

## Estee Lauder Companies Inc.

## Just Asking: What are sales and margin for Travel Retail and Hainan?

Maintain Rating: NEUTRAL | PO: 150.00 USD | Price: 137.30 USD

## Demystifying the China/Travel Retail/Hainan overlap

China and Hainan are critical to EL recovery. Financial disclosure is opaque, as a result we field investor inquiries asking about revenue and margins for China and Hainan. In this report we break down our estimates of the sales and margin breakdown. In FY19, China accounted for 17% of EL's total sales, peaking at 36% in FY21 and rebasing to 28% as of FY23. Within those figures, Estee includes sales through Chinese Travel Retail, notably in Hainan. Hainan alone accounted for 5% of total EL sales in FY19 – about half the size of Estee's Mainland China business that year – before swelling to 14% of total sales in FY21, nearly 40% of all sales in China and 50% of all Travel Retail sales. In FY23, we estimate Hainan sales declined about 75% YoY, representing less than 15% of EL's China sales and driving the -33% decline in Travel Retail overall and highlighting the importance of returning the Hainan business to growth. EL shares are well below \$370 peak. In our view it's still too early to call the size and timing of earnings recovery due to the macro in China and EL resetting to more normal travel retail mix. We maintain our Neutral rating, which reflects attractive longer term earnings power, balanced against medium term headwinds in China and travel retail. Our \$150 PO is still based on 25x our CY25e est.

## Sizing the operating margin of Travel Retail at 45-65%

We estimate overall Travel Retail operating margins between 45% and 65%. Excluding Travel channel sales entirely from Estee's Skincare segment which we assume accounts for the majority of travel retail sales, we estimate ex-Travel Skincare margins to be in the mid-teens to low-20s compared to the 30%+ levels seen between FY19-FY22. Likewise, backing Travel Retail out of EL's Europe, Middle East, and Africa (EMEA) segment where Estee books sales in the travel channels, we estimate low-to-mid teens ex-Travel EMEA margins vs its ~20% adjusted reported level.

## Estimating standalone Hainan travel margin of 60-70%

Hainan peaked at 14% of EL sales in 2021, about half of all of EL's Travel Retail sales that year. Based on our assumptions, we estimate standalone margins in Hainan to be between 60-70%, implying the remaining Travel Retail business has margins of closer to 45-50%. Relative margins between Hainan and the rest of the world highlight why investors have focused on a return to higher sales mix for the Hainan business which was about 4% of sales in FY23, close to FY19 levels.

Estimates (Jun) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	7.24	3.45	2.30	5.45	6.22
GAAP EPS	6.57	2.79	2.28	5.45	6.22
EPS Change (YoY)	12.2%	-52.3%	-33.3%	137.0%	14.1%
Consensus EPS (Bloomberg)			2.39	4.16	5.48
DPS	2.40	2.58	2.76	2.92	3.08
Valuation (Jun)					
P/E	19.0x	39.8x	59.7x	25.2x	22.1x
GAAP P/E	20.9x	49.2x	60.2x	25.2x	22.1x
Dividend Yield	1.7%	1.9%	2.0%	2.1%	2.2%
EV / EBITDA*	12.7x	20.9x	25.1x	15.5x	14.2x
Free Cash Flow Yield*	4.0%	1.5%	1.2%	4.5%	5.0%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 8.

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## Equity

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## Stock Data

Price	137.30 USD
Price Objective	150.00 USD
Date Established	15-Dec-2023
Investment Opinion	B-2-7
52-Week Range	102.22 USD - 283.62 USD
Mkt Val (mn) / Shares Out (mn)	49,620 USD / 361.4
Free Float	92.5%
Average Daily Value (mn)	354.87 USD
BofA Ticker / Exchange	EL / NYS
Bloomberg / Reuters	EL US / EL.N
ROE (2024E)	16.2%
Net Dbt to Eqty (Jun-2023A)	63.7%
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".

