

## Harley-Davidson

## 4Q Preview: Expect softer retail, but see benefits from 2024 new model launch

Reiterate Rating: BUY | PO: 45.00 USD | Price: 32.45 USD

## Expect 4Q EPS in-line, U.S. retail down low-to-mid teens

HOG is scheduled to report earnings Thursday 2/8 (pre-market). We see adj. EPS in-line with our -\$0.08 on 28.4K global shipments given that HOG had already finished production of 2023 model year when providing guidance on its 3Q earnings call. We are slightly raising our 4Q retail unit sales assumption to -14% y/y (from -17%) which better aligns with recent I.H.S. data and Placer Foot Traffic data that showed some improvement in Nov. / Dec. retail trends vs. October. Recent competitor commentary from Polaris also suggests industry retail was down low DD% in N. America in 4Q.

## Dealer inventory likely to remain at 45-55K units

We believe HOG will keep global dealer inventory within 45-55K units, and our new retail estimate reflects 4Q quarter end levels consistent with 3Q (~47.8K units).

## 2024 New model launch should help drive unit volumes

We believe HOG is well positioned for 2024 given a significant refresh of HOG's popular Road Glide and Street Glide model families, which we estimate represent ~33% of year-to-date HOG Registrations (highly correlated with retail sales). Key changes include the addition Milwaukee-Eight 117 engine into standard models (featured in last year's ST model), new touchscreen infotainment system (vs. prior analogue gauges), and a new front fairing design. We believe HOG's last significant product refresh for its touring lineup was Project Rushmore in Aug. 2013, which led to a 16% increase in touring shipments and 6% increase in global retail sales in the year following the launch. We estimate a modest 2% pricing benefit on like for like models for HOG overall, as we believe HOG has removed a ~3.5% COVID era surcharge for 2024 models. However, the actual pricing benefit may be lower given the removal of premium priced Road Glide and Street Glide ST models (with standard models having similar features). We also see a pivot to higher margin Trikes (10% of YTD registrations) to satisfy demand for an aging boomer population. We raise our PO to \$45 based on 9X our C25e EPS of \$5.00 (from \$40, C24e EPS of \$4.60) given our outlook for strong unit demand from HOG's product refresh.

## See fading legacy sportster retail headwind

HOG's sportster category should benefit in 2024 from easy comps as it laps the wind down of legacy models which we estimate accounted for more than half of year-to-date retail unit declines through November. HOG should also benefit from higher sportster unit demand given an 11% price reduction in its entry level Nightster model.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	4.21	4.96	4.60	4.60	5.00
GAAP EPS	4.19	4.96	4.60	4.60	5.00
EPS Change (YoY)	446.8%	17.8%	-7.3%	0%	8.7%
Consensus EPS (Bloomberg)			4.68	4.41	5.04
DPS	0.60	0.64	0.64	0.64	0.64
Valuation (Dec)					
P/E	7.7x	6.5x	7.1x	7.1x	6.5x
Dividend Yield	1.8%	2.0%	2.0%	2.0%	2.0%
EV / EBITDA*	11.4x	10.6x	12.0x	10.6x	10.1x
Free Cash Flow Yield*	23.7%	35.5%	38.4%	20.8%	20.1%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 10.

01 February 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	40.00	45.00

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## Stock Data

Price	32.45 USD
Price Objective	45.00 USD
Date Established	1-Feb-2024
Investment Opinion	B-1-7
52-Week Range	25.43 USD - 51.77 USD
Mkt Val (mn) / Shares Out (mn)	4,519 USD / 139.3
Free Float	90.9%
Average Daily Value (mn)	39.14 USD
BofA Ticker / Exchange	HOG / NYS
Bloomberg / Reuters	HOG US / HOG.N
ROE (2023E)	21.0%
Net Dbt to Eqty (Dec-2022A)	189.4%
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".

