

Pivot Technology Solutions Inc.

AGM Illustrates Turnaround in Full Effect; Services Pedigree Gaining Scale with Smart Edge Details Revealed in Comprehensive Update

PTG-TSX: C\$1.45
Buy
C\$2.50 Target

Event: Pivot held its AGM and provided a business update. All figures are in US\$ unless otherwise noted.

Investment Thesis: We believe Pivot will continue to deliver robust cash-flow at a leaner operating structure with a focus on quality revenue. The recent reductions in operating expenses and cost of goods sold over the past few quarters are impressive and have been increasingly evident. We believe the turnaround at Pivot has picked up steam as a consequence of revenue from majors declining starting in Q318 and should benefit the Company positively in the quarters & years to come. With now a focus on more accretive revenue contribution and profitability, we believe the core business at Pivot still has room for improvement on services growth & contribution and expect to see results from this division improve in the coming quarters as its salesforce evolves to the new selling model. However, with this being said, we believe the principal business at Pivot remains healthy and the Company at the core is on much better footing today than one-year ago. We believe the marketplace has been placing excessive risk on its cash flows and dividend sustainability, for which we do not currently see. Smart Edge continues to be a valuation wild card in our view – we continue to believe Smart Edge would best be valued sold in its entirety to a partner or as a standalone spinout and expect further updates in due course. We believe much of the core legacy/integration issues at Pivot have been addressed in 2018 and thus far in 2019 and the Company is in a much better position today to focus on shareholder value creation in a clean and orderly manner. We note the focus is on profitability and cash flow (i.e. quality of revenue). We believe upside exists to our 2019 estimates as management continues its efforts of prudent, focused execution with upside potential in our PT as we do not include any contribution from Smart Edge commercialisation efforts. **We maintain our BUY rating our 12-month DCF based price target of C\$2.50.**

Majors & Services/Solutions: It is without a doubt that revenue from PTG’s major customers has been on a decline since Q318 – majors in Q119 represented 9.9% of revenue (a record low) compared to 22.1% in Q118, which led to a gross margin of 12.4% vs. 10.6% y/y. While revenue from majors has declined for various reasons beyond control, Pivot has not lost them as customers. Pivot provided services declined 16% y/y in Q119 and attributable to certain workforce services contracts winding down in 2018 – the two services contracts announced in Q119 that carry revenue in excess of \$10M began deployment late in Q119 and should benefit near term services numbers (Q219 & Q319). The Company has noted its services pipeline has been growing over the past several quarters and will be reflected in H219 results with the profitability of a services dollar improving.

Leadership Position in Edge Computing: A highlight from the AGM was the vision CEO Kevin Shank shared of Pivot becoming the “Number 1 Edge Services Provider in North America”. According to a survey conducted by ZDNet, 75.9% of businesses noted that Edge Computing is Important, Very Important, or Critically Important to improving business processes and productivity. Cisco estimates that there will be 10B mobile connected devices by 2019 and 30B IoT devices connected to internet by 2020. The proliferation of connected devices at the network edge disrupts traditional WAN services and provides a very compelling case for Pivot to have a fortitude in Edge deployed and managed services, complementing its leading

Projected Total Return: 83%

Market Data (US\$ Unless Otherwise Noted)

Market Capitalization	44
Net Debt	145
Enterprise Value	188
Basic Shares O/S	39.5
Avg. Daily Volume (M)	0.071
52 Week Range (C\$)	\$1.97 / \$0.83
Dividend Yield	11.0%

Management

CEO	Kevin A. Shank
CFO	David A. Toews, CPA

Top Institutional Ownership

	% Held
Canoe Financial LP	1.7%
Timelo Investment Management, Inc.	0.9%
Dimensional Fund Advisors LP	0.2%

Total Insider Ownership 4.6%

Revisions

	New	Old
2019 Revenue	1,232	1,232
2019 Adj. EBITDA	21	21
2019 EPS	(0.14)	(0.14)

Financial Metrics (US\$M)

	2018	2019E	2020E
FYE 31-Dec			
Total Revenue	1,374	1,232	1,270
Adjusted EBITDA	16	21	27
Adjusted EBITDA (%)	1.1%	1.7%	2.1%
Fully Diluted IFRS EPS	(0.11)	(0.14)	0.09

Valuation Data

		1.45	2.50
DCF - Current/Target			
EV/Rev	0.14	0.15	0.15
EV/EBITDA	12.1	8.8	7.1
P/E	NM	NM	12.6

Quarterly Data (US\$M)

		Q1	Q2	Q3	Q4
Revenue	2018	369	381	321	302
	2019	296	309	310	317
Adj. EBITDA	2018	1.5	5.1	4.2	4.8
	2019	3.3	5.3	6.4	6.5
EPS	2018	(0.06)	0.01	(0.07)	0.01
	2019	(0.09)	(0.05)	(0.02)	0.02

Company Description

Pivot Technology Solutions, Inc. provides information technology services. It designs, sells, and supports information technology (IT) solutions which include hardware, maintenance, and support. It also offers data centre, management, infrastructure management, systems architecture, technical services, and procurement/integration services.



