Broadlines, Hardlines & Food Retailers

Assessing potential negative impacts of Red Sea disruption

Industry Overview

26 January 2024

Equity
United States
Broadlines, Hardlines & Food Retailers

Robert F. Ohmes, CFA
Research Analyst
BofAS
+1 646 855 0078
robert.ohmes@bofa.com

Elizabeth L Suzuki
Research Analyst
BofAS
+1 646 855 2547
elizabeth.suzuki@bofa.com

Kendall Toscano
Research Analyst
BofAS
+1 646 855 1704
kendall.toscano@bofa.com

Molly Baum
Research Analyst
BofAS
+1 646 855 4904
molly.baum@bofa.com

Madeline Cech
Research Analyst
BofAS
+1 646 855 5219
madeline.cech@bofa.com

Red Sea headwind could be material for retailers

In light of Red Sea shipping disruptions, we assess potential impacts to our Broadlines, Hardlines and Food Retailers coverage universe. We expect all of our coverage to potentially face some degree of incremental profit margin headwinds and/or late shipments if global shipping prices continue to rise and capacity shortages occur due to spillover effects from lingering Red Sea disruptions.

FND, YETI and DLTR have the most risk, in our view

We believe FND has the most exposure to Red Sea disruptions driving up container shipping prices. FND directly sources its flooring, and approximately 29% of its products sold in 2022 were produced in China. YETI sources 50-60% of its product directly from China and we believe spillover from Red Sea disruptions could translate into potential gross margin pressures and inventory shortages similar to the environment in 2022. DLTR's Dollar Tree division directly imports approximately 41-43% of its merchandise. DLTR's low/fixed price points create challenges to adjusting prices quickly to mitigate sourcing cost pressures. We note that BBY is not the importer of record for most of the products it sells (and we believe most products it sources directly do not travel through the Suez Canal). However, BBY's shipping cost negotiations typically occur in the spring and spillover effects related to the Suez Canal could negatively impact BBY's freight costs and delay receipt of goods from its vendors. Importantly, HD and LOW have relatively low exposure to overseas imports.

TGT likely has the most risk in Broadlines retail

TGT has higher relative exposure to container rate increases compared to other broadline retailers given the company's impressive global sourcing organization that supports TGT's large own-brands business (33% of sales). TGT saw significant margin pressure in 2022 (with gross margin dropping to 23.6% from 28.3% in 2021) from merchandising challenges including excess markdowns (>$1bn), higher freight and transportation costs ($1bn) and higher inventory shrink (>$500mn), much of which was related to shipping disruptions and capacity challenges. DKS and ASO have high private label penetration (14% and 20%, respectively), particularly in apparel, and higher costs and late shipments could be risks, similar to TGT. WMT, DG, and BJ face less overall risk due to their higher % of sales in grocery (see Exhibit 2), which is ~85-90% domestically sourced. WMT, COST and TGT also have scale benefits including more favorable port access, long-term container shipping agreements and chartered vessels that limit reliance on spot markets and enable capacity advantages.

Food Retailers source mostly in the US, see little risk

We see Food Retailers KR, ACI, SFM and GO as relatively insulated from Red Sea disruptions given their store footprints are entirely within the US with ~90%+ grocery sales mix (typically sourced domestically). Global foodservice distributor SYY does have operations in Western Europe (~6% of total sales), but we would not expect a significant portion of SYY's predominantly food offering to be sourced from Asia (and therefore be traveling through the Suez Canal). **See page 2 for more.**

Broadlines Retailers:

WMT = Walmart
TGT = Target
COST = Costco
BJ = BJ's Wholesale
DG = Dollar General
DLTR = Dollar Tree

Food Retailers:

KR = Kroger
ACI = Albertsons
GO = Grocery Outlet
SFM = Sprouts Farmers Market
SYY = Sysco

Hardlines Retailers:

DKS = Dick's Sporting Goods
ASO = Academy Sports
BBY = Best Buy
FND = Floor and Décor
YETI = Yeti
HD = Home Depot
LOW = Lowe's

Retailer supply chains are likely more agile post-COVID

Amidst COVID lockdowns, capacity constraints, availability challenges and cost inflation seen in the last few years, we believe many large US retailers have invested heavily in supply chain flexibility and are thus better suited to handle disruption vs. pre-pandemic. Substantially lower general merchandise demand in the current environment (Exhibit 3) also implies less added strain on supply chain challenges compared to the COVID era – when government stimulus, a drop-off in services/travel spending, and consumers investing in their homes/home offices fueled a surge in spending on discretionary categories (+35% y/y in 2021), and companies likely exacerbated pressure on spot markets by over-ordering to combat reduced fill rates.

