

Omnicom

4Q23: Surprisingly soft US performance

Reiterate Rating: UNDERPERFORM | PO: 79.00 USD | Price: 89.00 USD

Reiterate Underperform, PO \$79

Omnicom (OMC) 4Q23 results and FY24 outlook were in line with expectations but with some negative surprise on the growth mix while we believe guidance around certain non-operating items (amortisation, interest expenses, buyback) on FY24 could pressure consensus EPS. Shares look inexpensive on ~12x 2024E P/E but we think is justified given the pedestrian low-single digit EPS growth profile.

4Q23 small beat, but US surprisingly soft

4Q23 organic sales growth came in at +4.4%, versus consensus +3.4% though investor expectations had likely gone up post Publicis and WPP beat. Surprisingly, the US (+0.6% vs +3.3%e) missed, contradicting upbeat macro and ad market datapoints. Management highlighted project related work was below 4Q22 and headwinds from creative account losses. This was more than offset by large beats in Europe, Asia, Latam and the UK, where media wins and strong project work came through. Adjusted EBITA and EPS beat by 1%. Despite the revenue beat, margin fell 33bp YoY versus 24bp expected as third-party service costs continue to outpace revenue growth.

FY24 outlook: headlines fine but EPS / FCF mixed

For 2024, OMC guides on 3.5-5.0% organic sales growth and flat adjusted EBITA margin, very modestly above current consensus (+3.5% and -10bp). That said, it signalled a 2Q/2H skew given higher comparatives in 1Q, while recent account wins are expected to kick in 2Q. Recently acquired Flywheel growth is also said to be seasonally stronger in 2H (this was true indeed in 2023 though note in 2022). Also, we expect consensus EPS / FCF to be pressured by additional comments of 1) “materially higher” amortisation and higher capex and higher net interest expenses linked to Flywheel 2) Share repurchases, which drove half of EPS growth in 2022/23, will be halved in 2024 as the Flywheel acquisition gets digested. We slightly update our estimates and reiterate Underperform.

Estimates (Dec) (USD)	2022A	2023A	2024E	2025E	2026E
Organic sales growth	9.4	4.1	3.7	2.1	2.1
EPS (Adjusted Diluted)	6.93	7.42	7.60	7.93	8.35
EPS Change (YoY)	9%	7%	3%	4%	5%
Dividend / Share	2.80	2.80	2.80	2.90	3.00
Valuation (Dec)					
P/E	12.8x	12.0x	11.7x	11.2x	10.7x
Dividend Yield	3.1%	3.1%	3.1%	3.3%	3.4%
EV / EBITDA*	9.0x	8.9x	8.6x	8.4x	8.3x
Free Cash Flow Yield*	4.6%	7.7%	10.2%	10.7%	11.2%

* For full definitions of *IQmethod*SM measures, see page 6.

06 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E EPS	7.55	7.60
2026E EPS	8.33	8.35

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Stock Data

Price	89.00 USD
Price Objective	79.00 USD
Date Established	18-Jan-2024
Investment Opinion	B-3-7
52-Week Range	72.20 USD-99.23 USD
Mrkt Val / Shares Out (mn)	17,930 USD / 201.5
Average Daily Value (mn)	121.13 USD
Free Float	98.9%
BofA Ticker / Exchange	OMC / NYS
Bloomberg / Reuters	OMC US / OMC.N
ROE (2024E)	38.6%
Net Dbt to Eqty (Dec2023A)	27.3%
ESGMeter™	High

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"](#).

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Refer to important disclosures on page 7 to 9. Analyst Certification on page 5. Price Objective Basis/Risk on page 5.

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Timestamp: 06 February 2024 07:01PM EST

iQprofileSM Omnicom

Key Income Statement Data (Dec)	2022A	2023A	2024E	2025E	2026E
(US\$ Millions)					
Sales	14,289	14,692	15,538	15,863	16,198
EBITDA Adjusted	2,416	2,443	2,549	2,594	2,616
Depreciation & Amortization	(139)	(131)	(133)	(135)	(138)
EBIT Adjusted	2,277	2,312	2,416	2,459	2,478
Net Interest & Other Income	(138)	(112)	(139)	(140)	(115)
Tax Expense / Benefit	(542)	(550)	(583)	(594)	(605)
Net Income (Adjusted)	1,435	1,494	1,499	1,526	1,555
Average Fully Diluted Shares Outstanding	207	201	197	192	186