Source: Consensus Data – FactSet,
Historicals – Company Filings,
Forecasts/Estimates – Echelon Wealth
Partners

position as an Edge software developer in its Smart Edge subsidiary. We look for more on this new and developing service area of Pivot's in due course.

New Credit Facility to Enhance Flexibility: PTG recently renewed its \$225M (with \$75M accordion, up from \$50M previously) credit facility with JP Morgan Chase Bank for a five-year period ending May 2024. The new agreement includes a springing dominion amendment that provides for increased flexibility over cash management, a 0.25% reduction in interest rates and improved flexibility for making restricted payments. We view this as a positive renewal and on more beneficial terms for the Company.

Cost Reductions: PTG continues to make rapid progress on its cost saving initiatives as part of its transformation, having eliminated \$8M in annual cost from the business as of Q119 against its initial target of \$5M. We are inclined to believe there is room to cut additional cost from the business. The impact of the cost reduction program on the overall business cannot be understated given the recent weakness in sales to major customers in right sizing Pivot for its current business climate and focusing on profitability. Despite lower revenue numbers in Q318, Q418, and Q119, gross profit dollars have been relatively consistent due to the offsetting benefits to gross margin.

Smart Edge Advancement: Smart Edge continues to gain momentum hitting technical/operational achievements with the recent Frost & Sullivan Technology Innovation Award (see our note [here](#)) and 2019 Intel Partner of the Year Award. Smart Edge was present earlier this year at Mobile World Congress 2019 in Barcelona where a relationship between Smart Edge, AT&T, LG, Cloudpick and Intel was revealed in deploying retail applications using MEC (see article [here](#)). We note that of the aforementioned companies, Cloudpick recently raised series A+ funds in April with Intel Capital leading the round (see link [here](#)). We believe Smart Edge monetization could occur as early as this year and continue to consider the possibility of a full divestiture rather than a standalone spin-out. We encourage readers to listen to a recorded podcast from Mobile World Congress 2019 [here](#) where Mo Katibeh, Chief Marketing Officer for AT&T (T-US, NR) Business and Bob Pike, CEO and CTO of Smart Edge, discuss ongoing collaboration efforts and rapid innovation at the Edge as well as some of the current deployments and proof of concepts. Just last week it was announced Smart Edge was awarded with a U.S. Patent for its platform for mobile edge computing – the U.S. Patent Office cited the imbedded multi-layered security as a key reason for patent application approval. We believe this patent award is likely one of the last few validating milestones remaining prior to commercialisation/monetization.

