

53/2024/GPW (117) December 20, 2024

This report is prepared for the Warsaw Stock Exchange SA within the framework of the Analytical Coverage Support Program 4.0.

Grodno

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Analyst: Maciej Wewiórski

Sector: Construction materials

Fundamental rating: Hold (↓)

Market relative: Neutral (→)

Price: PLN 8.98

12M EFV: PLN 9.1 (↓)

Market Cap: US\$ 34 m

Bloomberg code: GRN PW

Av. daily turnover: US\$ 0.02 m

12M range: PLN 8.36-12.28

Free float: 34.2%

Grodno

Investment case & recommended action

Due to the unfavorable market conditions Grodno's financial results for 1H24/25 turned to be weak. Declines on the electrotechnical market, strong competitive and price pressures coupled with a negative dynamic of Poland's construction and assembly production output stymied the Company's profitability. What's more, results were burdened by a one-off event (a write-off on heat pump inventories).

We believe the market is promising in the long term, however at the moment it continues to be less visible. In the short term we don't envisage any upturn on the electrotechnical product market.

We lower our LT fundamental recommendation for Grodno to Hold from Buy.

1H24/25 financial results review

Revenues. The Company's 1H24/25 sales arrived at PLN 609.9 million (up 3% yoy). It's worth mentioning that sales grew in spite of challenging market conditions featuring *inter alia* declines on the electrotechnical market, strong competitive and price pressures and negative dynamic of Poland's construction and assembly production output. A sales dynamic was affected by lower yoy sales in the RES segment mainly on the back of falling global prices of photovoltaic modules and lower connected PV capacity in Poland. We would like to stress the fact that the Company's sales volume in the photovoltaic segment actually increased in the discussed period.

Costs. The Company informed that 1H24/25 consolidated value of goods sold reached PLN 512.2 million which implies a 3% yoy growth stemming from higher sales. The second biggest cost category was the cost of employee benefits rising 9% yoy to PLN 58.8 million which was related to a pressure on salaries and an increasing

Guide to adjusted profits

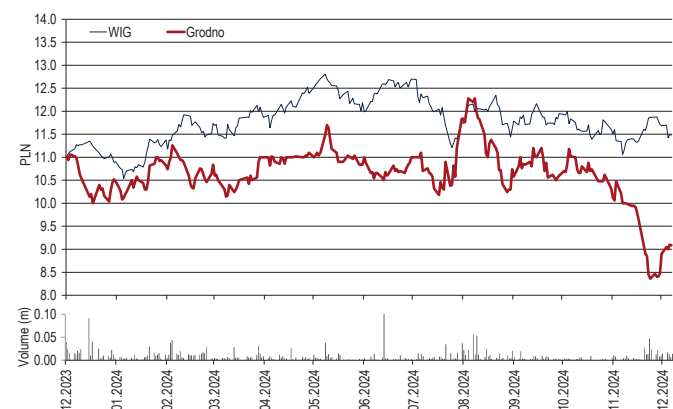
No factors necessitating adjustments.

Key data

IFRS consolidated		2023/24	2024/25E	2025/26E	2026/27E
Sales	PLN m	1,186.1	1,167.2	1,190.6	1,226.3
EBITDA	PLN m	27.0	-1.8	29.7	41.3
EBIT	PLN m	16.9	-12.4	19.0	30.7
Net income	PLN m	6.2	-20.1	10.5	20.4
EPS	PLN	0.40	-1.31	0.68	1.32
EPS yoy chg	%	-72.2	b.z.	b.z.	93.5
Net debt	PLN m	85.2	102.9	95.8	85.3
P/E	x	22.2	neg.	13.1	6.8
P/CE	x	8.5	neg.	6.5	4.5
EV/EBITDA	x	8.3	neg.	7.9	5.4
EV/EBIT	x	13.2	neg.	12.3	7.3
EV/Sales	x	0.2	0.2	0.2	0.2
Gross dividend yield	%	0.0	0.0	0.0	3.8
DPS	PLN	0.00	0.00	0.00	0.34
No. of shares (eop)	m	15.4	15.4	15.4	15.4

Source: Company, DM BOŚ SA estimates

Stock performance



Source: Bloomberg

Recent events

1. Release of the financial report for FY23/24: July 25, 2024
2. Release of the financial report for 1Q24/25: August 22, 2024
3. Release of the financial report for 1H24/25: December 12, 2024

Upcoming events

1. Release of the financial report for 3Q24/25: February 13, 2025

wage growth in the economy. The cost of external services reached PLN 25.6 million (up 14% yoy), mainly due to higher costs of transport and rents. The cost of materials and energy consumption fell by 6% yoy to PLN 3.9 million. Other operating costs reached PLN 8.1 million (up PLN 17.0 million yoy) which according to the Company was mainly caused by an impairment write-off in the amount of PLN 16.2 million for heat pump inventories.

