

STIFEL

Dycom Industries, Inc.

DY – NYSE

Buy

Specialty Engineering & Construction

Analysis of Sales/Earnings

F4Q16: Adj EPS of \$1.64 vs. Stifel \$1.60. Solid 1Q17 Guidance. Lower Goodman Rev. Guidance Reflective of Aggressive Pruning?

Dycom reported F4Q16 adjusted EPS of \$1.64 vs our estimate of \$1.60 and consensus of \$1.56. Results were solid, with sales (ex estimated Goodman revs) 1% ahead of our estimate, adjusted operating income 1% ahead of our estimate, and EBITDA in line. F1Q17 guidance is for adjusted EPS of \$1.55 to \$1.70 versus our \$1.62 estimate and consensus of \$1.63. Dycom meaningfully lowered its expectation for F2017 Goodman revenue contributions (a 36.5% reduction at the midpoint), however, EBITDA margins are now expected to approximate DY consolidated levels in 2Q17 versus F2018 previously. Our read is that DY likely pruned low-margin work more aggressively than it initially anticipated. Shares are down in the after market, which we think reflects high expectations for the quarter, concern over the Goodman revision, and the 7.9% recovery in DY the past week vs 0.4% for the S&P 500. We believe that strong backlog numbers (reported tomorrow) and bullish management commentary could swing shares to a slightly positive move.

Organic revenue growth remained strong in the quarter at 20% y/y. Revenues of \$789.2 million exceeded our estimate by 1.2%, and the consensus by 2.3%. In total, sales were up 36.4% y/y and 18.7% q/q.

EBITDA was in-line with our forecast, beat consensus. Adjusted EBITDA of \$126.0 million, or a 16.0% EBITDA margin, was in line with our estimate of \$125.7 million, or 16.1% of sales and beat consensus of \$121 million.

It appears that FCF was positive in the quarter. We calculate adjusted DSO at ~79 days, versus 90 in the prior year.

We think that the expectation for significantly lower Goodman revenues in 2017 but higher margins sooner reflects more aggressive pruning of low margin work than initially anticipated. We are looking for clarification on the call. Dycom now expects Goodman revenues to approximate \$100 million in 2017 versus \$150-\$165 million previously. However, EBITDA margins are now expected to approximate DY consolidated levels in 2Q17 versus F2018 previously.

The key question is where can Goodman revenues and margins go in 2018? We were previously estimating that Goodman could contribute roughly \$0.25 to EPS in 2018 (\$165- \$170 million in revenue, ~\$23-\$25 million in EBITDA or a 14%-14.5% EBITDA margin). At \$115 million in revenues and a 15.0%-15.5% EBITDA margin, we estimate EBITDA would approximate \$17 - \$18 million and EPS accretion \$0.17 - \$0.18 p/s.

DY provided F1Q17 guidance for revenue of \$780 - \$810 million (18%-21% y/y growth) and adjusted EPS of \$1.55 - \$1.70. This compares to our estimate of \$1.62 and consensus of \$1.63. Firm F1Q17 guidance was moderately ahead of initial "first look" guidance, which suggested mid-to-high teens revenue growth, and suggested EPS (by our estimate) of \$1.56 – \$1.67.

Changes	Previous	Current
Rating	—	Buy
Target Price	—	\$102.00
FY16E EPS (Net)	—	\$4.44
FY17E EPS (Net)	—	\$5.39
FY16E Rev (net)	—	\$2.66B
FY17E Rev (net)	—	\$3.07B

Price (08/23/16):	\$91.94
52-Week Range:	\$98 – \$47
Market Cap.(mm):	2,951.3
Shr.O/S-Diluted (mm):	32.1
Enterprise Val. (mm):	\$3,701.0
Avg Daily Vol (3 Mo):	814,026
LT Debt/Total Cap.:	65.1%
Book Value/Share:	\$13.91
Dividend(\$ / %)	\$0.00 / 0.0%
S&P Index	2,186.90

