

## TD Synnex Corp

# Margins benefit from mix, PC declines continue to moderate

Reiterate Rating: BUY | PO: 120.00 USD | Price: 104.83 USD

## Expecting a stronger 2H for billings and revenue in F24

F4Q23 revs came in at \$14.4bn just slightly lower than our \$14.5bn as mix shift to netted down items continues (negatively impacted revs 6% y/y). However, this benefited margins which came in higher (operating margin at 2.96% vs. our 2.7%), and this drove a meaningful earnings beat even ex \$0.07 benefit from lower tax rate, and \$0.05 benefit from lower share count vs. our prior model. Move to consignment at a large Hyve customer is a \$250mn per quarter (\$1bn y/y) headwind in F24. Customer concentration in Hyve remains, but SNX is ramping a new customer from F2Q24. This is a lumpy business and any given quarter can benefit from better performance in assembly, procurement or margin recovery. Billings remain flat y/y in F1H24, and then grow mid-to-high single digits y/y in F2H24 leading to better revenue performance in F2H24 (we expect revenues in F24 to be approx. 74% of billings with netted down items representing the other 26%). Reiterate Buy on l-t mix shift to higher margin products & services, broad portfolio, and cross-sell opportunities.

## Could see some y/y growth in Endpoint revenue in F1Q

In F4Q SNX saw some early signs of stabilization in IT spending with lesser y/y revenue decline in Endpoint Solutions, while Advanced Solutions revenues faced tough y/y compares given elevated backlog levels in the last year quarter. Management expects a gradual recovery in Endpoint Solutions that will build throughout the year as normal PC buying patterns return. Advanced Solutions continues to face tough y/y compares in F1H24, and then should see y/y growth in F2H.

## Americas stabilizing, Europe outperformed; dividend up

In F4Q, SNX saw the market environment in the Americas continue to stabilize, while Europe performed better than expected and improved q/q. SNX raised the dividend 14% to \$0.40 per share, per quarter. F24 free cash flow (FCF) was guided to \$1.2bn with 50% return to shareholders as dividends and buybacks.

## Adjusting estimates; PO moves to \$120 (from \$115)

Our F24E rev/EPS moves to \$59bn/\$11.86, from \$61.3bn/\$11.73. PO moves to \$120 (from \$115) on 10x (unchanged) C24E EPS of \$11.86 (prior \$11.73).

Estimates (Nov) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	11.92	11.25	11.86	13.40	14.69
GAAP EPS	6.77	6.66	11.16	12.68	13.96
EPS Change (YoY)	26.8%	-5.6%	5.4%	13.0%	9.6%
Consensus EPS (Bloomberg)		11.66	12.41	14.42	
DPS	1.20	1.41	1.60	1.60	1.60
Valuation (Nov)					
P/E	8.8x	9.3x	8.8x	7.8x	7.1x
GAAP P/E	15.5x	15.7x	9.4x	8.3x	7.5x
Dividend Yield	1.1%	1.3%	1.5%	1.5%	1.5%
EV / EBITDA*	7.2x	7.5x	7.7x	7.2x	6.7x
Free Cash Flow Yield*	-1.8%	13.5%	13.5%	7.8%	8.7%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

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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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10 January 2024

## Equity

### Key Changes

(US\$)	Previous	Current
Price Obj.	115.00	120.00
2024E Rev (m)	61,259.4	58,999.9
2025E Rev (m)	65,062.1	62,148.0
2026E Rev (m)	NA	65,685.3
2024E EPS	11.73	11.86
2025E EPS	12.98	13.40
2026E EPS	NA	14.69
2024E DPS	1.40	1.60

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## Stock Data

Price	104.83 USD
Price Objective	120.00 USD
Date Established	10-Jan-2024
Investment Opinion	B-1-7
52-Week Range	86.30 USD - 111.57 USD
Mrkt Val (mn) / Shares Out (mn)	9,295 USD / 88.7
Free Float	52.0%
Average Daily Value (mn)	50.57 USD
BofA Ticker / Exchange	SNX / NYS
Bloomberg / Reuters	SNX US / SNX.N
ROE (2024E)	12.3%
Net Dbt to Eqty (Nov-2023A)	37.3%
ESGMeter <sup>TM</sup>	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".