Financial results. 1H24/25 financial results deteriorated yoy. Consolidated EBITDA reached PLN -12.2 million while the bottom line arrived at PLN -18.5 million. The crucial impact on the results came from a PLN 16.2 million write-off related to falling prices of photovoltaic modules due to their oversupply in Europe (especially in Poland), and halting the admission of applications in the Czyste Powietrze program.

Grodno estimated its adj EBITDA and adj EBIT (the results of the pump heat business and mentioned above write-off excluded) at PLN 6.2 million and PLN 1.1 million, respectively. Heat pumps generated c. 2% of the Company's revenues in 1H24/25, and the value of heat pump inventories after the write-off corresponded to c. 9% of total value of inventories.

According to the Company, a sale of heat pumps has been generating positive cash flows as in spite of difficulties the cost of their purchase was incurred earlier.

1H24/25 results were affected by the challenging situation on the electrotechnical market, falling global prices of photovoltaic modules and lower connected PV capacity in Poland.

Financial forecasts

We lower our forecasts given weaker figures for 1H24/25 and no market upturn expected. The slowdown on the electrotechnical market is more severe than we assumed, hence we lower our sales expectations. General cost pressures, weak photovoltaic market, and strong competition make us cut expected ST EBIT margin forecast.

Valuation

Due to our forecasts cuts our 12M EFV being a 50%-50% mix of the DCF FCFF valuation and peer valuation drops to PLN 9.1 per share. The DCF FCFF/ peer-relative valuation yields PLN 11.0/ PLN 7.3 per share.

Catalysts

1. Warehouse space optimization
2. Rising electricity prices for end-users
3. New support programs for the RES segment investors
4. Further acquisitions of peer companies (to-date Grodno has concluded 10 takeovers)
5. Automation of warehouse storage and distribution processes
6. Successful development of e-commerce channel in B2C and B2B segments

Risk factors

1. Rising manufacturing costs of suppliers because of raw materials prices growth and lack of possibility to pass on the pricing increase to customers
2. Pressure on wages growth
3. Sales seasonality
4. Dependence on main suppliers
5. Clients insolvency
6. Bad inventories management
7. IT system malfunctions
8. Impact of the majority shareholders controlling 79.3% of the votes on the GSA
9. Inability to reach strategic goals (annual growth of sales at 10% by 2024/25)
10. Withdrawal from/ limits imposed on the government support programs for the RES segment investors
11. Inability to continue further lucrative acquisitions of peer companies

Competitive advantages

1. Strong geographic diversification (one of the most extensively developed sales network among independent distributors of electrotechnical materials)
2. Exposure to the fast growing segments of the electrotechnical market (photovoltaics and heat pumps currently, earlier LED lighting)
3. Comprehensive offer including consulting services, design and construction
4. Numerous acquisitions all of which proved to be value accretive
5. A vast client base including households, SMES, local and regional government units, and industrial plants as well
6. Lack of dependence on one/few suppliers
7. Multiple points of sale (suppliers more willing to cooperate with the big partner with a well-developed logistic base)

