

Fox Factory Holding Corp

Shifting to Neutral given lower visibility from destocking in SSG & PVG

Rating Change: NEUTRAL | PO: 55.00 USD | Price: 50.00 USD

D/G to Neutral on limited visibility from destocking trends

We are downgrading FOXF to Neutral (from Buy) and lowering our PO to \$55 (from \$95) based on 13-14X our C25 EPS of \$4.05 given: (1) we believe destocking in Specialty Sports Group Sales (primarily mountain bikes) will continue through 1H24 given high inventory levels and continued declines in end-market demand ([see our Leisure credit & debit card note](#)), while OEM volumes for model year 2025 remain uncertain; (2) we believe FOXF's Powered Sports business remains pressured given a tough snowmobile season, and high inventory levels in recreational side by sides; and (3) we see pressures in FOXF's truck-upfitting business as dealers take a more cautious approach to ordering inventory in 2025 given high floor plan financing costs. We lower our C24 EPS to \$2.45 (from \$4.30) which reflects a \$112mm reduction in our revenue forecast and gross margin pressure given fixed cost deleverage on lower volumes. For this report we are using the afterhours \$50 share price. Our Neutral rating reflects near-term risks are partially offset by compelling valuation with shares trading at 16x our C25 EPS, well below its historical range of 20x to 30x.

4Q EPS below on SSG destocking & UAW strike

FOXF reported 4Q23 adjusted EPS of \$0.48 (vs. our \$0.79) led by 52% decline in SSG given continued inventory destocking. PVG sales declined 11% given impacts from the United Auto Workers (UAW strike) to FOXF's auto OEMs. AAG sales increased given a \$20mm contribution from FOXF's recently acquired Custom Wheel House which helped offset limited chassis availability for truck upfitting as a result of the UAW strike.

SSG destocking continues, C25 model volumes uncertain

We are modeling a 12% decline in legacy SSG bike revenue in 2024 as inventory destocking continues through 1H. We believe end market demand remains down y/y which further pressures the timeline of destocking trends. We believe bike OEMs plan to launch 2025 models in 2024, but volumes are uncertain given current headwinds.

Powered sports destocking impacting PVG

We expect a slight decline in PVG sales in C24 as benefits from new products (160 new SKUs in 2024 vs. 141 in 2023) are more than offset by pressure in FOXF's powered sports business given high inventory levels of recreational side by sides, and lower snowmobile volumes as the weather conditions have been very difficult. We see pressures in FOXF's AAG business from higher floor plan financing costs which are impacting the amount of inventory dealers carry for FOXF's upfitted trucks.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	5.49	3.95	2.45	4.05	5.25
GAAP EPS	4.98	3.32	1.82	3.42	4.72
EPS Change (YoY)	22.0%	-28.1%	-38.0%	65.3%	29.6%
Consensus EPS (Bloomberg)			4.79	5.65	NA
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	9.1x	12.7x	20.4x	12.3x	9.5x
GAAP P/E	10.0x	15.1x	27.5x	14.6x	10.6x
EV / EBITDA*	6.7x	8.4x	9.5x	7.1x	5.8x
Free Cash Flow Yield*	7.3%	3.3%	1.1%	4.1%	5.8%

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

23 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Inv. Opinion	C-1-9	C-2-9
Inv. Rating	BUY	NEUTRAL
Price Obj.	95.00	55.00
2024E Rev (m)	1,708.4	1,596.8
2025E Rev (m)	1,867.7	1,697.5
2026E Rev (m)	2,110.6	1,867.2
2024E EPS	4.30	2.45
2025E EPS	5.10	4.05
2026E EPS	6.65	5.25

