

2023. 4. 3

Tech Team

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▶ AT A GLANCE

Recommend	BUY
Target price	KRW96,000 36.6%
Current price	KRW70,300
Market cap	KRW2.1t/USD1.6b
Shares (float)	30,058,498 (45.2%)
52-week high/low	KRW94,600/KRW59,100
Avg daily trading value (60-day)	KRW15.2b/ USD11.7m

▶ ONE-YEAR PERFORMANCE

	1M	6M	12M
Studio Dragon (%)	-8.0	5.7	-23.6
Vs Kosdaq (%pts)	-14.1	-16.1	-14.8

▶ KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	96,000	96,000	0.0%
2023E EPS	2,322	2,322	0.0%
2024E EPS	2,930	2,930	0.0%

▶ SAMSUNG vs THE STREET

No of estimates	12
Target price	102,083
Recommendation	4.0
BUY★★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL★★★: 1	

Studio Dragon (253450)

Pile up track record neatly

- Backed by its strong track record, Studio Dragon has diversified its distribution channels and expanded its production portfolio. Earnings should grow stably on its renewal of the contract with Netflix and signing of a contract with Disney Plus.
- We believe the company's operating profit came in at KRW19.6b in 1Q, 7% short of consensus. Although profitability likely declined y-y on a growing portion of original content, per-episode production budget and margin likely trended higher.
- We reiterate BUY rating and KRW96,000 target price.

WHAT'S THE STORY?

Expanding portfolio based on strong track record: A multitude of Studio Dragon's titles have made splashes around the world. Armed with such track record, the Korean drama production company has diversified its distribution channels, expanded its production portfolio, and increased the production budget per drama. Thanks to its renewal of the contract with Netflix, the firm should enjoy better margins on the dramas that are: 1) produced this year as Netflix original content; and 2) aired simultaneously on domestic networks and Netflix. Furthermore, the company's recent contract with Disney Plus should add some impetus to earnings. Dramas to be made available for streaming simultaneously on Disney Plus should include Pandora: Beneath the Paradise and Family (the latter to be aired in April). The firm has also been stepping up efforts this year to co-produce dramas with foreign partners. The Big Door Prize (Apple TV Plus original content; co-produced with US firm Skydance) became available for streaming and is getting good response. The Big Door Prize's second season is reportedly in production

(Continued on the next page)

SUMMARY OF FINANCIAL DATA

	2022	2023E	2024E	2025E
Revenue (KRWb)	698	806	959	1,096
Operating profit (KRWb)	65	89	111	133
Net profit (adj) (KRWb)	51	70	88	107
EPS (adj) (KRW)	1,684	2,322	2,930	3,574
EPS (adj) growth (% y-y)	29.4	37.8	26.2	22.0
EBITDA margin (%)	31.3	30.4	28.2	27.4
ROE (%)	7.5	10.4	12.0	13.0
P/E (adj) (x)	51.1	30.3	24.0	19.7
P/B (x)	3.9	3.1	2.7	2.4
EV/EBITDA (x)	12.1	8.7	7.7	6.7
Dividend yield (%)	0.0	0.0	0.0	0.0

Source: Company data, Samsung Securities estimates

1Q preview: We believe Studio Dragon's 1Q consolidated sales leap 45.1% y-y to KRW175.7b and that its operating profit rise 8.3% y-y to KRW19.6, missing consensus (KRW21.2b) by 7%. The company likely recognized sales of 109 episodes (specifically, 73 episodes for TV channels and 36 for OTT platforms) in 1Q23, up from 74 episodes in 1Q22. Original content for OTT service providers include: 1) The Glory Part 2 (Netflix); 2) Island Part 1 and 2 and Duty After School Part 1 (Tving and Amazon Prime); and 3) Decoy Part 1 and 2—Decoy Part 2 is scheduled to be broadcast from early April but sales were likely booked in 1Q23. Studio Dragon's topline growth was likely driven by production of more dramas in a wider range of genres, addition of more distribution channels, and a rise in production budget. Its profitability likely declined y-y on a growing portion of original content, but per-episode production budget and margin likely trended higher.

Reiterating BUY: Studio Dragon should enjoy solid earnings momentum on its well-diversified distribution channels and more drama production on better terms and conditions. Judging from its drama production lineup, we expect the momentum to pick up more steam from 2H23. Our BUY rating and KRW96,000 target price (based on 12.2x 12-month forward EV/EBITDA) remains unchanged.