Exhibit 1: Estimated % of US Sales/COGS sourced from China/Asia
We believe FND has the most exposure for Red Sea disruptions to drive up container shipping prices given that FND directly sources all of its flooring and approximately 29% of its products sold in 2022 were produced in China.

	Est. % sourced from Asia
FND	50-80%
YETI	50-60%
TGT	30-35%
DLTR	25-30%
WMT	20-25%
ASO	20%
COST	10-20%
DKS	14%
DG	9%
BJ	4%
KR	NM

Source: Company reports: BofA Global Research estimates. NM = Not meaningful

BofA GLOBAL RESEARCH

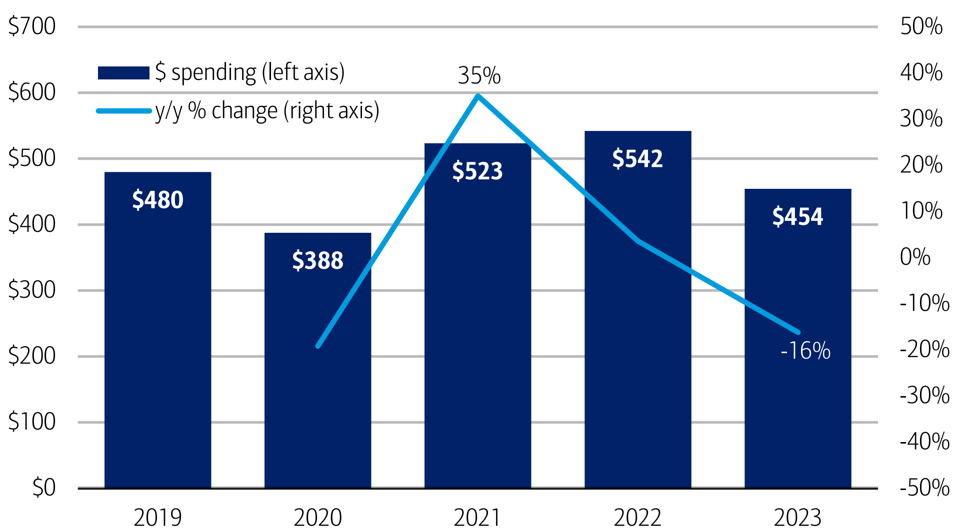
Exhibit 2: US Broadlines Retailers: Est. % of Sales from Grocery
Excluding TGT, all retailers in our Broadlines coverage have over 50% of sales from grocery, which is 85-90% domestically sourced according to the USDA

	Est. % of Sales from Grocery
KR	~75% (~85% incl. Pharmacy)
DG	80%
BJ	67%
DLTR	60%
WMT	59% (70% incl. Health & Wellness)
COST	52%
TGT	~40-50%

Source: Company reports: BofA Global Research estimates

BofA GLOBAL RESEARCH

Exhibit 3: US Annual Spending on Clothing & Accessories, Furniture, Electronics & Appliances
Substantially lower general merchandise demand in the current environment implies less added strain on supply chain challenges compared to the COVID era, in our view



Source: US Census Bureau, BofA Global Research estimates

BofA GLOBAL RESEARCH

Exhibit 4: Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
ASO	ASO US	Academy	US$ 64.78	C-1-7
ACI	ACI US	Albertsons	US$ 21.81	-6-
BBY	BBY US	Best Buy	US$ 75.21	B-3-7
BJ	BJ US	BJ's Wholesale	US$ 64.84	B-1-9
COST	COST US	Costco	US$ 679.9	B-1-7
DKS	DKS US	Dick's	US$ 153.15	C-2-7
DG	DG US	Dollar General	US$ 132.88	B-3-7
DLTR	DLTR US	Dollar Tree	US$ 132.23	B-3-9
FND	FND US	Floor and Decor	US$ 107.87	C-1-9
GO	GO US	Grocery Outlet	US$ 25.43	B-1-9
LOW	LOW US	Lowe's	US$ 212.08	B-1-7
SFM	SFM US	Sprouts Farmers Mkt	US$ 49.84	B-3-9
SYY	SYY US	Sysco	US$ 75.27	B-1-7
TGT	TGT US	Target Corp.	US$ 142.18	B-1-7
HD	HD US	The Home Depot	US$ 350.97	B-1-7
KR	KR US	The Kroger Co.	US$ 46.43	B-1-7
WMT	WMT US	Walmart	US$ 162.84	A-1-7
YETI	YETI US	YETI	US$ 45.42	C-2-9

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

Academy Sports + Outdoors (ASO)

Our PO of $65 is based on 8-9x our F25 GAAP EPS estimate of $7.55, in line with the average P/E for the Athletic/Sporting Goods retail group given: (1) potential for margin uplift as ASO shifts to higher margin national brands and private label, (2) ASO success with new store growth and plans to expand the store base by 50% (120-140 stores) over the next 5 years, and (3) Academy's ability to manage SG&A.