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Stock Data

Price	50.00 USD
Price Objective	55.00 USD
Date Established	23-Feb-2024
Investment Opinion	C-2-9
52-Week Range	49.12 USD - 125.08 USD
Mkt Val (mn) / Shares Out (mn)	2,119 USD / 42.4
Free Float	99.5%
Average Daily Value (mn)	16.09 USD
BofA Ticker / Exchange	FOXF / NAS
Bloomberg / Reuters	FOXF US / FOXF.OQ
ROE (2024E)	8.2%
Net Dbt to Eqty (Dec-2023A)	54.0%
ESGMeter™	Medium

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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Timestamp: 23 February 2024 07:51AM EST

OEM = Original Equipment
Manufacturer

iQprofileSM Fox Factory Holding Corp

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	16.7%	9.4%	6.2%	8.8%	10.4%
Return on Equity	23.1%	14.3%	8.2%	12.5%	14.4%
Operating Margin	16.0%	12.8%	9.5%	13.3%	15.7%
Free Cash Flow	156	69	23	87	123

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.9x	0.7x	0.8x	0.9x	0.9x
Asset Replacement Ratio	1.6x	1.5x	1.8x	1.7x	1.8x
Tax Rate	13.3%	14.9%	16.0%	15.0%	16.0%
Net Debt-to-Equity Ratio	4.9%	54.0%	49.0%	38.0%	25.9%
Interest Cover	28.7x	9.7x	2.5x	4.1x	5.4x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,602	1,464	1,597	1,697	1,867
% Change	23.4%	-8.6%	9.1%	6.3%	10.0%
Gross Profit	535	477	450	560	635
% Change	22.8%	-10.9%	-5.5%	24.4%	13.3%
EBITDA	323	255	225	304	371
% Change	21.2%	-20.8%	-11.7%	35.0%	21.9%
Net Interest & Other Income	(13)	(21)	(60)	(55)	(54)
Net Income (Adjusted)	233	167	104	172	223
% Change	21.9%	-28.0%	-38.0%	65.4%	29.6%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	211	141	77	145	200
Depreciation & Amortization	49	59	63	67	68
Change in Working Capital	(61)	(83)	(53)	(57)	(70)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	0	0	0	0	0
Capital Expenditure	(44)	(47)	(64)	(68)	(75)
Free Cash Flow	156	69	23	87	123
% Change	NM	-55.5%	-66.2%	271.1%	41.6%
Share / Issue Repurchase	20	(38)	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(171)	575	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	145	84	107	194	318
Trade Receivables	200	171	188	207	228
Other Current Assets	452	513	563	614	675
Property, Plant & Equipment	202	237	238	240	247
Other Non-Current Assets	618	1,237	1,237	1,237	1,237
Total Assets	1,618	2,242	2,334	2,492	2,705
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	259	208	222	235	247
Long-Term Debt	200	744	744	744	744
Other Non-Current Liabilities	38	69	69	69	69
Total Liabilities	497	1,021	1,035	1,048	1,060
Total Equity	1,121	1,222	1,299	1,444	1,645
Total Equity & Liabilities	1,618	2,242	2,334	2,492	2,705

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

Company Sector

Leisure

Company Description

Fox Factory Holding Corp. (FOXF) is a leading designer, manufacturer and marketer of high-performance suspension products used primarily on mountain bikes and powered vehicles including side-by-side vehicles, on-road vehicles with off-road capabilities and trucks, all-terrain vehicles, snowmobiles, specialty vehicles and applications, and motorcycles.

Investment Rationale

We rate FOXF shares Neutral. We see near-term risks from inventory destocking trends in PVG & SSG partially offset by compelling valuation.