## Relevant EL notes:

[Just Asking: China recovery, how long? how high? 20 June 2023](#)

[Refine China: lowering estimates and PO 16 August 2023](#)

[Management sees a path back to peak margins; timing not clear 21 August 2023](#)

# iQprofile<sup>SM</sup> Estee Lauder Companies Inc.

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	17.3%	7.8%	5.6%	13.0%	15.1%
Return on Equity	45.4%	22.3%	16.2%	42.7%	49.0%
Operating Margin	19.7%	11.4%	8.6%	15.9%	16.8%
Free Cash Flow	2,000	728	572	2,209	2,497

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.2x	1.4x	1.9x	1.5x	1.5x
Asset Replacement Ratio	1.4x	1.3x	1.3x	0.8x	0.8x
Tax Rate	20.7%	27.8%	27.7%	22.0%	22.0%
Net Debt-to-Equity Ratio	22.6%	63.7%	96.5%	95.8%	98.0%
Interest Cover	25.9x	15.1x	6.6x	18.0x	23.6x

## Income Statement Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	17,741	15,937	15,733	16,675	17,648
% Change	9.3%	-10.2%	-1.3%	6.0%	5.8%
Gross Profit	13,443	11,376	11,303	12,283	13,059
% Change	8.4%	-15.4%	-0.6%	8.7%	6.3%
EBITDA	4,227	2,567	2,142	3,459	3,795
% Change	13.5%	-39.3%	-16.6%	61.5%	9.7%
Net Interest & Other Income	(135)	(121)	(205)	(147)	(126)
<b>Net Income (Adjusted)</b>	<b>2,642</b>	<b>1,244</b>	<b>828</b>	<b>1,947</b>	<b>2,207</b>
<b>% Change</b>	<b>11.2%</b>	<b>-52.9%</b>	<b>-33.4%</b>	<b>135.2%</b>	<b>13.4%</b>

## Free Cash Flow Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	2,398	1,006	821	1,947	2,207
Depreciation & Amortization	727	744	786	810	834
Change in Working Capital	(602)	(568)	(85)	115	158
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	517	549	78	5	5
Capital Expenditure	(1,040)	(1,003)	(1,028)	(667)	(706)
<b>Free Cash Flow</b>	<b>2,000</b>	<b>728</b>	<b>572</b>	<b>2,209</b>	<b>2,497</b>
<b>% Change</b>	<b>-33.2%</b>	<b>-63.6%</b>	<b>-21.5%</b>	<b>286.4%</b>	<b>13.0%</b>
Share / Issue Repurchase	(2,158)	(183)	(742)	(1,020)	(1,020)
Cost of Dividends Paid	(840)	(925)	(991)	(1,043)	(1,092)
Change in Debt	(22)	2,713	(404)	(1,200)	(500)

## Balance Sheet Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	3,957	4,029	2,445	1,391	1,276
Trade Receivables	1,629	1,452	1,940	1,964	1,837
Other Current Assets	3,712	3,658	3,332	3,177	3,353
Property, Plant & Equipment	2,650	3,179	3,268	3,145	3,037
Other Non-Current Assets	8,962	11,097	10,947	10,927	10,927
<b>Total Assets</b>	<b>20,910</b>	<b>23,415</b>	<b>21,931</b>	<b>20,604</b>	<b>20,604</b>
Short-Term Debt	268	997	1,505	905	905
Other Current Liabilities	5,547	5,243	5,320	5,305	5,512
Long-Term Debt	5,144	7,117	6,188	5,588	5,588
Other Non-Current Liabilities	3,519	3,641	3,480	3,480	3,480
<b>Total Liabilities</b>	<b>14,478</b>	<b>16,998</b>	<b>16,493</b>	<b>15,278</b>	<b>15,278</b>
<b>Total Equity</b>	<b>6,432</b>	<b>6,417</b>	<b>5,438</b>	<b>5,327</b>	<b>5,327</b>
<b>Total Equity &amp; Liabilities</b>	<b>20,910</b>	<b>23,415</b>	<b>21,931</b>	<b>20,604</b>	<b>20,604</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 8.

## Company Sector

Cosmetics/Personal Care

## Company Description

Estee Lauder (EL) is one of the world's leading manufacturers and marketers of prestige skin care, makeup, fragrance and hair care products. EL's products are sold in over 150 countries. Brands include: Estee Lauder, Clinique, MAC, La Mer, Bobbi Brown, Jo Malone, Origins, Bumble & Bumble, Smashbox, Tom Ford, Aveda, Too Faced, and Aramix.