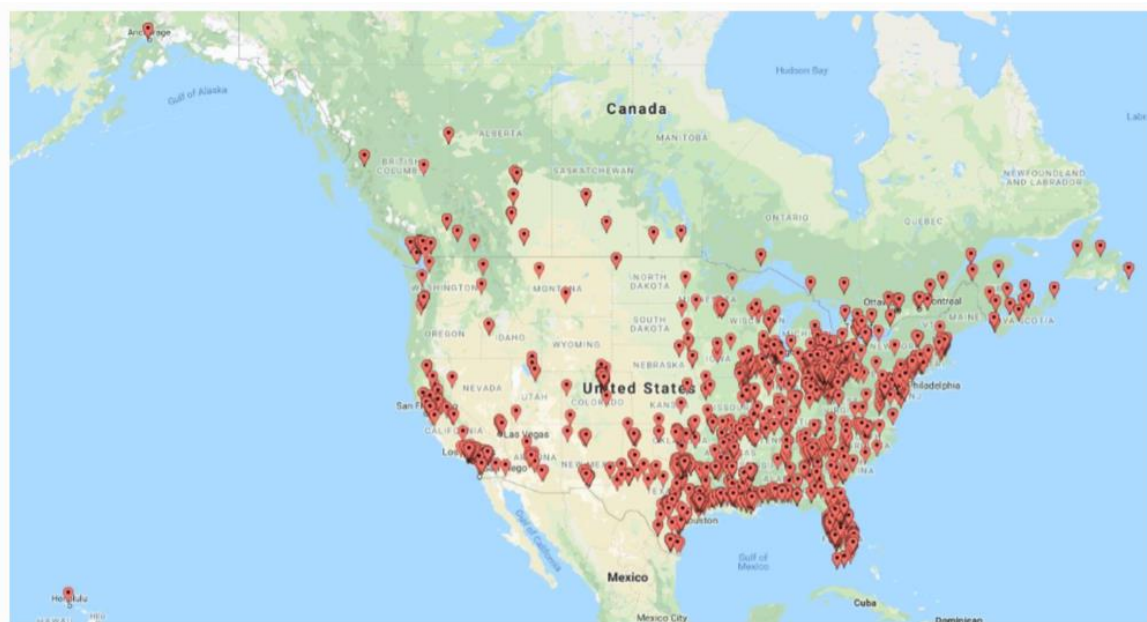
Shareholder Yield: Net-spend on Smart Edge in 2018 amounted \$5.1M, up from \$2.4M in 2017. 2018's spend on Smart Edge was more than enough to double the current annual dividend, which totalled \$4.9M in 2018. Pivot's 2018 current adjusted shareholder yield is 25.8%, calculated as dividends paid (\$4.9M) plus net share buybacks (\$1.4M) plus net smart-edge spend (\$5.1M) divided by current market capitalisation (\$44.1M). We believe the recent Q119 results mark a good start to the year versus expectations given Q1 has historically been the seasonally softest quarter in the year, of which management believes will be the case again this year. 2018's distributable payout ratio was 73% and we are forecasting a 2019 payout ratio of 67%, inclusive of estimated further restructuring charges. The Company recently announced it has renewed its NCIB program of which we expect to become active in due course.

AGM Reaffirms Turnaround in Full Effect

Below we share select slides from the AGM presentation that highlight the ongoing turnaround efforts at Pivot and robust potential at Smart Edge.

Pivot has employed an approach of targeting its largest 50 accounts and penetrating deeper within, having a much fuller toolbox of services and solutions able to now offer its closest customers in geographies it historically wasn't capable of servicing.

Exhibit 1 – Pivot Reach Growing



2018 Pivot Deployed Labor & Support

- ~10,000 Tickets
 - Install
 - Moves
 - Changes
 - Surveys
 - Repairs
- 1,244 Customer Locations
- Flexible & reusable associate network
- Access to ~ 8,000 resources, covering >95% of addressable market

Source: Company documents

Pivot continues to transform its salesforce in the approach to selling services/solutions in an ongoing evolution. Pivot has recently won and deployed notable service engagements - we should see H219 show services growth with a larger contribution effect than historically so.

Exhibit 2 – Services Strategy Next Steps & Key Services Wins

- 1 Continued proliferation & cross-selling of 2019 updated Portfolio with focus on product and service margin growth
- 2 Continued Deployment Expansion & Growth – Leverage offering to expand into broader managed services engagements
- 3 Professional Services Re-Investments – Transition from traditional "plug & play" architecture to solution led enterprise architecture skills matrix
- 4 Managed Edge Development - Continue productization of incident, staging, configuration, implementation, systems integration, monitoring & management of edge solutions

2018-2019 Key Services Wins

- \$3.5M Network & Site Cutover for large US based bottling company
- \$2.3M Workplace Services managed staffing for global financial services company
- \$4.5M Windows 10 Rollout & System Refresh for US based energy corporation
- \$6M+ in various refresh, upgrade and new store installs for large US based retailer
- \$3.3M logistics, sparing & repair managed service for global technology retailer

Source: Company documents

PTG is slated to report Q219 results by mid-August. Below are our estimates, inclusive of estimated additional restructuring charges.

Exhibit 3 – Summary of Results

Forecasts	Q418	Q119	Q219	Q219E	% Diff.	Q319E	Q419E
Revenue (\$M)	\$302	\$296		\$309		\$310	\$317
Adj. EBITDA (\$M)	\$4.8	\$3.3		\$5.3		\$6.4	\$6.5
Basic EPS	\$0.01	(\$0.09)		(\$0.05)		(\$0.02)	\$0.02
F/D EPS	\$0.01	(\$0.09)		(\$0.05)		(\$0.02)	\$0.02