Risks to the downside are: (1) Nike may choose to allocate product differently in the future, (2) more competitive pressures including expansion of Dick's into value-oriented apparel, and (3) increased regulation affecting the sale of firearms & ammunition.

Albertsons Companies, Inc. (ACI)

We have removed the investment opinion on the company's stock. Investors should no longer rely on our previous opinion or price objective.

Best Buy Co., Inc. (BBY)

Our 12-month PO of $70 is based on 10x our FY25E EPS estimate, which is a discount to BBY's long-term average of 11x and the hardline retail average of 16x. We believe this discount is warranted given the pressure on consumer discretionary spending in light of inflation. However, growing long-term demand for consumer electronics as people stay, work and learn more at home more so than pre-pandemic mitigate the potential downside to the P/E multiples at the lower end of the hardline retail group (which are in single digits).

Downside risks to our PO are slower-than-expected industry headwinds, deteriorating ASPs, a slowdown in share gains, greater-than-expected cost inflation, and a slowdown in macro and consumer trends.

Upside risks to our PO are better-than-expected margin improvements, a pickup in product cycles, market share gains, and strong investor sentiment on the Consumer Discretionary sector.

BJ's Wholesale Club Holdings (BJ)

Our $80 price objective is based on 19-20x our $4.10 F25E adj. EPS, a discount to key warehouse club comparable COST (29-30x) and more in line with the food and discount retail group average (17-18x). We think a discount to COST is warranted given BJ's lower new store growth, lower same-store sales growth (low single digit vs. COST's mid- to high- single digit), and lower ROIC (approx. 20% vs. COST's approx. 30%). We believe BJ will trade more in line with the food and discount retail group avg. given support from: 1) BJ's membership fee structure, which provides increased visibility on earnings, 2) BJ's unique positioning as a grocery-focused warehouse club, and 3) our forecast for an approx. 5% EPS CAGR over the next three years (in-line with the discount and food retail group average of roughly 5% [ex-DLTR]).

Downside risks to our price objective: 1) Difficult stimulus-driven comparisons, 2) comp risk from continued pressure in general merchandise categories, 3) incremental supply chain pressures and other cost increases, 4) the unwinding of excess gas margin from 2021.

Costco Wholesale Corporation (COST)

Our price objective of $740 is based on 41x our F25E EPS of $17.90. Costco's long-term (20yr) average two-year forward PE is 24x, with a peak of 41x and a trough of 16x. We view a premium valuation as appropriate given 1) COST's healthy customer traffic growth and strong membership renewal rates, which should continue given our expectation for a further rise in the perceived value of shopping at warehouse clubs and COST's leading warehouse club position from a merchandising, store execution, and private label standpoint, 2) COST's strong same-store sales outlook given strong customer traffic growth, and 3) expected continued strength in COST's International segment, which is generating mid-single-digit %+ comps in local currencies and supports Costco's premium valuation.

Downside risks to our price objective are adverse macro shocks, tariffs, regional dependence on California, food inflation/deflation pressures, foreign exchange risk, challenging membership trends, increased competition, wage increases, gas profit comparisons and the potential for increased unionization of COST's employee base, which could pressure labor expenses.

Dollar General Corporation (DG)

Our $100 price objective is based on 13x our F2025E EPS estimate of $7.60. Our PO assumes that DG stock trades at the middle of its historical 11x-18x P/E range. We believe this valuation is justified given potential benefits from strategic investments and initiatives offset by lower traffic vs. peers, and continued profitability pressures.

Upside risks to our PO are a consumer-led recession driving accelerated trade down to the dollar store space, food inflation driving higher-than-expected comparable sales, success of international expansion and accelerated store growth as a result.

Downside risks to our PO are increased price competition given the highly competitive food retail industry, pressures from a macroeconomic slowdown or lower consumer confidence, SNAP benefit cuts, and volatility in food product costs or gas prices.