## Investment Rationale

We rate Estee Lauder Neutral as accelerating growth in EL's prestige cosmetics categories and exposure to middle- to high-end consumers has already earned them rapid multiple expansion, further widening the valuation gap vs. peers. With the Beauty recovery and the resiliency of sales growth levers already well-understood, we view further multiple expansion from here as challenging, although we acknowledge the continuing fundamental strength of the business.

## Stock Data

Average Daily Volume 2,584,603

## Quarterly Earnings Estimates

	2023	2024
Q1	1.37A	0.11A
Q2	1.54A	0.50E
Q3	0.47A	0.85E
Q4	0.07A	0.85E

# Estee Lauder: A channel-by-channel look

## Estimating sales by channel

Estee Lauder provides us with a few annual figures that help us estimate the size of key sub-segments. In our conversations with management, we have narrowed our assumptions for China and Travel Retail specifically, estimating Mainland China dollar sales of \$3.3Bn in FY23, or +1% growth YoY, and a **75% YoY decline in Hainan** specifically, somewhat offset by double-digit growth elsewhere in China Travel Retail.

### Exhibit 1: Estee Lauder sales breakdown down by segment

We estimate Hainan travel retail sales declined -75% YoY in FY23

% of Total Sales	FY19	FY20	FY21	FY22	FY23
Travel Retail	23%	26%	28%	27%	20%
China Travel Retail	6%	9%	17%	16%	7%
Ex-China Travel Retail	17%	17%	11%	11%	13%
Total China	17%	24%	36%	34%	28%
Hainan Travel Retail	5%	7%	14%	13%	4%
Non-Hainan China Travel Retail	1%	2%	3%	3%	4%
Implied Mainland China	11%	15%	19%	18%	21%
Total Online	15%	23%	28%	28%	29%
Total Traditional Retail	62%	51%	44%	45%	51%
\$ Sales	FY19	FY20	FY21	FY22	FY23
Travel Retail	3,419	3,716	4,544	4,790	3,187
China Travel Retail	843	1,317	2,765	2,764	1,162
Ex-China Travel Retail	2,577	2,400	1,779	2,026	2,025
Total China	2,527	3,431	5,842	6,032	4,462
Hainan Travel Retail	694	1,031	2,278	2,232	558
Non-Hainan China Travel Retail	149	286	487	532	605
Implied Mainland China	1,685	2,114	3,078	3,268	3,300
Total Online	2,230	3,288	4,544	4,967	4,622
Total Traditional Retail	9,217	7,290	7,141	7,983	8,128
\$ % Chg. YoY	FY19	FY20	FY21	FY22	FY23
Travel Retail	-	9%	22%	5%	-33%
China Travel Retail	-	56%	110%	0%	-58%
Ex-China Travel Retail	-	-7%	-26%	14%	0%
Total China	-	36%	70%	3%	-26%
Hainan Travel Retail	-	49%	121%	-2%	-75%
Non-Hainan China Travel Retail	-	92%	70%	9%	14%
Mainland China	-	25%	46%	6%	1%
Total Online	-	47%	38%	9%	-7%
Total Traditional Retail	-	-21%	-2%	12%	2%

Source: Company reports, BofA Global Research; Figures are color-coded as follows: Black = Calculation/Derived, Green = Company-provided, Blue = BofA Estimate

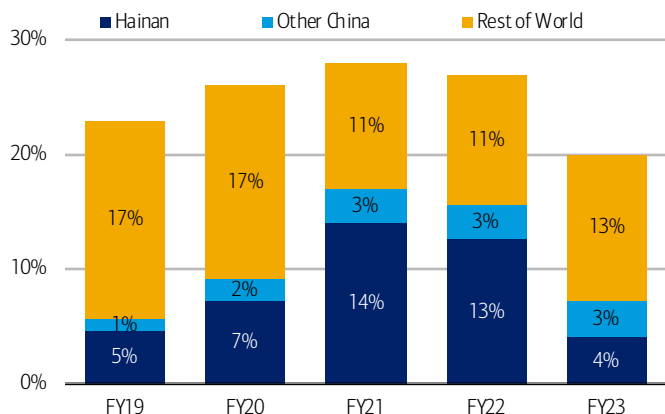
BofA GLOBAL RESEARCH

Importantly, our estimates show the steep rise and sharp fall of Travel Retail within China, anchored by Hainan, which accounted for nearly half of all sales in the Travel channel between FY21-22 when company margins were at peak levels.

