

Doximity Inc

No more shoes to drop; upgrading to Neutral

Rating Change: NEUTRAL | PO: 29.00 USD | Price: 28.42 USD

Expectations and valuation are both more reasonable

We are upgrading shares of DOCS to Neutral from Underperform and increasing the PO to \$29. We think earnings expectations have been appropriately reset and pharma manufacturer budgets could begin to improve over the next year as pressure from higher interest rates begins to ease. Additionally, DOCS' last earnings report combined w/ takeaways from our [previously published advertising survey](#) (see report) further support our view that Doximity's competitive positioning remains strong, albeit against a challenging macro. Since DOCS cut its guidance and messaged slower growth, Bloomberg consensus has reset from 20%+ revenue growth through FY26 to just ~11%, which should prove more than achievable. DOCS' valuation has also reset from 25-30x to a more palatable 22x EBITDA. Our new PO of \$29 (\$21 prior) on 22.5x CY24E EV/EBITDA (15x CY24E EV/EBITDA prior) reflects peer group multiple expansion and an incrementally more positive view on Doximity's competitive positioning.

Macro headwinds are known, no improvement expected

The initial slowdown for pharmaceutical advertisers began in May/June of 2022 and these headwinds are well known. With consensus revenue growth expectations of 11% for the next few years, consensus is effectively embedding no improvement. Overall, we think Doximity is well positioned to meet and exceed expectations in FY24 and the current bar for FY25 is achievable, even if the initial guide is slightly below.

Some positives from our advertising survey

The two key positive takeaways from our previously published survey were: 1) Doximity is capturing more spend than any of its competitors; and 2) Doximity's engagement levels with physicians is improving. These two conclusions dispute the idea that DOCS platform relevance is weakening. Taken with DOCS recent earnings and updated guidance, we have greater conviction that slower growth is more related to a challenging macro environment than competitive disruption.

What is going on in the competitive landscape?

Our pharma advertising surveys indicate pricing incentives have become more prevalent in each of the past six surveys (Exhibit 4). However, the impact from programmatic advertisers appears limited (Exhibit 1). We continue to view Doximity's platform as highly differentiated vs peers and expect the company to continue to gain market share.

Estimates (Mar) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.85	0.73	0.87	0.86	0.94
GAAP EPS	0.69	0.52	0.74	0.75	0.82
EPS Change (YoY)	10.4%	-14.1%	19.2%	-1.1%	9.3%
Consensus EPS (Bloomberg)			0.81	0.87	NA
DPS	0	0	0	0	0
Valuation (Mar)					
P/E	33.4x	38.9x	32.7x	33.0x	30.2x
GAAP P/E	41.2x	54.7x	38.4x	37.9x	34.7x
EV / EBITDA*	35.5x	29.0x	25.0x	22.8x	20.2x
Free Cash Flow Yield*	2.0%	2.9%	3.3%	3.8%	4.5%

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

02 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Inv. Opinion	C-3-9	C-2-9
Inv. Rating	UNDERPERFORM	NEUTRAL
Price Obj.	21.00	29.00

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Stock Data

Price	28.42 USD
Price Objective	29.00 USD
Date Established	02-Jan-2024
Investment Opinion	C-2-9
52-Week Range	19.71 USD - 40.12 USD
Mrkt Val (mn) / Shares Out (mn)	6,150 USD / 216.4
Free Float	86.2%
Average Daily Value (mn)	46.63 USD
BofA Ticker / Exchange	DOCS / NYS
Bloomberg / Reuters	DOCS US / DOCS.N
ROE (2024E)	18.7%
Net Dbt to Eqty (Mar-2023A)	-87.0%
ESGMeter™	NLA

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: 02 January 2024 06:33AM EST

iQprofileSM Doximity Inc

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	25.6%	16.1%	16.3%	14.9%	13.8%
Return on Equity	34.5%	16.8%	18.7%	16.9%	15.4%
Operating Margin	42.5%	42.6%	43.9%	43.3%	44.3%
Free Cash Flow	125	178	204	231	274

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.8x	1.2x	1.1x	1.3x	1.3x
Asset Replacement Ratio	0.2x	0.1x	0.1x	0.1x	0.1x
Tax Rate	NM	16.9%	20.3%	25.0%	25.0%
Net Debt-to-Equity Ratio	-90.8%	-87.0%	-86.2%	-89.0%	-91.6%
Interest Cover	NM	NA	NA	NA	NA