EPS (Net)	2015A	2016E	2017E
Q1	\$0.59	\$1.24A	\$1.62
Q2	0.27	0.54A	0.70
Q3	0.58	1.08A	1.30
Q4	0.97	1.60	1.78
FY Jul	\$2.41A	\$4.44	\$5.39
P/E	38.1x	20.7x	17.1x

Rev (net)	2015A	2016E	2017E
Q1	\$510.4	\$659.3A	\$781.4
Q2	441.1	559.5A	660.8
Q3	492.4	664.6A	780.9
Q4	578.5	779.7	845.8
FY Jul	\$2.02B	\$2.66B	\$3.07B
EV/Revenue	1.8x	1.4x	1.2x

Noelle C. Dilts, CFA
Missa Sangimino
Stifel Equity Trading Desk

diltsn@stifel.com
sangiminom@stifel.com

(303) 291-5239
(212) 271-3831
(800) 424-8870



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All relevant disclosures and certifications appear on pages 11 - 13 of this report.

F4Q16 EARNINGS SUMMARY

Operating Summary- F4Q16							
	F4Q16A	F4Q16E	Variance	F4Q15A	Y/Y Growth %	F3Q16A	Q/Q Growth %
Total Revenues	789.2	779.7	1.2%	578.5	36.4%	664.6	18.7%
Gross Profit	183.3	182.6	0.4%	132.4	38.4%	144.2	27.1%
margin	23.2%	23.4%	-19.7 bps	22.9%	33.9 bps	21.7%	152.5 bps
SG&A	61.4	62.2	-1.2%	47.5	29.4%	56.5	8.7%
% of sales	7.8%	8.0%	-19.0 bps	8.2%	-42.4 bps	8.5%	-72.0 bps
Adjusted Operating Income	85.8	84.9	1.1%	59.0	45.4%	56.1	53.0%
margin	10.9%	10.9%	-1.0 bps	10.2%	67.1 bps	8.4%	243.4 bps
D&A	36.0	35.5	1.3%	25.9	39.2%	31.6	14.0%
% of sales	4.6%	4.6%	0.4 bps	4.5%	9.2 bps	4.8%	-18.9 bps
Adjusted EBITDA	126.0	125.7	0.3%	88.5	42.5%	91.8	37.3%
margin	16.0%	16.1%	-15.1 bps	15.3%	68.0 bps	13.8%	215.5 bps
Interest Expense	5.1	4.9	4.5%	6.9	-25.8%	3.8	34.5%
Other Income (Net)	3.6	2.5	42.8%	1.3	176.2%	4.3	-17.4%
Taxes	31.6	31.1	1.6%	19.6	61.3%	20.9	51.1%
Tax rate	36.9%	37.7%	-77.4 bps	36.7%	26.0 bps	36.9%	0.0 bps
Adjusted Diluted EPS	\$1.64	\$1.60	2.5%	\$0.97	69.1%	\$1.08	52.0%
Diluted EPS - GAAP	\$1.54	\$1.51	1.7%	\$0.97	58.5%	\$1.00	53.9%

Consensus: Revenues of \$771.5 million, Earnings per Share of \$1.56.

Source: Company reports, Stifel estimates, First Call

EPS: Dycom reported F4Q16 adjusted EPS of \$1.64 versus our estimate of \$1.60 and the Consensus estimate of \$1.56. Dycom was guiding to EPS of \$1.45 - \$1.60. EPS grew 69.1% y/y and 52.0% q/q.

Revenues: Revenues of \$789.2 million were 1.2% above our \$779.7 million forecast and above the high end of DY guidance of \$750-780 million. Revenues were up 36.4% y/y, including 20.0% organic growth. Acquired operations contributed \$44.8 million (includes Goodman) to revenue versus DY guidance of \$40.0 million (did not include Goodman). We estimate that Goodman contributed roughly \$5 million in revenue or the difference between guidance and reported. Given that our estimate did not include Goodman contributions, on an apples-to-apples basis, the beat was approximately 60 bps.