Clearly, Travel Retail has been a driver of margin accretion and operating profit growth. Now, with the slowdown in Hainan pushing Travel Retail mix below FY19 levels, we scrutinize how much benefit to long-term profitability could be at risk if Hainan and/or the Travel Retail channel cannot regain higher levels of sales mix.

**Exhibit 2: EL total sales mix by Travel Retail market**

Hainan alone represented 50% of EL's Travel Retail sales in FY21...

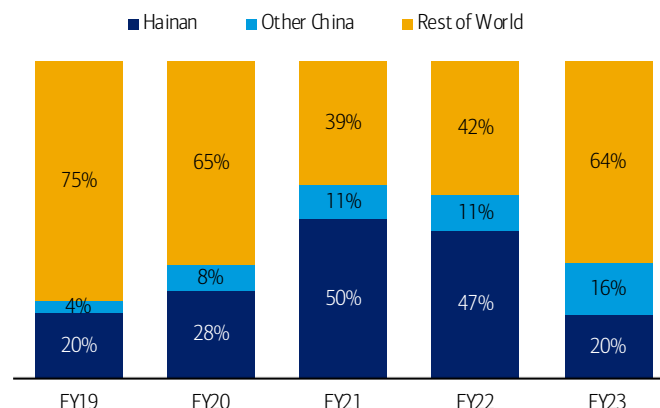


Source: Company reports, BofA Global Research

BofA GLOBAL RESEARCH

**Exhibit 3: Travel Retail mix by market**

...but dropped to FY19 levels by FY23



Source: Company reports, BofA Global Research

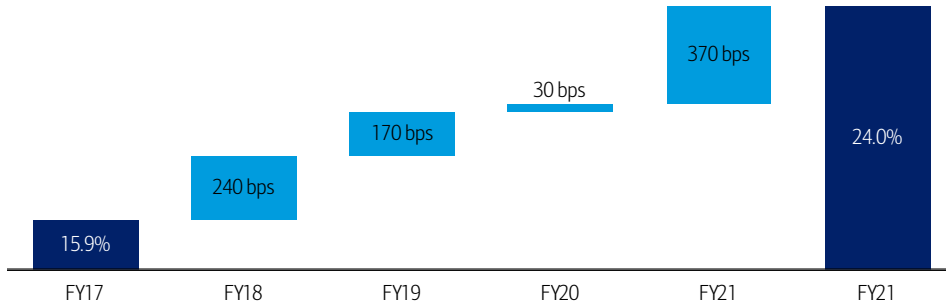
BofA GLOBAL RESEARCH

**Estimating total Travel Retail margins of 45-65%, Hainan between 60-70%**

Our calculations suggest total Travel Retail margins within a range of 45-65% compared to a median total Estee Lauder operating margin of 16.2% between FY16-FY23. Over this timespan, Estee's operating margin has ranged from a high of 19.7% in FY22 when Travel Retail accounted for 27% of total sales, to a low of 11.4% the next year as Travel Retail contracted to its lowest sales mix since FY18 at 20%.

**Exhibit 4: Adj. operating margin including selling and store cost savings**

Selling and Store cost savings generated +810bps of margin benefit, or \$1.3Bn of operating profit



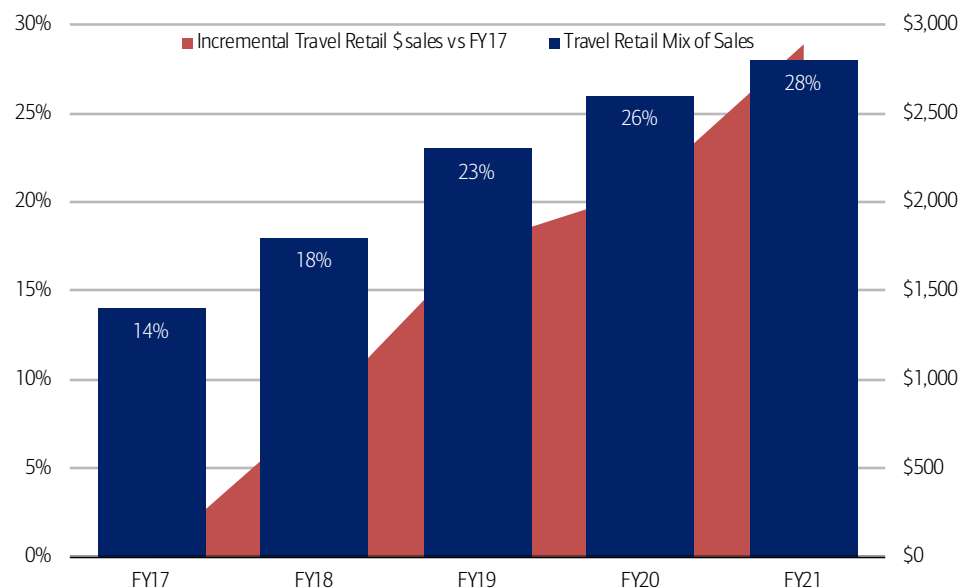
Source: Company reports, BofA Global Research