DD: double digit

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Timestamp: 01 February 2024 05:00AM EST

# iQprofile<sup>SM</sup> Harley-Davidson

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

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	3.1%	5.4%	5.3%	4.8%	4.7%
Return on Equity	30.5%	27.2%	21.0%	17.2%	15.9%
Operating Margin	9.1%	11.9%	27.8%	28.0%	29.1%
Free Cash Flow	1,069	1,603	1,737	941	906

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

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.8x	2.4x	3.0x	1.8x	1.7x
Asset Replacement Ratio	0.6x	1.0x	1.6x	1.6x	1.5x
Tax Rate	21.6%	20.6%	22.1%	24.0%	24.0%
Net Debt-to-Equity Ratio	197.6%	189.4%	177.5%	151.1%	126.5%
Interest Cover	NM	NA	NA	NA	NA

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	4,540	4,888	5,912	6,103	6,412
% Change	39.1%	7.7%	21.0%	3.2%	5.1%
Gross Profit	1,297	1,491	2,598	2,716	2,917
% Change	56.6%	15.0%	74.3%	4.5%	7.4%
EBITDA	992	1,061	940	1,066	1,114
% Change	204.9%	7.0%	-11.4%	13.4%	4.5%
Net Interest & Other Income	421	339	314	293	313
<b>Net Income (Adjusted)</b>	<b>653</b>	<b>741</b>	<b>670</b>	<b>645</b>	<b>692</b>
<b>% Change</b>	<b>450.1%</b>	<b>13.6%</b>	<b>-9.7%</b>	<b>-3.6%</b>	<b>7.2%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	653	739	657	636	684
Depreciation & Amortization	165	152	156	161	169
Change in Working Capital	(34)	613	289	110	79
Deferred Taxation Charge	1	20	0	0	0
Other Adjustments, Net	390	237	885	285	224
Capital Expenditure	(105)	(158)	(250)	(250)	(250)
<b>Free Cash Flow</b>	<b>1,069</b>	<b>1,603</b>	<b>1,737</b>	<b>941</b>	<b>906</b>
<b>% Change</b>	<b>NM</b>	<b>49.9%</b>	<b>8.3%</b>	<b>-45.8%</b>	<b>-3.7%</b>
Share / Issue Repurchase	276	(292)	0	0	1
Cost of Dividends Paid	(92)	(96)	(93)	(90)	(89)
Change in Debt	(1,912)	38	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	1,875	1,433	755	836	1,065
Trade Receivables	182	252	240	249	257
Other Current Assets	2,493	3,065	3,403	3,544	3,668
Property, Plant & Equipment	684	690	784	873	953
Other Non-Current Assets	5,817	6,052	6,924	7,199	7,415
<b>Total Assets</b>	<b>11,051</b>	<b>11,492</b>	<b>12,105</b>	<b>12,701</b>	<b>13,359</b>
Short-Term Debt	2,294	2,455	2,455	2,455	2,455
Other Current Liabilities	1,049	1,079	1,114	1,155	1,209
Long-Term Debt	4,626	4,484	4,484	4,484	4,484
Other Non-Current Liabilities	529	568	568	568	568
<b>Total Liabilities</b>	<b>8,498</b>	<b>8,586</b>	<b>8,621</b>	<b>8,662</b>	<b>8,716</b>
<b>Total Equity</b>	<b>2,553</b>	<b>2,907</b>	<b>3,483</b>	<b>4,039</b>	<b>4,643</b>
<b>Total Equity &amp; Liabilities</b>	<b>11,051</b>	<b>11,492</b>	<b>12,105</b>	<b>12,701</b>	<b>13,359</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 10.

## Company Sector

Leisure

## Company Description

Harley-Davidson is the largest U.S. manufacturer of motorcycles with a dominant market position in the Touring (46.4% of 2022 shipments), Cruiser (30.5%), Sportster/Street (17.5%), and Adventure Touring (5.6%) segments. It generates operating income/loss across its Motorcycle & Related Segment (75% of company EBIT in 2022), Harley-Davidson Financial Services (35% of company EBIT), and Livewire (-10% of company EBIT).

## Investment Rationale

We rate HOG shares Buy as we see accelerating brand momentum and new management strategy driving significant increases in unit profitability.