Gross Profit: Gross profit of \$183.3 million was in-line with our forecast of \$182.6 million and was up 38.4% y/y and 27.1% q/q. Gross profit margins of 23.2% were 19.7 bps below our forecast.

Adjusted Operating Profit: Adjusted Operating profit (which excludes acquisition-related expenses of \$715K) of \$85.8 million was 1.1% above our estimate of \$84.9 million. Operating margins of 10.9% were in-line with our expectations and grew 67 bps y/y and 243 bps q/q.

Interest Expense: Interest expense of \$5.1 million was slightly above our forecast of \$4.9 million.

Other Income: Other income in the quarter was \$3.6 million, which exceeded our \$2.5 million forecast and benefited EPS by ~\$0.02 p/s.

Taxes: The 4Q tax rate of 36.9% was below our 37.7% estimate, and boosted EPS by \$0.01.

Shares Outstanding. Shares of 32.1 million were in-line with our forecast.

Adjusted EBITDA of \$126.0 million, or 16.0% sales, was in line with our estimate of \$125.7 million, or 16.1% of sales, and beat the Consensus estimate of \$121.1 million.

FISCAL 2016 EARNINGS SUMMARY

Fiscal Year 2016 Earnings Summary			
	F2016	F2015	Y/Y Growth %
Total Revenues	2663.0	2022.3	31.7%
Gross Profit	590.4	429.1	37.6%
<i>margin</i>	22.2%	21.2%	95.4 bps
SG&A	216.4	178.7	21.1%
<i>% of sales</i>	8.1%	8.8%	-70.9 bps
Adjusted Operating Income	249.0	154.3	61.3%
<i>margin</i>	9.3%	7.6%	171.8 bps
D&A	125.0	96.0	30.1%
<i>% of sales</i>	4.7%	4.7%	-5.5 bps
Adjusted EBITDA	390.0	265.5	46.9%
<i>margin</i>	14.6%	13.1%	151.7 bps
Interest Expense	20.0	27.0	-26.1%
Other Income	10.4	8.3	25.8%
Taxes	89.6	51.3	74.8%
<i>Tax rate</i>	37.4%	37.8%	-39.1 bps
Adjusted Diluted EPS	\$4.48	\$2.41	86.1%
Diluted EPS - GAAP	\$4.24	\$2.41	76.0%

Consensus estimates heading into 4Q: Revenues of \$2,654.9 million, EPS of \$4.40.

Source: Company reports, Stifel estimates

EPS. Dycom reported F2016 adjusted EPS of \$4.48 compared to \$2.41 in F2015.

Revenues. Revenues of \$2,663.0 million grew 31.7% over F2015 revenues of \$2,022.3 million, including 22.7% growth on an organic basis.

Gross Profit. Gross profit of \$590.4 million grew 37.6% y/y, and margins of 8.1% were 71 bps below F2015 margins of 8.8%.

Operating Profit: Operating profit of \$249.0 grew 61.3% y/y and margins of 9.3% grew 172 bps y/y.

Interest Expense: Interest expense of \$20.0 million compares to \$27.0 million in F2015.

Other Income: Other Income of \$10.4 million compares to \$8.3 million in F2015, increasing 25.8% y/y.

Taxes: The full year tax rate of 37.4% was below F2015 tax rate of 37.8% by 39 bps.

Adjusted EBITDA: Adjusted EBITDA of \$390.0 million, or 14.6% sales, compares to \$265.5 million, or 13.1% in F2015.

Conference Call Schedule

Dycom will hold a conference call to discuss 3Q earnings on Wednesday, August 24, 2016 at 9:00 AM ET.