BASIC DEFINITIONS

A/R turnover (in days) = $365/(\text{sales}/\text{average A/R})$
Inventory turnover (in days) = $365/(\text{COGS}/\text{average inventory})$
A/P turnover (in days) = $365/(\text{COGS}/\text{average A/P})$
Current ratio = $(\text{current assets} - \text{ST deferred assets})/\text{current liabilities}$
Quick ratio = $(\text{current assets} - \text{ST deferred assets} - \text{inventory})/\text{current liabilities}$
Interest coverage = $(\text{pre-tax profit before extraordinary items} + \text{interest payable})/\text{interest payable}$
Gross margin = $\text{gross profit on sales}/\text{sales}$
EBITDA margin = $\text{EBITDA}/\text{sales}$
EBIT margin = EBIT/sales
Pre-tax margin = $\text{pre-tax profit}/\text{sales}$
Net margin = $\text{net profit}/\text{sales}$
ROE = $\text{net profit}/\text{average equity}$
ROA = $(\text{net income} + \text{interest payable})/\text{average assets}$
EV = $\text{market capitalization} + \text{interest bearing debt} - \text{cash and equivalents}$
EPS = $\text{net profit}/\text{no. of shares outstanding}$
CE = $\text{net profit} + \text{depreciation}$
Dividend yield (gross) = $\text{pre-tax DPS}/\text{stock market price}$
Cash sales = $\text{accrual sales corrected for the change in A/R}$
Cash operating expenses = $\text{accrual operating expenses corrected for the changes in inventories and A/P, depreciation, cash taxes and changes in the deferred taxes}$

DM BOŚ S.A. generally values the covered non bank companies via two methods: comparative method and DCF method (discounted cash flows). The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the DCF method is its independence from the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation. Please note that we also resort to other valuation techniques (e.g. NAV-, DDM- or SOTP-based), should it prove appropriate in a given case.

KEY TO INVESTMENT RANKINGS

This is a guide to expected price performance in absolute terms over the next 12 months:

Buy – fundamentally undervalued (upside to 12M EFV in excess of the cost of equity) + catalysts which should close the valuation gap identified;
Hold – either (i) fairly priced, or (ii) fundamentally undervalued/overvalued but lacks catalysts which could close the valuation gap;
Sell – fundamentally overvalued (12M EFV < current share price + 1-year cost of equity) + catalysts which should close the valuation gap identified.

This is a guide to expected relative price performance:

Overweight – expected to perform better than the benchmark (WIG) over the next quarter in relative terms
Neutral – expected to perform in line with the benchmark (WIG) over the next quarter in relative terms
Underweight – expected to perform worse than the benchmark (WIG) over the next quarter in relative terms

The recommendation tracker presents the performance of DM BOŚ S.A.'s recommendations. A recommendation expires on the day it is altered or on the day 12 months after its issuance, whichever comes first.

Relative performance compares the rate of return on a given recommended stock in the period of the recommendation's validity (i.e. from the date of issuance to the date of alteration or – in case of maintained recommendations – from the date of issuance to the current date) in a relation to the rate of return on the benchmark in this time period. The WIG index constitutes the benchmark. For recommendations that expire by an alteration or are maintained, the ending values used to calculate their absolute and relative performance are: the stock closing price on the day the recommendation expires/ is maintained and the closing value of the benchmark on that date. For recommendations that expire via a passage of time, the ending values used to calculate their absolute and relative performance are: the average of the stock closing prices for the day the recommendation elapses and four directly preceding sessions and the average of the benchmark's closing values for the day the recommendation expires and four directly preceding sessions.

Distribution of DM BOŚ's current recommendations

	Buy	Hold	Sell	Suspended	Under revision	Not rated
Numbers	43	29	5	5	0	5
Percentage	49%	33%	6%	6%	0%	6%

Distribution of DM BOŚ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	27	40	10	5	0	5
Percentage	31%	46%	11%	6%	0%	6%

Banks

Net Interest Margin (NIM) = $\text{net interest income}/\text{average assets}$
Non interest income = $\text{fees\&commissions} + \text{result on financial operations (trading gains)} + \text{FX gains}$
Interest Spread = $(\text{interest income}/\text{average interest earning assets})/(\text{interest cost}/\text{average interest bearing liabilities})$
Cost/Income = $(\text{general costs} + \text{depreciation})/(\text{profit on banking activity} + \text{other net operating income})$
ROE = $\text{net profit}/\text{average equity}$
ROA = $\text{net income}/\text{average assets}$
Non performing loans (NPL) = loans in 'basket 3' category
NPL coverage ratio = $\text{loan loss provisions}/\text{NPL}$
Net provision charge = $\text{provisions created} - \text{provisions released}$

DM BOŚ S.A. generally values the covered banks via two methods: comparative method and fundamental target fair P/E and target fair P/BV multiples method. The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the fundamental target fair P/E and target fair P/BV multiples method is its independence of the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation. Assumptions used in valuation can change, influencing thereby the level of the valuation. Among the most important assumptions are: GDP growth, forecasted level of inflation, changes in interest rates and currency prices, employment level and change in wages, demand on the analysed company products, raw material prices, competition, standing of the main customers and suppliers, legislation changes, etc. Changes in the environment of the analysed company are monitored by analysts involved in the preparation of the recommendation, estimated, incorporated in valuation and published in the recommendation whenever needed.

