

Xponential Fitness

4Q ahead as XPOF looks to replicate Pure Barre playbook with CycleBar

Reiterate Rating: NEUTRAL | PO: 13.00 USD | Price: 10.08 USD

4Q slightly ahead given revenue upside

XPOF reported 4Q23 adjusted EBITDA of \$30.7MM (vs. our \$30.5MM). Revenue growth of 26.6% was above our 14.9% led by higher other service revenue vs. our expectations which included sales from company owned transition studios. Adj. EBITDA was also supported by a \$8.8mm restructuring add-back related to lease liabilities from the wind down of company owned transition studios. Our PO remains \$13 now based on an EV of 6-7X our C25E adj. EBITDA (5-6X prior) given higher sector multiples.

Lower C24E adj. EBITDA to reflect higher SG&A expenses

We are lowering our C24E adj. EBITDA to \$136mm (from \$146mm) primarily to reflect higher SG&A expenses vs. our prior expectations which includes \$25mm in restructuring charges related to lease breakages primarily in 1H for the continued wind down of company owned transition studios. We are modeling 555 gross openings, but 475 net openings, as XPOF believes it should likely see a normalized underperforming studio closure rate of ~3% a year.

XPOF looking to replicate Pure Barre playbook on CycleBar

We believe XPOF is looking to re-accelerate underperforming brands, especially given recent success of improving Pure Barre same-store sales to +15% with the addition of a new class format. We believe XPOF will look to implement a new strategy at CycleBar in the near-term with the addition of a strength focused class and is testing the rebranding of AKTs into KINRGY studios.

See balanced risk/reward at current levels

We reiterate our Neutral rating which reflects our view that risk/reward is balanced as Club Pilates & Stretch Lab strength is partially offset by: (1) risk for closures at Row House & CycleBar where we estimate some franchisees may be unprofitable which could slow net unit openings; (2) the rise in interest rates may be pressuring new unit returns; & (3) a potential slowdown in same-store sales in a tougher consumer environment.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.22	0.31	1.01	1.42	1.49
EPS Change (YoY)	NM	40.9%	225.8%	40.6%	4.9%
Consensus EPS (Bloomberg)			1.19	1.50	2.12
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	45.8x	32.5x	10.0x	7.1x	6.8x
EV / EBITDA*	20.8x	14.7x	11.3x	10.2x	10.1x
Free Cash Flow Yield*	-3.3%	-4.5%	-2.2%	-2.5%	-3.2%

* For full definitions of *IQmethod*SM measures, see page 5.

29 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	339.9	344.8
2025E Rev (m)	374.3	381.5
2026E Rev (m)	400.1	407.3
2024E EPS	0.68	1.01
2025E EPS	0.90	1.42
2026E EPS	0.98	1.49

Alexander Perry

Research Analyst
BofAS
+1 646 855 1365
aperry3@bofa.com

Robert F. Ohmes, CFA

Research Analyst
BofAS
+1 646 855 0078
robert.ohmes@bofa.com

Stock Data

Price	10.08 USD
Price Objective	13.00 USD
Date Established	8-Feb-2024
Investment Opinion	C-2-9
52-Week Range	8.30 USD - 33.58 USD
Mkt Val (mn) / Shares Out (mn)	586 USD / 58.2
Free Float	71.5%
Average Daily Value (mn)	4.33 USD
BofA Ticker / Exchange	XPOF / NYS
Bloomberg / Reuters	XPOF US / XPOF.N
ROE (2024E)	NA
Net Dbt to Eqty (Dec-2023A)	NA
ESGMeter TM	NLA

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

AUV = Average Unit Volume

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 29 February 2024 09:52PM EST

iQprofileSM Xponential Fitness

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	3.2%	9.1%	14.3%	19.3%	17.4%
Return on Equity	NM	NM	NM	NM	NM
Operating Margin	5.5%	12.4%	24.2%	33.0%	30.9%
Free Cash Flow	(20)	(27)	(13)	(15)	(19)