Key Cash Flow Statement Data					
Net Income (Reported)	1,321	1,367	1,499	1,526	1,555
Depreciation & Amortization	139	131	133	135	138
Change in Working Capital	(844)	(463)	(50.0)	(50.0)	(50.0)
Deferred Taxation Charge	0	0	0	0	0
Other CFO	310	403	289	295	301
Cash Flow from Operations	927	1,438	1,871	1,907	1,944
Capital Expenditure	(78.2)	(78.4)	(101)	(103)	(105)
(Acquisition) / Disposal of Investments	(303)	(57.8)	(845)	0	0
Other CFI	0	0	0	0	0
Cash Flow from Investing	(381)	(136)	(946)	(103)	(105)
Share Issue / (Repurchase)	(611)	(570)	(300)	(550)	(550)
Cost of Dividends Paid	(661)	(634)	(638)	(645)	(647)
Increase (decrease) debt	(101)	56.4	550	0	(1,400)
Other CFF	11.2	(211)	(85.0)	(85.0)	(85.0)
Cash Flow from Financing	(1,362)	(1,359)	(473)	(1,280)	(2,682)
Total Cash Flow (CFO + CFI + CFF)	(816)	(57.4)	452	524	(843)
FX and other changes to cash	(158)	147	0	0	0
Change in Cash	(974)	89.4	452	524	(843)
Change in Net Debt	873	(33.0)	97.5	(524)	(557)
Net Debt	1,252	1,219	1,316	792	235

Key Balance Sheet Data					
Property, Plant & Equipment	900	848	816	784	751
Goodwill	9,734	9,903	10,679	10,609	10,536
Other Intangibles	313	313	313	313	313
Other Non-Current Assets	1,442	1,442	1,442	1,442	1,442
Trade Receivables	8,097	8,213	8,209	8,203	8,195
Cash & Equivalents	4,343	4,432	4,884	5,408	4,565
Other Current Assets	2,173	2,173	2,173	2,173	2,173
Total Assets	27,003	27,323	28,517	28,932	27,975
Long-Term Debt	5,577	5,640	6,201	6,201	4,801
Other Non-Current Liabilities	2,213	2,173	2,148	2,123	2,098
Short-Term Debt	16.9	10.9	0	0	0
Other Current Liabilities	15,036	15,036	15,036	15,036	15,036
Total Liabilities	22,843	22,860	23,385	23,360	21,935
Total Equity	4,159	4,464	5,132	5,572	6,041
Total Equity & Liabilities	27,003	27,323	28,517	28,932	27,975

Business Performance*					
Return On Capital Employed	14.0%	14.4%	14.2%	13.7%	14.1%
Return On Equity	44.0%	44.0%	38.6%	34.3%	31.7%
Operating Margin	14.6%	14.3%	14.8%	14.7%	14.5%
Free Cash Flow (MM)	848	1,359	1,770	1,804	1,839

Quality of Earnings*					
Cash Realization Ratio	0.65x	0.96x	1.25x	1.25x	1.25x
Asset Replacement Ratio	0.56x	0.60x	0.76x	0.76x	0.76x
Tax Rate	27.9%	27.6%	27.0%	27.0%	27.0%
Net Debt/Equity	30.1%	27.3%	25.6%	14.2%	3.89%
Interest Cover	10.9x	10.6x	10.2x	9.91x	11.3x

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Advertising & Marketing Services

Company Description

Omnicom (OMC) is the second-largest global advertising agency in revenue terms. It is the most exposed to the US (c.60% of revenues). OMC generates half its revenue from Marketing Services (eg, public relations, brand consultancy, events, strategic marketing consulting, etc) and half from Advertising & Media services (creating commercials, advising on media mix TV vs radio vs online), negotiating with media owners and buying the ad space on behalf of clients.

Investment Rationale

We expect more challenges ahead for Omnicom versus the rest of its peers: 1) OMC is the most exposed agency to programmatic internalization risks. 2) OMC has less exposure to fast growing "consultancy-like" businesses. 3) A leadership change is possible at some stage in the future.

