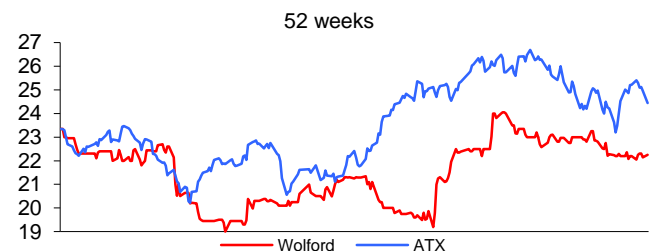


Wolford

Hold

EUR mn	2015	2016e	2017e	2018e
Net sales	157.4	164.3	171.5	178.0
EBITDA	10.9	11.6	12.9	15.5
EBIT	2.2	2.8	4.1	6.7
Net result after min.	1.0	1.3	2.3	4.2
EPS (EUR)	0.21	0.27	0.47	0.86
CEPS (EUR)	2.47	2.91	2.24	2.65
BVPS (EUR)	15.27	15.34	15.66	16.32
Div./share (EUR)	0.20	0.15	0.20	0.30
EV/EBITDA (x)	14.1	12.0	10.9	8.9
P/E (x)	113.8	83.1	47.6	25.8
P/CE (x)	9.7	7.6	9.9	8.4
Dividend Yield	0.8%	0.7%	0.9%	1.3%
Share price (EUR) close as of 27/07/2015				22.3
Number of shares (mn)				4.9
Market capitalization (EUR mn)				109.0
Enterprise value (EUR mn)				139.6



Performance	12M	6M	3M	1M
in EUR	-4.7%	4.5%	-7.3%	-2.4%
Reuters	WLFD.VI	Free float	33.0%	
Bloomberg	WOL AV	Shareholders	Wilhelm Family (40.0%) Ralph Bartel (25%)	
Div. Ex-date	22/09/15			
Target price	24.0	Homepage:	http://company.wolford.com	

Promising strategy, but time lag until results pick up

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We maintain our Hold recommendation, with an almost unchanged target price of EUR 24.

Full-year figures fell short of our estimates and led us to slightly lower our profitability assumptions going forward. The company is in the middle of implementing its refocusing strategy, shifting to a retail-oriented business model and going back to its legwear roots. This means that shorter cycle times (goal: five deliveries a year, from two) will first be implemented with the summer collection 2016 coming to stores in February (4Q15/16).

While we think that Wolford is heading in the right direction, investors will still want to see the first green shoots of the successful turnaround in the form of a rising top line and an improvement in profitability before lifting valuations higher.

2014/15 review

Key figures overview

Key figures overview

	FQ End: Apr. 15				Act. vs.
EURmn	2014	2015	y/y	EG est.	Erste
Revenue	155.9	157.4	1.0%	155.1	1%
EBIT	-4.7	2.2	146%	3.6	-40%
adj. EBIT	-1.0	1.6	261%		
Net Profit	-2.8	1.0	137%	1.8	-43%

Source: Company Data, Erste Group Research

Store closures hurt sales

EBIT still red if one-off gains are excluded

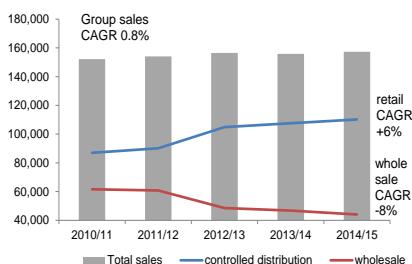
First pos. bottom line after two years of losses