Table 1. Quarterly results and forecasts

(KRWb)	1Q22	4q22	4Q22E	Chg (% q-q)	Chg (% y-y)	Consensus	Diff (%)
Sales	121.1	190.5	175.7	(7.7)	45.1	165.8	6.0
Operating profit	18.1	1.2	19.6	1,562.6	8.3	21.2	(7.4)
Operating margin	15.0	0.6	11.2	10.5	(3.8)	12.8	(1.6)
Pre-tax profit	20.1	(17.0)	21.5	nm	7.1	22.9	(6.0)
Net profit (controlling)	15.6	(8.5)	16.3	nm	4.2	16.9	(3.6)

Source: Company data, WiseFn, Samsung Securities

Table 2. Results and forecasts

(KRWb)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23E	2Q23E	3Q23E	4Q23E	2021	2022	2023E	2024E
Sales	117.1	106.0	116.1	147.9	121.1	157.5	228.9	190.5	175.7	156.5	215.6	257.8	487.1	697.9	774.9	908.4
Programing	43.8	28.2	36.2	53.2	35.4	43.8	59.4	54.0	45.8	45.7	70.8	65.4	161.3	192.5	190.6	212.2
Distribution	63.2	67.5	64.9	79.8	77.7	103.9	165.8	132.8	175.7	156.5	215.6	257.8	275.5	480.2	560.5	671.8
Others	10.1	10.3	15.0	14.9	8.0	9.8	3.8	3.7	147.6	127.2	180.1	223.9	50.3	25.2	23.7	24.4
Gross profit	23.7	20.3	21.0	14.8	25.5	35.4	27.4	11.7	28.1	29.3	35.5	34.0	79.8	100.0	132.0	152.1
SG&A	5.8	6.5	6.4	8.4	7.4	8.4	8.4	10.5	8.5	8.4	9.3	11.2	27.2	34.8	37.1	40.0
Operating profit	17.9	13.8	14.6	6.3	18.1	27.0	18.9	1.2	19.6	20.8	26.2	22.8	52.6	65.2	94.9	112.1
Non-operating profit	3.2	0.3	3.9	-7.9	2.0	3.0	6.5	(18.1)	1.9	0.5	1.5	(0.9)	-0.6	-6.6	2.6	5.2
Pre-tax profit	21.1	14.0	18.5	-1.6	20.1	30.0	25.5	-17.0	21.5	21.3	27.6	21.8	52.0	58.6	97.5	117.4
Net profit (controlling)	15.6	9.5	14.8	-0.8	15.6	25.6	17.8	-8.5	16.3	16.1	20.9	16.5	39.0	50.6	73.7	88.7
Gross margin	20.2	19.2	18.1	10.0	21.1	22.5	12.0	6.1	16.0	18.7	16.5	13.2	16.4	14.3	17.0	16.7
Operating margin	15.3	13.0	12.6	4.3	15.0	17.1	8.3	0.6	11.2	13.3	12.2	8.8	10.8	9.3	12.3	12.3
Net margin (controlling)	13.3	8.9	12.8	-0.5	12.9	16.2	7.8	-4.4	9.3	10.3	9.7	6.4	8.0	7.2	9.5	9.8
Chg (% y-y)																
Sales	-2.7	-34.3	9.2	7.4	3.4	48.5	97.2	28.8	45.1	-0.6	-5.8	35.4	-7.3	43.3	11.0	17.2
Programing	-3.2	-56.9	-20.8	30.7	-19.1	55.4	64.0	1.5	29.5	4.4	19.3	21.1	-18.1	19.4	-1.0	11.3
Distribution	-5.5	-10.8	27.7	-7.5	23.0	53.8	155.2	66.4	126.1	50.6	30.1	94.1	-1.5	74.3	16.7	19.9
Other	24.0	-49.3	54.0	39.3	-21.5	-5.1	-74.8	-75.3	1,755	1,202	4,677	5,984	2.9	-49.9	-5.7	2.7
Gross profit	42.2	-6.9	-1.3	-1.7	7.8	74.0	30.5	-20.7	10.1	-17.2	29.6	190.3	6.7	25.4	32.0	15.2
SG&A	14.0	33.6	21.0	-19.1	27.7	28.1	31.7	25.1	14.3	0.7	10.1	6.4	5.8	27.9	6.7	7.7
Operating profit	53.6	-18.2	-9.0	37.6	1.4	95.7	29.9	-81.4	8.3	-22.8	38.3	1,830.6	7.0	24.0	45.6	18.1
Non-operating profit	642.7	-20.8	nm	nm	-37.8	1,085.2	67.8	nm	-3.8	-84.6	-77.7	nm	nm	nm	nm	100.7
Pre-tax profit	75.3	-18.2	21.3	nm	-4.6	113.7	37.9	nm	7.1	-29.0	8.6	nm	25.2	12.7	66.4	20.3
Net profit (controlling)	82.2	-29.1	39.6	nm	0.4	170.2	20.5	nm	4.2	-37.0	17.2	nm	31.8	29.5	45.8	20.3
Gross margin	6.4	5.7	-1.9	-0.9	0.9	3.3	-6.1	-3.8	-5.1	-3.8	4.5	7.0	2.2	-2.0	2.7	-0.3
Operating margin	5.6	2.6	-2.5	0.9	-0.3	4.1	-4.3	-3.7	-3.8	-3.8	3.9	8.2	1.5	-1.4	2.9	0.1
Net margin (controlling)	6.2	0.7	2.8	1.6	-0.4	7.3	-5.0	-3.9	-3.6	-5.9	1.9	10.8	2.4	-0.8	2.3	0.3