Dial-In: (800) 230-1074 (Domestic); (612) 234-9960 (International)

Live Webcast: <http://www.dycomind.com>

Select Questions For the Call:

- 1) What drove the meaningful reduction in expected Goodman revenues from the levels communicated in the June 2nd acquisition announcement? How is Dycom achieving margin expansion more quickly than previously communicated?
- 2) How should we think about Goodman revenues in 2018? Should we see growth over the expected \$100 million in 2017? Should EBITDA margins be in the mid-teens on a full-year basis in 2018? What are Dycom's expectations for this business over the long term? Why does it make sense from a strategic standpoint? Should we expect Dycom to move deeper into the wireless space over the next few years?
- 3) What is Dycom's opinion of Google's announcement that it is testing wireless broadband technologies? Does management believe that the company is slowing fiber deployments as it tests wireless alternatives?
- 4) How is management thinking about the evolution of wireless delivery speeds and the possibility of 1-gig wireless speeds at the cell tower? Does DY view this as a viable risk to the wireline buildout over the next 3-5 years?
- 5) Did the company receive any meaningful CAF II awards in the quarter? What were CAF II-related revenue contributions in the quarter?

Target Price Methodology/Risks

Our \$102 target price is based on 50/50 weighting of 18.5x our 2017 EPS estimate and 9x EV to EBITDA. Our target multiples reflect the assumption that current multiples will at minimum hold as we move deeper into the cycle next year.

Risks:

- 1) General business risk: Dycom is dependent on the spending levels of its customer base.
- 2) Customer concentration remains relatively high at Dycom.
- 3) Competitive markets: Dycom operates in certain fragmented, competitive markets. This can lead to competitive pricing pressures. There are relatively few barriers to entry in the telecommunications contracting industry. Dycom also faces competition from in-house service organizations at some of its customers.
- 4) Weather risk: Extreme weather poses a risk to Dycom's productivity.

Company Description

Dycom Industries, Inc. is a specialty contractor that primarily serves the telecommunications industry. The company's services include engineering, construction, maintenance, and installation for communications providers, both cable and telephone. Dycom also provides underground facility-locating services to various utilities, including telecommunications providers, as well as other construction and maintenance services to electric and gas utilities and others. The company operates primarily in the U.S., although it does provide services in Canada on a limited basis. The company is headquartered in Palm Beach Gardens, Florida.

DYCOM Industries, Inc.
Segment Model
 (\$ in mils, except per share data)

