

## Transportation - Trucking

## Survey Says: Demand view (46.9) ticks down slightly, but Inventory also down

Industry Overview

Truck Shipper Survey #278, week of March 9<sup>th</sup>, 2023

This week, our proprietary bi-weekly **BofA Truckload Demand Indicator** for shippers' 0- to 3-month freight demand outlook **decreased to 46.9 from 47.6 last survey**, down 1.5% sequentially. The Demand Indicator remains sub-50 for the 10<sup>th</sup> time of the past 12 surveys and sub-60 for the 24<sup>th</sup> consecutive survey. The Indicator is well below the 54.2 average level of the '12, '15, '19 Freight Recession periods and is down 33% y-y. This issue's drop to 46.9 suggests a soft patch in late February/early March either due to seasonality or is indicating larger than expected economic pressure. Rail carloads fell 4% year-year this week, the eighth downtick in 36 weeks, and dry-van spot rates (ex-fuel) are \$1.38/mile, down 18% YTD (and down 10% from Feb's \$1.54 avg). Shippers' short-term Negative outlooks were 37%, down from 38% last survey, Positive outlooks were 26%, from 28% last survey, and Neutral outlooks were 37%, up from 34%. For the week of March 9, we surveyed 57 shippers to get views on freight demand and supply.

## Inventory view ticks lower; Rates moves slightly up

The **Truck Capacity Indicator**, which measures shippers' views of available truckload capacity, rose to **70.2 from 66.0** last survey, as views of truck availability see a looser market. The **Rate Indicator**, or shippers' views on truck rates, increased slightly to **36.0 from 34.9**, up 3% sequentially, as shipper rate expectations bounced off a low floor ahead of the March-May bid season (when many annual contracts renew). The **Inventory Indicator** dropped to **57.0 from 58.5** last survey, down 3% sequentially, as inventories pull back from peak levels. With respect to rates, 37% expect rates to fall, down from 40% last survey, 54% expect flat pricing, from 51% last issue, and 9% expect rates to rise, flat with last issue. On capacity, 46% expect capacity to rise, up from 40% last issue, 49% expect capacity to remain flat, down from 53% last issue, and 5% expect capacity to be lower, down from 8% last issue. **SHIPPER COMMENTS:** A Consumer Shipper noted that carrier performance is improving, with carriers noting that volumes are lower and the labor situation improved across most markets. An Industrial Shipper believes the market is at its bottom. It noted that historically this is the time of year that rates start to climb on seasonality. It also noted that rates seem to be stable and not moving or following prior-to-pandemic patterns. A Forestry Shipper noted a 100% increase in calls from transport service companies. (*Shipper Comments cont'd p. 5*).

## LTL carriers see normalizing inventory levels; vol recovery

Less-than-Truckload carriers Old Dominion and Saia noted accelerating February volume declines as compared to January in mid-quarter updates last week (see [ODFL](#), [SAIA](#) notes). Despite soft demand, the two operators observed signs of normalizing shipper inventories and an expectation for a volume inflection. Old Dominion sees customers starting to move inventory as overstocking issues are gradually resolved. It reiterated its view for a sequential volume improvement in March and sees current shipment volumes as a trough. Saia noted that while moderating fuel prices may pressure yields, more affordable freight costs may aid the recovery in volumes. We believe this augurs well for a potential turnaround in the retail-centric Truckload group. We remain focused on leaders in the truckload sector (JBHT, KNX, SNDR, WERN) since our January upgrade.

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**Refer to important disclosures on page 8 to 12. Analyst Certification on page 7. Price Objective Basis/Risk on page 6.**

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Americas  
Road Transport/Trucking

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## Chart 1: DEMAND INDICATOR

Shipper's view of demand next 0-3 months; Demand Indicator at 46.9

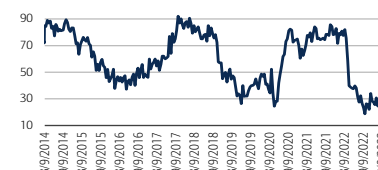


Source: BofA Global Research.

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## Chart 2: RATE INDICATOR

Shipper's view of rates; Rate Indicator at 36.0



Source: BofA Global Research.