Source: Company data, Samsung Securities

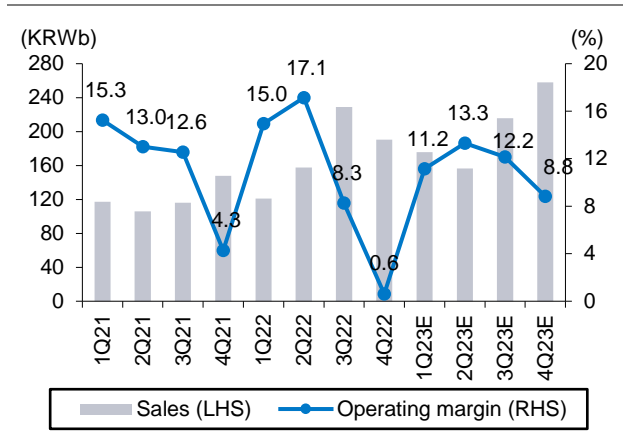
Table 3. Drama lineup(2023~)

Year	No.	Channel	Title	Air dates	Episodes	Writers	Director	Cast	Days
2023	1	tvN	Alchemy of Souls: Part 2	Dec 10, 2022-Jan 8, 2023	10	Hong sisters	Park Joonhwa	Lee Jaewook, Hwang Minhyun	Sat, Sun
	2		Missing: The Other Side 2	Dec 19, 2022-Jan 31, 2023	14	Ban Giri, Jeong Soyeong	Min Yeonhong, Lee Yerim	Go Su, Heo Junho, Ahn Sohui	Mon, Tue
	3		Joseon Psychiatrist Yoo Se Poong 2	Jan 1-Feb 9	10	Park Seulki	Park Wongook	Kim Minjae, Kim Hyanggi	Wed, Thu
	4		One Hit Scandal	Jan 14-Mar 5	16	Yang Heeseung	Yoo Jewon	Jeon Doyeon, Jung Kyungho	Sat, Sun
	5		Youth Monthly Talk	Feb 6-Apr 11	20	Jung Hyunjung	Lee Jongjae	Park Hyungsik, Jeon Sony	Wed, Thu
	6		The Heavenly Idol	Feb 15-Mar 23	12	Lee Chunggeum	Park Soyeon	Kim Mingyu, Go Bogyeol	Wed, Thu
	7		Pandora: Beneath the Paradise	Mar 11-Apr 30	16	Hyun Jimin	Choi Younghoon	Lee Jiah, Lee Sangyoon	Sat, Sun
	8		Stealer- Seven Joseon Notices	Apr 12-May 18	12	Shin Kyungil	Choi Joonbae	Joo Won, Lee Joowoo	Wed, Thu
	9		Family: The Unbreakable Bond	Apr 17-May 23	12	Jung yoosun	Jang Jungdo	Jang Hyeok, Jang nara	Mon, Tue
	10		Tale of the Nine Tailed	May 6-Jun 11	12	Han Woori	Kang Shinhyo	Lee Donguk, Kim Doyeon	Sat, Sun
	11		Beneficial Fraud	May 29-July 18	16	Han Wooju	Lee Suhyeon	Cheon Woohee, Kim Dongwook	Mon, Tue
	12		See you in My 19th Life	June, 2023	12	Choi Yeonglim	Lee Najung	Shin Hyeeseon, Ahn Bohyeon	Sat, Sun
	13		Useless Lie	June, 2023	16	Seo Jeongeun	Nam Sungwoo	Kim Sohyeon, Hwang Minhyun	Wed, Thu
	14		The Uncaany Cunter S2	July, 2023		Kim Saebom	Yoo Sundong	Jo Byeonggyu, Yu Junsang	Sat, Sun
	15		Athdal Chronicles 2	2023	12	Kim Yeonghyeon	Kim Kwangsik	Sin Segyeong, Lee Junki	Sat, Sun
	16		Queen of Tears	2023		Park Jieun	Kin Heewon	Kim Sohyeon, Kim Jiwon	Sat, Sun
17	TVING	Island Part1 (Amazon prime)	Dec 30, 2022-Jan 13, 2023	6	Oh Bohyeon	Bae Jong	Kim Namgil, Lee Dahee		