Dividend as distribution from sale of non-core assets

2015/16: Further sales growth and positive operating result targeted

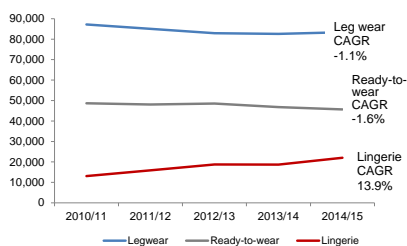
- Sales were roughly flat at EUR 157mn, negatively influenced by the closure of 20 stores (EUR -6mn). However, 4Q came in very strong, with a revenue rise of 12%, driven by the positive FX tailwind from the weak euro.
- EBIT swung from EUR -4.7mn last year to EUR 2.2mn, helped by one-off gains of more than EUR 7mn (sale of lease option and non-core land). Restructuring expenses of EUR 2.8mn relate to inventory write-downs and expenses for social plans (moving manufacturing to Slovenia).
- The bottom line jumped to a positive EUR 1mn after two years of losses. Adjusted for the one-off gains, the 2014/15 fiscal year would have ended in a deeper sea of red than the previous two years.
- Dividend: The dividend amounts to EUR 0.20/share, in line with our estimates, but this has to be seen as a distribution from the sale of non-core assets rather than from the operating business.
- Outlook: The new fiscal year started well, with double-digit growth in the retail business. Hence, Wolford targets to further increase revenues and again record a positive operating result. The medium-term target of a 10% EBIT margin was confirmed.

Sales by distribution channel



Source: Company data, EG estimates

Sales by product group



Source: Company data, EG estimates

In terms of **geographic development**, the main markets of Germany, Austria and France all recorded revenue losses. In Austria, stores were closed, whereas in Germany, main client Karstadt Group scaled back orders, due to their own restructuring program. The US, as the single largest country, was also down slightly in USD terms, on store closures, but benefited from the weak euro. The UK followed the same route. Italy and Spain both revived, with sales growth rates of around 10%.

The trends in **distribution channels** continued in the past fiscal year, with the wholesale share dropping from 40% five years ago to below 30% now. Wolford at the same time started to expand its own store network, where sales growth is much more dynamic, enabling group revenues to remain stable.

This **focus on retail has also been put to the fore in the new refocusing strategy**, pushing the business model to that of a retail business, from wholesale. The online business for the first time reached a revenue share of 5% and management sees significant growth potential. Wolford products are ideally suited for parcel distribution and most online shoppers are actually customers of shops. Online sales offer stronger margins and should support profitability.

In terms of product groups, **the core legwear segment makes up around half of sales**. Ready-to-wear will be scaled down and limited to products directly in touch with the body (bodies, shirts, dresses). Lingerie has

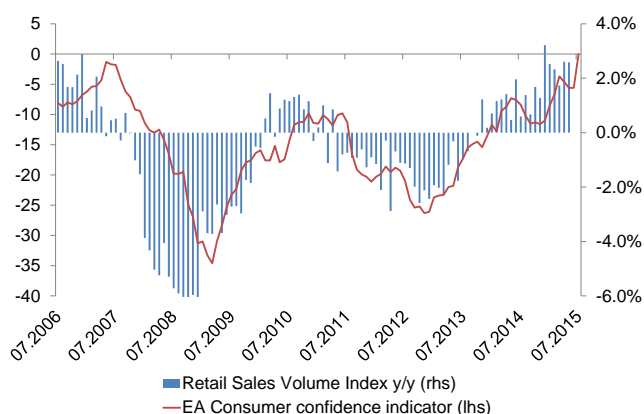
developed very strongly over the last five years and will be expanded, especially in the shaping and forming segment.

Strategy update

We have already touched upon the strategy update by the new CEO Mr. Sensarma in our last company report from May (see [link](#)).

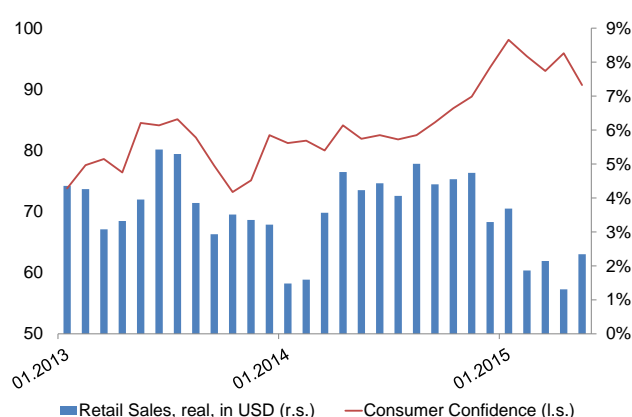
Change in estimates

Euro area retail sales and consumer confidence



Source: Datastream

US sales woman clothing stores and cons. conf.