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# SHIPPERS VIEW OF DEMAND

**Table 1: BofA Truckload Demand Diffusion Indicator**

Demand Indicator: at 46.9, -0.7 pts sequentially

	2019	2020	2021	2022	2023
Jan	1/4 67.3	1/3 55.1	1/14 63.8	1/13 75.0	1/12 47.5
	1/18 76.7	1/17 58.1	1/28 63.8	1/27 70.0	1/26 51.3
Feb	2/1 69.8	1/31 56.7	2/11 67.5	2/10 69.5	2/9 45.1
	2/14 53.7	2/13 53.1	2/25 68.8	2/24 71.9	2/23 47.6
Mar	2/28 59.2	2/27 51.3	3/11 72.9	3/10 70.3	3/9 46.9
	3/14 60.1	3/12 46.1	3/25 68.8	3/24 69.2	3/23
Apr	3/28 59.2	3/26 43.5	4/8 73.0	4/7 64.1	4/6
	4/11 61.2	4/9 37.2	4/22 75.7	4/21 58.0	4/20
	4/25 58.3	4/23 33.3	5/6 77.6	5/5 57.5	5/4
May	5/9 56.6	5/7 37.8	5/20 78.3	5/19 55.0	5/18
	5/23 52.5	5/21 46.2	6/3 78.3	6/2 58.5	6/1
Jun	6/6 61.1	6/4 54.6	6/17 78.1	6/16 54.0	6/15
	6/20 52.5	6/18 56.4	7/1 75.7	6/30 55.5	6/29
Jul	7/4 52.3	7/2 59.3	7/15 70.9	7/14 50.9	7/13
	7/18 50.6	7/16 62.5	7/29 74.3	7/28 53.9	7/27
Aug	8/1 52.6	7/30 59.1	8/12 73.0	8/11 50.0	8/10
	8/15 51.9	8/13 63.5	8/26 73.0	8/25 54.5	8/24
Sep	8/29 55.0	8/27 71.1	9/9 73.6	9/8 51.6	9/7
	9/12 51.9	9/10 75.8	9/23 75.0	9/22 50.0	9/21
Oct	9/26 55.6	9/24 78.1	10/8 69.4	10/6 47.6	10/5
	10/10 48.7	10/8 73.3	10/21 68.3	10/20 45.6	10/19
	10/24 53.8	10/22 70.0	11/4 76.6	11/3 42.4	11/2
Nov	11/7 55.7	11/5 72.5	11/18 67.7	11/17 50.4	11/16
	11/21 51.3	11/19 69.9	12/2 69.7	12/1 47.8	11/30
Dec	12/5 52.3	12/3 63.8	12/16 68.6	12/15 47.2	12/14
	12/19 51.9	12/17 66.3	12/30 66.7	12/29 49.4	12/28
		12/31 67.7			

Source: BofA Global Research

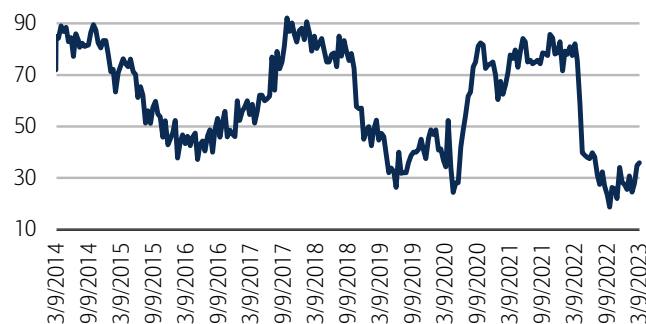
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Disclaimer: The indicator identified as BofA Truckload Diffusion Indicator in this report is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. This indicator was not created to act as a benchmark

## SHIPPERS' VIEW OF RATES

**Chart 5: Shippers' view of rates over next three months**

Rate Indicator at 36.0, +1.1 pts sequentially



Source: BofA Global Research.