17-(2)		Island Part2 (Amazon prime)	Feb 24-Mar 10	6	Oh Bohyeon	Bae Jong	Kim Namgil, Lee Dahee		
18		Duty After School Part1	Mar 31	6	Lee Namkyu	Sung Yongil	Shin Hyeonsoo, Lee soonwon		
18-(2)		Duty After School Part2	2023	6	Lee Namkyu	Sung Yongil	Shin Hyeonsoo, Lee soonwon		
19	Netflix	The Glory Part 2	Mar 10	8	Kim Eunsook	Ahn Gilho	Song Hyekyo, Lee Dohyun		
20		Celebrity (4Q22 Delivery)	2023	12	Kim Yiyoung	Kim Chulkyu	Lee Chunga, Park Kyuyoung		
21		Thief: Sound of the Sword	2023		Han Jungmoon	Hwang Joonhyuk	Kim Namgil, Seo Hyun		
22		Gyeongseong Creature	2023	10	Kang Eungyeong	Jeong Dongyun	Park Seojun, Han Sohee		
23		The Girl Downstairs	2023	8	Jang Yuha	Lee Jeonghyo	Bae Suzy, Yang Sejong		
24		Sweet Home 2	2023			Lee Eungbok	Song Kang, Lee Jinwook		
25	Disney+	Shadow Detective 2	July, 2023		Im Changse	Han Donghwa	Lee Sungmin, Jung Jinyoung		
26	AppleTV+	The Big Door Prize (3Q22-4Q22 Delivery)	Mar 31-May 17	10	David West Read	Anu Valia	Chris O'Dowd		
27		The Big Door Prize 2	2023						
28	Coupang Play	Decoy Part 1	Jan 27-Feb 10	6	Kim Jinwook	Kim Hongseon	Jang Geunseok, Heo Sungtae	Fri	
28-(2)		Decoy Part 2 (1Q23 Delivery)	Apr 7-Apr 21	6	Kim Jinwook	Kim Hongseon	Jang Geunseok, Heo Sungtae		
TBD	TBD	When the Stars Gossip	TBD		Seo Sookhyang	Park Shinwoo	Gong Hyojin, Lee Minwoo		
		The Price of Confession	TBD		Kwon Jongkwan	Sim Nayeon	Song Hyegyo, Han Sohee		
		Diva of the Deserted Island	TBD		Park Hyeryeon	Oh Choonghwan	Park Eunbin		
		Hierachy	TBD				No jungeui		
		The Plotters	TBD				*Universal Studio (coproduct)		
		Mastermind	TBD				*CBS Studio (coproduct)		
	7	Netflix	Sweet Home 3	2024		Lee Eungbok	Song Kang, Lee Jinwook		
	8		Gyeongseong Creature 2	TBD		Kang Eungyeong	Jeong Dongyun	Park Seojun, Han Sohee	
	9		Whielwind	TBD		Park Kyeongsoo	Kim Yongwan		
	10		Crash Landing on you (US)	TBD					

Note: Titles highlighted in green are streamed through Netflix, light blue Tving, and orange Disney+

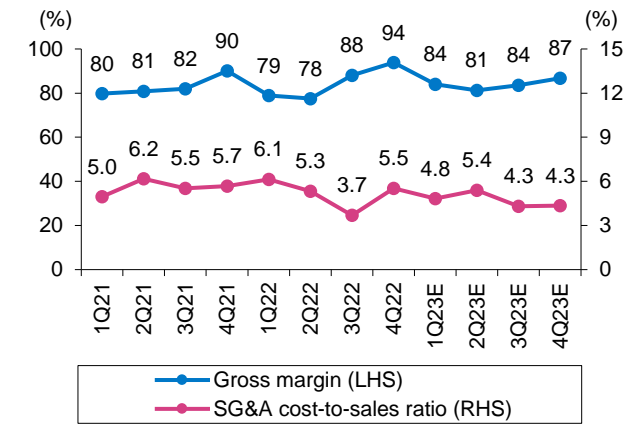
Source: Company data, Samsung Securities