Distribution of DM BOŚ's current recommendations for the companies which DM BOŚ has supplied with material investment services within the last 12 months

	Buy	Hold	Sell	Suspended	Under revision	Not rated
Numbers	4	5	0	1	0	2
Percentage	33%	42%	0%	8%	0%	17%

Distribution of DM BOŚ's current market relative recommended weightings for the companies which DM BOŚ has supplied with material investment services within the last 12 months

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	3	5	1	1	0	2
Percentage	25%	42%	8%	8%	0%	17%

LT fundamental recommendation tracker

Analyst	Recommendation	Report date	Reiteration date	Distribution date	Expiry date	Performance	Relative performance	Price at issue/reiteration*	EFV (12 months)
Grodno									
Maciej Wewiórski	Buy	31.08.2021	-	31.08.2021	16.08.2022	4%	30%	15.34	20.60 →
Maciej Wewiórski	-	-	31.08.2021	31.08.2021	-	-	-	15.86	20.60 →
Maciej Wewiórski	-	-	07.10.2021	07.10.2021	-	-	-	15.60	20.60 →
Maciej Wewiórski	-	-	01.11.2021	02.11.2021	-	-	-	15.96	20.39 ↓
Maciej Wewiórski	-	-	04.11.2021	04.11.2021	-	-	-	16.42	20.39 →
Maciej Wewiórski	-	-	16.11.2021	17.11.2021	-	-	-	16.82	23.30 ↑
Maciej Wewiórski	-	-	05.12.2021	06.12.2021	-	-	-	16.10	23.30 →
Maciej Wewiórski	-	-	16.01.2022	17.01.2022	-	-	-	17.24	23.30 →
Maciej Wewiórski	-	-	07.02.2022	07.02.2022	-	-	-	18.10	23.30 →
Maciej Wewiórski	-	-	28.02.2022	28.02.2022	-	-	-	15.50	23.30 →
Maciej Wewiórski	-	-	14.04.2022	14.04.2022	-	-	-	19.98	23.30 →
Maciej Wewiórski	-	-	24.04.2022	25.04.2022	-	-	-	19.80	26.60 ↑
Maciej Wewiórski	-	-	26.05.2022	26.05.2022	-	-	-	17.48	26.60 →
Maciej Wewiórski	-	-	07.06.2022	08.06.2022	-	-	-	17.28	26.60 →
Maciej Wewiórski	-	-	15.07.2022	15.07.2022	-	-	-	16.14	26.60 →
Maciej Wewiórski	-	-	08.08.2022	09.08.2022	-	-	-	15.16	26.60 →
Maciej Wewiórski	Buy	16.08.2022	-	16.08.2022	09.08.2023	-25%	-40%	15.74	26.60 →
Maciej Wewiórski	-	-	02.09.2022	02.09.2022	-	-	-	15.80	26.60 →
Maciej Wewiórski	-	-	07.10.2022	07.10.2022	-	-	-	15.12	26.60 →
Maciej Wewiórski	-	-	28.10.2022	28.10.2022	-	-	-	15.34	26.60 →
Maciej Wewiórski	-	-	14.11.2022	14.11.2022	-	-	-	16.28	24.30 ↓