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**Chart 3: BofA Truckload Demand Diffusion Indicator**

0-3 months demand time series; Demand Indicator at 46.9

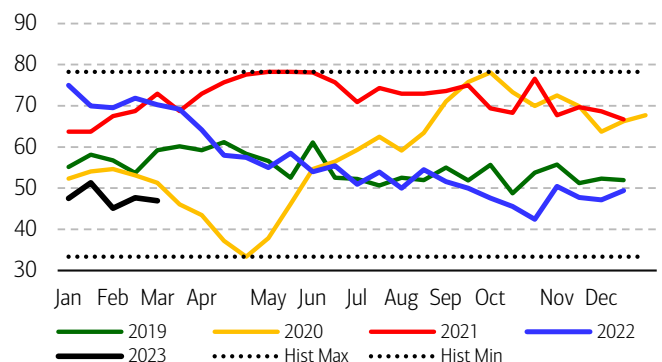


Source: BofA Global Research

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**Chart 4: BofA Truckload Demand Diffusion Indicator**

0-3 months demand outlook – stack basis y-y; Demand Indicator at 46.9



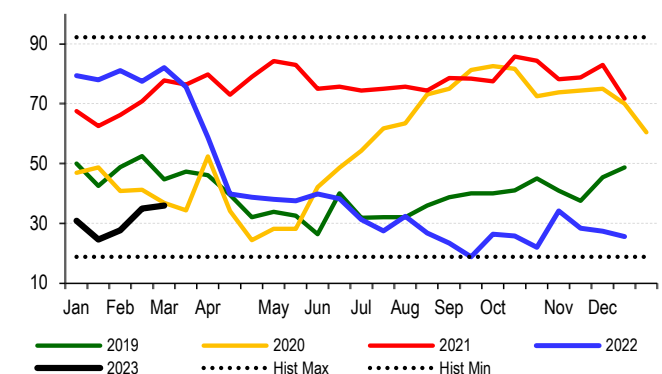
Source: BofA Global Research

Historical Max 04/03/14 (and 5/20-6/3/21). Historical Min 4/23/20. Survey began in mid 2012

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**Chart 6: Shippers' view of rates**

Stack basis year-over-year; Rate Indicator at 36.0



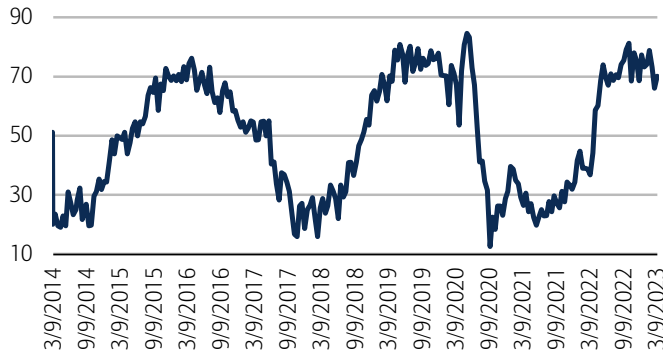
Source: BofA Global Research.

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# CAPACITY AVAILABILITY

**Chart 7: Shippers' view of available capacity**

Capacity Indicator decreased to 70.2, still above its historic 50 avg

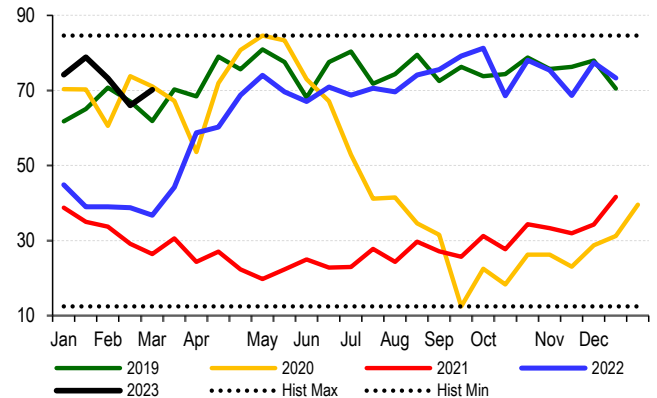


Source: BofA Global Research.

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**Chart 8: Shippers' view of available capacity**

Stack basis year-year; Capacity Indicator at 70.2



Source: BofA Global Research.