## Stock Data

Average Daily Volume 1,206,292

## Quarterly Earnings Estimates

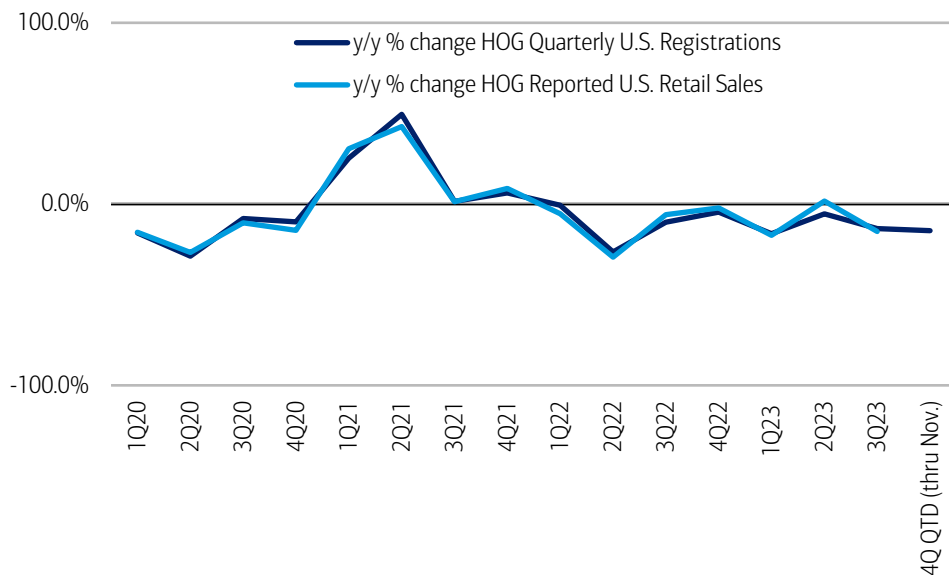
	2022	2023
Q1	1.45A	2.04A
Q2	1.46A	1.22A
Q3	1.78A	1.38A
Q4	0.28A	-0.08E

## Expect 4Q EPS in-line, U.S. retail down low-to-mid teens

HOG is scheduled to report earnings Thursday 2/8 (pre-market). We see adj. EPS in-line with our -\$0.08 on 28.4K global shipments given that HOG had already finished production of 2023 model year when providing guidance on its 3Q earnings call. We are slightly raising our 4Q retail unit sales assumption to -14% y/y (from -17%) which better aligns with recent I.H.S. data and Placer Foot Traffic data that showed some improvement in Nov. / Dec. retail trends vs. October. Recent competitor commentary from Polaris also suggests industry retail was down low DD% in N. America in 4Q.

### Exhibit 1: Y/Y % change in HOG quarterly new registrations vs. HOG U.S. Retail Sales

I H S Registrations are showing a slight deceleration QTD through November, but we believe December retail accelerated

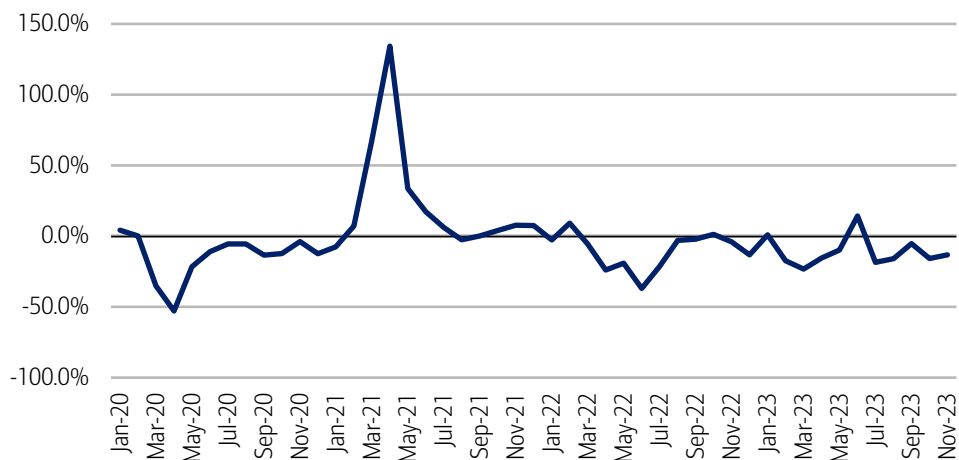


Source: IHS

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### Exhibit 2: Y/Y % change in HOG monthly registrations for new motorcycle registrations