Maciej Wewiórski	-	-	01.12.2022	01.12.2022	-	-	-	15.72	24.30 →
Maciej Wewiórski	-	-	04.12.2022	05.12.2022	-	-	-	15.18	24.30 →
Maciej Wewiórski	-	-	22.12.2022	23.12.2022	-	-	-	12.90	17.30 ↓
Maciej Wewiórski	-	-	13.01.2023	13.01.2023	-	-	-	13.38	17.30 →
Maciej Wewiórski	-	-	03.02.2023	03.02.2023	-	-	-	13.96	17.30 →
Maciej Wewiórski	-	-	10.02.2023	10.02.2023	-	-	-	13.64	17.30 →
Maciej Wewiórski	-	-	02.03.2023	02.03.2023	-	-	-	13.22	17.30 →
Maciej Wewiórski	-	-	10.03.2023	10.03.2023	-	-	-	12.98	17.30 →
Maciej Wewiórski	-	-	13.04.2023	13.04.2023	-	-	-	14.38	17.30 →
Maciej Wewiórski	-	-	29.05.2023	29.05.2023	-	-	-	14.76	17.30 →
Maciej Wewiórski	-	-	14.07.2023	14.07.2023	-	-	-	14.88	17.30 →
Maciej Wewiórski	Hold	09.08.2023	-	09.08.2023	06.08.2024	-12%	-21%	11.82	14.90 ↓
Maciej Wewiórski	-	-	31.08.2023	31.08.2023	-	-	-	10.90	14.90 →
Maciej Wewiórski	-	-	12.10.2023	12.10.2023	-	-	-	10.70	14.90 →
Maciej Wewiórski	-	-	06.11.2023	06.11.2023	-	-	-	10.86	14.90 →
Maciej Wewiórski	-	-	04.12.2023	04.12.2023	-	-	-	11.60	14.90 →
Maciej Wewiórski	-	-	10.12.2023	11.12.2023	-	-	-	11.32	14.90 →
Maciej Wewiórski	-	-	19.12.2023	19.12.2023	-	-	-	10.98	11.80 ↓
Maciej Wewiórski	-	-	09.01.2024	09.01.2024	-	-	-	10.28	11.80 →
Maciej Wewiórski	-	-	01.02.2024	01.02.2024	-	-	-	10.48	11.80 →
Maciej Wewiórski	-	-	29.02.2024	29.02.2024	-	-	-	10.32	11.80 →
Maciej Wewiórski	-	-	04.04.2024	04.04.2024	-	-	-	10.60	11.80 →
Maciej Wewiórski	-	-	06.05.2024	06.05.2024	-	-	-	11.00	11.80 →
Maciej Wewiórski	-	-	29.05.2024	29.05.2024	-	-	-	10.90	11.80 →
Maciej Wewiórski	-	-	12.07.2024	12.07.2024	-	-	-	11.00	11.80 →
Maciej Wewiórski	Buy	06.08.2024	-	06.08.2024	20.12.2024	-14%	-15%	10.40	12.40 ↑
Maciej Wewiórski	-	-	12.08.2024	12.08.2024	-	-	-	11.84	12.40 →
Maciej Wewiórski	-	-	24.09.2024	24.09.2024	-	-	-	10.80	12.40 →
Maciej Wewiórski	-	-	11.10.2024	11.10.2024	-	-	-	10.60	12.40 →
Maciej Wewiórski	-	-	04.11.2024	04.11.2024	-	-	-	10.48	12.40 →
Maciej Wewiórski	-	-	01.12.2024	02.12.2024	-	-	-	9.62	12.40 →
Maciej Wewiórski	Hold	20.12.2024	-	20.12.2024	Not later than 20.12.2025	-	-	8.98	9.10 ↓