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# 12-MONTH FREIGHT DEMAND

**Chart 9: Shippers' 6-12 month outlook for freight demand**

L-T Demand Indicator at 54.4, down 0.3 pts sequentially

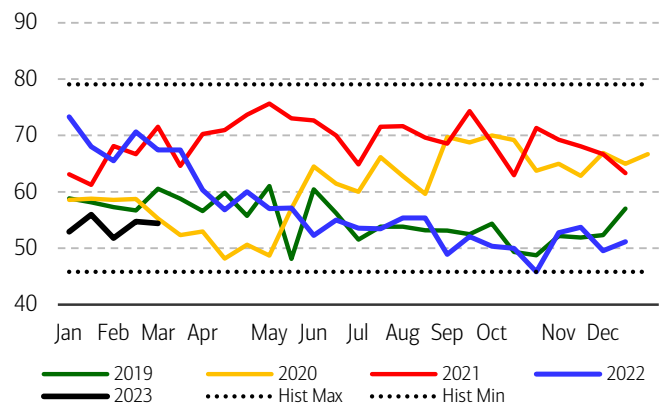


Source: BofA Global Research.

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**Chart 10: Shippers' 6-12 mo. outlook for freight demand**

Stack basis year-year; Long-Term Demand Indicator at 54.4



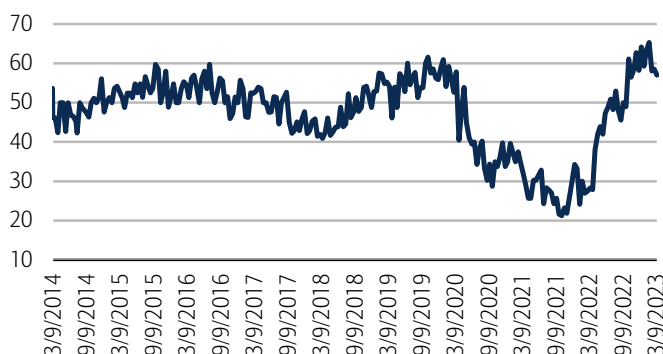
Source: BofA Global Research.

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# INVENTORY

**Chart 11: Shippers' view of inventory levels**

Inventory Indicator at 57.0, down 1.5 pts sequentially

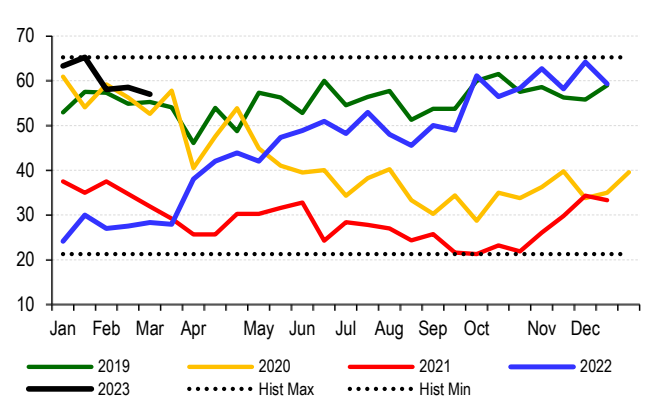


Source: BofA Global Research.

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**Chart 12: Shippers' view of inventory levels**

Stack basis year-year; Inventory Indicator at 57.0



Source: BofA Global Research.

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The survey, which is distributed to approximately 1,300 shipping managers, received responses from a varied mix of all major end markets (retail, consumer goods, industrial, manufacturing, basic materials, healthcare, tech).

**Figure 1: Shippers' core end-market**

Retail and Manufacturing oriented end-markets



Source: BofA Global Research estimates.

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## Correlation between BofA Truck indicator and ISM Index

**Chart 13: BofA Truck Indicator and ISM Index**

Two data sets have shown strong correlation since survey inception



Source: BofA Global Research estimates, ISM Index

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## Shipper comments cont'd

- A Logistics Shipper noted that with so many intermodal containers stacked, and with rail service velocity improved, it expects trucks will continue to be under rate pressure on 2+ day length of haul shipments.
- An Industrial Shipper observed an increase in capacity in the full truckload/less-than-truckload sector that has led to a reduction in linehaul rates for those

respective modes. It also noted that specialized services such as bulk deliveries for plastics/liquids via hopper/tanker trucks has been insulated from market dynamics due to the niche characteristics that require more specialization and qualifications for the drivers. It also continues to see impacts from inflation with equipment and labor costs continuing to provide upward pressure on rates for those niche services, even though capacity is loosening for the trucking industry as a whole.