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.2x	-0.6x	0x	0x	0x
Asset Replacement Ratio	1.4x	1.1x	0.8x	1.0x	1.2x
Tax Rate	15.5%	NM	27.0%	27.0%	27.0%
Net Debt-to-Equity Ratio	99.4%	NM	NM	NM	358.1%
Interest Cover	1.3x	1.0x	1.9x	2.9x	3.0x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	245	319	345	382	407
% Change	58.0%	30.1%	8.2%	10.6%	6.8%
Gross Profit	179	245	265	300	319
% Change	57.5%	36.5%	8.4%	13.0%	6.5%
EBITDA	74	105	136	152	153
% Change	172.5%	41.8%	29.4%	11.5%	0.5%
Net Interest & Other Income	(10)	(40)	(45)	(43)	(42)
Net Income (Adjusted)	10	16	55	77	78
% Change	NM	62.8%	255.3%	39.6%	1.2%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	3	(2)	28	61	62
Depreciation & Amortization	15	17	17	17	17
Change in Working Capital	1	(9)	1	2	1
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(18)	(15)	(45)	(77)	(79)
Capital Expenditure	(21)	(18)	(14)	(17)	(20)
Free Cash Flow	-20	-27	-13	-15	-19
% Change	46.0%	-35.5%	52.3%	-16.3%	-26.9%
Share / Issue Repurchase	56	(227)	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(16)	228	(15)	(10)	(10)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	37	37	73	125	163
Trade Receivables	26	33	35	39	42
Other Current Assets	23	27	29	30	31
Property, Plant & Equipment	19	20	17	17	20
Other Non-Current Assets	378	411	417	423	429
Total Assets	483	527	570	634	684
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	102	122	125	128	131
Long-Term Debt	133	319	309	299	289
Other Non-Current Liabilities	152	201	206	220	229
Total Liabilities	386	643	640	647	649
Total Equity	96	(116)	(70)	(13)	35
Total Equity & Liabilities	483	527	570	634	684

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Leisure

Company Description

Xponential Fitness is the largest franchisor of boutique fitness studios in the U.S. with ten brands including Club Pilates, CycleBar, Pure Barre, StretchLab, Row House, YogaSix, Rumble, AKT, Stride, & BFT. XPOF generates its revenue primarily through franchise fees led by royalty fees, but also through equipment placement of revenue, merchandise revenue and other service revenue.

Investment Rationale

We rate XPOF Neutral as we believe the risk/reward is balanced as potential for slowing net unit growth is partially offset by near-term momentum at Club Pilates & StretchLab which could drive average unit volumes.