Hyve: a division of TD Synnex

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# iQprofile<sup>SM</sup> TD Synnex Corp

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	9.7%	9.3%	8.8%	9.1%	9.1%
Return on Equity	14.3%	12.9%	12.3%	12.5%	12.3%
Operating Margin	2.8%	2.9%	2.7%	2.8%	2.8%
Free Cash Flow	(167)	1,257	1,251	724	813

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0x	1.3x	1.3x	0.8x	0.8x
Asset Replacement Ratio	0.7x	1.2x	1.2x	1.2x	1.2x
Tax Rate	23.5%	22.6%	23.0%	23.0%	23.0%
Net Debt-to-Equity Ratio	44.6%	37.3%	27.4%	21.0%	14.7%
Interest Cover	7.7x	5.7x	6.0x	6.5x	6.9x

## Income Statement Data (Nov)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	62,344	57,555	59,000	62,148	65,685
% Change	97.2%	-7.7%	2.5%	5.3%	5.7%
Gross Profit	3,918	3,972	3,939	4,235	4,488
% Change	107.3%	1.4%	-0.8%	7.5%	6.0%
EBITDA	1,824	1,750	1,689	1,826	1,941
% Change	92.1%	-4.1%	-3.5%	8.1%	6.3%
Net Interest & Other Income	(141)	(196)	(150)	(146)	(141)
<b>Net Income (Adjusted)</b>	<b>1,139</b>	<b>1,045</b>	<b>1,037</b>	<b>1,138</b>	<b>1,221</b>
<b>% Change</b>	<b>93.0%</b>	<b>-8.2%</b>	<b>-0.8%</b>	<b>9.7%</b>	<b>7.3%</b>

## Free Cash Flow Data (Nov)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	647	618	976	1,077	1,160
Depreciation & Amortization	463	418	304	306	308
Change in Working Capital	(1,207)	384	22	(605)	(599)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	47	(13)	86	91	96
Capital Expenditure	(117)	(150)	(137)	(145)	(153)
<b>Free Cash Flow</b>	<b>-167</b>	<b>1,257</b>	<b>1,251</b>	<b>724</b>	<b>813</b>
<b>% Change</b>	<b>NM</b>	<b>NM</b>	<b>-0.5%</b>	<b>-42.1%</b>	<b>12.2%</b>
Share / Issue Repurchase	(117)	(559)	(437)	(210)	(210)
Cost of Dividends Paid	(115)	(131)	(140)	(136)	(133)
Change in Debt	(33)	(28)	0	0	0

## Balance Sheet Data (Nov)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	523	1,034	1,708	2,086	2,555
Trade Receivables	10,240	11,262	10,271	10,613	11,248
Other Current Assets	9,738	7,789	8,061	8,987	9,524
Property, Plant & Equipment	421	450	477	505	534
Other Non-Current Assets	8,812	8,878	8,685	8,495	8,311
<b>Total Assets</b>	<b>29,734</b>	<b>29,413</b>	<b>29,202</b>	<b>30,687</b>	<b>32,172</b>
Short-Term Debt	268	984	984	984	984
Other Current Liabilities	16,161	15,755	15,059	15,722	16,294
Long-Term Debt	3,836	3,099	3,099	3,099	3,099
Other Non-Current Liabilities	1,444	1,392	1,392	1,392	1,392
<b>Total Liabilities</b>	<b>21,708</b>	<b>21,230</b>	<b>20,533</b>	<b>21,196</b>	<b>21,769</b>
<b>Total Equity</b>	<b>8,026</b>	<b>8,183</b>	<b>8,669</b>	<b>9,491</b>	<b>10,403</b>
<b>Total Equity &amp; Liabilities</b>	<b>29,734</b>	<b>29,413</b>	<b>29,202</b>	<b>30,687</b>	<b>32,172</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

IT Hardware

## Company Description

TD Synnex is a leading IT distributor with locations in 100+ countries across the Americas, Europe and Asia Pacific. SNX distributes more than 200,000+ products from more than 1500+ OEMs & Vendor partners to more than 150,000+ customers including resellers, system integrators and retailers. Line card includes PCs, peripherals, iPhones, server, storage, software, networking, etc. The Hyve Solutions division specializes in providing purpose built data center servers and storage solutions.

## Investment Rationale

Our Buy rating on Synnex is based on its broad line card, strong management team and track record of strong execution, expectation of above market revenue growth, and long-term mix shift to higher margin software and services. Additionally, Synnex has a counter-cyclical balance sheet and can generate significant free cash flow (FCF) during downturns.