Income Statement Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	344	419	468	514	565
% Change	66.0%	22.0%	11.7%	9.8%	10.0%
Gross Profit	309	376	423	460	506
% Change	75.1%	21.7%	12.7%	8.7%	10.0%
EBITDA	151	184	214	235	264
% Change	132.6%	22.2%	16.2%	9.7%	12.4%
Net Interest & Other Income	1	8	23	23	23
Net Income (Adjusted)	163	155	182	184	205
% Change	120.4%	-5.0%	17.3%	1.3%	11.4%

Free Cash Flow Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	163	155	182	184	205
Depreciation & Amortization	5	10	11	12	13
Change in Working Capital	(22)	(26)	6	5	13
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(19)	41	7	32	45
Capital Expenditure	(2)	(2)	(2)	(2)	(2)
Free Cash Flow	125	178	204	231	274
% Change	50.7%	42.7%	14.4%	13.5%	18.5%
Share / Issue Repurchase	565	(71)	(200)	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

Balance Sheet Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	798	841	842	1,068	1,336
Trade Receivables	81	107	109	113	116
Other Current Assets	25	27	30	33	30
Property, Plant & Equipment	8	11	11	11	10
Other Non-Current Assets	79	150	166	168	171
Total Assets	991	1,137	1,159	1,393	1,664
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	111	140	150	162	175
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	1	31	31	31	31
Total Liabilities	113	171	181	193	206
Total Equity	879	966	978	1,200	1,458
Total Equity & Liabilities	991	1,137	1,159	1,393	1,664

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

Company Sector

Healthcare Technology & Distribution

Company Description

Doximity is a social platform for physicians. Doctors can stay up to date on medical news, manage their career, and utilize free solutions. These free tools include a voice dialer, secure messaging, digital faxing, video visits, and on-call scheduling. Doximity provides these free tools to physicians to drive platform use. The company generates revenue by allowing pharma manufacturers and health systems to advertise on the platform. Doximity also provides Hiring Solutions for health systems.

Investment Rationale

Doximity is an industry leader in the digital transformation of healthcare marketing, changing how pharmaceutical manufacturers and health systems connect with doctors. While growth has slowed, the company exhibits a uniquely high margin profile amongst HCIT peers in a still nascent market. This is offset by a challenging macro that may further pressure growth/margins and concerns about contributions from new modules.

Stock Data

Average Daily Volume 1,640,738

Quarterly Earnings Estimates

	2023	2024
Q1	0.14A	0.19A
Q2	0.17A	0.22A
Q3	0.22A	0.25E
Q4	0.20A	0.21E

Industry leader with strong customer base

Doximity's largest customers are the largest pharmaceutical manufacturers in the world. This group should be more recession resilient than other digital health customers. We expect top 20 pharma budgets will begin normalizing ahead of other, more cyclical businesses. We view the recent easing of long-term interest rates as a potential tailwind for Doximity's customer base.

Separately, our 3Q'23 pharmaceutical advertising survey found that macroeconomic pressures (combined with weaker initial uptake of new modules) were broadly responsible for Doximity's slower growth rate. However, both of these dynamics are finally fully incorporated into consensus revenue growth estimates through FY26 and we do not see any incremental headwinds. Further datapoints from our survey listed below:

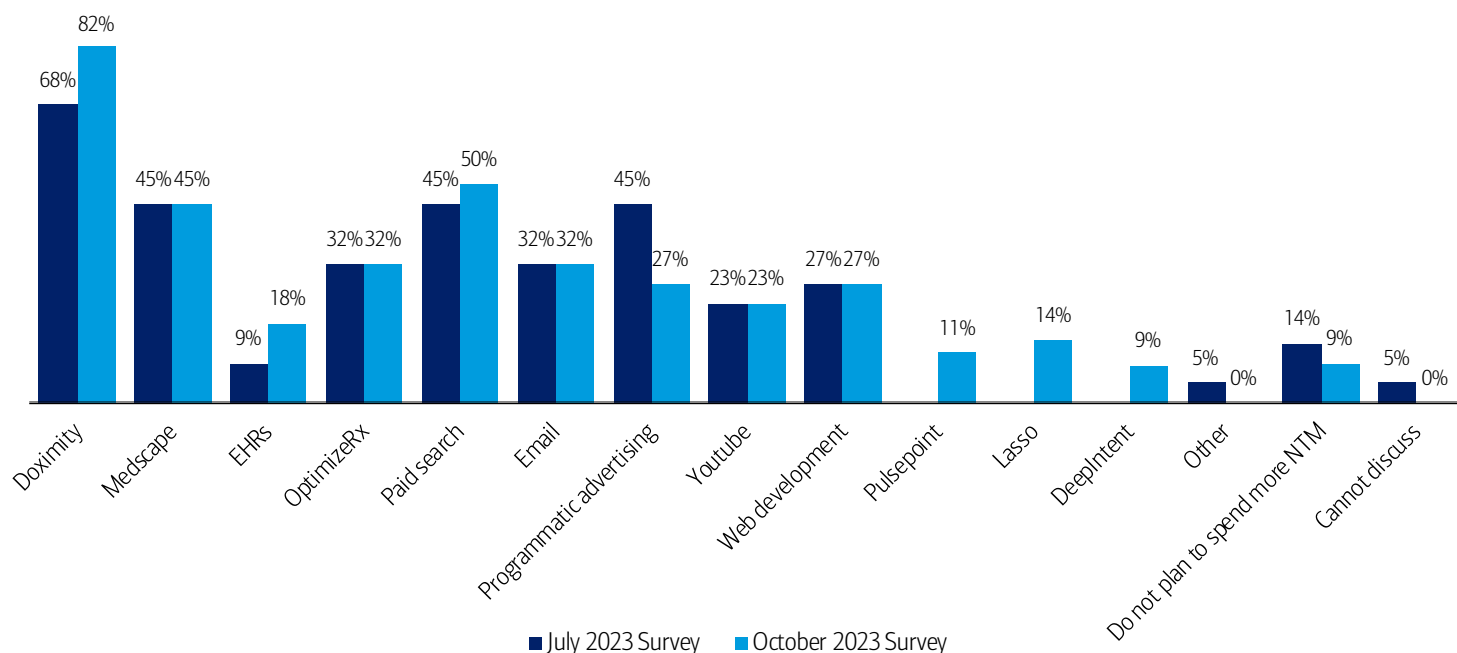
Our 3Q'23 pharmaceutical advertising survey was incrementally positive on Doximity.

- The competitive landscape appears stable with Doximity viewed favorably. There is no indication that programmatic peers are taking share in a meaningful manner.
 - Doximity continues to be viewed favorably vs. peers such as Pulsepoint, Lasso, and DeepIntent given respondents expect the greatest allocation to spend on Doximity, 82% allocation to DOCS vs. 68% in our July survey (Exhibit 1).
 - While the expected allocation in spend remained relatively steady across other categories, programmatic advertising has historically seen the greatest variability in expected allocation across our prior surveys (Exhibit 2).
- Engagement levels have largely remained the same or are improving. Almost half of all respondents reported no change in physician engagement levels with advertisements, while 41% saw an improvement (Exhibit 3).
- Respondents continue to see an increase in discounts offered by digital marketing vendors. In the past 6 months, 63% of all respondents saw an increase in favorable pricing incentives/discounts from digital marketing vendors vs. 60% in our July survey (Exhibit 4).



Exhibit 1: If you plan to spend more on digital marketing over the next 12 months, where is the increase allocated to?

Top 20 pharma respondents expect the greatest allocation in spend to Doximity, paid search, and Medscape