* prices at issue/reiteration are the closing prices at the report or reiteration date

Market-relative recommendation tracker

Analyst	Relative Recommendation		Report date	Reiteration date	Distribution date	Expiry date	Price at issue/ reiteration*	Relative performance
Grodno								
Maciej Wewiórski	Overweight	←	31.08.2021	-	31.08.2021	16.08.2022	15.34	30%
Maciej Wewiórski	-	→	-	31.08.2021	31.08.2021	-	15.86	-
Maciej Wewiórski	-	→	-	07.10.2021	07.10.2021	-	15.60	-
Maciej Wewiórski	-	→	-	01.11.2021	02.11.2021	-	15.96	-
Maciej Wewiórski	-	→	-	04.11.2021	04.11.2021	-	16.42	-
Maciej Wewiórski	-	→	-	16.11.2021	17.11.2021	-	16.82	-
Maciej Wewiórski	-	→	-	05.12.2021	06.12.2021	-	16.10	-
Maciej Wewiórski	-	→	-	16.01.2022	17.01.2022	-	17.24	-
Maciej Wewiórski	-	→	-	07.02.2022	07.02.2022	-	18.10	-
Maciej Wewiórski	-	→	-	28.02.2022	28.02.2022	-	15.50	-
Maciej Wewiórski	-	→	-	14.04.2022	14.04.2022	-	19.98	-
Maciej Wewiórski	-	→	-	24.04.2022	25.04.2022	-	19.80	-
Maciej Wewiórski	-	→	-	26.05.2022	26.05.2022	-	17.48	-
Maciej Wewiórski	-	→	-	07.06.2022	08.06.2022	-	17.28	-
Maciej Wewiórski	-	→	-	15.07.2022	15.07.2022	-	16.14	-
Maciej Wewiórski	-	→	-	08.08.2022	09.08.2022	-	15.16	-
Maciej Wewiórski	Overweight	→	16.08.2022	-	16.08.2022	22.12.2022	15.74	-19%
Maciej Wewiórski	-	→	-	02.09.2022	02.09.2022	-	15.80	-
Maciej Wewiórski	-	→	-	07.10.2022	07.10.2022	-	15.12	-
Maciej Wewiórski	-	→	-	28.10.2022	28.10.2022	-	15.34	-
Maciej Wewiórski	-	→	-	14.11.2022	14.11.2022	-	16.28	-
Maciej Wewiórski	-	→	-	01.12.2022	01.12.2022	-	15.72	-
Maciej Wewiórski	-	→	-	04.12.2022	05.12.2022	-	15.18	-
Maciej Wewiórski	Neutral	↓	22.12.2022	-	23.12.2022	10.12.2023	12.90	-35%
Maciej Wewiórski	-	→	-	13.01.2023	13.01.2023	-	13.38	-
Maciej Wewiórski	-	→	-	03.02.2023	03.02.2023	-	13.96	-
Maciej Wewiórski	-	→	-	10.02.2023	10.02.2023	-	13.64	-
Maciej Wewiórski	-	→	-	02.03.2023	02.03.2023	-	13.22	-
Maciej Wewiórski	-	→	-	10.03.2023	10.03.2023	-	12.98	-
Maciej Wewiórski	-	→	-	13.04.2023	13.04.2023	-	14.38	-
Maciej Wewiórski	-	→	-	29.05.2023	29.05.2023	-	14.76	-
Maciej Wewiórski	-	→	-	14.07.2023	14.07.2023	-	14.88	-
Maciej Wewiórski	-	→	-	09.08.2023	09.08.2023	-	11.82	-
Maciej Wewiórski	-	→	-	31.08.2023	31.08.2023	-	10.90	-
Maciej Wewiórski	-	→	-	12.10.2023	12.10.2023	-	10.70	-
Maciej Wewiórski	-	→	-	06.11.2023	06.11.2023	-	10.86	-
Maciej Wewiórski	-	→	-	04.12.2023	04.12.2023	-	11.60	-
Maciej Wewiórski	Neutral	→	10.12.2023	-	11.12.2023	04.11.2024	11.32	-12%
Maciej Wewiórski	-	→	-	19.12.2023	19.12.2023	-	10.98	-
Maciej Wewiórski	-	→	-	09.01.2024	09.01.2024	-	10.28	-
Maciej Wewiórski	-	→	-	01.02.2024	01.02.2024	-	10.48	-
Maciej Wewiórski	-	→	-	29.02.2024	29.02.2024	-	10.32	-
Maciej Wewiórski	-	→	-	04.04.2024	04.04.2024	-	10.60	-
Maciej Wewiórski	-	→	-	06.05.2024	06.05.2024	-	11.00	-
Maciej Wewiórski	-	→	-	29.05.2024	29.05.2024	-	10.90	-
Maciej Wewiórski	-	→	-	12.07.2024	12.07.2024	-	11.00	-
Maciej Wewiórski	-	→	-	06.08.2024	06.08.2024	-	10.40	-
Maciej Wewiórski	-	→	-	12.08.2024	12.08.2024	-	11.84	-
Maciej Wewiórski	-	→	-	24.09.2024	24.09.2024	-	10.80	-
Maciej Wewiórski	-	→	-	11.10.2024	11.10.2024	-	10.60	-
Maciej Wewiórski	Neutral	→	04.11.2024	-	04.11.2024	Not later than 04.11.2025	10.48	-13%
Maciej Wewiórski	-	→	-	01.12.2024	02.12.2024	-	9.62	-
Maciej Wewiórski	-	→	-	20.12.2024	20.12.2024	-	8.98	-

* prices at issue/reiteration are the closing prices at the report or reiteration date

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