Stock Data

Average Daily Volume

429,832

Quarterly Earnings Estimates

	2023	2024
Q1	0.04A	0.25E
Q2	0.07A	0.25E
Q3	0.11A	0.23E
Q4	0.08A	0.27E





Exhibit 1: XPOF Quarterly earnings analysis

\$ millions, except per share data

	Total Revenues	Product COGS	Franchise & Service COGS	SG&A	D&A	Marketing Fund Expense	Acquisition /Transaction Expense	Optg Inc	Adj. EBITDA	Interest Expense (Income)	P'tx Inc	Pro Forma Tax	GAAP Net Inc.	Extra Gain (Loss)	Adj. Net Inc.	Adj. EPS	Diluted Sh O/S
Mar-Q1	\$50.4	\$9.6	\$4.2	\$33.9	\$3.5	\$4.4	\$9.5	(\$14.8)	\$14.5	\$2.5	-\$17.2	(\$2.1)	(\$15.2)	9.9	(5.3)	(\$0.23)	22.7
Jun-Q2	\$59.6	\$13.5	\$4.5	\$29.3	\$3.6	\$4.1	(\$31.6)	\$36.1	\$17.6	\$2.4	\$33.7	\$2.2	\$15.5	(31.4)	0.1	\$0.00	25.4
Sep-Q3	\$63.8	\$11.8	\$4.8	\$32.8	\$4.2	\$4.3	\$16.3	(\$10.4)	\$20.0	\$2.9	-\$13.4	(\$0.3)	(\$13.1)	21.0	8.0	\$0.13	63.1
Dec-Q4	\$71.3	\$12.3	\$4.9	\$34.7	\$4.1	\$4.59	\$8.2	\$2.6	\$22.2	\$2.2	\$0.3	\$0.7	(\$0.4)	7.1	6.8	\$0.11	62.8
2022	\$245.0	\$47.2	\$18.4	\$130.7	\$15.3	\$17.3	\$2.4	\$13.5	\$74.3	\$10.1	\$3.4	\$0.5	\$2.9	\$6.6	\$9.5	\$0.22	43.5
Mar-Q1	\$70.7	\$14.0	\$4.0	\$34.9	\$4.2	\$5.0	\$15.7	(\$7.2)	\$22.9	\$7.9	-\$15.1	(\$0.1)	(\$15.0)	\$16.3	\$1.3	\$0.04	30.8
Jun-Q2	\$77.3	\$14.2	\$3.7	\$44.4	\$4.3	\$5.5	(\$31.3)	\$36.5	\$25.3	\$8.8	\$27.7	\$0.1	\$27.5	(\$23.3)	\$4.2	\$0.07	58.2
Sep-Q3	\$80.4	\$12.7	\$3.6	\$48.6	\$4.2	\$5.8	(\$1.9)	\$7.5	\$26.5	\$12.5	-\$5.0	\$0.2	(\$5.2)	\$11.2	\$6.0	\$0.11	56.8
Dec-Q4	\$90.2	\$17.0	\$4.6	\$55.6	\$4.2	\$6.4	(\$0.5)	\$2.9	\$30.7	\$11.2	-\$8.2	\$0.9	(\$9.1)	\$13.2	\$4.2	\$0.08	55.4
2023	\$318.7	\$58.0	\$15.9	\$183.5	\$16.9	\$22.7	(\$18.0)	\$39.7	\$105.3	\$40.3	-\$0.6	\$1.1	(\$1.7)	\$17.4	\$15.7	\$0.31	50.3
Mar-Q1E	\$87.3	\$13.7	\$4.2	\$39.7	\$4.2	\$8.6	(\$0.5)	\$8.5	\$30.9	\$11.2	-\$2.6	(\$0.7)	(\$1.9)	\$13.2	\$14.0	\$0.25	55.2
Jun-Q2E	\$84.0	\$14.4	\$4.4	\$37.3	\$4.2	\$9.1	(\$0.5)	\$15.1	\$32.6	\$11.2	\$4.0	\$1.1	\$2.9	\$13.2	\$13.8	\$0.25	55.0
Sep-Q3E	\$84.3	\$15.2	\$4.4	\$23.6	\$4.2	\$8.9	(\$0.5)	\$28.5	\$35.1	\$11.2	\$17.4	\$4.7	\$12.7	\$13.2	\$12.8	\$0.23	54.8
Dec-Q4E	\$98.3	\$18.7	\$4.6	\$30.6	\$4.2	\$9.5	(\$0.5)	\$31.3	\$37.8	\$11.2	\$20.1	\$5.4	\$14.7	\$0.1	\$14.8	\$0.27	54.6
2024E	\$344.8	\$62.0	\$17.5	\$131.1	\$16.7	\$36.0	(\$2.1)	\$83.5	\$136.4	\$44.7	\$38.8	\$10.5	\$28.3	\$27.0	\$55.4	\$1.01	54.9
2025E	\$381.5	\$61.1	\$20.6	\$114.1	\$16.7	\$43.2	\$0.0	\$125.7	\$151.9	\$42.7	\$83.1	\$22.4	\$60.6	\$16.6	\$77.3	\$1.42	54.6