HOG registrations accelerated in November vs. December



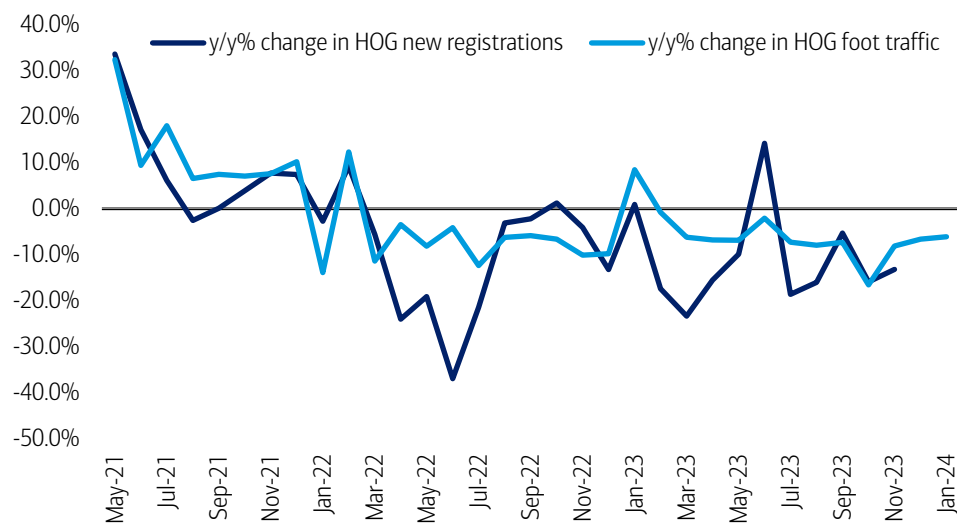
Source: IHS

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### Exhibit 3: y/y % change in HOG dealer foot traffic according to Placer vs. y/y % change in HOG new registrations

Dealer foot traffic accelerated in December vs. November and QTD foot traffic through 1/28 has accelerated slightly from December



Source: Placer, I H S

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## 2024 New model launch should help drive unit volumes

We believe HOG is well positioned for 2024 given a significant refresh of HOG's popular Road Glide and Street Glide model families, which we estimate represent ~33% of year-to-date HOG Registrations (highly correlated with retail sales). Key changes include the addition Milwaukee-Eight 117 engine into standard models (featured in last year's ST model), new touchscreen infotainment system (vs. prior analogue gauges), and a new front fairing design. We believe HOG's last significant product refresh for its touring lineup was Project Rushmore in Aug. 2013, which led to a 16% increase in touring shipments and 6% increase in global retail sales in the year following the launch. We estimate a modest 2% pricing benefit on like for like models for HOG overall, as we believe HOG has removed a ~3.5% COVID era surcharge for 2024 models. However, the actual pricing benefit may be lower given the removal of premium priced Road Glide and Street Glide ST models (with standard models having similar features). We also see a pivot to higher margin Trikes (10% of YTD registrations) to satisfy demand for an aging boomer population. We raise our PO to \$45 (from \$40) based on 9X our C25 EPS of \$5.00 given our outlook for unit benefits from HOG's product refresh.

**Exhibit 4: HOG % of total 2023 YTD Registrations by Model Type (thru Nov.)**

We estimate Road Glide and Street Glide model families drive ~33% of retail sales

Name	Category	% of Total YTD Registrations (thru Nov.)
Road Glide Special	Touring	7.6%
Street Glide Special	Touring	7.0%
Road Glide ST	Touring	5.6%
Low Rider ST	Cruiser	5.4%
Tri-Glide	Trike	5.4%
Street Glide	Touring	4.9%
Electra Glide Ultra Limited	Touring	4.7%
Road Glide Custom	Touring	4.5%
Street Bob 114	Cruiser	4.3%
Road Glide Limited	Touring	3.8%
Street Glide ST	Touring	3.7%
Heritage Classic 114	Cruiser	3.6%
Low Rider S	Cruiser	3.5%
Pan America 1250 Special	Adventure Touring	2.9%
Sportster 883 Iron	Sportster (Legacy)	2.7%
Breakout 117	Cruiser	2.7%
Road Glide 3	Trike	2.4%
Road King Special	Touring	2.4%
Sportster S	Sportster	2.3%
Softail Standard	Cruiser	2.2%
CVO Road Glide	Cruiser	1.8%
Nightster	Sportster	1.6%
Fat Boy 114	Cruiser	1.5%
Nightster Special	Sportster	1.5%
Freewheeler	Trike	1.1%
XL 1200X Sportster	Sportster (Legacy)	1.0%
Fat Bob 114	Cruiser	1.0%
CVO Street Glide	Touring	1.0%
Heritage Classic Anniversary Edition	Cruiser	1.0%
Fat Boy 114 Anniversary Edition	Cruiser	0.9%
CVO Road Glide Anniversary Edition	Cruiser	0.8%
Electra Glide Highway King	Touring	0.8%
Road Glide Special Anniversary Edition	Touring	0.8%
Tri Glide Ultra	Trike	0.7%
Police Electra Glide	Touring	0.7%
Street Glide Anniversary	Touring	0.7%
Ultra Limited Anniversary Edition	Touring	0.6%
Police Road King	Touring	0.4%
Low Rider El Diablo	Cruiser	0.3%
CVO Road Glide	Touring	0.1%
Road King	Touring	0.1%
Electra Glide Standard	Touring	0.0%
CVO Trike Glide	Trike	0.0%
Pan America 1250	Adventure Touring	0.0%
Iron 1200	Sportster (Legacy)	0.0%
Sport Glide	Cruiser	0.0%
Heritage Classic Softail	Cruiser	0.0%
2021 CVO Limited	Touring	0.0%