Source: Bloomberg

Positive consumer mood in Europe

Generally, the consumer mood in Wolford's key European markets remained high in 2Q, unaffected by Grexit fears. However, the struggle for a solution to the Greek debt crisis and hence a cloudier economic outlook could dampen the spending mood in the Eurozone somewhat.

US set to gain more strength

In Wolford's largest market, the US, consumer spending also got support from an improving labor market, as well as some income growth. After the bad start to the year, economists expect those factors to drive demand more strongly in the coming quarters.

Asian markets of negligible impact

Wolford's exposure to Asia is quite limited at 5% of sales, so the weaker sales momentum seen in luxury brands does not affect Wolford.

Consolidated, IFRS

(EUR mn)	2014/15	2015/16e			2016/17e		
		Now	Before	Change	Now	Before	Change
Sales	157.35	164.27	163.54	0.4%	171.47	169.99	0.9%
EBITDA	10.94	11.65	11.37	2.5%	12.94	13.42	-3.6%
EBIT	2.17	2.83	2.92	-3.0%	4.13	4.99	-17.3%
Net result	1.03	1.31	1.40	-6.3%	2.29	2.91	-21.3%
EBIT margin	1.4%	1.7%	1.8%	-0.1%p	2.4%	2.9%	-0.5%p
Net margin	0.7%	0.8%	0.9%	-0.1%p	1.3%	1.7%	-0.4%p
DPS	0.20	0.15	0.20	-25.0%	0.20	0.25	-20.0%

Source: Company Data, Erste Group estimates

The main changes to our estimates for 2015/16 are:

Sales: tailwind from weak Euro, new collection

- Higher sales growth stems from the FX tailwind provided by the weak euro. Additionally, the switch to five merchandise deliveries from two should also lure customers to shops more often. Wolford plans to offer five capsule collections a year with well-matched products. Offsetting trends could come from continued weakness in the wholesale channel.

EUR 1.3mn gain on sale of flats

- The EUR 1.3mn one-off gain from sale of company apartments included.

Profitability assumptions lowered slightly – waiting to see some green shoots from the refocusing strategy

- Compared to our last report, we have slightly increased material, personnel and other costs in relation to sales, as ratios were worse than expected in the final 2014/15 results. However, in the years ahead, we should see visible improvements on the cost side, stemming from the refocusing strategy. Production efficiency should improve, on the reduction in SKUs by 45% to 3,000, as well as switching to more deliveries throughout the year, instead of two. The positive impact on inventories may be offset by Wolford's intention to stock up on best-selling products to ensure continuous delivery.

2015/16: key real turnaround year – the “real” black

- 2015/16 should mark the ‘real’ turnaround year when looking at EBIT adjusted for the positive one-offs. From the current status to the 10% EBIT margin target, there is still some way to go (the cycle-peak EBIT margin in 2007/08 was 7.2%). We will remain more conservative with our estimates until we see more consistent positive margin trends in the P&L.

Valuation

Hold confirmed with target price of EUR 24.0

We slightly lower our target price to EUR 24.0 (from EUR 25.5) but confirm our Hold recommendation.

Key success factor: push up sales

In the case that the refocusing strategy is successful and sales are hiked, Wolford has the potential to reach a 10% EBIT margin and thus close the gap to the peer group, which generates EBIT margins of around 13%.

Valuation multiples still look stretched over next two years

With our current estimates, Wolford's valuation still looks stretched, though, lending no support to a more positive recommendation.

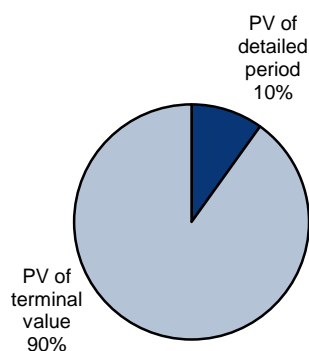
WACC calculation

	2015/16e	2016/17e	2017/18e	2018/19e	2019/20e	TV
Risk free rate	1.5%	1.5%	1.5%	1.5%	1.5%	4.0%
Equity risk premium	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%
Beta	1.1	1.1	1.1	1.1	1.1	1.1
Cost of equity	6.8%	6.8%	6.8%	6.8%	6.8%	9.3%
Cost of debt	3.0%	3.0%	3.0%	3.0%	3.0%	5.5%
Effective tax rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
After-tax cost of debt	2.3%	2.3%	2.3%	2.3%	2.3%	4.1%
Equity weight	60%	60%	60%	60%	60%	60%
WACC	5.0%	5.0%	5.0%	5.0%	5.0%	7.2%