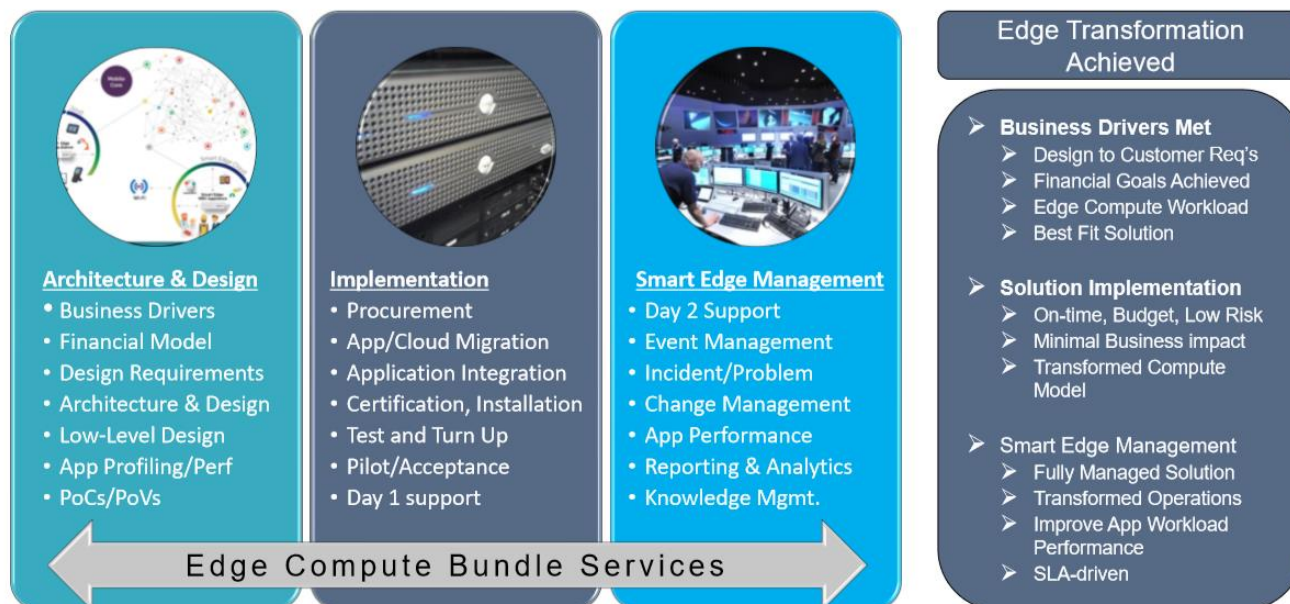
Source: Consensus data - FactSet, Historical Data – Company Filings, Forecasts/estimates – Echelon Wealth Partners.

Smart-Edge and Edge Computing Highlighted

Pivot CEO, Kevin Shank, spent a decent portion of the business update segment of the meeting discussing the advancements made with Smart-Edge. Smart-Edge has partnered with Intel (INTC-US, NR) in delivering this solution and noted the importance of the Edge as validated in industry studies as well as dug into details of its Intel partnership.

Smart Edge is a jointly engineered MEC solution with multiple joint service provider trials in industrial and retail and extensive collaboration model with Intel launching an edge services technology and ecosystem initiative called “OpenNESS” based on the joint solution with Smart Edge to help customers accelerate edge deployments. We believe we will see Edge focused services enhance Pivot’s revenue-base and margin profile in the coming years as adoption of the Edge accelerates and as Pivot fortifies its leadership position in Edge Computing.

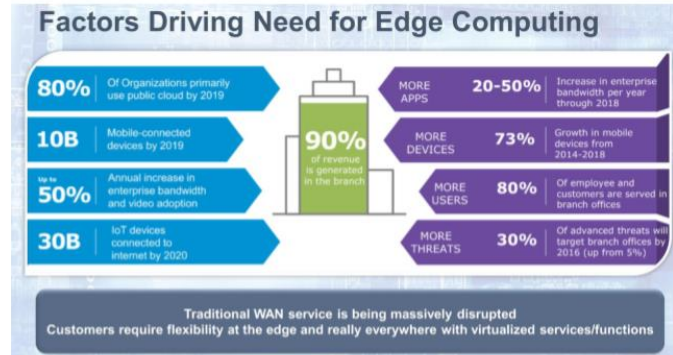
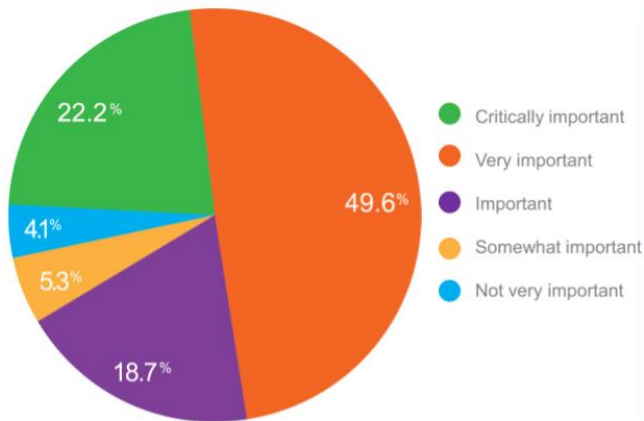
Exhibit 4 – Pivot Smart Edge Full Life-Cycle of Services & Sales Support