Segment Data	2010A	FY2011A	FY2012A	FY2013A	FY2014A	1Q15A	2Q15A	3Q15A	4Q15A	FY2015A	1Q16A	2Q16A	3Q16A	4Q16E	FY2016E	1Q17E	2Q17E	3Q17E	4Q17E	FY2017E	FY2018E
Revenues	Jul-10	Jul-11	Jul-12	Jul-13	Jul-14	Oct-14	Jan-15	Apr-15	Jul-15	Jul-15	Oct-15	Jan-16	Apr-16	Jul-16	Jul-16	Oct-16	Jan-17	Apr-17	Jul-17	Jul-17	Jul-18
Telecommunications	783.6	850.5	1,014.2	1,410.6	1,597.8	457.8	393.4	444.1	524.7	1,820.1	599.3	503.5	602.1	716.9	2,421.8	722.9	604.6	715.5	773.9	2,817.0	3,148.1
Underground Facility Locating	176.3	144.7	130.8	127.9	126.4	30.6	27.3	30.5	36.9	125.4	36.9	33.6	38.5	40.1	149.1	39.1	35.2	40.5	44.5	159.2	165.6
Electrical Utilities	28.7	40.7	56.1	70.1	87.4	21.9	20.3	17.7	16.9	76.8	23.1	22.4	23.9	22.7	92.1	22.2	21.1	24.9	27.4	95.5	95.5
Total revenues	988.6	1,035.9	1,201.1	1,608.6	1,811.6	510.4	441.1	492.4	578.5	2,022.3	659.3	559.5	664.6	779.7	2,663.0	784.1	660.8	780.9	845.8	3,071.7	3,409.1
Total Revenue Growth	-10.7%	4.8%	16.0%	33.9%	12.6%	-0.5%	13.0%	15.5%	20.0%	11.6%	29.2%	26.8%	35.0%	34.8%	31.7%	18.9%	18.1%	17.5%	8.5%	15.3%	11.0%
Acquired Revenues (Current Quarter)		33.8	28.1	337.9	283.6	10.1	9.5	8.9	11.8	40.4	40.4	32.9	30.7	40.0	144.0						
Acquired revenues (Year-ago intra quarter)					78.5	0.0	0.0	0.0	2.8	2.8	2.8										
Organic Growth				5.8%	-0.1%	-2.4%	10.5%	13.4%	18.2%	9.6%	21.9%	19.4%	28.7%	27.9%	24.6%	18.9%	18.1%	17.5%	8.5%	15.3%	11.0%
Storm revenue	0.0	14.1	6.0	16.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0						
Organic growth ex storm	-8.8%	-0.1%	14.2%	4.9%	4.7%	-2.4%	10.5%	13.4%	18.2%	9.6%	21.9%	19.4%									
Y-o-Y Revenue Growth																					
Communications Growth	-8.9%	8.5%	19.2%	39.1%	13.3%	1.7%	15.8%	18.0%	21.6%	13.9%	30.9%	28.0%	35.6%	36.6%	33.1%	20.6%	20.1%	18.8%	8.0%	16.3%	11.8%
Underground Facility Growth rate	-4.4%	-17.9%	-9.6%	-2.2%	-1.2%	-15.9%	-6.6%	3.8%	17.7%	-0.8%	20.6%	22.7%	26.3%	8.6%	18.9%	5.8%	4.8%	5.0%	11.1%	6.8%	4.0%
Electrical Utility Growth rate	-54.1%	41.8%	37.9%	24.9%	24.6%	-16.1%	-5.5%	-13.4%	-12.4%	-12.0%	5.1%	10.3%	35.0%	34.6%	19.9%	-3.9%	-5.9%	4.0%	20.4%	3.7%	0.0%
Percent of Revenue																					
Telecommunications %	79.3%	82.1%	84.4%	87.7%	88.2%	89.7%	89.2%	90.2%	90.7%	90.0%	90.9%	90.0%	90.6%	91.9%	90.9%	92.2%	91.5%	91.6%	91.5%	91.7%	92.3%
Underground Facility locating %	17.8%	14.0%	10.9%	8.0%	7.0%	6.0%	6.2%	6.2%	6.4%	6.2%	5.6%	6.0%	5.8%	5.1%	5.6%	5.0%	5.3%	5.2%	5.3%	5.2%	4.9%
Electrical Utilities %	2.9%	3.9%	4.7%	4.4%	4.8%	4.3%	4.6%	3.6%	2.9%	3.8%	3.5%	4.0%	3.6%	2.9%	3.5%	2.8%	3.2%	3.2%	3.2%	3.1%	2.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Telecommunications/ Cable split																					
Telecommunications	47.4%	50.8%	59.0%	63.9%	62.6%	62.6%	65.4%	62.5%	62.1%	63.2%	63.3%		64.7%								
Cable	32.0%	31.1%	25.0%	23.8%	25.6%	27.1%	23.9%	27.7%	28.5%	26.8%	27.7%		25.9%								
Operating Profit (E)																					
Legacy DY	16.8	41.6	65.5	79.1	68.6	27.8	15.8	27.0	45.4	115.9											
PWR Telecommunications				7.6	16.1	11.5	4.8	8.5	13.7	38.4											
Total	16.8	41.6	65.5	86.7	84.7	39.3	20.6	35.4	59.0	154.3	73.4	32.3	56.1	84.9	246.6	87.2	40.2	69.2	96.7	293.4	344.0
Operating Profit Margins (E)																					
Legacy DY	1.7%	4.0%	5.4%	6.2%	5.2%	7.9%	4.9%	7.4%	10.6%	7.9%											
PWR Telecommunications				2.2%	3.2%	7.3%	4.0%	6.5%	9.1%	6.9%											
Total	1.7%	4.0%	5.4%	5.4%	4.7%	7.7%	4.7%	7.2%	10.2%	7.6%	11.1%	5.8%	8.4%	10.9%	9.3%	11.1%	6.1%	8.9%	11.4%	9.6%	10.1%
Backlog	1114.0	1412.0	1565.00	2197.0	2330.9	2358.9	2986.0	2912.0	3680.1	3680.1	3967.5	5056.0	5649.3								
NTM Backlog (12-month)	640.0	754.0	909.0	1217.0	1344.9	1395.7	1564.0	1618.0	1618.8	1618.8	1621.7	1998.9	2211.8								
Y/Y Growth																					
Total Backlog	19%	27%	11%	40.4%	6.1%	18.2%	39.1%	42.3%	57.9%	57.9%	68.2%	69.3%	94.0%								
NTM Backlog	10%	18%	21%	33.9%	10.5%	25.1%	31.1%	37.2%	20.4%	20.4%	16.2%	27.8%	36.7%								