Stock Data

Average Daily Volume

321,834

Quarterly Earnings Estimates

	2023	2024
Q1	1.20A	0.20E
Q2	1.21A	0.41E
Q3	1.05A	0.84E
Q4	0.48A	0.99E

Exhibit 1: FOXF quarterly earnings analysis

\$ millions, except per share data

	Total		Sales &	Research &	General &	Amort of.		Interest	Other				Extra	Non-GAAP			
	Revenues	COGS	Marketing	Development	Admin.	intangibles	Optg Inc	(Income)	(Income)	P'tx Inc	Inc Tax	bef. Extra	(Loss)	Net Inc.	Op. EPS (ex. Amort.)	Reported EPS	Sh O/S
Mar-Q1	\$378.0	\$256.0	\$22.6	\$12.6	\$24.4	\$5.3	\$57.0	\$2.0	\$1.7	\$53.3	\$2.8	\$55.8	(\$5.3)	\$50.5	\$1.32	\$1.19	42.4
Jun-Q2	\$406.7	\$263.1	\$24.2	\$14.2	\$28.1	\$5.6	\$71.5	\$1.7	\$2.8	\$67.0	\$14.0	\$58.6	(\$5.1)	\$53.5	\$1.38	\$1.26	42.4
Sept-Q3	\$409.2	\$270.6	\$23.5	\$14.0	\$27.4	\$5.3	\$68.4	\$2.7	(\$1.4)	\$67.2	\$15.1	\$57.4	(\$6.6)	\$50.8	\$1.35	\$1.20	42.4
Dec-Q4	\$408.6	\$277.8	\$20.5	\$15.4	\$30.2	\$5.3	\$59.4	\$2.6	\$0.9	\$55.9	\$0.4	\$60.8	(\$7.9)	\$53.0	\$1.43	\$1.25	42.4
2022	\$1,602.5	\$1,067.5	\$90.8	\$56.2	\$110.1	\$21.5	\$256.4	\$8.9	\$4.0	\$243.4	\$32.3	\$232.7	(\$25.0)	\$207.7	\$5.49	\$4.90	42.4
Mar-Q1	\$399.9	\$263.5	\$23.7	\$15.3	\$31.4	\$5.9	\$60.1	\$3.5	\$0.0	\$56.6	\$11.5	\$51.0	(\$9.3)	\$41.8	\$1.20	\$0.98	42.5
Jun-Q2	\$400.7	\$262.9	\$26.6	\$15.2	\$29.3	\$7.3	\$59.6	\$4.4	\$0.5	\$54.6	\$10.5	\$51.4	\$3.2	\$54.6	\$1.21	\$1.29	42.5
Sept-Q3	\$331.1	\$221.0	\$24.4	\$8.9	\$24.9	\$6.8	\$45.0	\$3.5	(\$0.9)	\$42.4	\$4.5	\$44.8	(\$6.8)	\$38.0	\$1.05	\$0.89	42.5
Dec-Q4	\$332.5	\$240.2	\$25.8	\$13.8	\$23.8	\$6.5	\$22.4	\$7.9	\$2.4	\$12.0	(\$1.7)	\$20.3	(\$16.2)	\$4.1	\$0.48	\$0.10	42.2
2023	\$1,464.2	\$987.6	\$100.5	\$53.2	\$109.3	\$26.5	\$187.1	\$19.3	\$2.1	\$165.7	\$24.7	\$167.5	(\$29.1)	\$138.4	\$3.95	\$3.26	42.4
Mar-Q1E	\$341.7	\$256.3	\$22.6	\$14.4	\$24.6	\$5.9	\$18.0	\$15.0	\$0.0	\$3.0	\$0.5	\$8.4	(\$5.9)	\$2.5	\$0.20	\$0.06	42.3
Jun-Q2E	\$351.7	\$255.3	\$23.2	\$14.8	\$23.9	\$7.3	\$27.2	\$15.0	\$0.0	\$12.2	\$1.9	\$17.5	(\$7.3)	\$10.2	\$0.41	\$0.24	42.4
Sept-Q3E	\$439.7	\$310.4	\$29.0	\$17.6	\$26.4	\$6.8	\$49.5	\$15.0	\$0.0	\$34.5	\$5.5	\$35.7	(\$6.8)	\$28.9	\$0.84	\$0.68	42.5
Dec-Q4E	\$463.7	\$324.6	\$28.7	\$18.5	\$27.8	\$6.5	\$57.5	\$15.0	\$0.0	\$42.5	\$6.8	\$42.2	(\$6.5)	\$35.7	\$0.99	\$0.84	42.6