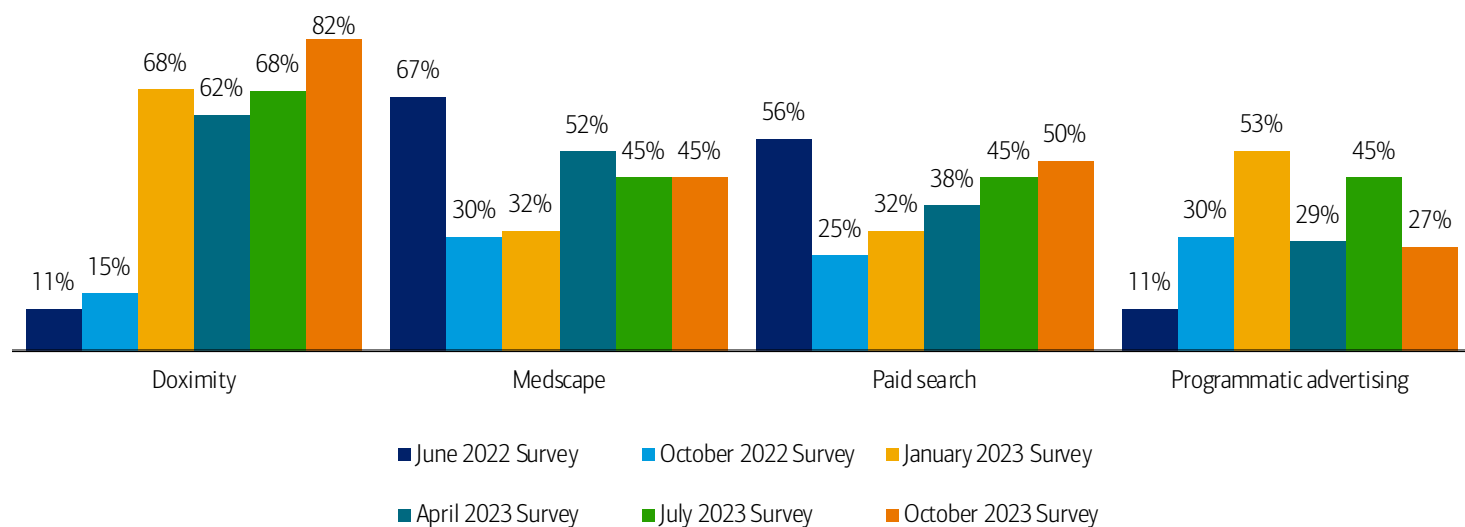
Source: BofA Global Research

Note: Pulsepoint, Lasso, and Deeplint were introduced as vendors to this question selection in our October 2023 survey

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Exhibit 2: If you plan to spend more on digital marketing over the next 12 months, where is the increase allocated to?

Over our past few surveys, top 20 pharma expectations for allocation towards programmatic advertising have fluctuated while DOCS allocation has seen strength

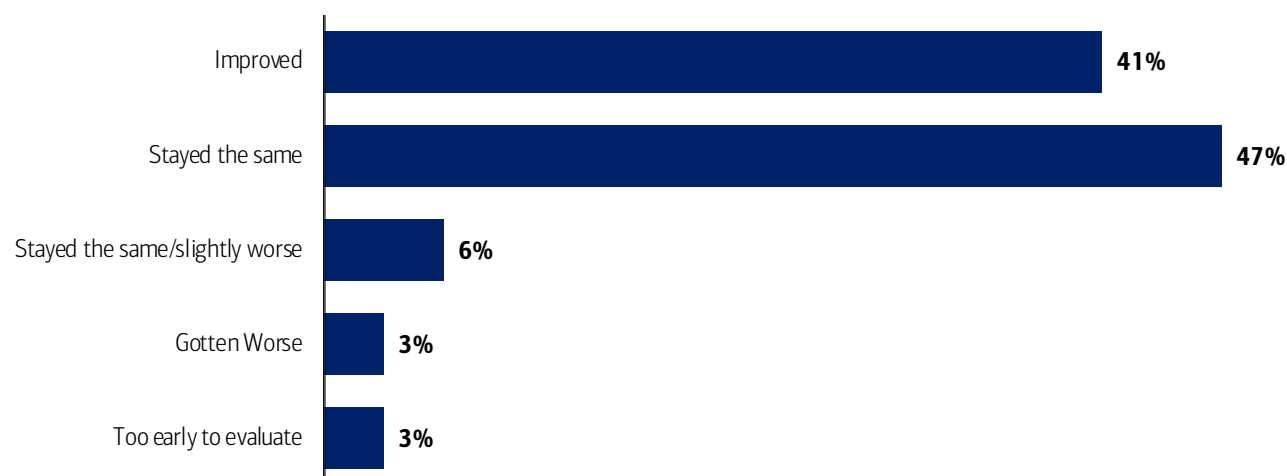


Source: BofA Global Research

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Exhibit 3: For Doximity's platform, have engagement levels with physicians on advertisements changed at all over the past 6-12 months? Have they improved, gotten worse, stayed the same? Anything to note?