BofA GLOBAL RESEARCH

We believe this trend reflects at least in part the accretive benefit to operating margin from the Travel Retail channel consistent with management's commentary. Based on this commentary, we also know this margin benefit owes to relatively lower selling and in-store costs compared to EL's traditional brick & mortar channels like freestanding or department stores. Management-provided margin detail shows over +800bps of margin benefit or \$1.3Bn of operating profit dollars between FY17-FY21 as a result of selling and store cost savings.

**Exhibit 5: Travel retail sales mix and revenue: FY17-21**

Travel retail sales grew \$2.9Bn, from \$1.6Bn to \$4.5Bn over this 5yr span



Source: Company reports, BofA Global Research

BofA GLOBAL RESEARCH

Assuming this benefit can be fully attributed to the higher mix of Travel Retail sales, the \$1.3Bn of incremental operating profit off of \$2.9Bn of incremental sales implies an underlying margin of about 45%. If we also attribute to Travel Retail the +200bps/\$325mil of benefit to gross margin from mix that EL disclosed between FY17-21, our calculations imply an operating margin above 55% for Travel Retail. Other methods of triangulating Travel Retail margin based on the split of revenue over several years indicates a margin as high as around 65%, which we consider a viable upper bound to our segment margin estimate.

**Estimating Hainan standalone operating margin of 60-70%**

Knowing that sales in the Hainan channel skew significantly towards Skincare, we can estimate a sensible range for Hainan's operating margin based on how much of its sales mix we assume comes from Skincare. In our view, Skincare accounting for 80% of Hainan sales makes sense and implies a margin of 60-70% in Hainan alone.

**Exhibit 6: Estimated Hainan operating profit margins as a function of Skincare mix**

Assuming Skincare accounts for 80% of Hainan sales, we estimate a margin of 60-70%



Source: Company reports, BofA Global Research

BofA GLOBAL RESEARCH



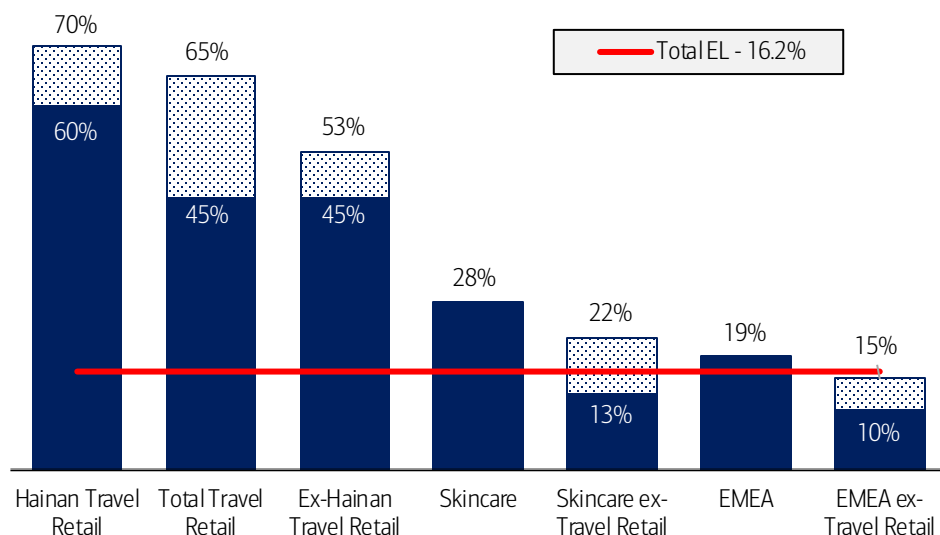
### Operating margins by segment: Hainan and Travel Retail the clear drivers

Backing out a 60-70% Hainan standalone margin from overall Travel Retail margins of 45-65% implies a margin for the rest of the world's travel channel sales of 45-53%.