- An Industrial Shipper noted softness in rates (year-over-year reductions) across all modes including air, sea, truckload, less-than-truckload, and parcel.
- A Logistics Shipper noted that in recent years the trucking industry has faced several challenges, including a shortage of drivers, rising fuel prices, and increased competition from other modes of transportation. It also noted that trucking companies have been implementing various strategies to address these challenges, such as increasing pay and benefits for drivers, adopting new technologies to improve efficiency and safety and exploring alternative fuel options. It sees increased use of autonomous trucks to potentially reshape the industry as it could improve safety, reduce costs, and address the driver shortage. It also noted the growing emphasis on alternative fuel options in the trucking industry, such as electric and hydrogen-powered trucks.
- A Forest Products Shipper is looking forward to Spring build season and weather improving for rail and truck transportation.
- A Consumer Shipper noted things are pretty stable before the storm, but expects changes by the weekend of Memorial Day holiday,
- A Consumer Shipper noted extreme weakness across Ocean Beach, California. It is aggressively playing the spot market, especially on long-haul moves. It noted that it is bidding intermodal freight and will achieve year-over-year concessions on freight and dwell/demurrage fees. It noted that service remains an issue, but rails are running better and slowly seeing truckload asset service levels improve. It noted an intense focus by many shippers on service, and reduction of fines/deductions from customers. It sees softness in the market creating a continued opportunity to play spot market for a portion of freight, but also align with long-term partners to lock in favorable pricing at increased capacity levels. It is watching bankruptcies closely, yet noted that truck orders have become more reliable for larger asset carriers. It is seeing carriers extend time they are keeping tractors (within reason).
- A Manufacturing Shipper noted that everything remains flat.
- A Consumer Shipper noted that it is a very fluctuating market.
- A Logistics Shipper noted that things are 'nuts.' It is flooded with inventory from all its customers expecting the economy to tank sometime in 2023.

### Table 1: Stocks mentioned

Prices and ratings of stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
JBHT	JBHT US	J.B. Hunt Trans	US\$ 179.61	B-1-7
KNX	KNX US	Knight-Swift	US\$ 57.07	B-1-7
SNDR	SNDR US	Schneider National	US\$ 28.16	B-1-7
WERN	WERN US	Werner Enterpris	US\$ 46.55	B-1-7

Source: BofA Global Research

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## Price objective basis & risk

### J.B. Hunt Transport Services (JBHT)

Our \$207 price objective is based on a 21.5x target multiple of our 2023e EPS. Our target multiple is above the mid-pt of its 16x-23x one standard deviation trading band as earnings are expected to trough in '23. We expect pricing pressure to be somewhat countered with improved operational performance as supply chains improve fluidity. We forecast solid double-digit EPS gains over time, robust Intermodal performance, and potential for improved box turns as rail service improves. It also plans to grow its container fleet to 150k over 2-4 years as it scales growth on BNSF's network post competitors shift to UNP.

Risks to our PO are a slowing economic environment, an inability for the company to raise rates to offset rising costs (driver pay, insurance, depreciation, and fuel), a severe accident impacting costs or the company's image, or significant impacts (strikes, network outages) to BNSF or Norfolk Southern's rail network or J.B. Hunt's relationship with either of those carriers impacting intermodal operations. Additional risks are regulatory changes impacting the flow of freight from the highway to rail, or rapidly falling fuel prices that could encourage freight to stay on the highway, its occasional arbitration with BNSF over rail rates, a sustained loose capacity truckload market that may overhang Intermodal pricing, and inability to obtain labor.

### Knight-Swift Transportation Holdings Inc (KNX)

Our \$70 price objective is based on a 17x target multiple on our 2023 EPS estimate. Our target multiple is above the bottom of its one-standard-deviation 22-year historical trading range of 15.5x-25x on year ahead estimates, as it nears trough earnings (led by pressure on economic growth and truck spot rate declines). We view downside as somewhat limited given its diversified model and strong operational performance, and a truckload market that is beginning to work out excess capacity (though recognize the pendulum can overswing on rate declines and cost pressures). Nevertheless, given its diversification moves (LTL, Intermodal, Brokerage/Logistics, and Trucking/Dedicated) it looks to prove earnings will be more sustainable than in prior cycles.