Almost half of all respondents reported physician engagement levels on ads remained the same over the past 6-12 months

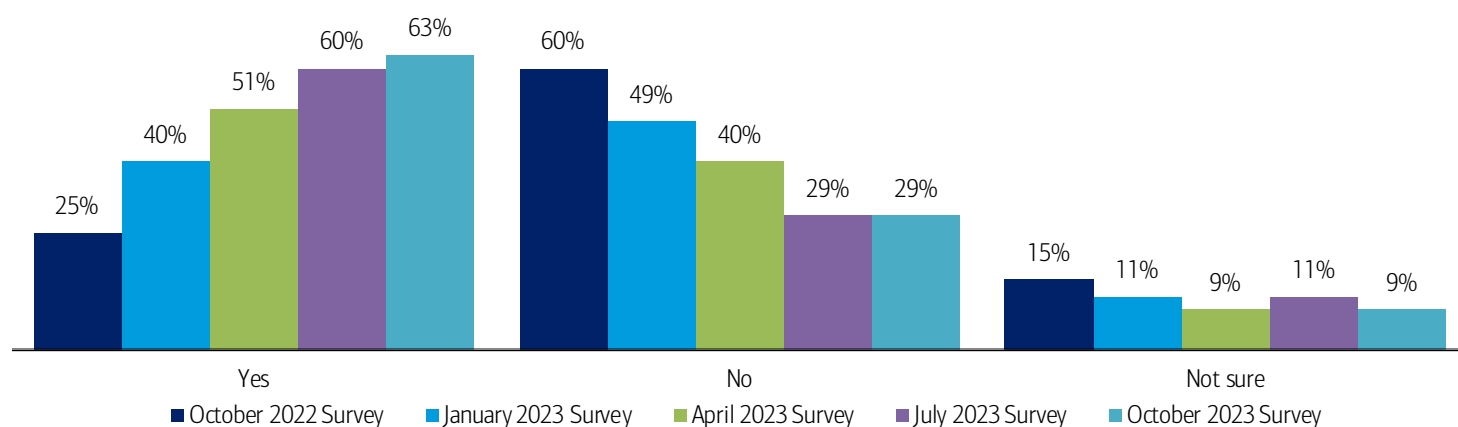


Source: BofA Global Research

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Exhibit 4: In the last 6 months, have you seen an increase in favorable pricing incentives or discounts offered by digital marketing vendors?

Respondents have reported a steady increase in discounts over the past year



Source: BofA Global Research

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Valuation

We consider a peer group of both HCIT and Software/internet peers that collectively represent Doximity's business model and end-markets. While Doximity's growth profile has slowed to low double-digits, the margin profile has improved despite pricing pressure from competitors. Our 22.5x CY24E EV/EBITDA multiple considers a premium to the HCIT peer average of ~16x CY24E EV/EBITDA (Exhibit 5) and a discount to the Software/Internet peer average of ~31x. We believe Doximity's 40%+ EBITDA margin profile and low double-digit revenue growth profile supports a premium to the HCIT peer group. While Doximity's revenue maybe more discretionary in nature vs. peers, we believe Doximity's higher margin and a ROIC profile deserves a premium. We acknowledge there is potential for margin degradation (from increased pricing pressure and/or new module contributions) but expect that Doximity can sustain a premium



margin profile to the wider HCIT group. Meanwhile, we consider a discount to Software/Internet peers with more sustainable growth profiles and equally high-margin business models.

Exhibit 5: HCIT and Software/Internet peer group multiples

We consider a premium multiple to HCIT peers given a peer topping margin profile, but a discount to Software/Internet peers with more sustainable growth profiles.