2024E	\$1,596.8	\$1,146.6	\$103.5	\$65.3	\$102.7	\$26.5	\$152.2	\$60.1	\$0.0	\$92.1	\$14.7	\$103.9	(\$26.5)	\$77.4	\$2.45	\$1.82	42.4
2025E	\$1,697.5	\$1,137.3	\$111.2	\$69.1	\$127.3	\$26.5	\$226.1	\$55.1	\$0.0	\$171.0	\$25.6	\$171.9	(\$26.5)	\$145.3	\$4.05	\$3.42	42.4
Percentage Change								Ratio Analysis									
	Total		Optg Exp		Operating				Sales &		R & D	G & A	Op Mgn		Non-GAAP		
	Revenues	Optg Exp	(ex-amt)	Optg Inc	Ptx Inc	EPS		Gr Mgn	Marketing	Ratio	Ratio	Exp Ratio	Op Mgn	(ex-amt)	Tx Rate	Ptx Mgn	Operating Net Mgn
Mar-Q1	34.4%	29.0%	31.4%	18.5%	20.6%	25.7%		32.3%	6.0%	3.3%	6.5%	17.2%	15.1%	16.5%	5.3%	14.1%	14.8%
Jun-Q2	23.9%	27.7%	29.4%	29.0%	24.7%	15.0%		35.3%	5.9%	3.5%	6.9%	17.7%	17.6%	19.0%	20.8%	16.5%	14.4%
Sept-Q3	17.8%	18.5%	20.4%	17.7%	19.0%	13.4%		33.9%	5.7%	3.4%	6.7%	17.1%	16.7%	18.0%	22.5%	16.4%	14.0%
Dec-Q4	19.4%	14.2%	15.6%	30.3%	26.2%	34.9%		32.0%	5.0%	3.8%	7.4%	17.5%	14.5%	15.8%	0.7%	13.7%	14.9%
2022	23.4%	21.9%	23.7%	23.7%	22.5%	22.0%		33.4%	5.7%	3.5%	6.9%	17.4%	16.0%	17.3%	13.3%	15.2%	14.5%
Mar-Q1	5.8%	17.4%	17.9%	5.5%	6.1%	-9.1%		34.1%	5.9%	3.8%	7.8%	19.1%	15.0%	16.5%	20.2%	14.2%	12.8%
Jun-Q2	-1.5%	8.5%	6.8%	-16.7%	-18.4%	-12.3%		34.4%	6.6%	3.8%	7.3%	19.5%	14.9%	16.7%	19.2%	13.6%	12.8%
Sept-Q3	-19.1%	-7.1%	-10.1%	-34.3%	-36.9%	-22.2%		33.2%	7.4%	2.7%	7.5%	19.7%	13.6%	15.6%	10.5%	12.8%	13.5%
Dec-Q4	-18.6%	-2.2%	-4.2%	-62.3%	-78.5%	-66.4%		27.7%	7.8%	4.2%	7.1%	21.0%	6.7%	8.7%	-14.3%	3.6%	6.1%
2023	-8.6%	3.9%	2.3%	-27.0%	-31.9%	-28.1%		32.5%	6.9%	3.6%	7.5%	19.8%	12.8%	14.6%	14.9%	11.3%	11.4%
Mar-Q1E	-14.5%	-11.6%	-12.5%	-70.0%	-94.7%	-83.3%		25.0%	6.6%	4.2%	7.2%	19.7%	5.3%	7.0%	16.0%	0.9%	2.5%
Jun-Q2E	-12.2%	-11.6%	-12.8%	-54.4%	-77.7%	-66.1%		27.4%	6.6%	4.2%	6.8%	19.7%	7.7%	9.8%	16.0%	3.5%	5.0%
Sept-Q3E	32.8%	22.6%	25.2%	10.0%	-18.7%	-20.0%		29.4%	6.6%	4.0%	6.0%	18.1%	11.3%	12.8%	16.0%	7.8%	8.1%
Dec-Q4E	39.5%	16.8%	18.5%	156.9%	252.8%	106.3%		30.0%	6.2%	4.0%	6.0%	17.6%	12.4%	13.8%	16.0%	9.2%	9.1%
2024E	9.1%	2.9%	3.2%	-18.6%	-44.4%	-38.0%		28.2%	6.5%	4.1%	6.4%	18.7%	9.5%	11.2%	16.0%	5.8%	6.5%
2025E	6.3%	12.1%	13.3%	48.5%	85.6%	65.3%		33.0%	6.6%	4.1%	7.5%	19.7%	13.3%	14.9%	15.0%	10.1%	10.1%