Risks to our price objective are volatility at its truckload segment (particularly its historical SWFT segment, which is more exposed to large retail and project pricing), slower earnings growth from its LTL acquisitions of AAA Cooper and MME, weaker-than-expected economic conditions, an inability for the company to have trucking rates offset rising costs (driver pay, insurance, depreciation, and fuel), a severe accident impacting the company's image and finances, over-expanding (or acquiring assets) without maintaining its focus on cost controls, and a lack of growth opportunities.

### Schneider National (SNDR)

Our \$35 PO is based on a 15.0x target multiple on our 2023 EPS estimate. Our target multiple is the mid-point of its 10x-19x historical range. It is at a discount to average of best-in-class peer targets, which include a blend of peer historical averages (50% of SNDR's revs are Truck, which peers trade low double digits, currently, 20% is Intermodal and its peer trade at 20x, 20% is Logistics which peers trade at upper-teens multiples, and 10% is other, or low double-digits), yielding a mid-teen fair value multiple target. SNDR's diverse base is countered by increasing concerns of decelerating economic and freight flows.

Risks to our price objective are a cyclical downturn impacting freight flows, higher-than-expected costs from weather, driver pay, accident claims, fuel costs, and equipment prices. Given Schneider operates in a fragmented market, it may not have pricing power to adjust as costs rise in an improving market to offset an increased cost base. Additionally, the company is a 'controlled company' given A shares have 10:1 votes and are completely controlled by the Schneider family and trusts.

**Werner Enterprises (WERN)**

Our \$56 price objective is based on an 16.5x target multiple on our 2023 EPS estimate. Our target multiple is at the midpoint of its 13x-20x historical trading range, as 2023 appears to be WERN's earnings trough as demand bottoms and pricing finds a floor. Werner continues to focus on operational improvements, led by CEO Derek Leathers, which it targets to drive margin improvement.

Downside risks to our price objective are an economic (or freight) downturn, trade of fleet growth for reduced incremental margins, a sustained rise in fuel prices which could increase costs, inability of the company to raise rates, a severe accident, rapidly rising costs (driver pay, insurance, claims, etc.), and larger-than-expected impact from regulatory changes (hours of service, CSA safety rules, electronic on board recorder enforcement, drug and alcohol clearinghouse limitations on drivers, which continue to cull the driver population).

**Analyst Certification**

I, Ken Hoexter, 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.