PERCENTAGE CHANGE

	Total Revenues	SG&A	Operating Income	Adj. EBITDA	Net Income	Adj. EPS
Mar-Q1	73.3%	104.3%	6585.1%	306.4%	357.1%	311.0%
Jun-Q2	66.5%	38.3%	-9319.9%	111.8%	-644.6%	-103.7%
Sep-Q3	56.0%	35.4%	217.2%	195.6%	103.2%	-218.2%
Dec-Q4	44.4%	5.9%	-109.5%	157.6%	-98.3%	-130.2%
2022	58.0%	37.9%	-143.8%	172.5%	-107.8%	-135.0%
Mar-Q1	40.4%	2.8%	-51.2%	58.3%	-1.3%	-118.3%
Jun-Q2	29.9%	51.6%	0.9%	43.2%	-12.6%	1855.9%
Sep-Q3	26.1%	47.9%	-171.7%	32.6%	-60.3%	-16.1%
Dec-Q4	26.6%	60.4%	14.9%	38.5%	2372.8%	-30.1%
2023	30.1%	40.3%	193.9%	41.8%	-159.6%	43.2%
Mar-Q1E	10.8%	13.8%	-218.2%	35.0%	-87.1%	491.9%
Jun-Q2E	8.6%	-16.2%	-58.5%	29.1%	-89.5%	247.3%
Sep-Q3E	4.8%	-51.5%	281.7%	32.3%	-344.8%	120.3%
Dec-Q4E	8.9%	-45.0%	961.4%	23.4%	-262.0%	261.1%
2024E	8.2%	-28.5%	110.5%	29.5%	-1754.9%	223.1%
2025E	10.6%	-13.0%	50.6%	11.4%	113.9%	40.3%

MARGIN ANALYSIS (% OF NET SALES)

Equip/Merch.	Fran/Service		Adjusted				
Gross	Gross	SG&A	EBITDA	Operating	Tax	Pre-tax	Net
Margin	Margin	Ratio	Margin	Margin	Rate	Mgn	Margin
30.8%	83.4%	67.4%	28.7%	-29.3%	12.0%	-34.2%	-30.1%
29.3%	83.5%	49.2%	29.6%	60.7%	6.6%	56.6%	52.8%
34.3%	84.0%	51.5%	31.4%	-16.4%	2.3%	-21.0%	-20.5%
37.1%	84.9%	48.6%	31.1%	3.6%	215.8%	0.4%	-0.5%
33.1%	84.0%	53.4%	30.3%	5.5%	15.5%	1.4%	1.2%
30.7%	87.8%	49.3%	32.4%	-10.2%	0.8%	-21.4%	-21.2%
37.7%	89.4%	57.5%	32.6%	47.1%	0.5%	35.8%	35.6%
39.5%	90.2%	60.4%	33.0%	9.3%	-4.1%	-6.2%	-6.4%
35.8%	88.2%	61.6%	34.0%	3.3%	-10.5%	-9.1%	-10.1%
36.0%	88.9%	57.6%	33.1%	12.4%	-166.8%	-0.2%	-0.5%
36.5%	90.0%	50.7%	39.4%	10.9%	27.0%	-3.4%	-2.5%
36.5%	90.0%	44.4%	38.8%	18.0%	27.0%	4.7%	3.4%
36.5%	90.0%	28.0%	41.6%	33.9%	27.0%	20.6%	15.1%
36.5%	90.0%	31.1%	38.5%	31.9%	27.0%	20.5%	15.0%
36.5%	90.0%	38.0%	39.6%	24.2%	27.0%	11.3%	8.2%
36.5%	90.0%	29.9%	39.8%	33.0%	27.0%	21.8%	15.9%

Source: Company Filings, BofA Global Research estimates

BofA GLOBAL RESEARCH

Price objective basis & risk

Xponential Fitness (XPOF)

Our \$13 PO is based on an enterprise value of 6-7X our 2025E EBITDA estimate, in-line to slightly below other high quality franchise peers given risk of slowing unit growth.

Risks to the downside are: (1) Xponential operates in a highly competitive U.S. boutique fitness market with other high growth competitors including F45 & Orangetheory, (2) resurgence of at home fitness, including Peloton, could pressure demand for boutique fitness, (3) Xponential has a relatively high membership turnover rate (HSD%) with a low customer lifespan (11 month), and (4) more challenging macroeconomic environment could pressure overall fitness discretionary spend.

Risks to the upside are: (1) momentum at Club Pilates & StretchLab could help offset more challenging trends at other key brands, (2) Rumble & BFT could begin to drive strong average unit volumes as they scale, and (3) continued consolidation in the boutique fitness market could lead to share gains for XPOF.