Source: Company documents

Exhibit 5 – Importance of Edge Computing

How important is your edge computing strategy to obtaining and utilizing data streams to improve business processes and productivity?



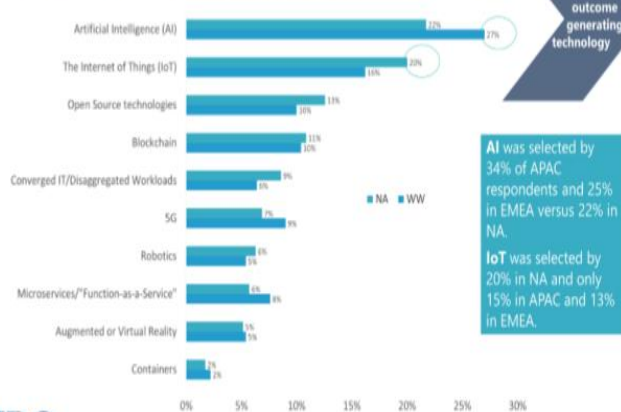
Source: Cisco

<https://www.zdnet.com/article/edge-computing-the-state-of-the-next-it-transformation/>

Source: Company documents

Exhibit 6 – New Technologies Drive Need for Edge

Transformative Impact of New Technologies



Q37a. Looking ahead, which one technology, product or service do you believe will have the most transformative impact on your business during the next 24 months? SP Pulse Q1 2018, n=500

KEY DRIVERS FOR EDGE COMPUTING

- Low latency that cannot be achieved by using centralized cloud
- Reduction of movement of the massive amount of data generated by IoT devices to reduce cost and enable efficient use of resources
- Data privacy and data sovereignty
- Context awareness
- Scenarios where connectivity is unreliable or limited
- Better experience, faster transactions

Source: Intel

Source: Company documents

Valuation

On 2019E, PTG is currently trading at an EV/Sales and EV/EBITDA of 0.15x and 8.7x, respectively, versus its comparables average of 0.58x, and 10.0x, respectively.

Exhibit 7 – Global Value Added Resellers (VARs) Comparables

GLOBAL VARs COMPS														
Ticker	Price	Mkt Cap (Local\$M)	LTM Rev (US\$M)	LTM GM %	EV/Sales			EV/EBITDA			P/E			
					2018	2019	2020	2018	2019	2020	2018	2019	2020	
Pivot Technology Solutions, Inc.	PTG-CA	1.45	57	1,300	11.4	0.13	0.15	0.15	11.8	8.7	7.0	NM	NM	12.2
Tech Data Corporation	TECD	100.38	3,662	37,097	6.0	0.12	0.12	0.11	5.7	5.3	5.1	8.8	8.3	7.9
SYNNEX Corporation	SNX	101.33	5,190	21,501	10.7	0.42	0.37	0.37	10.2	7.2	6.7	9.3	8.4	7.9
Insight Enterprises, Inc.	NSIT	57.83	2,068	7,003	14.2	0.33	0.32	0.31	8.2	7.8	7.3	12.5	12.0	11.3
ScanSource, Inc.	SCSC	32.94	847	3,906	10.8	0.31	0.30	0.29	8.1	7.9	7.6	10.6	9.5	8.9
Datatec Limited	DTC-ZA	34.99	7,670	6,083	15.0	NM	NM	NM	NM	NM	NM	NM	15.7	12.7
Softcat Plc	SCT-GB	9.58	1,898	1,016	16.8	1.71	1.80	1.65	25.9	22.8	21.4	33.2	29.5	27.6
CDW Corp.	CDW	108.67	15,868	16,592	16.7	1.21	1.13	1.07	15.2	14.0	13.2	21.0	18.7	17.2
PCM, Inc.	PCMI	34.97	431	2,155	15.9	0.26	0.26	0.25	9.3	8.5	8.1	14.8	13.3	11.7
PC Connection, Inc.	CNXN	34.19	901	2,708	14.8	0.30	0.29	0.28	8.0	7.7	7.3	14.4	13.6	12.5
ePlus inc.	PLUS	68.22	928	1,364	22.7	0.65	0.63	0.61	8.9	8.9	8.1	13.3	14.1	12.8
AVERAGES:					14.4	0.59	0.58	0.55	11.1	10.0	9.4	15.3	14.3	13.1