## Stock Data

Average Daily Volume 482,408

## Quarterly Earnings Estimates

	2023	2024
Q1	2.93A	2.88E
Q2	2.43A	2.72E
Q3	2.78A	2.90E
Q4	3.13A	3.35E

# Model

**Figure 1: SNX income statement**

We model F24 rev/EPS of \$59bn/\$11.86

TD Synnex ( <i>\$ Millions Except EPS</i> )	F2023				F2024E								
	2/23	5/23	8/23	11/23	2/24E	5/24E	8/24E	11/24E	F2022	F2023	F2024E	F2025E	F2026E
Income Statement													
Revenue	\$15,125.4	\$14,062.1	\$13,960.6	\$14,407.3	\$14,352.9	\$14,164.7	\$14,680.2	\$15,802.1	\$62,343.8	\$57,555.4	\$58,999.9	\$62,148.0	\$65,685.3
SNX Technology Solutions (Distribution)	5,072.3	4,818.7	4,770.5	4,961.3	4,812.5	5,101.3	5,254.3	5,622.1	21,038.4	19,622.9	20,790.1	21,920.3	23,443.4
TECD revenue	10,053.0	9,243.4	9,190.1	9,446.0	9,540.4	9,063.4	9,425.9	10,180.0	41,305.4	37,932.5	38,209.8	40,227.7	42,241.9
Cost of Goods	14,114.4	13,093.5	12,986.9	13,388.7	13,405.6	13,234.9	13,707.2	14,713.5	58,425.9	53,583.5	55,061.2	57,912.5	61,196.9
Gross Profit	1,011.0	968.6	973.7	1,018.6	947.3	929.8	973.1	1,088.6	3,917.9	3,971.9	3,938.7	4,235.5	4,488.4
SG&A	568.1	592.5	576.9	592.0	578.2	581.1	606.7	675.7	2,272.3	2,329.6	2,441.7	2,612.2	2,762.1
Operating Income (Excl. Options)	442.9	376.0	396.8	426.6	390.1	369.4	387.9	436.1	1,724.0	1,642.3	1,583.4	1,714.3	1,822.5
StockComp. Expense	24.6	18.7	20.4	21.1	21.0	20.7	21.5	23.1	91.2	84.8	86.4	91.0	96.2
Op. Income, adj for Stock Comp. Ex	418.3	357.4	376.4	405.5	369.1	348.6	366.4	412.9	1,632.9	1,557.5	1,497.0	1,623.3	1,726.3
Interest Expense/(Income)	80.2	74.3	67.7	66.1	66.1	66.1	66.1	66.1	222.6	288.3	264.5	264.5	265.0
Other expense/(Income), net	(2.1)	1.9	0.1	(7.0)	(7.0)	(7.0)	(7.0)	(7.0)	9.7	(7.1)	(27.9)	(27.9)	(27.9)
Pretax Income	364.8	299.9	329.0	367.4	331.0	310.2	328.7	376.9	1,491.8	1,361.2	1,346.8	1,477.7	1,585.4
Taxes	85.5	70.9	69.3	81.9	76.1	71.4	75.6	86.7	350.3	307.6	309.8	339.9	364.6
Minority Interest	--	--	--	--	--	--	--	--	0.1	-	-	-	-
Net Income, Cont Ops.	277.0	227.1	258.0	283.0	254.8	238.9	253.1	290.2	1,138.8	1,045.1	1,037.1	1,137.8	1,220.8
StockComp. Expense, net of taxes	(16.0)	(12.1)	(13.3)	(13.7)	(16.2)	(16.0)	(16.6)	(17.8)	(59.3)	(55.1)	(66.5)	(70.1)	(74.1)
Net Income, adj for Stock Comp. Ex	261.0	215.0	244.7	269.3	238.7	222.9	236.6	272.4	1,079.5	990.0	970.5	1,067.7	1,146.7