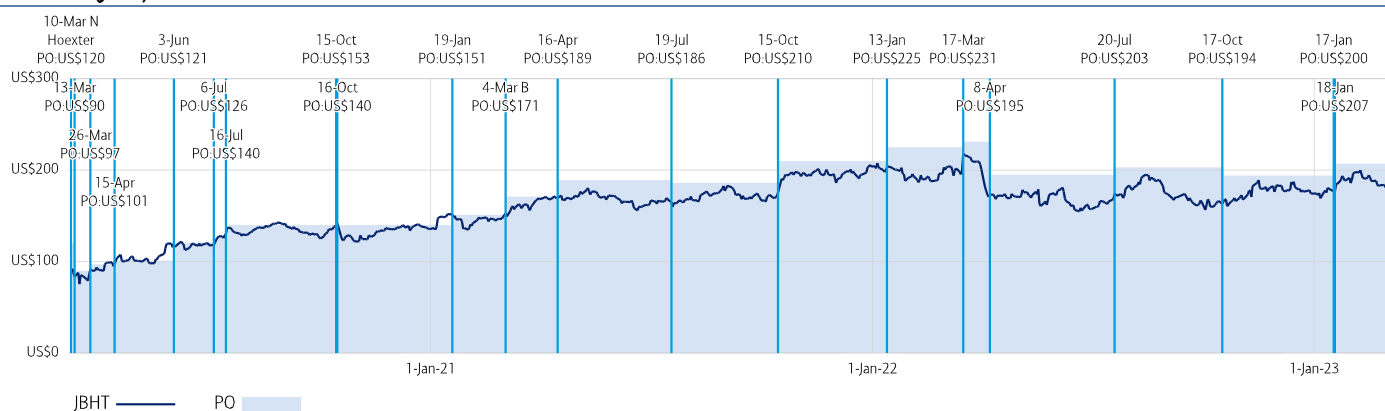
## US - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Canadian National	CNI	CNI US	Ken Hoexter
	Canadian Pacific Railway	CP	CP US	Ken Hoexter
	CSX Corporation	CSX	CSX US	Ken Hoexter
	FedEx Corp.	FDX	FDX US	Ken Hoexter
	J.B. Hunt Transport Services	JBHT	JBHT US	Ken Hoexter
	Kirby Corp	KEX	KEX US	Ken Hoexter
	Knight-Swift Transportation Holdings Inc	KNX	KNX US	Ken Hoexter
	Norfolk Southern	NSC	NSC US	Ken Hoexter
	RXO, Inc.	RXO	RXO US	Ken Hoexter
	Schneider National	SNDR	SNDR US	Ken Hoexter
	Scorpio Tankers Inc.	STNG	STNG US	Ken Hoexter
	Union Pacific	UNP	UNP US	Ken Hoexter
	Werner Enterprises	WERN	WERN US	Ken Hoexter
	World Fuel Services	INT	INT US	Ken Hoexter
<b>NEUTRAL</b>				
	ArcBest Corporation	ARCB	ARCB US	Ken Hoexter
	Old Dominion Freight Line	ODFL	ODFL US	Ken Hoexter
	Teekay Tankers Limited	TNK	TNK US	Ken Hoexter
	TFI International	TFII	TFII US	Ken Hoexter
	TFI International	YTFII	TFII CN	Ken Hoexter
	UPS	UPS	UPS US	Ken Hoexter
	Wabtec Corp.	WAB	WAB US	Ken Hoexter
<b>UNDERPERFORM</b>				
	C.H. Robinson	CHRW	CHRW US	Ken Hoexter
	Saia Inc.	SAIA	SAIA US	Ken Hoexter
	The Greenbrier Companies	GBX	GBX US	Ken Hoexter
	Triton International, Ltd	TRTN	TRTN US	Ken Hoexter
	TuSimple	TSP	TSP US	Ken Hoexter
	U.S. Xpress Enterprises, Inc.	USX	USX US	Ken Hoexter
	XPO, Inc.	XPO	XPO US	Ken Hoexter