Source: Consensus Data – FactSet

Canadian Technology Dividend Stocks

At the current share price, the dividend results in a yield of ~11.0%. If the yield were to move to the average yield shown below (~2.8%), the shares would be trading at the ~C\$5.71 level.

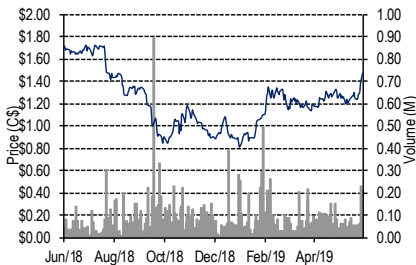
Exhibit 8 – Canadian Technology Dividend Yields

CANADA TECH DIV YIELDS														Div Yield
Ticker	Price	Mkt Cap (Local)	Mkt Cap (US\$)	LTM Rev (US\$)	EV/Sales			EV/EBITDA			P/E			
					2018	2019	2020	2018	2019	2020	2018	2019	2020	
Constellation Software Inc.	CSU-CA	1197.52	19,313	3,161	6.2	5.4	4.7	24.1	20.6	17.3	31.9	30.1	24.8	0.4%
Open Text Corporation	OTEX-CA	53.64	11,001	2,876	4.6	4.4	4.1	12.9	11.4	10.7	16.1	14.4	13.3	1.7%
Enghouse Systems Limited	ENGH-CA	34.51	1,434	264	4.9	4.4	3.7	16.0	15.3	13.1	32.7	30.0	24.7	1.3%
Evertz Technologies Limited	ET-CA	17.75	1,033	337	2.8	2.7	2.5	11.1	10.6	9.7	18.0	16.7	15.3	4.0%
Altus Group Limited	AIF-CA	31.38	946	392	2.8	2.5	2.3	19.8	15.9	13.1	29.9	21.0	17.3	1.9%
Pollard Banknote Limited	PBL-CA	24.00	468	266	2.2	1.9	1.8	15.1	12.0	10.8	41.4	23.1	20.0	0.7%
Computer Modelling Group Ltd.	CMG-CA	7.13	436	57	6.9	7.0	6.8	16.3	16.5	15.3	25.5	26.8	24.0	5.6%
Absolute Software Corporation	ABT-CA	7.91	250	98	2.4	2.2	2.1	24.2	11.6	11.2	NM	33.7	31.3	4.0%
Sylogist Ltd.	SYZ-CA	11.46	205	30	NM	NM	NM	NM	NM	NM	NM	NM	NM	3.3%
Calian Group Ltd.	CGY-CA	34.14	205	240	0.8	0.7	0.7	10.3	9.0	7.9	16.5	15.9	13.9	3.3%
Vecima Networks Inc.	VCM-CA	9.00	153	68	2.0	1.8	1.3	10.8	16.6	6.9	52.9	NM	NM	2.4%
TECSYS Inc.	TCS-CA	14.17	141	56	2.2	1.7	1.5	47.1	18.7	14.5	NM	39.4	30.8	1.5%
Quarterhill Inc	QTRH-CA	1.38	125	105	0.9	0.6	0.7	NM	NM	4.1	NM	NM	11.6	3.6%
Mediagrif Interactive Technologies Inc.	MDF-CA	7.14	81	63	1.4	1.5	NM	5.5	6.6	NM	11.2	11.2	NM	5.6%
C-COM Satellite Systems, Inc.	CMI-CA	1.89	54	11	NM	NM	NM	NM	NM	NM	NM	NM	NM	2.6%
Pivot Technology Solutions, Inc.	PTG-CA	1.45	44	1,300	0.1	0.2	0.1	11.8	8.7	7.0	NM	NM	12.2	11.0%
Averages:					2.9	2.6	2.5	17.3	13.3	10.9	27.6	23.9	19.9	3.3%
													Avg (Excl. PTG):	2.8%

Source: Consensus Data – FactSet, Echelon Wealth Partners estimates, note that TCS is covered by Amr Ezzat.