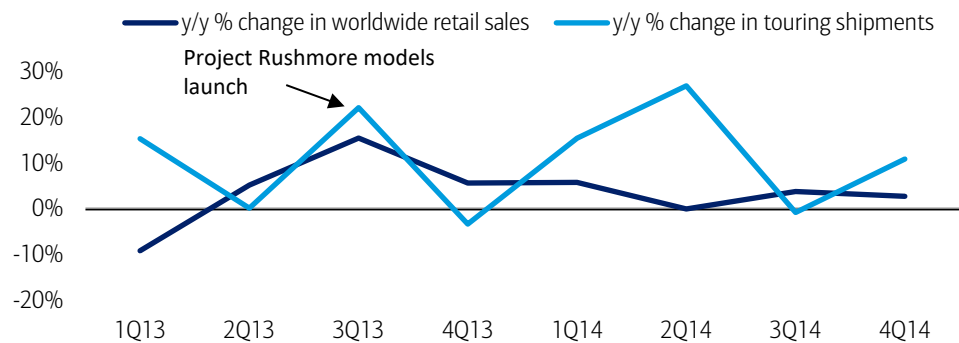
Source: IHS

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*“The results at retail speak for themselves. In the initial 45 days at retail since launch, the **Rushmore motorcycles sparked the largest year over year new model sales increase in 20 years.**” – 3Q13 (10/22/2013) Earnings Call, Keith Wandell, Former CEO Harley-Davidson*

**Exhibit 5: HOG y/y % change in quarterly global retail sales & touring shipments**

Project Rushmore touring redesign led to a 16% increase in touring shipments, and 6% increase in global retail for 3Q13-2Q14, despite the



Source: Company Filings

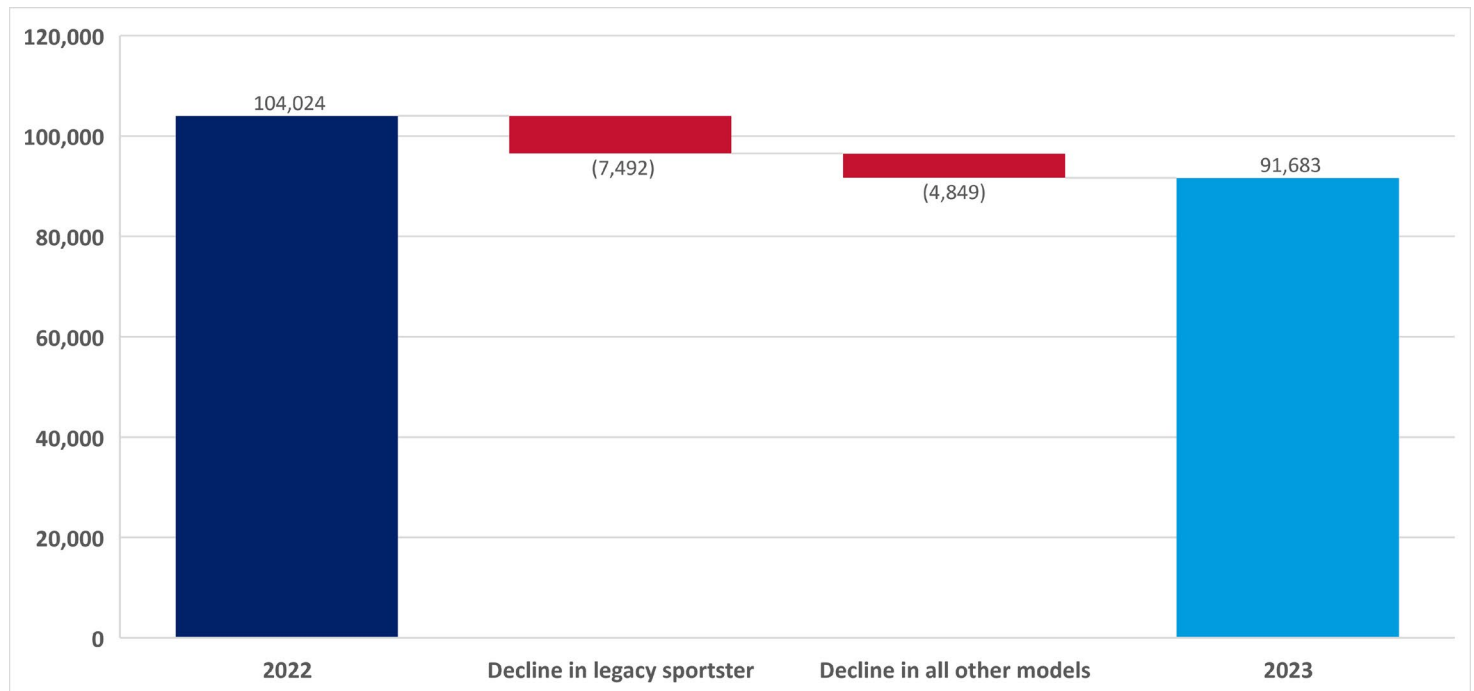
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**See fading legacy sportster retail headwind**