Source: BofA Global Research Estimates, Company Filings

BofA GLOBAL RESEARCH



Price objective basis & risk

Fox Factory Holding Corp (FOXF)

Our \$55 price objective is based on 13-14x our 2025E EPS estimate of \$4.05 (from 18-19X our C25 EPS of \$5.10). We believe a multiple in-line with other comparable bicycle, powersports and active lifestyle companies (trading at 15-20x) is warranted given FOXF's premium brand positioning, consistent history of product development, market share leadership position in the growing mountain bike suspension market, high return on invested capital (ROIC), supporting solid free cash flow generation, and highly defensible customer-focused business model.

Upside risks are accretive M&A, acceleration in end markets and better-than-expected share gains.

Downside risks are a slowdown in cycling or recreational vehicles demand could hurt demand for new components including suspension, key customer risk, and investments in R&D will likely mute SGA leverage, foreign currency translation risks, competition could pressure sales and margins, integration of M&A could take longer than expected, acquisition opportunities might not materialize, and entry into new geographies or categories could be challenging.

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
	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
	Sprouts Farmers Market, Inc.	SFM	SFM US	Robert F. Ohmes, CFA

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

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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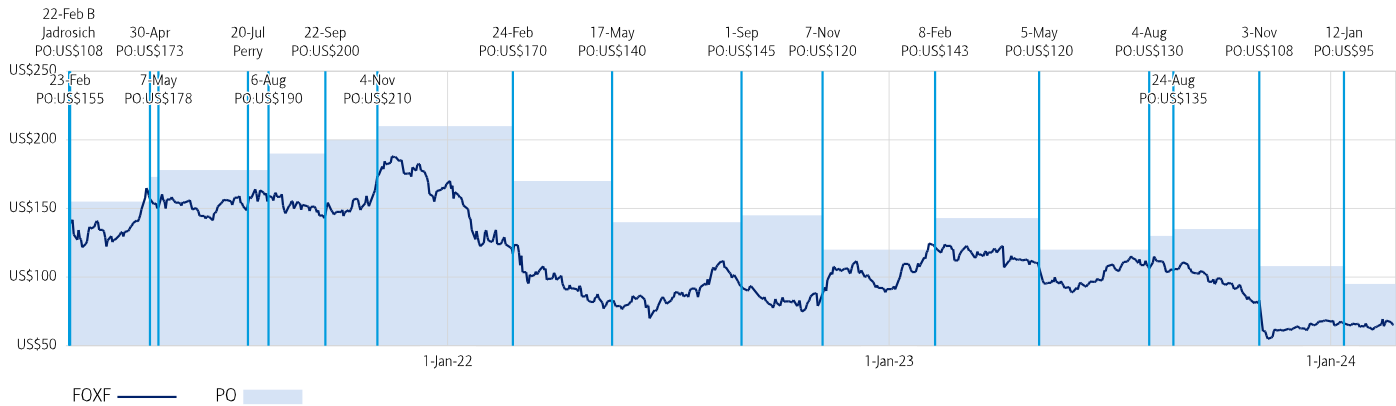
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Disclosures

Important Disclosures

Fox Factory Holding (FOXF) 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: 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.

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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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