Company	Ticker	Stock Price		Enterprise Value	Enterprise Value to				Revenue Growth		EBITDA Margin		
		12/28/23	Market Cap		CY23E Revenue	CY24E Revenue	CY23E EBITDA	CY24E EBITDA	CY23E	CY24E	CY23E	CY24E	
Healthcare IT													
Definitive Healthcare	DH	\$10.21	1,588.7	1,553.3	6.2x	5.7x	20.9x	19.1x	12.9%	8.9%	29.5%	29.8%	
IQVIA	IQV	\$232.73	42,473.2	54,989.2	3.7x	3.5x	15.4x	14.5x	3.4%	4.6%	23.9%	24.3%	
Evolent Health	EVH	\$33.52	3,853.4	4,474.9	2.3x	1.9x	22.9x	17.2x	44.2%	19.4%	10.0%	11.1%	
GoodRx	GDRX	\$6.60	2,734.6	2,651.2	3.5x	3.4x	12.5x	11.8x	nm	4.7%	28.3%	28.5%	
Health Catalyst	HCAT	9.57	550.8	452.3	1.5x	1.4x	40.1x	21.9x	6.6%	11.5%	3.8%	6.3%	
HealthEquity	HQY	66.33	5,691.2	6,291.7	6.3x	5.5x	18.0x	14.4x	15.2%	15.9%	35.2%	37.9%	
Progyny	PGNY	37.75	3,798.3	3,647.2	3.3x	2.8x	19.5x	15.9x	38.8%	20.0%	17.2%	17.5%	
Phreesia	PHR	23.59	1,269.0	1,180.0	3.3x	2.8x	nm	nm	26.3%	20.7%	nm	nm	
Teladoc	TDOC	22.10	3,658.8	4,211.3	1.6x	1.5x	13.2x	11.7x	8.6%	6.2%	12.2%	12.9%	
Veeva	VEEV	194.01	31,238.6	27,354.0	11.6x	9.9x	32.1x	26.8x	9.2%	16.8%	36.1%	37.1%	
Veradigm	MDRX	10.48	1,145.0	869.9	1.4x	1.3x	5.2x	5.0x	2.4%	8.6%	26.6%	25.7%	
Mean					4.1x	3.6x	20.0x	15.8x	16.8%	12.5%	22.3%	23.1%	
Median					3.3x	2.8x	18.7x	15.2x	11.1%	11.5%	25.2%	25.0%	
Software/Internet Peers													
Adobe	ADBE	\$595.52	271,140.3	267,378.3	13.7x	12.3x	28.1x	25.3x	10.3%	10.9%	48.5%	48.7%	
Salesforce	CRM	265.58	257,081.4	258,977.4	7.5x	6.8x	18.1x	16.1x	11.5%	11.0%	41.4%	41.9%	
HubSpot	HUBS	589.05	29,647.2	28,837.3	13.4x	11.4x	74.2x	61.1x	24.0%	17.7%	18.1%	18.7%	
ServiceNow	NOW	702.46	144,004.3	142,190.3	15.9x	13.1x	47.8x	39.4x	23.3%	21.1%	33.3%	33.4%	
RingCentral	RNG	34.69	2,907.8	4,510.2	2.0x	1.9x	8.7x	7.3x	10.7%	9.4%	23.5%	25.6%	
Workday	WDAY	276.08	73,005.2	69,388.9	9.7x	8.3x	35.6x	29.8x	17.0%	16.6%	27.2%	27.9%	
Trade Desk	TTD	73.40	32,755.6	31,481.8	16.4x	13.6x	41.4x	34.5x	21.8%	20.4%	39.6%	39.4%	
HubSpot	HUBS	589.05	29,647.2	28,837.3	13.4x	11.4x	74.2x	61.1x	24.0%	17.7%	18.1%	18.7%	
Pinterest	PINS	37.27	21,853.0	19,690.6	6.4x	5.5x	29.2x	22.3x	9.2%	17.5%	22.0%	24.6%	
Bill.com	BILL	83.33	8,896.0	8,062.5	7.1x	6.0x	45.1x	44.4x	34.0%	16.8%	15.7%	13.6%	
DocuSign	DOCU	60.20	12,276.8	11,522.0	4.2x	4.0x	15.5x	14.5x	10.0%	6.1%	27.3%	27.4%	
ZoomInfo	ZI	18.82	7,335.7	8,098.1	6.6x	6.3x	15.5x	14.9x	12.4%	3.5%	42.4%	42.5%	
Mean					9.7x	8.4x	36.1x	30.9x	17.4%	14.1%	29.8%	30.2%	
Median					8.6x	7.5x	32.4x	27.5x	14.7%	16.7%	27.3%	27.7%	

Source: FactSet, BofA Global Research estimates
(\$ in millions, except per share data)

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Price objective basis & risk

Doximity Inc (DOCS)

Our \$29 price objective is based on 22.5x CY24E EV/EBITDA, ahead of profitable health IT peers (group average of 16x) and below Software/Internet peers (group average 31x). We believe that DOCS should trade at a premium to HCIT peers on a EBITDA multiple basis given a peer topping margin profile and at a discount to Software/Internet peers with more sustainable revenue profiles. We believe our target multiple of 22.5x is warranted when considering DOCS low double-digit growth and high margin profile.

Downside risks are slower-than-expected revenue growth through the remainder of FY24 and into FY25. According to our survey, Doximity remains a share gainer in the space, but if programmatic peers take more share, it could hinder revenue growth. Additionally, EBITDA margins could decline in FY25 if pricing pressure persists as our survey indicates an increase in pricing incentives offered across the market. Physicians may also choose to engage less with Doximity's platform or leave it altogether, which would weaken engagement rates with Doximity's core customer base and reduce the utility of the platform for advertisers. Lastly, valuation could contract if revenue growth slows further or margins contract.