DCF valuation

(EUR mn)	2015/16e	2016/17e	2017/18e	2018/19e	2019/20e	TV
<i>Sales growth</i>	4.4%	4.4%	3.8%	3.3%	3.5%	3.0%
EBIT	2.8	4.1	6.7	7.9	9.3	12.8
<i>EBIT margin</i>	1.7%	2.4%	3.8%	4.3%	4.9%	6.6%
<i>Tax rate</i>	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Taxes on EBIT	-0.7	-1.0	-1.7	-2.0	-2.3	-3.2
NOPLAT	2.1	3.1	5.0	5.9	7.0	9.6
+ Depreciation	8.8	8.8	8.8	8.8	8.8	8.5
<i>Capital expenditures / Depreciation</i>	96.4%	107.8%	96.2%	96.2%	96.2%	100.0%
+/- Change in working capital	0.9	-1.7	-1.4	-1.5	-1.8	-0.5
<i>Chg. working capital / chg. Sales</i>	13.1%	-23.8%	-21.5%	-24.6%	-27.5%	-9.0%
- Capital expenditures	-8.5	-9.5	-8.5	-8.5	-8.5	-8.5
Free cash flow to the firm	3.3	0.7	4.0	4.8	5.5	9.1
<i>Terminal value growth</i>						2.0%
Terminal value						180.0
Discounted free cash flow - April 30 2015	3.2	0.6	3.4	4.0	4.4	141.3
Enterprise value - April 30 2015	156.8					
Minorities	0.0					
Non-operating assets	0.0					
Net debt	36.4					
Other adjustments	0.0					
Equity value - April 30 2015	120.5					
Number of shares outstanding (mn)	4.9					
Cost of equity	6.8%					
NPV per share - July 2016	26.7					
Liquidity discount of 10%	-2.7					
12M target price per share (EUR)	24.0					
Current share price (EUR)	22.3					
<i>Up/Downside</i>	7.9%					

Enterprise value breakdown



Source: Erste Group Research

Sensitivity (per share)

		Terminal value EBIT margin				
		5.6%	6.1%	6.6%	7.1%	7.6%
WACC	6.2%	25.1	27.9	30.7	33.5	36.3
	6.7%	22.0	24.5	27.0	29.5	32.0
	7.2%	19.5	21.7	24.0	26.3	28.6
	7.7%	17.4	19.5	21.6	23.6	25.7
	8.2%	15.7	17.6	19.5	21.4	23.3
		Terminal value growth				
		1.0%	1.5%	2.0%	2.5%	3.0%
WACC	6.2%	24.0	27.0	30.7	35.4	41.5
	6.7%	21.6	24.0	27.0	30.7	35.4
	7.2%	19.5	21.6	24.0	27.0	30.7
	7.7%	17.7	19.5	21.6	24.0	27.0
	8.2%	16.2	17.7	19.5	21.6	24.0

Peer group comparison

EUR mn except share price	Country	Share Price	Market Cap	Sales			EBIT		
				2014	2015e	2016e	2014	2015e	2016e
Calida	Switzerland	32	257	340	346	362	22	23	28
Gerry Weber*	Germany	30	1,393	852	987	1,074	109	122	141
Hugo Boss	Germany	113	7,938	2,572	2,824	3,019	449	504	561
Van de Velde	Belgium	52	695	198	209	218	n.a.	n.a.	n.a.
Burberry	UK	1,796	6,225	3,212	3,855	4,230	578	693	773
Brunello Cucinelli	Italy	17	1,153	357	400	445	49	52	58
Wolford**	Austria	22	109	157	164	171	2	3	4