Stock Data

Price to Book Value

4.1x

4Q23 wrap-up

Exhibit 1: 4Q23 beats but US missed and margin fell more than expected

4Q23 Actual vs Expected

\$m	4Q23 Actual	4Q23 Consensus	Actual vs cons.	4Q23 BofA	Actual vs BofA	4Q22 Actual	YoY growth
Revenue	4,061	3,990	2%	4,005	1%	3,869	5%
Organic growth	4.4%	3.4%		3.3%		7.3%	
United States	0.6%	3.3%		2.8%		5.8%	
Other North America	-1.2%	1.6%		-1.2%		7.2%	
UK	5.2%	4.6%		5.2%		9.8%	
Euro Markets & Other Europe	14.1%	5.0%		4.5%		5.2%	
Asia Pacific	10.9%	2.5%		3.3%		6.7%	
Latin America	13.6%	8.4%		16.8%		18.4%	
Middle East & Africa	-17.3%	-7.5%		-7.7%		32.6%	
Adjusted EBITA	683	674	1%	679	1%	663	3%
Adjusted EBITA margin	16.8%	16.9%		16.9%		17.1%	
Exceptional income/expense	-15			0		0	
Amortisation of acquired intangible assets	-21			-20		-20	
Operating income	647	655	-1%	658	-2%	643	1%
Net interest expense	-27			-34		-26	
Income tax expense	-164			-169		-164	
Tax rate	26%			27%		26%	
Non-controlling interests	-32			-20		-26	
Net income	426	432	-1%	437	-3%	430	-1%
Non-GAAP net income	439	437	0%	437	0%	430	2%
EPS	\$2.12	\$2.17	-2%	\$2.19	-4%	\$2.08	2%
Non-GAAP EPS	\$2.20	\$2.18	1%	\$2.19	0%	\$2.08	6%

Source: BofA Global Research estimates, company report

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Exhibit 2: Net of third party costs, OMC growth looks more pedestrian

Constant FX growth for certain P&L items

	4Q22	4Q23	cFX growth	FY22	FY23	cFX growth
Revenue	3,869	4,006	3.6%	14,289	14,715	3.0%
Service costs	-787	-876	11%	-2,586	-2,921	13%
Incidental	-152	-164	7%	-543	-576	6%
Revenue net of third party costs	2,930	2,966	1.2%	11,161	11,218	0.5%
Salaries and related service costs	-1,853	-1,877	1%	-7,198	-7,213	0%
Occupancy & other costs	-294	-286	-3%	-1,169	-1,172	0%
Selling, general & administrative expenses	-85	-100	18%	-379	-380	0%
Adjusted EBITDA	698	703	0.8%	2,416	2,453	1.5%
Adjusted EBITDA margin on net revenue	23.8%	23.7%		21.6%	21.9%	
D&A	-35	-32	-7%	-139	-131	
Adjusted EBITA	663	671	1.2%	2,277	2,323	2.0%

Source: BofA Global Research estimates, company report

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Exhibit 3: In the middle of the pack

Organic growth by agency

Organic growth by agency	1Q 21	2Q 21	3Q 21	4Q 21	1Q 22	2Q 22	3Q 22	4Q 22	1Q 23	2Q 23	3Q 23	4Q 23E
WPP	3.1%	19.3%	15.7%	10.8%	9.5%	8.3%	3.8%	6.4%	2.9%	1.3%	-0.6%	0.2%
Publicis Groupe	2.8%	17.1%	11.2%	9.3%	10.5%	10.3%	10.3%	9.4%	7.1%	7.1%	5.3%	5.7%
Omnicom	-1.8%	24.4%	11.5%	9.5%	11.9%	11.3%	7.5%	7.3%	5.2%	3.4%	3.3%	4.4%
Omnicom (BofAe net)	na	na	na	na	na	na	na	na	3.7%	1.2%	1.4%	2.9%
Interpublic	1.9%	19.8%	15.0%	11.7%	11.5%	7.9%	5.6%	3.8%	-0.2%	-1.7%	-0.4%	1.2%
TOTAL - Big 4	1.3%	20.3%	13.2%	10.2%	10.8%	9.6%	6.8%	6.9%	4.1%	2.8%	2.0%	3.0%

Source: BofA Global Research estimates, company report

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Exhibit 4: We make modest changes to our EPS assumptions