Analyst Certification

I, Alexander Perry, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Broadlines, Hardlines, Food Retailers & Leisure Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Academy Sports + Outdoors	ASO	ASO US	Robert F. Ohmes, CFA
	BJ's Wholesale Club Holdings	BJ	BJ US	Robert F. Ohmes, CFA
	Costco Wholesale Corporation	COST	COST US	Robert F. Ohmes, CFA
	Grocery Outlet Holding Corp.	GO	GO US	Robert F. Ohmes, CFA
	Harley-Davidson	HOG	HOG US	Alexander Perry
	Life Time	LTH	LTH US	Alexander Perry
	Planet Fitness, Inc.	PLNT	PLNT US	Alexander Perry
	Sprouts Farmers Market, Inc.	SFM	SFM US	Robert F. Ohmes, CFA
	Sysco Corporation	SY	SY US	Kendall Toscano
	Target Corp.	TGT	TGT US	Robert F. Ohmes, CFA
	The Kroger Co.	KR	KR US	Robert F. Ohmes, CFA
	Topgolf Callaway Brands Corp	MODG	MODG US	Alexander Perry
	Walmart Inc	WMT	WMT US	Robert F. Ohmes, CFA
NEUTRAL				
	Dick's Sporting Goods	DKS	DKS US	Robert F. Ohmes, CFA
	Fox Factory Holding Corp	FOXF	FOXF US	Alexander Perry
	Xponential Fitness	XPOF	XPOF US	Alexander Perry
	YETI Holdings, Inc.	YETI	YETI US	Robert F. Ohmes, CFA
UNDERPERFORM				
	Canada Goose Holdings Inc	YGOOS	GOOS CN	Alexander Perry
	Canada Goose Holdings Inc	GOOS	GOOS US	Alexander Perry
	Columbia Sportswear	COLM	COLM US	Alexander Perry
	Dollar General Corporation	DG	DG US	Robert F. Ohmes, CFA
	Dollar Tree, Inc.	DLTR	DLTR US	Robert F. Ohmes, CFA
	Hibbett Sports, Inc.	HIBB	HIBB US	Alexander Perry
	National Vision	EYE	EYE US	Robert F. Ohmes, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase[®] is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

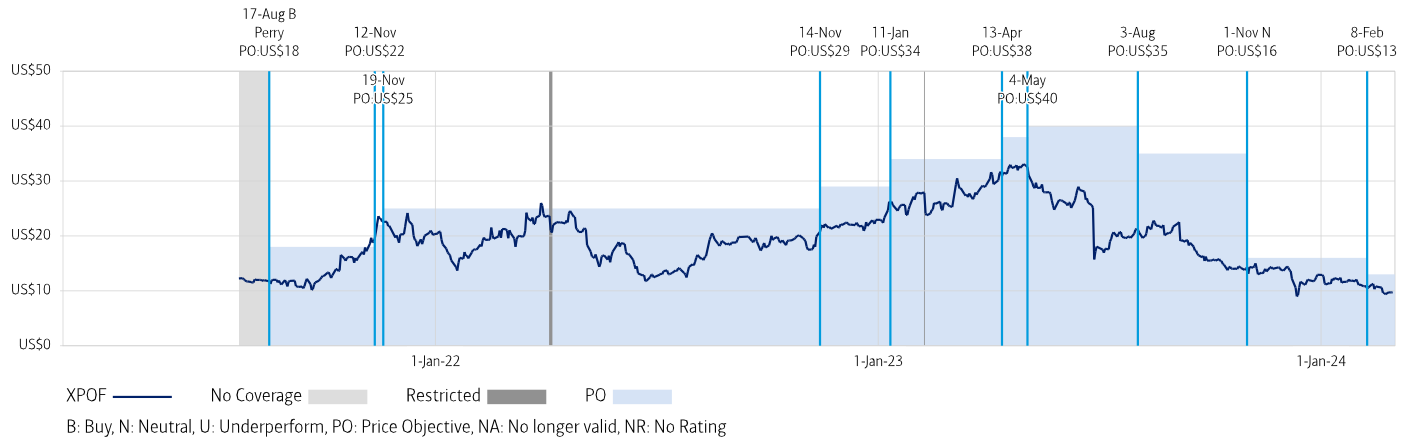
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Disclosures

Important Disclosures

Xponential Fitness (XPOF) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Leisure Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	16	55.17%	Buy	9	56.25%
Hold	7	24.14%	Hold	5	71.43%
Sell	6	20.69%	Sell	4	66.67%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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