	Sales growth			EBIT-Margin			ROE		
	2014	2015e	2016e	2014	2015e	2016e	2014	2015e	2016e
Calida	102%	2%	5%	6.6%	6.6%	7.9%	14.9%	10.3%	12.1%
Gerry Weber*	0%	16%	9%	12.8%	12.4%	13.1%	15.8%	15.8%	17.0%
Hugo Boss	6%	10%	7%	17.5%	17.8%	18.6%	39.7%	39.8%	38.7%
Van de Velde	9%	5%	4%	n.a.	n.a.	n.a.	17.8%	20.7%	19.1%
Burberry	16%	20%	10%	18.0%	18.0%	18.3%	24.8%	23.8%	23.0%
Brunello Cucinelli	11%	12%	11%	13.8%	13.0%	13.1%	20.1%	18.2%	17.6%
Median	9.8%	10.9%	7.8%	13.8%	13.0%	13.1%	18.9%	19.5%	18.3%
Wolford**	0.9%	4.4%	4.4%	1.4%	1.7%	2.4%	1.4%	1.7%	3.0%

	P/BV			P/E			Dividend Yield		
	2014	2015e	2016e	2014	2015e	2016e	2014	2015e	2016e
Calida	2.1 x	2.1 x	1.9 x	14.1 x	20.1 x	15.7 x	2.1%	2.1%	2.1%
Gerry Weber*	3.1 x	2.8 x	2.5 x	19.5 x	17.7 x	14.9 x	2.5%	2.7%	3.1%
Hugo Boss	9.2 x	8.1 x	7.1 x	23.2 x	20.4 x	18.3 x	3.2%	3.5%	4.0%
Van de Velde	4.2 x	3.6 x	3.1 x	23.7 x	17.5 x	16.4 x	6.7%	6.7%	6.7%
Burberry	5.8 x	5.1 x	4.5 x	23.5 x	21.2 x	19.4 x	1.9%	2.2%	2.6%
Brunello Cucinelli	7.0 x	6.1 x	5.2 x	34.8 x	33.3 x	29.7 x	0.7%	0.8%	0.8%
Median	5.0 x	4.3 x	3.8 x	23.4 x	20.2 x	17.4 x	2.3%	2.5%	2.9%
Wolford**	1.6 x	1.5 x	1.4 x	113.8 x	83.1 x	47.6 x	0.8%	0.7%	0.9%
<i>Premium / Discount</i>	-69%	-67%	-63%	387%	311%	174%			

	EV/Sales			EV/EBITDA			EV/EBIT		
	2014	2015e	2016e	2014	2015e	2016e	2014	2015e	2016e
Calida	0.7 x	0.7 x	0.7 x	6.9 x	7.2 x	5.9 x	10.3 x	11.0 x	8.5 x
Gerry Weber*	1.6 x	1.4 x	1.3 x	10.2 x	9.0 x	8.0 x	12.6 x	11.2 x	9.8 x
Hugo Boss	3.1 x	2.8 x	2.6 x	13.5 x	12.5 x	11.2 x	17.8 x	15.8 x	14.1 x
Van de Velde	3.3 x	3.1 x	2.9 x	15.8 x	10.6 x	9.8 x	n.a.	n.a.	n.a.
Burberry	3.0 x	2.6 x	2.4 x	12.6 x	11.2 x	10.2 x	16.5 x	14.6 x	13.0 x
Brunello Cucinelli	3.3 x	3.0 x	2.7 x	19.0 x	17.7 x	15.6 x	24.3 x	23.2 x	20.6 x
Median	3.0 x	2.7 x	2.5 x	13.1 x	10.9 x	10.0 x	16.5 x	14.6 x	13.0 x
Wolford**	1.0 x	1.0 x	1.0 x	14.1 x	12.0 x	10.9 x	71.0 x	49.3 x	34.1 x
<i>Premium / Discount</i>	-68%	-65%	-61%	8%	10%	9%	331%	237%	162%

* Fiscal year from Nov.-Oct.: 2013/14e = 2014e, etc.; ** Fiscal year from May-Apr.: 2014/15e = 2014e, etc.