Key changes

\$m	2022	2023E			2024E			2025E		
	Actual	Actual	Old	% change	New	Old	% change	New	Old	% change
Revenues	14,289	14,692	14,636	0%	15,538	14,981	4%	15,863	15,221	4%
Organic growth	9.4	4.1	3.8		3.7	2.7		2.1	1.6	
US	8.7	2.6	3.2		2.8	2.8		1.0	1.0	
Other North America	9.2	3.0	3.0		2.0	2.0		1.0	1.0	
UK	10.9	4.5	4.5		4.5	2.0		3.0	2.0	
Euro & Other Europe	9.7	7.2	4.5		5.0	2.0		2.5	1.0	
Asia-Pacific	6.6	6.0	4.0		4.0	4.0		4.0	4.0	
Latin America	14.1	13.0	14.0		8.0	5.0		7.0	5.0	
Africa and Middle East	33.2	-5.8	-2.0		5.0	2.5		5.0	2.5	
Forex	-4.8	-0.2	-0.3		0.2	-0.5		0.0	0.0	
Scope	-4.7	-1.1	-1.1		1.8	0.1		0.0	0.0	
Reported growth	0.0	2.8	2.4		5.8	2.4		2.1	1.6	
Adjusted EBITA	2,277	2,312	2,308	0%	2,416	2,307	5%	2,459	2,329	6%
Adjusted EBITA margin	15.9	15.7	15.8		15.6	15.4		15.5	15.3	
Exceptionals	-113	-127	-113		0	0		0	0	
EBITA	2,164	2,185	2,195	0%	2,416	2,307	5%	2,459	2,329	6%
Net interest expense	-138	-112	-119		-139	-127		-140	-116	
Adjusted PBT	2,059	2,120	2,110	0%	2,159	2,099	3%	2,198	2,130	3%
PBT	1,945	1,993	1,997	0%	2,159	2,099	3%	2,198	2,130	3%
Adjusted tax	-542	-550	-559		-583	-567		-594	-575	
Adjusted tax rate	26.3	25.9	26.5		27.0	27.0		27.0	27.0	
Associates	5	5	5		5	5		5	5	
Non controlling interests	-87	-82	-70		-82	-69		-84	-70	
GAAP net income	1,316	1,391	1,403	-1%	1,499	1,468	2%	1,526	1,490	2%
Adjusted net income	1,435	1,494	1,486	1%	1,499	1,468	2%	1,526	1,490	2%
Diluted no. of shares	207	201	201		197	195		192	189	
GAAP EPS	\$6.36	\$6.91	\$6.98	-1%	\$7.60	\$7.51	1%	\$7.93	\$7.89	1%
Adjusted EPS	\$6.93	\$7.42	\$7.40	0%	\$7.60	\$7.51	1%	\$7.93	\$7.89	1%
DPS	2.80	2.80	2.80	0%	2.80	2.80	0%	2.90	2.90	0%

Source: BofA Global Research estimates, company report

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Price objective basis & risk

Omnicom (OMC)

Our price objective of \$79 is based on the average of a discounted cash flow (weighted-average cost of capital 8.2%, long-term growth 1%) and 10x 2023E P/E, a 30% discount to the equal-weighted S&P500 multiple, consistent with the valuation methodology we apply to peers.

Upside risks to our price objective are if i) the global synchronized recovery leads to a relief on marketing spending, ii) Omnicom actively repositions its assets, simplifying its structure, dismantling silos, or selling non-performing units, iii) the secular wave of consolidation come back, either between agencies or between consultancies and agencies.

Downside risks to our price objective are if Omnicom loses a big account and/or a large account decreases its media spend, macro decelerates abruptly and consultancies have a bigger and earlier impact than expected.

Analyst Certification

I, Adrien de Saint Hilaire, 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.

EMEA - Media Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Auto Trader	ATDRF	AUTO LN	David Amira, CFA
	Deliveroo	DROOF	ROO LN	Kiranjot Grewal
	Entain	GMVHF	ENT LN	Kiranjot Grewal
	Evolution	EVVY	EWVY US	Kiranjot Grewal
	Evolution Gaming	EVGGF	EVO SS	Kiranjot Grewal
	Flutter	XZMVF	FLTR LN	Kiranjot Grewal
	Flutter	FLUT	FLUT US	Kiranjot Grewal
	Informa	IFPJF	INF LN	David Amira, CFA
	Interpublic	IPG	IPG US	Adrien de Saint Hilaire
	JCDecaux	JCDXF	DEC FP	Adrien de Saint Hilaire
	Just Eat Takeaway	TKAYF	TKWY NA	Kiranjot Grewal
	Just Eat Takeaway	JTKWY	JTKWY US	Kiranjot Grewal
	Playtech	PYTCF	PTEC LN	Kiranjot Grewal
	Publicis	PUBGY	PUBGY US	Adrien de Saint Hilaire
	Publicis Groupe	PGPEF	PUB FP	Adrien de Saint Hilaire
	RELX	XFAFF	REN NA	David Amira, CFA
	RELX	RLXXF	REL LN	David Amira, CFA
	RELX	RELX	RELX US	David Amira, CFA
	Schibsted	SBSNF	SCHA NO	Adrien de Saint Hilaire
	Schibsted	SBTF	SCHB NO	Adrien de Saint Hilaire
	Scout24	SCOTF	G24 GY	David Amira, CFA
	Universal Music Group	UMGNF	UMG NA	Adrien de Saint Hilaire
	Vivendi	VIVEF	VIV FP	Adrien de Saint Hilaire
	Vivendi	VIVHY	VIVHY US	Adrien de Saint Hilaire
NEUTRAL				
	Ascential	AIAPF	ASCL LN	David Amira, CFA
	AUTO1 Group	ATOGF	AG1 GY	David Amira, CFA
	Baltic Classifieds Group	XZXXF	BCG LN	David Amira, CFA
	Chegg Inc.	CHGG	CHGG US	David Amira, CFA
	Delivery Hero	DLVHF	HER GY	Kiranjot Grewal
	La Francaise Des Jeux	LFDJF	FDJ FP	Kiranjot Grewal
	Pearson	PSORF	PSO LN	David Amira, CFA
	Pearson	PSO	PSO US	David Amira, CFA



