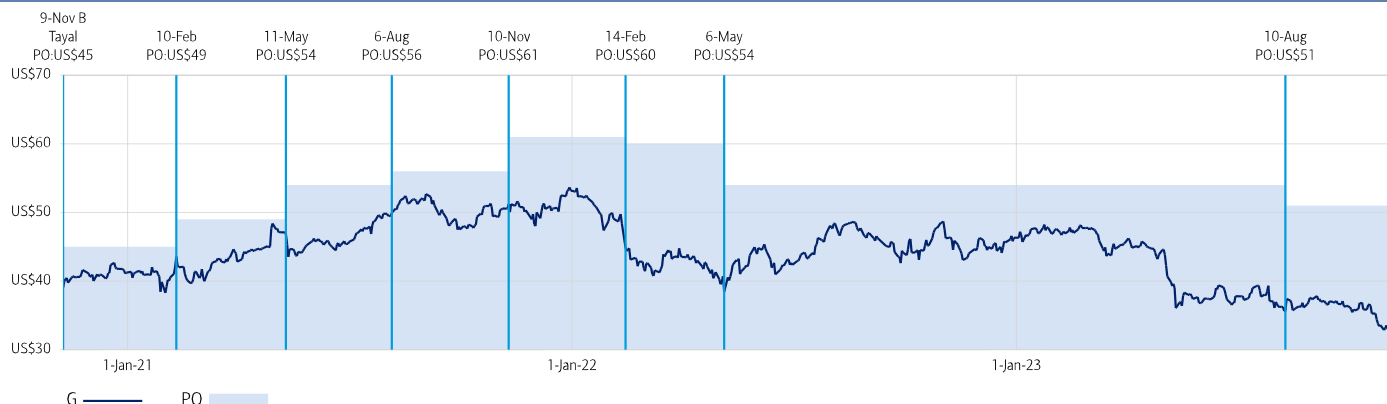
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B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	204	51.52%	Buy	104	50.98%
Hold	95	23.99%	Hold	45	47.37%
Sell	97	24.49%	Sell	27	27.84%

### Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> 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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