Pivot Technology Solutions Inc. – Tear Sheet

(PTG-TSX, BUY, C\$2.50 PT)



Company Description

Pivot Technology Solutions, Inc. provides information technology services. It designs, sells, and supports information technology (IT) solutions which include hardware, maintenance, and support. It also offers data centre, management, infrastructure management, systems architecture, technical services, and procurement/integration services.

Consensus	Current	Return
Rating:	Buy	
Target:	\$ 2.50	72%
Median:	\$ 2.45	69%
High:	\$ 2.45	69%
Low:	\$ 2.45	69%

Consensus	
Buy	1
Hold	-
Sell	-
# of Ratings	1

Enterprise Value to EBITDA

24-Jun-2016 to 25-Jun-2019 (Daily)



Source: FactSet Fundamentals

Enterprise Value to Sales

24-Jun-2016 to 25-Jun-2019 (Daily)



Source: FactSet Fundamentals

Financial Summary/Key Metrics	2017	2018	Q119	Q219E	Q319E	Q419E	2019E	2020E	2021E	2022E
Product Sales	1,356	1,216	261	271	271	273	1,076	1,106	1,128	1,150
Service Revenues	165	158	34	38	39	44	155	165	174	185
Total Revenue	1,521	1,374	296	309	310	317	1,232	1,270	1,302	1,335
Growth y/y		-10%	-20%	-19%	-4%	5%	-10%	3%	3%	3%
Consensus										
Gross Margin	11.1%	11.9%	12.4%	12.4%	12.8%	12.8%	12.6%	12.7%	12.8%	12.9%
Adjusted EBITDA	24.1	15.5	3.3	5.3	6.4	6.5	21.4	26.5	31.7	37.2
Growth y/y		-36%	123%	3%	53%	36%	38%	24%	20%	17%
Consensus										
Fully Diluted IFRS EPS	(0.14)	(0.11)	(0.09)	(0.05)	(0.02)	0.02	(0.14)	0.09	0.32	0.48
Growth y/y		-22%	56%	-1127%	-77%	32%	28%	-161%	262%	52%
Consensus										
Net Debt	157	104	145	137	137	135	135	127	115	100
CAPEX	2	3	1	1	0	0	2	2	1	0
Major Customers	39%	35%	10%							

Top Inst. Ownership	% Held
Canoe Financial LP	1.7%
Timelo Investment Managr	0.9%
Dimensional Fund Advisor	0.2%

Balance Sheet	2017	2018	Q119	Q219E	Q319E	Q419E	2019E	2020E	2021E	2022E
Cash & Equivalents	5	15	5	11	10	11	11	14	20	31
Accounts receivable	293	230	259	244	244	250	250	256	263	269
Inventories	95	54	47	49	49	50	50	51	52	54
Total Current Assets	419	325	339	332	332	339	339	350	364	383
Growth y/y		-22%	-6%	-17%	5%	4%	4%	3%	4%	5%
Total Assets	530	421	453	442	439	443	443	443	453	470
Deferred revenue & customer depos	34	28	29	30	31	31	31	32	33	34
Accounts payable & accrued liabilit.	301	254	244	237	237	242	242	248	254	260
Revolving credit facility	137	100	132	131	130	128	128	123	118	114
Total Current Liabilities	494	401	422	415	414	418	418	420	422	424
Total Liabilities	512	414	451	444	442	446	446	448	450	453
Total Liabilities & Shareholders'	530	421	453	442	439	443	443	443	453	470

Key Statistics	Value
52 Wk High	1.97
52 Wk Low	0.83
YTD Chg.	45%
1 Yr. Chg.	-24%
Beta	0.62
Market Cap	57
EV	245
Shares Outstanding	39
LTM Dividend	\$ 0.16
Dividend Yield	11.0%

Valuation	2018	2019E
EV/Rev	0.14	0.15
EV/EBITDA	12.0	8.7
P/E	(9.8)	(7.6)

Comparables	Price	Target	Div Yield	Return					Rev (US\$M)		EBITDA (US\$M)		EPS (US\$)	
Multiples Analysis				1 Week	1 Month	3 Month	YTD	1 Year	2018	2019	2018	2019	2018	2019
PTG-CA	1.45	2.50	11.0%	13%	16%	23%	45%	-24%	1,374	1,232	16	21	(0.12)	(0.14)
TECD	97.89		0.0%	-2%	5%	-1%	20%	19%	37,239	37,164	766	823	11.38	12.13
CDW	107.47		1.1%	3%	4%	12%	33%	30%	16,241	17,449	1,296	1,408	5.17	5.80
SNX	92.02		1.6%	-3%	-3%	1%	14%	-14%	20,054	22,521	823	1,168	10.89	12.06
NSIT	55.89		0.0%	-1%	3%	1%	37%	14%	7,080	7,215	285	302	4.63	4.82
SCSC	32.32		0.0%	0%	5%	-10%	-6%	-20%	3,846	3,917	144	149	3.11	3.47