EMEA - Media Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Wolters Kluwer	WOLTF	WKL NA	David Amira, CFA
	Wolters Kluwer	WTKWY	WTKWY US	David Amira, CFA
UNDERPERFORM				
	Embracer Group	THQQF	EMBRACB SS	Adrien de Saint Hilaire
	HelloFresh	HLFFF	HFG GY	Kiranjot Grewal
	ITV	ITVPF	ITV LN	Adrien de Saint Hilaire
	Omnicom	OMC	OMC US	Adrien de Saint Hilaire
	ProSiebenSat.1	PBSFF	PSM GY	Adrien de Saint Hilaire
	Rightmove	RTMVF	RMV LN	David Amira, CFA
	Rightmove	RTMVY	RTMVY US	David Amira, CFA
	RTL Group	ZRLQF	RRTL GY	Adrien de Saint Hilaire
	Ubisoft	UBSFF	UBI FP	Adrien de Saint Hilaire
	Ubisoft	UBSFY	UBSFY US	Adrien de Saint Hilaire
	WPP	WPPGF	WPP LN	Adrien de Saint Hilaire
	WPP	WPP	WPP US	Adrien de Saint Hilaire

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

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.

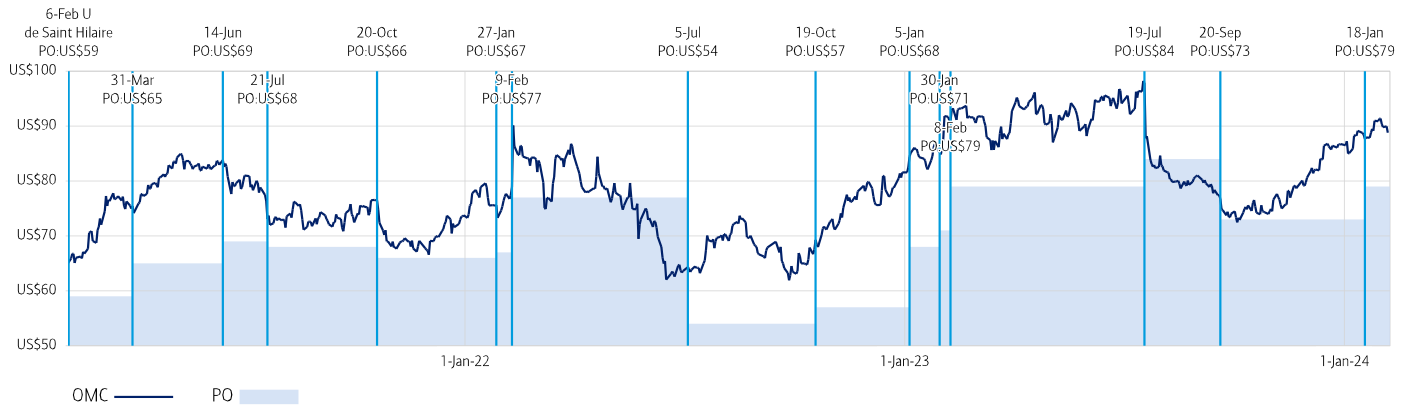
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Disclosures

Important Disclosures

Omnicom Group Inc. (OMC) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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: Media & Entertainment Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	35	53.85%	Buy	15	42.86%
Hold	15	23.08%	Hold	8	53.33%
Sell	15	23.08%	Sell	7	46.67%

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.

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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%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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