Upside risks are faster reacceleration of revenue growth if macro pressure on large pharma abates quickly, and margins expand beyond current expectations driven by better revenue growth and incremental margin pull through.

Analyst Certification

I, Allen Lutz, 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 - Healthcare Technology & Distribution Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Accolade	ACCD	ACCD US	Allen Lutz, CFA
	American Well Corp	AMWL	AMWL US	Allen Lutz, CFA
	Cencora Inc	COR	COR US	Allen Lutz, CFA
	CVS Health	CVS	CVS US	Allen Lutz, CFA
	Definitive Healthcare Corp	DH	DH US	Allen Lutz, CFA
	dentalcorp	YDNTL	DNTL CN	Allen Lutz, CFA
	Envista	NVST	NVST US	Allen Lutz, CFA
	HealthEquity Inc	HQY	HQY US	Allen Lutz, CFA
	Hims & Hers	HIMS	HIMS US	Allen Lutz, CFA
	McKesson	MCK	MCK US	Allen Lutz, CFA
	Omniceil Inc.	OMCL	OMCL US	Allen Lutz, CFA
	Patterson Companies	PDCO	PDCO US	Allen Lutz, CFA
	Progyny	PGNY	PGNY US	Allen Lutz, CFA
	R1 RCM	RCM	RCM US	Allen Lutz, CFA
NEUTRAL				
	Cardinal Health	CAH	CAH US	Allen Lutz, CFA
	Dentsply Sirona, Inc.	XRAY	XRAY US	Allen Lutz, CFA
	Doximity Inc	DOCS	DOCS US	Allen Lutz, CFA
	Teladoc Health	TDOC	TDOC US	Allen Lutz, CFA
UNDERPERFORM				
	GoodRx	GDRX	GDRX US	Allen Lutz, CFA
	Henry Schein	HSIC	HSIC US	Allen Lutz, CFA
	Owens & Minor	OMI	OMI US	Allen Lutz, CFA
	Premier, Inc.	PINC	PINC US	Allen Lutz, CFA
	Walgreens Boots Alliance	WBA	WBA US	Allen Lutz, CFA



US - Healthcare Technology & Distribution 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

EV / EBITDA

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 valuations. 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.

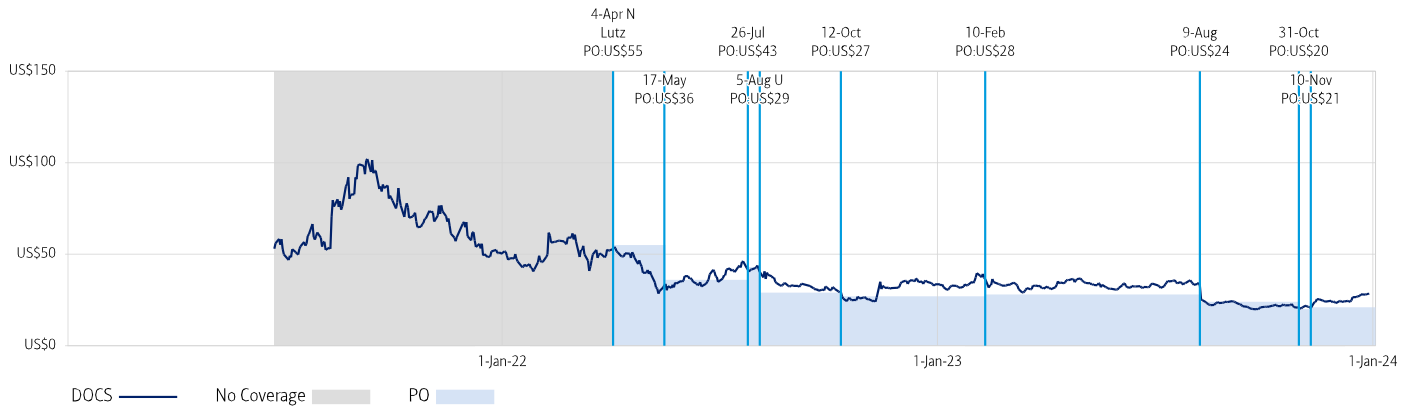
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Disclosures

Important Disclosures

Doximity (DOCS) Price Chart



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: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

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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