Comparables	EV	FCF Yield		EV/Rev		EV/EBITDA		P/E	
Multiples Analysis		2018	2019	2018	2019	2018	2019	2018	2019
PTG-CA	184	14.9%	16.3%	0.1	0.1	11.9	8.6	NM	NM
TECD	4,358	--	20.3%	0.1	0.1	5.7	5.3	8.8	8.3
CDW	19,711	5.2%	4.7%	1.2	1.1	15.2	14.0	21.0	18.7
SNX	8,408	8.4%	11.6%	0.4	0.4	10.2	7.2	9.3	8.4
NSIT	2,340	--	--	0.3	0.3	8.2	7.8	12.5	12.0
SCSC	1,177	2.4%	0.9%	0.3	0.3	8.2	7.9	10.6	9.5

Source: Consensus Data – FactSet, Historicals – Company Filings, Forecasts/Estimates – Echelon Wealth Partners

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Company: Pivot Technology Solutions Inc. | PTG:TSX

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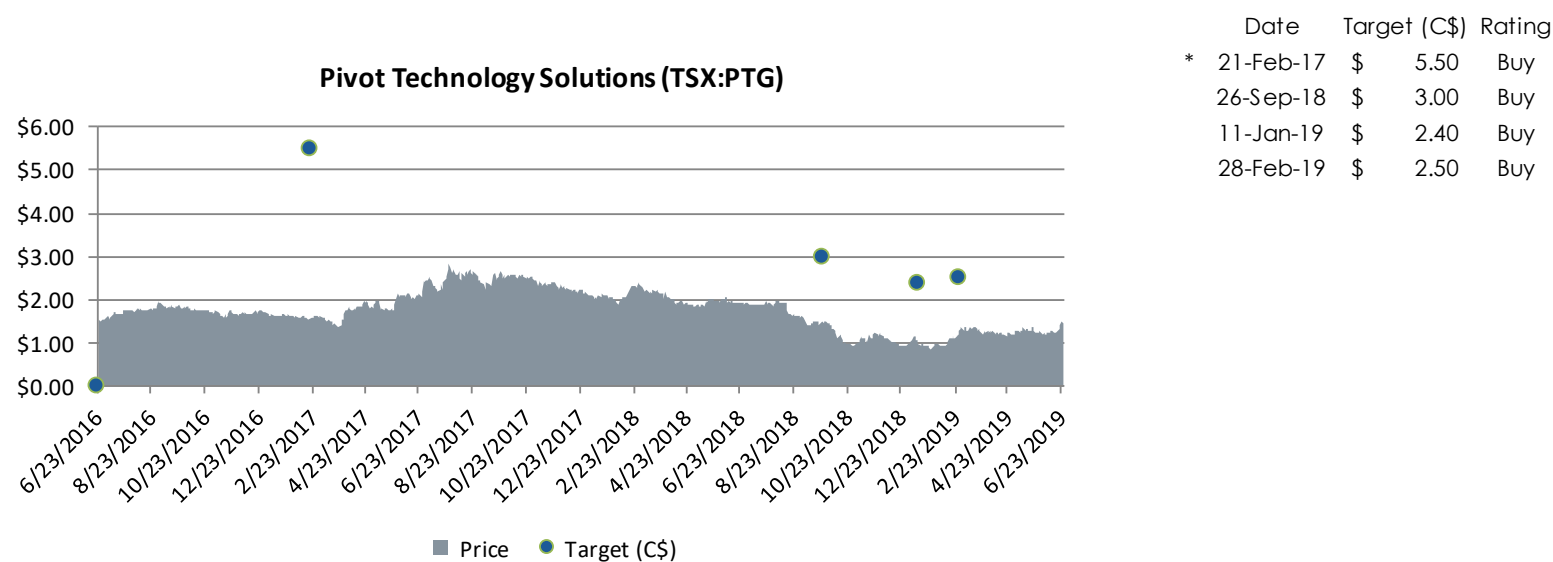
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PRICE CHART, RATING & PRICE TARGET HISTORY



Coverage initiated: 02/21/2017
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Data sourced from FactSet

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