Chart 1. Quarterly sales and operating margin



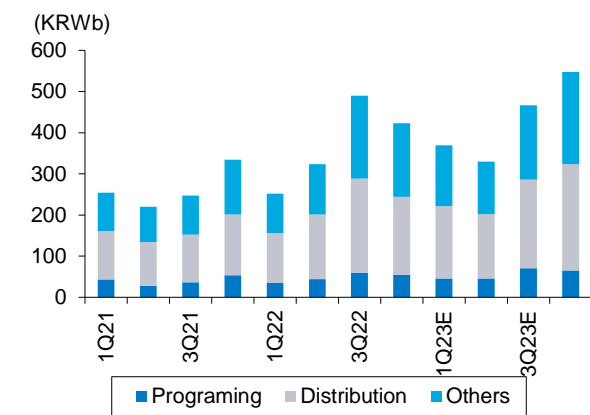
Source: Company data, Samsung Securities

Chart 2. Quarterly gross margin vs SG&A cost-to-sales ratio



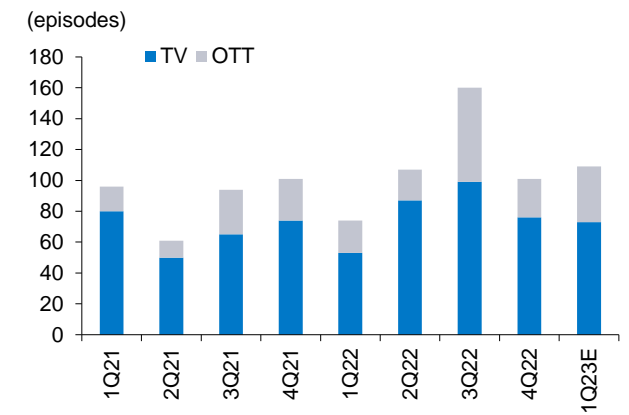
Source: Company data, Samsung Securities

Chart 3. Quarterly sales by departments



Source: Company data, Samsung Securities

Chart 4. Quarterly distribution episodes by channels



Source: Company data, Samsung Securities

Chart 5. Duty After School (Tving; Mar 31)



Source: Company data, Samsung Securities

Chart 6. The Big Door Prize (AppleTV+; Mar 29)



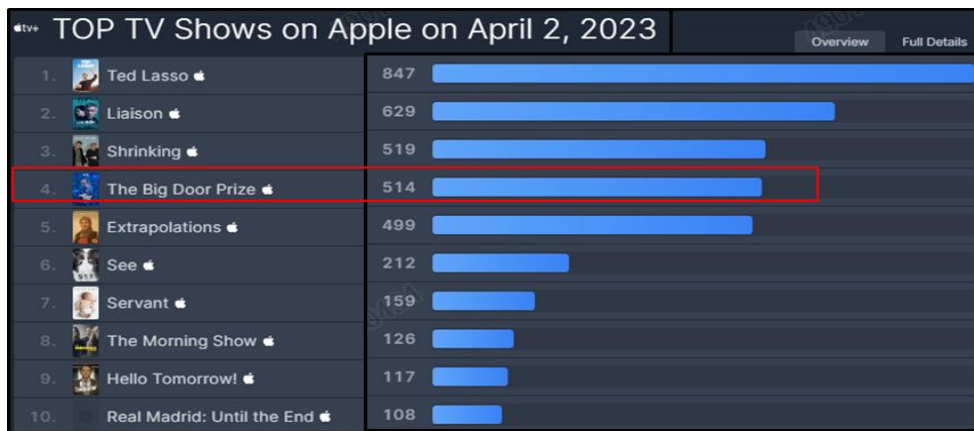
Source: Company data, Samsung Securities

Chart 7. Decoy part 2 (Coupang play; Apr 7)