Source: Factset, Erste Group Research

Erste Group Research – Company Report
 Wolford | Luxury Goods | Austria
 29 July 2015

Income Statement	2013	2014	2015	2016e	2017e	2018e
(IAS, EUR mn, 30/04)	30/04/2013	30/04/2014	30/04/2015	30/04/2016	30/04/2017	30/04/2018
Net sales	156.47	155.87	157.35	164.27	171.47	177.99
Invent. changes + capitalized costs	-0.37	-1.83	2.71	1.72	0.99	1.05
Total revenues	156.09	154.05	160.06	166.00	172.46	179.04
Other operating revenues	3.52	1.35	9.39	2.94	1.71	1.78
Material costs	-28.93	-25.62	-30.33	-28.37	-29.47	-30.41
Personnel costs	-74.23	-72.09	-74.15	-75.86	-77.76	-79.70
Other operating expenses	-48.55	-54.33	-54.02	-53.06	-54.01	-55.18
EBITDA	7.90	3.36	10.94	11.65	12.94	15.53
Depreciation/amortization	-8.80	-8.08	-8.77	-8.82	-8.81	-8.83
EBIT	-0.91	-4.72	2.17	2.83	4.13	6.70
Financial result	-1.34	-1.17	-0.96	-1.08	-1.07	-1.07
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
EBT	-2.25	-5.89	1.21	1.75	3.05	5.63
Income taxes	-0.51	3.07	-0.17	-0.44	-0.76	-1.41
Result from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	0.00	0.00	0.00	0.00	0.00	0.00
Net result after minorities	-2.76	-2.81	1.03	1.31	2.29	4.22
Balance Sheet	2013	2014	2015	2016e	2017e	2018e
(IAS, EUR mn, 30/04)						
Intangible assets	10.77	11.37	13.59	13.00	12.49	12.06
Tangible assets	59.68	53.01	53.47	53.74	54.94	55.04
Financial assets	1.53	1.47	1.60	1.60	1.60	1.60
Total fixed assets	71.99	65.85	68.65	68.34	69.03	68.69
Inventories	42.69	40.07	42.20	41.40	42.52	43.25
Receivables and other current assets	16.85	19.63	21.35	21.32	22.24	23.07
Other assets	5.57	7.92	10.45	6.57	6.86	7.12
Cash and cash equivalents	5.22	4.65	4.79	7.88	5.63	6.44
Total current assets	70.33	72.27	78.78	77.16	77.25	79.88
TOTAL ASSETS	142.32	138.12	147.44	145.50	146.27	148.57
Shareholders'equity	78.15	74.38	74.83	75.16	76.71	79.95
Minorities	0.00	0.00	0.00	0.00	0.00	0.00
Hybrid capital and other reserves	0.00	0.00	0.00	0.00	0.00	0.00
Pension and other LT personnel accruals	15.22	15.70	19.22	19.20	19.20	19.20
LT provisions	0.00	0.00	0.00	0.00	0.00	0.00
Interest-bearing LT debts	19.15	6.39	4.94	4.64	4.34	4.04
Other LT liabilities	3.73	1.41	2.67	2.99	3.22	3.47
Total long-term liabilities	22.88	7.80	7.61	7.63	7.56	7.51
Interest-bearing ST debts	3.33	16.77	18.57	16.24	15.19	14.14
Other ST liabilities	22.74	23.47	27.20	27.27	27.61	27.77
Total short-term liabilities	26.07	40.24	45.78	43.51	42.80	41.91
TOTAL LIAB. , EQUITY	142.32	138.12	147.44	145.50	146.27	148.57
Cash Flow Statement	2013	2014	2015	2016e	2017e	2018e
(IAS, EUR mn, 30/04)						
Cash flow from operating activities	6.31	6.30	3.61	15.21	9.33	11.64
Cash flow from investing activities	-5.83	-7.27	-4.15	-8.50	-9.50	-8.50
Cash flow from financing activities	-0.38	0.68	0.33	-3.61	-2.09	-2.33
CHANGE IN CASH , CASH EQU.	0.08	-0.34	0.13	3.10	-2.25	0.81
Margins & Ratios	2013	2014	2015	2016e	2017e	2018e
Sales growth	1.6%	-0.4%	0.9%	4.4%	4.4%	3.8%
EBITDA margin	5.1%	2.2%	6.8%	7.0%	7.5%	8.7%
EBIT margin	-0.6%	-3.1%	1.4%	1.7%	2.4%	3.7%
Net profit margin	-1.8%	-1.8%	0.6%	0.8%	1.3%	2.4%
ROE	-3.4%	-3.7%	1.4%	1.7%	3.0%	5.4%
ROCE	-1.6%	-2.3%	1.3%	1.6%	2.5%	4.1%
Equity ratio	54.9%	53.9%	50.8%	51.7%	52.4%	53.8%
Net debt	30.9	32.7	36.4	30.6	31.5	29.4
Working capital	38.7	24.1	22.6	27.1	27.6	30.9
Capital employed	112.8	108.5	113.9	108.8	111.4	112.8
Inventory turnover	0.7	0.6	0.7	0.7	0.7	0.7