We make a similar adjustment to EMEA and Skincare segment margins considering where Estee books Travel Retail sales (except for Dr Jart) and given the heavy channel skew towards Skincare.

#### Exhibit 7: Estimated EL operating margins by segment

Travel retail contributes significantly to Skincare and EMEA operating margins



Source: Company reports, BofA Global Research; note we use median operating margins from FY16-23 as the basis for our assumptions  
BofA GLOBAL RESEARCH

Looking at Estee's Skincare segment, the median adjusted margin from FY16-23 is about 28% making it the strongest reporting segment by category, maxing out at 33.6% in FY21 when Travel Retail was also peaking at 28% of sales. Assuming again that 80% of global travel retail sales are in Skincare and adjusting out that benefit to the segment, we estimate non-Travel Skincare margins between 13-22%.

Likewise, looking at FY17 EMEA margins prior to the pandemic, we estimate non-Travel operating margin between 10-15% below the total segment median of 19% between FY16-23.

## Price objective basis & risk

### Estee Lauder Companies Inc. (EL)

Our \$150 PO is now based on a target P/E multiple of 25x our CY25e EPS. Our multiple implies a +5% relative premium vs. a group of EL's beauty peers, up from a -7% implied discount previously but still below EL's 3yr average premium of 14% as they retool their cost structure and channel exposure in light of what now appears to be a more muted Chinese consumption environment.

Downside risks to our price objective are persistent weakness in developed markets over the long term, a slowdown in EL's faster-growth channels and geographies, higher brand investment needs, recession, prolonged impact of the COVID-19 pandemic, a deceleration in organic sales, subsequent erosion of EL's valuation premium and acquisition of TOM FORD does not materialize. Risks to the upside are faster-than-expected recovery in Makeup, particularly in the US, an accelerated return to global international travel, and middle-class consumption in burgeoning developing markets.

## Analyst Certification

I, Bryan D. Spillane, 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 - Consumables Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	BellRing Brands Inc	BRBR	BRBR US	Bryan D. Spillane
	Celsius Holdings Inc	CELH	CELH US	Jonathan Keypour
	Coca-Cola Europacific Partners plc	CCEP	CCEP US	Bryan D. Spillane
	Colgate-Palmolive Company	CL	CL US	Bryan D. Spillane
	Constellation Brands	STZ	STZ US	Bryan D. Spillane
	Coty Inc.	COTY	COTY US	Anna Lizzul
	e.l.f. Beauty	ELF	ELF US	Anna Lizzul
	Freshpet, Inc.	FRPT	FRPT US	Bryan D. Spillane
	Kenvue Inc.	KVUE	KVUE US	Anna Lizzul
	Keurig Dr Pepper	KDP	KDP US	Bryan D. Spillane
	Kraft Heinz Company	KHC	KHC US	Bryan D. Spillane
	Lamb Weston Holdings Inc	LW	LW US	Peter T. Galbo, CFA
	McCormick & Co.	MKC	MKC US	Peter T. Galbo, CFA
	Mondelez International	MDLZ	MDLZ US	Bryan D. Spillane
	Monster Beverage Corporation	MNST	MNST US	Peter T. Galbo, CFA
	PepsiCo	PEP	PEP US	Bryan D. Spillane
	Philip Morris International	PM	PM US	Lisa K. Lewandowski
	Pilgrim's Pride Corp.	PPC	PPC US	Peter T. Galbo, CFA
	The Coca Cola Company	KO	KO US	Bryan D. Spillane
	The Procter & Gamble Company	PG	PG US	Bryan D. Spillane
<b>NEUTRAL</b>				
	Altria Group	MO	MO US	Lisa K. Lewandowski
	Church & Dwight	CHD	CHD US	Anna Lizzul
	Clorox	CLX	CLX US	Anna Lizzul
	Conagra Brands, Inc.	CAG	CAG US	Peter T. Galbo, CFA
	Estee Lauder Companies Inc.	EL	EL US	Bryan D. Spillane
	General Mills	GIS	GIS US	Bryan D. Spillane
	JM Smucker Company	SJM	SJM US	Peter T. Galbo, CFA
	Kellanova	K	K US	Peter T. Galbo, CFA
	Molson Coors Beverage Company	TAP	TAP US	Bryan D. Spillane
	The Duckhorn Portfolio, Inc.	NAPA	NAPA US	Peter T. Galbo, CFA
	The Hershey Company	HSY	HSY US	Bryan D. Spillane
	Utz Brands	UTZ	UTZ US	Peter T. Galbo, CFA
	WK Kellogg Co	KLG	KLG US	Peter T. Galbo, CFA