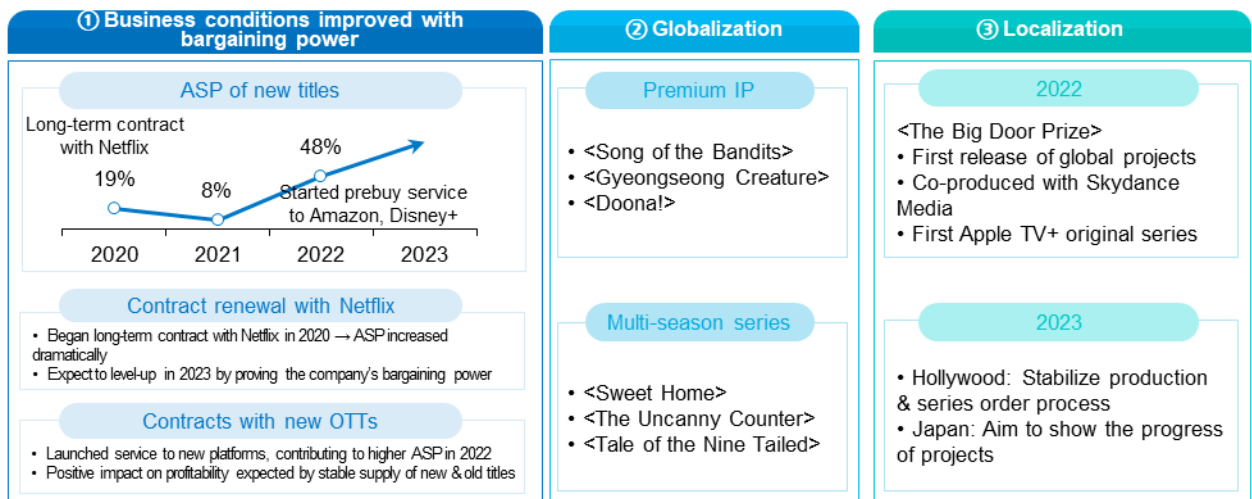
Source: Company data, Samsung Securities

Chart 8. Reaction to AppleTV+ Original Series 'The Big Door Prize'



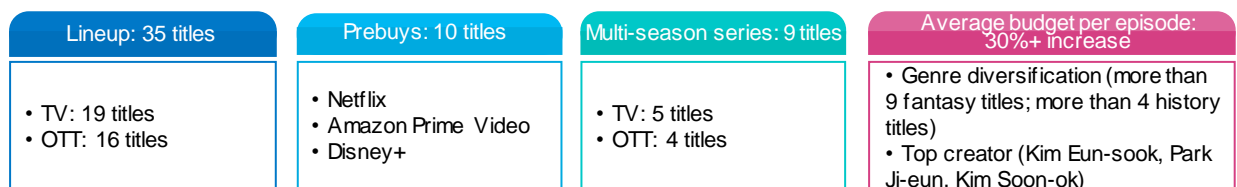
Note: 'The Big Door Prize' is work with Skydancemedia. three episodes were released on Mar 29 and will be one by one.
Source: Company data, Samsung Securities

Chart 9. Strategies for 2023



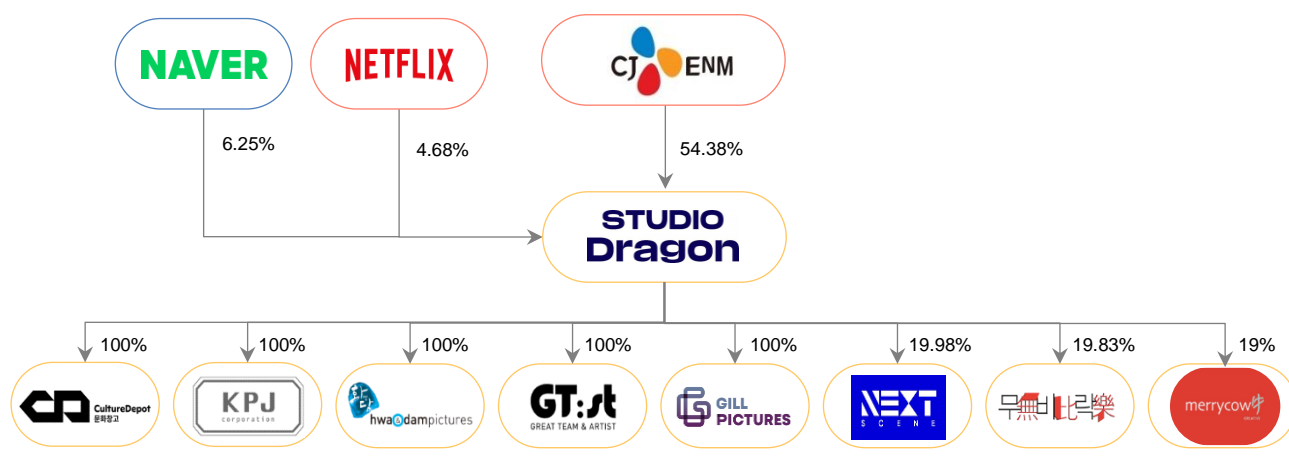
Source: Company data, Samsung Securities