Source: Company reports and Siftel estimates

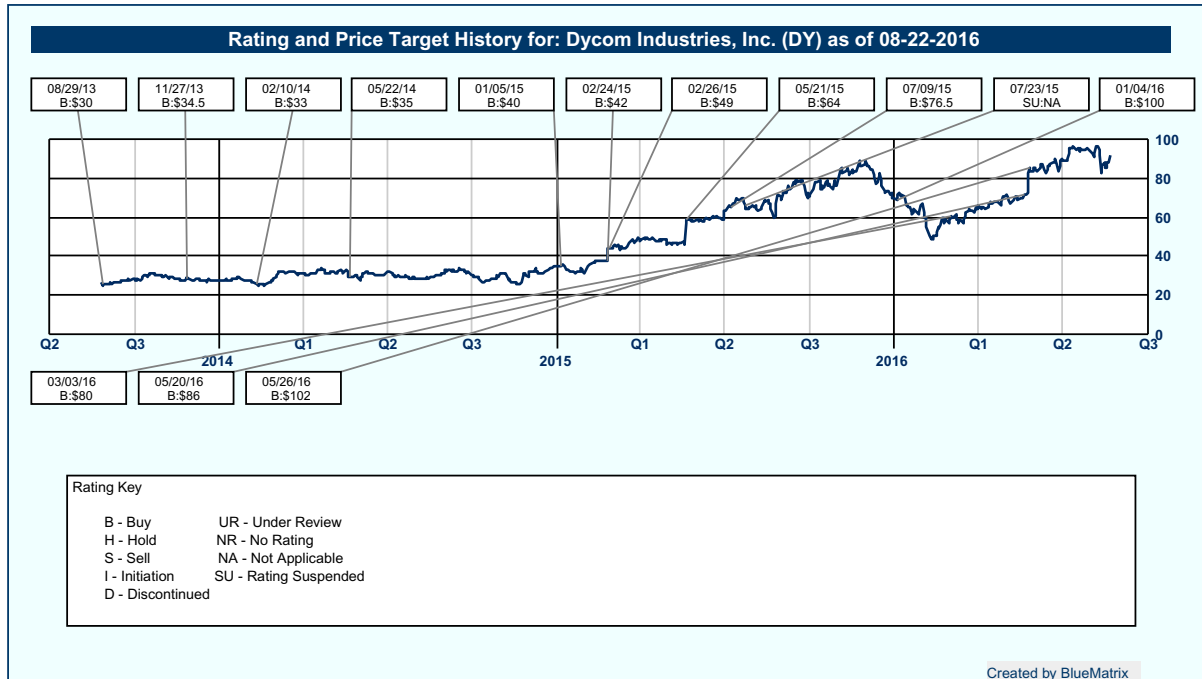
DYCOM Industries, Inc.
Balance Sheet
(\$ in mils, except per share data)