GAAP Net Income	164.8	131.3	137.4	185.0	239.6	223.7	237.9	275.0	646.7	618.5	976.3	1,077.0	1,160.0
Non-GAAP EPS (ex Options): Published from F1Q21	\$2.93	\$2.43	\$2.78	\$3.13	\$2.88	\$2.72	\$2.90	\$3.35	\$11.92	\$11.25	\$11.86	\$13.40	\$14.69
Non-GAAP EPS (incl Options)	\$2.76	\$2.30	\$2.63	\$2.98	\$2.70	\$2.54	\$2.71	\$3.15	\$11.30	\$10.66	\$11.10	\$12.58	\$13.80
Extraordinary Items (a)	(\$1.19)	(\$1.02)	(\$1.30)	(\$1.08)	(\$0.17)	(\$0.17)	(\$0.17)	(\$0.18)	(\$5.15)	(\$4.59)	(\$0.70)	(\$0.72)	(\$0.73)
GAAP EPS	\$1.74	\$1.40	\$1.48	\$2.05	\$2.71	\$2.55	\$2.73	\$3.18	\$6.77	\$6.66	\$11.16	\$12.68	\$13.96
Diluted Avg Shares Outstdg. (MM)	94.5	93.6	92.9	90.4	88.4	87.8	87.2	86.6	95.5	92.9	87.5	84.9	83.1
Basic Avg Shares Outstdg. (MM)	94.3	93.4	92.6	90.1	88.1	87.5	86.9	86.3	95.3	92.6	87.2	84.6	82.8
Margin Analysis													
% of Revenues													
Gross Profit	6.7%	6.9%	7.0%	7.07%	6.60%	6.56%	6.63%	6.89%	6.3%	6.9%	6.7%	6.8%	6.8%
SG&A	3.8	4.2	4.1	4.1	4.0	4.1	4.1	4.3	3.6	4.0	4.14	4.20	4.20
Operating Income (Excl. Options)	2.9	2.7	2.8	3.0	2.7	2.6	2.6	2.8	2.8	2.9	2.68	2.76	2.77
Options Expense	0.16	0.13	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
Op. Income, adj for Stock Comp exp	2.77	2.54	2.70	2.81	2.57	2.46	2.50	2.61	2.62	2.71	2.54	2.61	2.63
Interest Expense	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.5	0.4	0.4	0.4
Pretax Income	2.4	2.1	2.4	2.6	2.3	2.2	2.2	2.4	2.4	2.4	2.3	2.4	2.4
Tax Rate	23.5	23.6	21.1	22.3	23.0	23.0	23.0	23.0	23.5	22.6	23.0	23.0	23.0
Net Income	1.83	1.62	1.85	1.96	1.78	1.69	1.72	1.84	1.83	1.82	1.76	1.83	1.86
Y/Y Growth													
Revenues	(2%)	(8%)	(9%)	(11%)	(5%)	1%	5%	10%	97%	(8%)	3%	5%	6%
SG&A	1%	1%	6%	2%	2%	(2%)	5%	14%	125%	3%	5%	7%	6%
Operating Income	3%	(6%)	(0%)	(14%)	(12%)	(2%)	(2%)	2%	91%	(5%)	(4%)	8%	6%
EPS (Excluding Options)	(3%)	(11%)	1%	(9%)	(2%)	12%	5%	7%	27%	(6%)	5%	13%	10%
EPS (including Options)	(5%)	(11%)	1%	(8%)	(2%)	11%	3%	6%	28%	(6%)	4%	13%	10%
Q/Q Growth													
Revenues	(7%)	(7%)	(1%)	3%	(0%)	(1%)	4%	8%					
SG&A (Seq.)	(2%)	4%	(3%)	3%	(2%)	1%	4%	11%					
Operating Income	(11%)	(15%)	6%	8%	(9%)	(5%)	5%	12%					
Net Income, Cont Op.	(15%)	(18%)	14%	10%	(10%)	(6%)	6%	15%					
EPS (Excluding Options)	(15%)	(17%)	14%	13%	(8%)	(6%)	7%	15%					
EPS (including Options)	(14%)	(17%)	15%	13%	(9%)	(6%)	7%	16%					