Chart 10. Ambitious 2023 targets



Source: Company data, Samsung Securities

Chart 11. Ownrship structure



Note: As of 3Q22

Source: Company data, Samsung Securities

Table 4. Changes to full-year forecasts

(KRWb)	2023E			2024E		
	Previous	Revised	Chg (%)	Previous	Revised	Chg (%)
Sales	774.9	805.7	4.0	908.4	959.1	5.6
Operating profit	94.9	89.4	-5.8	112.1	110.8	-1.2
Operating margin (% , %pts)	12.3	11.1	-1.2	12.3	11.5	-0.8
Pre-tax profit	97.5	92.3	-5.4	117.4	116.5	-0.8
Net profit (controlling)	73.7	69.8	-5.4	88.7	88.1	-0.8

Source: Company data, Samsung Securities

Income statement

Year-end Dec 31 (KRWb)	2021	2022	2023E	2024E	2025E
Sales	487	698	806	959	1,096
Cost of goods sold	407	598	679	808	920
Gross profit	80	100	127	151	177
Gross margin (%)	16.4	14.3	15.7	15.7	16.1
SG&A expenses	27	35	37	40	43
Operating profit	53	65	89	111	133
Operating margin (%)	10.8	9.3	11.1	11.5	12.2
Non-operating gains (losses)	-1	-7	3	6	9
Financial profit	14	21	19	20	22
Financial costs	10	19	13	11	9
Equity-method gains (losses)	0	0	0	0	0
Other	-5	-9	-3	-4	-5
Pre-tax profit	52	59	92	116	142
Taxes	13	8	23	28	35
Effective tax rate (%)	24.9	13.7	24.4	24.4	24.4
Profit from continuing operations	39	51	70	88	107
Profit from discontinued operations	0	0	0	0	0
Net profit	39	51	70	88	107
Net margin (%)	8.0	7.2	8.7	9.2	9.8
Net profit (controlling interests)	39	51	70	88	107
Net profit (non-controlling interests)	0	0	0	0	0
EBITDA	152	219	245	270	300
EBITDA margin (%)	31.1	31.3	30.4	28.2	27.4
EPS (parent-based) (KRW)	1,301	1,684	2,322	2,930	3,574
EPS (consolidated) (KRW)	1,301	1,684	2,322	2,930	3,574
Adjusted EPS (KRW)*	1,301	1,684	2,322	2,930	3,574

Cash flow statement

Year-end Dec 31 (KRWb)	2021	2022	2023E	2024E	2025E
Cash flow from operations	-8	-63	248	239	294
Net profit	39	51	70	88	107
Non-cash profit and expenses	119	176	183	192	204
Depreciation	4	3	2	2	1
Amortization	95	150	153	158	166
Other	20	23	28	32	37
Changes in A/L from operating activities	-155	-280	18	-12	17
Cash flow from investments	27	-43	-155	-180	-193
Change in tangible assets	-2	-4	0	0	0
Change in financial assets	0	0	0	0	0
Other	28	-39	-155	-180	-193
Cash flow from financing	-3	165	-13	-9	-9
Change in debt	0	172	-3	0	0
Change in equity	0	3	0	0	0
Dividends	0	0	0	0	0
Other	-4	-9	-9	-9	-9
Change in cash	16	59	41	42	87
Cash at beginning of year	49	65	124	165	207
Cash at end of year	65	124	165	207	294
Gross cash flow	158	226	253	280	311
Free cash flow	-11	-67	248	239	294

Note: * Excluding one-off items

** Fully diluted, excluding one-off items

*** From companies subject to equity-method valuation

Source: Company data, Samsung Securities estimates

Balance sheet

Year-end Dec 31 (KRWb)	2021	2022	2023E	2024E	2025E
Current assets	233	400	417	491	565
Cash & equivalents	65	124	165	207	294
Accounts receivable	124	142	160	167	166
Inventories	0	0	0	0	0
Other current assets	44	135	93	117	106
Fixed assets	652	691	696	729	767
Investment assets	241	150	151	159	164
Tangible assets	8	11	9	7	6
Intangible assets	298	378	394	413	439
Other long-term assets	105	152	142	150	159
Total assets	884	1,091	1,113	1,220	1,332
Current liabilities	184	416	412	431	435
Accounts payable	17	16	26	29	38
Short-term debt	0	170	170	170	170
Other current liabilities	167	230	216	231	227
Long-term liabilities	17	14	13	14	14
Bonds & long-term debt	0	0	0	0	0
Other long-term liabilities	17	14	13	14	14
Total liabilities	200	430	425	445	449
Owners of parent equity	684	661	688	776	883
Capital stock	15	15	15	15	15
Capital surplus	470	473	473	473	473
Retained earnings	162	213	282	370	478
Other	37	-40	-83	-83	-83
Non-controlling interests' equity	0	0	0	0	0
Total equity	684	661	688	776	883
Net debt	-54	59	15	-28	-115