## US - Consumables Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>UNDERPERFORM</b>				
	Brown-Forman Corporation	BFB	BF/B US	Bryan D. Spillane
	Campbell Soup Company	CPB	CPB US	Peter T. Galbo, CFA
	Canopy Growth	YWEE	WEED CN	Lisa K. Lewandowski
	Canopy Growth	CGC	CGC US	Lisa K. Lewandowski
	Cronos Group	YCORN	CRON CN	Lisa K. Lewandowski
	Cronos Group	CRON	CRON US	Lisa K. Lewandowski
	Dole plc	DOLE	DOLE US	Bryan D. Spillane
	Herbalife Nutrition Ltd	HLF	HLF US	Anna Lizzul
	Hormel Foods Corp.	HRL	HRL US	Peter T. Galbo, CFA
	Kimberly-Clark	KMB	KMB US	Anna Lizzul
	Tyson Foods, Inc.	TSN	TSN US	Peter T. Galbo, CFA
<b>RSTR</b>				
	The Vita Coco Company, Inc.	COCO	COCO US	Bryan D. Spillane

**IQmethod<sup>SM</sup> 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 &amp; 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

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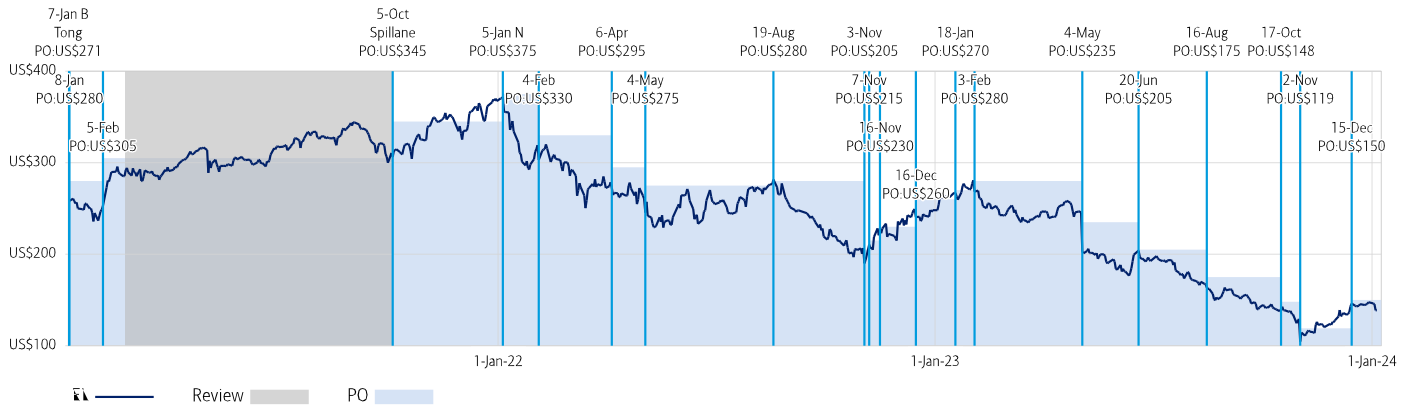
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### Estee Lauder (EL) Price Chart



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: Consumer Products Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	32	50.00%	Buy	16	50.00%
Hold	19	29.69%	Hold	8	42.11%
Sell	13	20.31%	Sell	7	53.85%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
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<sup>R1</sup> 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 <sup>R2</sup>
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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