	2010A	2011A	2012A	2013A	2014A	1Q15A	2Q15A	3Q15A	4Q15A	2015A	1Q16A	2Q16A	3Q16A
ASSETS													
Current Assets:													
Cash & Cash Equivalents	103.3	44.8	52.6	18.6	20.7	16.5	18.4	22.5	21.3	21.3	21.8	20.2	19.3
Accounts Receivable	110.1	138.6	141.8	252.2	272.7	296.8	267.3	265.8	315.1	315.1	361.6	318.3	355.3
Costs and estimated earnings in excess of billings			127.3	204.3	230.6	257.0	212.3	248.0	274.7	274.7	333.7	302.4	358.2
Inventories	16.1	20.6	26.3	36.0	49.1	47.0	43.8	45.2	48.7	48.7	57.7	57.9	61.3
Deferred Tax Asset	14.9	16.0	15.6	15.9	16.8	21.0	18.7	19.3	20.6	20.6	22.0	19.2	20.6
Income tax receivables			4.9	2.5	0.0							29.3	15.3
Securities available for sale													
Short term investments													
Prepaid Exp. Other Current Assets	78.3	110.5	8.5	10.6	12.7	14.5	23.8	20.1	16.2	16.2	20.9	19.4	18.7
Total Current Assets	322.8	330.3	376.9	540.2	602.7	652.7	584.4	620.9	696.6	696.6	817.6	766.6	848.8
Property, Plant and Equipment, net	136.0	149.4	158.2	202.7	205.4	206.1	207.1	226.3	231.6	231.6	265.5	290.5	309.8
Goodwill and other intangibles, net	207.5	231.1	174.8	393.1	385.2	387.3	383.6	379.5	392.6	392.6	415.6	410.9	406.3
Accounts receivables net													
Securities available for sale		0.0											
Deferred tax asset													
Other Assets	13.3	13.9	62.2	17.3	16.0	16.0	18.4	30.4	38.1	38.1	32.8	35.5	34.4
TOTAL ASSETS	679.6	724.8	772.2	1153.3	1209.3	1262.2	1193.5	1257.1	1358.9	1358.9	1531.5	1503.5	1599.3
LIABILITIES & EQUITY													
Current Liabilities:													
Current maturities of long-term debt	0.0	0.2	0.1	7.8	10.9	11.7	12.5	0.0	3.8	3.8	5.6	5.6	9.4
Accounts payable and other accrued expenses	25.9	39.4	36.8	78.0	63.3	66.4	52.1	64.5	71.8	71.8	93.4	70.8	93.0
Billings in excess of costs	0.4	0.7	1.5	13.8	13.9	14.0	16.4	14.3	16.9	16.9	12.4	14.3	11.1
Accrued Self Insurance claims	28.1	26.1	25.2	29.1	32.3	33.5	34.2	38.0	35.8	35.8	38.1	37.5	39.4
Income Taxes payable													
Customer advances													
Other current liabilities	42.8	52.0	50.9	70.3	76.1	86.9	63.0	78.2	98.4	98.4	102.8	73.5	89.7
Total Current Liabilities	97.2	118.5	114.6	198.9	196.5	212.6	178.2	195.0	226.7	226.7	252.3	201.7	242.5
Long-term debt	135.4	187.6	187.5	444.2	446.9	455.6	421.4	446.7	521.8	521.8	636.0	612.5	724.0
Accrued self Insured Claims	24.8	23.3	23.6	27.3	33.8	36.2	38.3	39.5	51.5	51.5	49.9	51.0	51.3
Deferred tax liabilities	24.2	39.9	49.5	48.6	42.3	43.0	45.6	48.8	47.4	47.4	45.0	69.6	75.6
Other Liabilities	3.4	3.6	4.1	6.0	4.9	5.2	5.1	4.9	4.2	4.2	4.4	4.5	4.1
Total Liabilities	285.0	372.9	379.3	724.9	724.3	752.7	688.7	734.9	851.7	851.7	987.6	939.3	1097.5
Stockholders Equity:													
Total Stockholders' Equity	394.6	351.9	392.9	428.4	484.9	509.5	504.9	522.2	507.2	507.2	543.9	564.2	501.7
LIABILITIES & STOCKHOLDERS' EQUITY	679.6	724.8	772.2	1153.3	1209.3	1262.2	1193.6	1257.1	1358.9	1358.9	1531.5	1503.5	1599.3

Source: Company reports

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