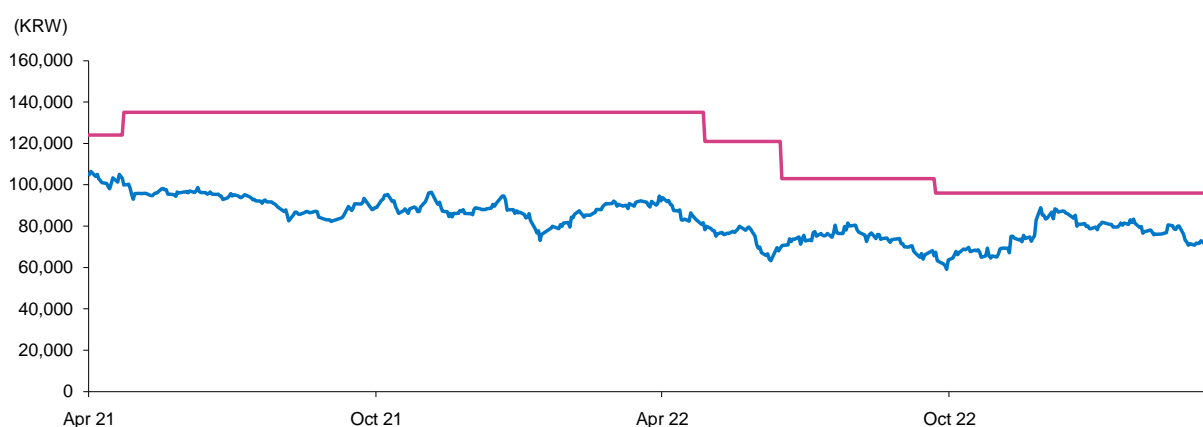
Financial ratios

Year-end Dec 31	2021	2022	2023E	2024E	2025E
Growth (%)					
Sales	-7.3	43.3	15.4	19.0	14.3
Operating profit	7.0	24.0	37.1	23.8	20.3
Net profit	31.8	29.5	38.0	26.2	22.0
Adjusted EPS**	24.6	29.4	37.8	26.2	22.0
Per-share data (KRW)					
EPS (parent-based)	1,301	1,684	2,322	2,930	3,574
EPS (consolidated)	1,301	1,684	2,322	2,930	3,574
Adjusted EPS**	1,301	1,684	2,322	2,930	3,574
BVPS	22,785	21,982	22,878	25,808	29,382
DPS (common)	0	0	0	0	0
Valuations (x)					
P/E***	69.9	51.1	30.3	24.0	19.7
P/B***	4.0	3.9	3.1	2.7	2.4
EV/EBITDA	17.7	12.1	8.7	7.7	6.7
Ratios (%)					
ROE	6.0	7.5	10.4	12.0	13.0
ROA	4.8	5.1	6.3	7.5	8.4
ROIC	10.9	12.1	12.6	15.0	17.3
Payout ratio	0.0	0.0	0.0	0.0	0.0
Dividend yield (common)	0.0	0.0	0.0	0.0	0.0
Net debt to equity	-7.8	8.9	2.1	-3.5	-13.0
Interest coverage (x)	67.6	13.2	9.7	12.1	14.6

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Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2021/1/22	5/7	2022/5/7	2022/5/12	6/30	10/6
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	124000	135000	135000	121000	103000	96000
Gap* (average)	-19.74	-33.60	-39.75	-39.04	-28.47	
(max or min)**	-12.50	-25.78	-39.56	-33.88	-20.87	

Note: * [(average, maximum, or minimum share price over duration of target price minus target price) / target price] x 100%

** Maximum/minimum share price if new target is higher/lower than market close on the business day prior to target price change

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Company

BUY	Expected to increase in value by 10% or more within 12 months and is highly attractive within sector
HOLD	Expected to increase/decrease in value by less than 10% within 12 months
SELL	Expected to decrease in value by 10% or more within 12 months

Industry

OVERWEIGHT	Expected to outperform market by 5% or more within 12 months
NEUTRAL	Expected to outperform/underperform market by less than 5% within 12 months
UNDERWEIGHT	Expected to underperform market by 5% or more within 12 months

Percentage of ratings in 12 months prior to 2023.03.31

BUY(78.1%)-HOLD(21.9%)-SELL(0%)

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