Source: Company reports, BofA Global Research estimates

BofA GLOBAL RESEARCH



## Price objective basis & risk

### TD Synnex Corp (SNX)

Our PO of \$120 is based on about 10x our C24 EPS estimate of \$11.86. This multiple is slightly below the median 11x of the long-term range 5.5x-16x for the former Synnex Corporation (including Concentrix), and in-line with the long-term median trading multiple of 10x of peers. In our opinion, this multiple balances the near-term headwind from supply shortages and macroeconomic weakness, against long-term mix shift to higher-margin software and services, cross-sell opportunities between the two line cards, as well as good cash flow.

Downside risks to our price objective are (1) further COVID19 induced lockdowns and impact to end markets, (2) exposure to PC ecosystem, (3) continual shift of infrastructure to the public cloud, (4) highly price competitive nature of the IT distribution & reseller industry, and 5) unexpected costs in the integration of Tech Data and Synnex.

## Analyst Certification

I, Ruplu Bhattacharya, 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 - IT Hardware and Technology Supply Chain Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Amphenol	APH	APH US	Wamsi Mohan
	Corning Inc.	GLW	GLW US	Wamsi Mohan
	Dell Technologies Inc.	DELL	DELL US	Wamsi Mohan
	Flex Ltd.	FLEX	FLEX US	Ruplu Bhattacharya
	HP Inc.	HPQ	HPQ US	Wamsi Mohan
	International Business Machines Corp.	IBM	IBM US	Wamsi Mohan
	Jabil Inc.	JBL	JBL US	Ruplu Bhattacharya
	Nutanix Inc	NTNX	NTNX US	Wamsi Mohan
	Roku, Inc.	ROKU	ROKU US	Ruplu Bhattacharya
	Seagate Technology	STX	STX US	Wamsi Mohan
	Sensata Technologies Holdings Plc	ST	ST US	Wamsi Mohan
	TD Synnex Corp	SNX	SNX US	Ruplu Bhattacharya
	TE Connectivity Ltd.	TEL	TEL US	Wamsi Mohan
	Teradata Corporation	TDC	TDC US	Wamsi Mohan
	Western Digital Corporation	WDC	WDC US	Wamsi Mohan
<b>NEUTRAL</b>				
	Apple Inc.	AAPL	AAPL US	Wamsi Mohan
	Arrow Electronics Inc.	ARW	ARW US	Ruplu Bhattacharya
	Avnet Inc.	AVT	AVT US	Ruplu Bhattacharya
	CDW Corp	CDW	CDW US	Ruplu Bhattacharya
	Concentrix Corporation	CNXC	CNXC US	Ruplu Bhattacharya
	Hewlett-Packard Enterprise	HPE	HPE US	Wamsi Mohan
	Pure Storage	PSTG	PSTG US	Wamsi Mohan
<b>UNDERPERFORM</b>				
	DigitalOcean	DOCN	DOCN US	Wamsi Mohan
	NetApp Inc.	NTAP	NTAP US	Wamsi Mohan
	Sanmina Corporation	SANM	SANM US	Ruplu Bhattacharya
	Vishay Intertechnology, Inc.	VSH	VSH US	Ruplu Bhattacharya
	Vizio	VZIO	VZIO US	Wamsi Mohan

## **IQmethod<sup>SM</sup> 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**

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

### **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  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +  
Other LT Liabilities  
Enterprise Value

### **Denominator**

Total Assets – Current Liabilities + ST Debt + 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  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

*IQmethod<sup>SM</sup>* 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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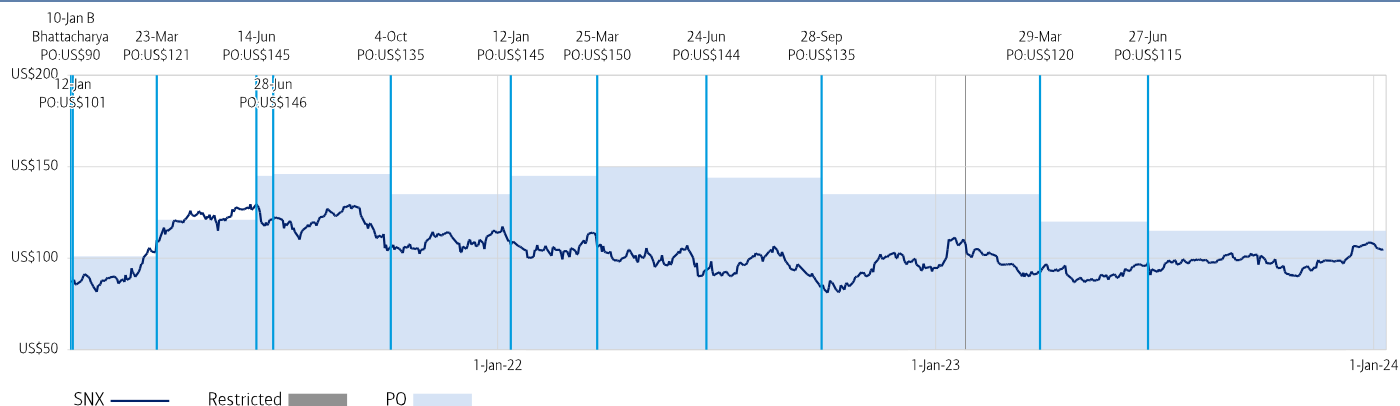
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### TD Synnex Corp (SNX) Price Chart



SNX — Restricted PO

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: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

### 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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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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