HOG's sportster category should benefit in 2024 from easy comps as it laps the wind down of legacy models which we estimate accounted for more than half of year-to-date retail unit declines through November. HOG should also benefit from higher sportster unit demand given an 11% price reduction in its entry level Nightster model.

**Exhibit 6: 2023 vs. 2022 Year-to-Date Harley Davidson Motorcycle Registrations (thru November)**

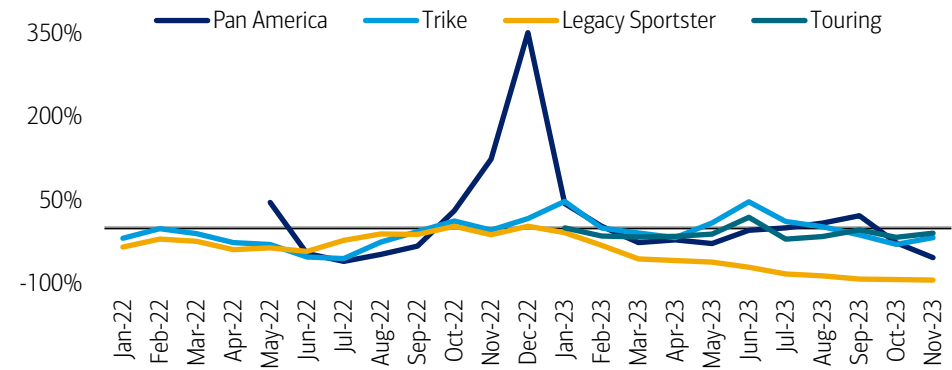
We estimate more than half of the year to date retail sales decline was from the discontinuation of legacy sportster models



Source: IHS

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**Exhibit 7: Y/Y% change in HOG new U.S. Registrations for Pan America, Trike, and Legacy Sportsters**  
Trike models have generally outperformed in 2023



Source: I.H.S.

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## Price objective basis & risk

### Harley-Davidson (HOG)

Our \$45 PO is based on 9x our F25 adj. EPS of \$5.00 (including Livewire), more in line with powersports peers : (1) potential EPS upside on new model launches, (2) accelerating brand momentum, supported by a reset to a "Pull" market strategy (under new CEO Jochen Zeitz), (3) newly established leadership in Electric motorcycles and the creation of a dedicated EV division, and (4) the long-term opportunities for motorcycle division EBIT margin recovery to peak 15%+ and stronger International growth (incl. China).

Risks to the downside are (1) Aggregate on-highway new motorcycle units have been challenged historically, (2) The timing of a launch of a premium low displacement motorcycle for China remains uncertain, (3) Rider safety remains a top concern for new joiners, and (4) HOG global dealerships are declining.

## 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
<b>BUY</b>				
	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
	Fox Factory Holding Corp	FOXF	FOXF US	Alexander Perry
	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
<b>NEUTRAL</b>				
	Dick's Sporting Goods	DKS	DKS US	Robert F. Ohmes, CFA
	Xponential Fitness	XPOF	XPOF US	Alexander Perry
	YETI Holdings, Inc.	YETI	YETI US	Robert F. Ohmes, CFA
<b>UNDERPERFORM</b>				
	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



## 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 &amp; 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.

iQdatabase<sup>®</sup> is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

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# Disclosures

## Important Disclosures

### Harley-Davidson (HOG) 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 <sup>R1</sup>	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 <sup>R1</sup>	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%

<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). Our investment ratings are: 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. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. 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.

**INCOME RATINGS**, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

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