Source: Company data, Erste Group estimates

Erste Group Research – Company Report

Wolford | Luxury Goods | Austria

29 July 2015

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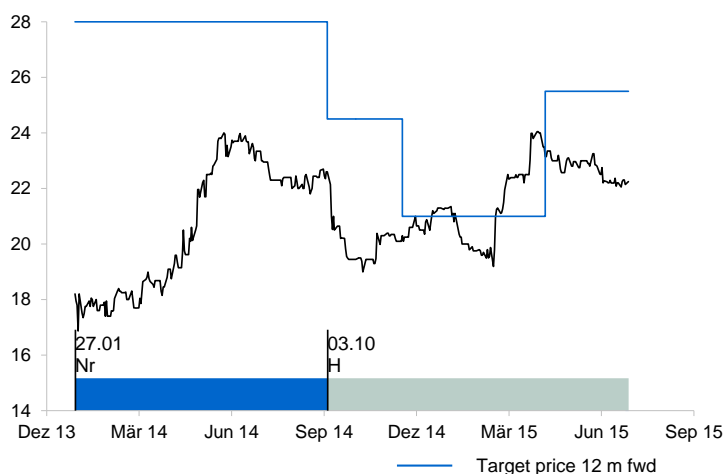
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Wolford



Rating history

Date	Rating	Price	Target Price
03. Oct 14	Hold	22.60	24.50
29. Feb 12	Not rated	23.50	28.00
12. Oct 11	Accumulate	24.03	28.00
21. Mar 11	Buy	24.10	30.00
21. Dec 10	Hold	25.16	26.00
15. Feb 10	Accumulate	12.54	14.30
11. Dec 08	Hold	11.94	16.00
30. Jul 08	Accumulate	22.00	25.90
17. Apr 08	Hold	24.00	27.60
03. Apr 07	Accumulate	36.06	44.00
21. Dec 06	Buy	34.00	42.00
03. Aug 06	Accumulate	21.22	23.50
10. Nov 04	Hold	18.46	20.00
04. Aug 04	Buy	22.44	28.00
28. Jun 04	Accumulate	28.25	30.00
22. Jul 03	Buy		17.00

Company description

Wolford has established itself worldwide as a luxury brand for high quality hosiery, exclusive lingerie and high-quality body-wear for women. With more than 260 own and partner-led mono-brand boutiques, factory outlets, concession shop-in-shops as well as 3,000 retail partners, Wolford can rely on a strong retail network and sells its products in over 60 countries. The excellent product quality is unique and the company has demonstrated its innovative potential for new products numerous times.

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Company	ISIN	Disclosure
Wolford	AT0000834007	

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Buy	> +20% to target price
Accumulate	+10% < target price < +20%
Hold	0% < target price < +10%
Reduce	-10% < target price < 0%
Sell	< -10% to target price

Our target prices are established by determining the fair value of stocks, taking into account additional fundamental factors and news of relevance for the stock price (such as M&A activities, major forthcoming share deals, positive/negative share/sector sentiment, news) and refer to 12 months from now. All recommendations are to be understood relative to our current fundamental valuation of the stock. The recommendation does not indicate any relative performance of the stock vs. a regional or sector benchmark.

Distribution of ratings

Recommendation	Coverage universe		Inv. banking-relationship	
	No.	in %	No.	in %
Buy	49	25.0	10	18.9
Accumulate	49	25.0	19	35.8
Hold	57	29.1	16	30.2
Reduce	19	9.7	7	13.2
Sell	14	7.1	0	0.0
N.R./UND.REV./RESTR.	8	4.1	1	1.9
Total	196	100.0	53	100.0

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