## Disclosures

## Important Disclosures

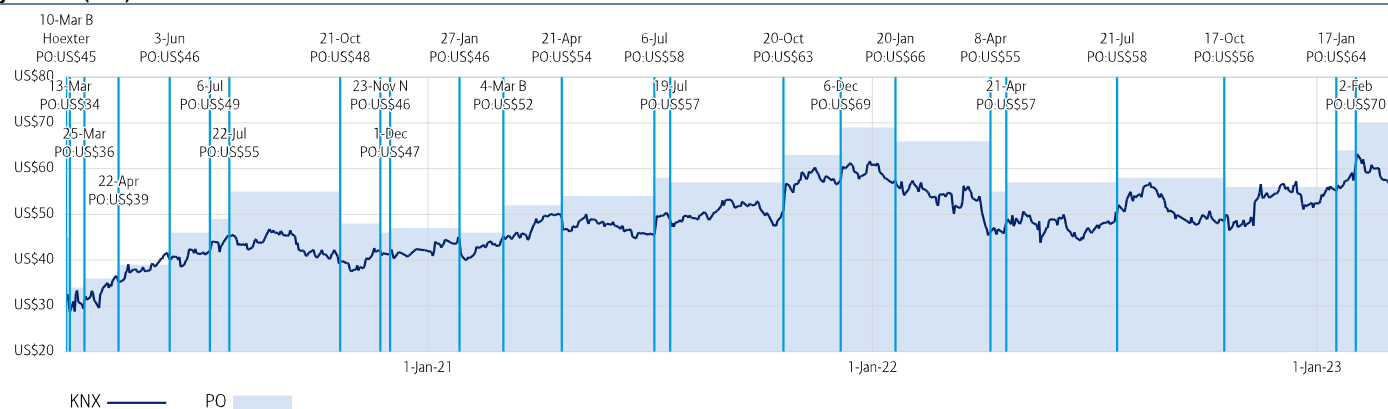
## J.B. Hunt Trans (JBHT) Price Chart



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

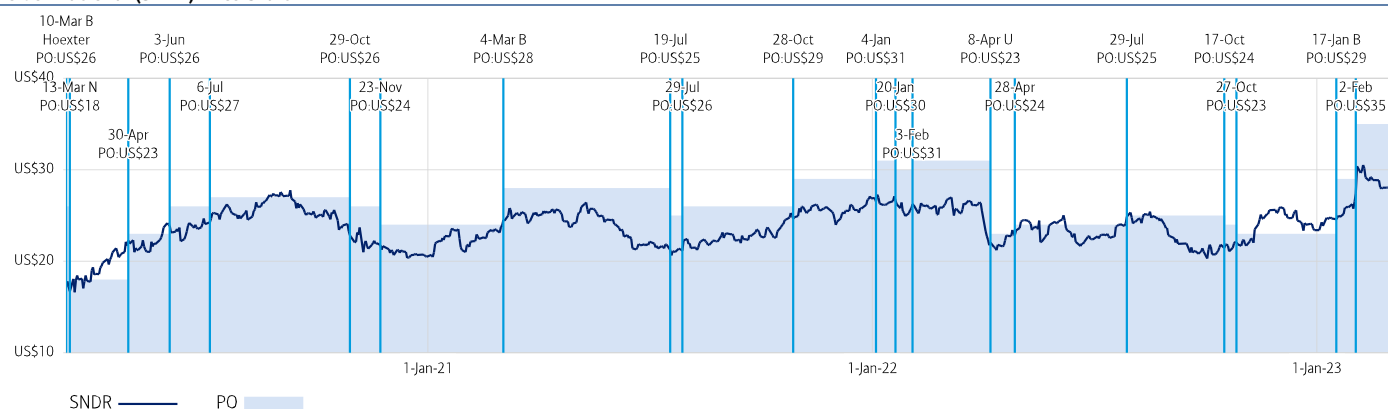
The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey 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.



**Knight-Swift (KNX) Price Chart**

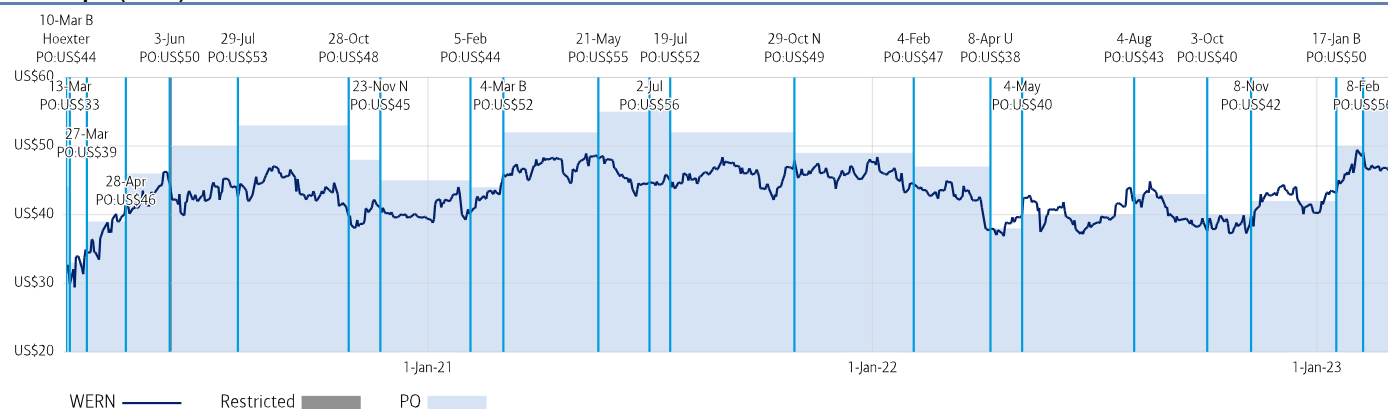
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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**Schneider National (SNDR) 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.

**Werner Enterprises (WERN) 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: Transport/Infrastructure Group (as of 31 Dec 2022)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	67	51.15%	Buy	40	59.70%
Hold	26	19.85%	Hold	15	57.69%
Sell	38	29.01%	Sell	19	50.00%

**Equity Investment Rating Distribution: Global Group (as of 31 Dec 2022)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1853	52.58%	Buy	1040	56.13%
Hold	840	23.84%	Hold	493	58.69%
Sell	831	23.58%	Sell	404	48.62%

<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.

**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). There are three investment ratings: 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. 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> 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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