Dollar Tree, Inc. (DLTR)

Our $105 PO is based on 15x (at the lower end of the company's historical average) our F25E EPS of $7.00. Our PO assumes that DLTR multiples could compress given unknown headwinds associated with its accelerated multi-price point rollout.

Downside risks to our PO are: increased price competition given the highly competitive food retail industry, pressures from a macroeconomic slowdown or lower consumer confidence, SNAP benefit cuts, volatility in food product costs, and increased wage pressures. Upside risks to our PO are: a same-store sales acceleration, improved margins supported by discretionary category growth, accelerated store growth, and a rollback of tariffs.

Floor and Decor Holdings, Inc. (FND)

Our 12-month price objective of $112 is based on 44x our 2024 EPS estimate. We believe a multiple that is substantially above hardline retail peers (20x) is warranted given its superior store growth trajectory and above-average same-store sales growth. In 2024-2025 we expect annual earnings growth of almost 20%, illustrating the long-term compounding earnings growth opportunity of FND.

Downside risks to our price objective are a weakening of the housing market beyond our forecasts, execution risk given large store growth and supply chain diversification, increased competition, and higher labor costs. Upside risks are a stronger housing/flooring market than expected, or faster market share gains than modeled.

Grocery Outlet Holding Corp. (GO)

Our $40 price objective is based on 34x our 2024E adj. EPS of $1.18, a premium to the Food Retailers & Discount Stores group average (roughly 18-20x). We believe a premium valuation is warranted given our view of: 1) GO's unique and hard-to-replicate IO model aligns incentives while reducing costs and risks, 2) GO's opportunistic sourcing model delivers deep value and consistent margins, and 3) GO's low-risk/steady model supports stable/highly predictable margins and a sustainable LT growth horizon (with potential to establish over 5,000 stores in the US). We believe these factors support valuation upside, as does our outlook for elevated food inflation to continue (given likely sales and margin benefits).

Downside risks to our PO are: 1) GO operates in a highly competitive food and discount retail industry, 2) treasure hunt model makes grocery ecommerce difficult 3) any disruptions or inability to source products could adversely impact sales, 4) store growth opportunity depends on attracting and maintaining Independent Operators, 5) IO concept still unproven outside of five core West Coast states, 6) IO model results in reduced fixed cost leverage for GO relative to traditional retail model, 7) the build out of East Coast talent, systems, real-estate, and infrastructure could pressure expenses more than expected, and 8) a less favorable inflationary environment.

Lowe's Companies, Inc. (LOW)

Our PO of $289 is based on around 21x our 2024 EPS estimate. We believe a multiple above the hardlines average (20x) is warranted given solid fundamentals and the relatively defensive nature of the home improvement industry, countered by near-term economic and sentiment risk. In addition, LOW has an opportunity to expand margins for several years through continued productivity improvements and product differentiation.

Upside risks to our PO are improving consumer sentiment and other macro metrics tied to renovation spending, better-than-expected margin expansion from sales growth coupled with cost-saving and productivity initiatives, and upside from favorable weather events. Downside risks to our PO are rising interest rates which may continue to dampen investor sentiment towards housing, a slower than expected improvement in comps, and slower than anticipated progress towards margin improvement goals.

Sprouts Farmers Market, Inc. (SFM)

Our $30 price objective is based on roughly 11x our 2024E EPS of $2.75 (vs. roughly 18-20x for the Food Retailers & Discount Stores group) as we see risks that SFM's units per transaction will continue to decline (offsetting price increase benefits driving sales/EPS upside for grocery peers) as SFM lacks broad exposure to conventional grocery consumable items (paper products, popular national branded items, etc.), where we believe the unit decline is less dramatic in a challenging inflationary environment.

Upside (downside) risks to our PO are: 1) better (worse) than expected same-store sales 2) a more (less) favorable inflationary environment 3) better (worse) than expected margins 4) accelerated (slower) new store growth 5) improving (weaker) comp maturation curve for new stores.

Sysco Corporation (SYY)
Our $80 price objective is based on roughly 17x our F25 adjusted EPS estimate of $4.75. This in line with SYY's average two-year forward P/E of 17x over the last five years, and below its five-year high of 23x. It represents a premium to key foodservice distributor peers, which we believe is warranted given SYY's scale advantages, market share gains, higher margins, productivity improvements/supply chain transformation, lower leverage & higher dividend yield (SYY is a dividend aristocrat).

Downside risks are: 1) a highly competitive foodservice distribution industry with low switching costs, 2) risks associated with a macroeconomic slowdown or lower consumer confidence that could negatively affect food away from home consumption, 3) sales headwinds from product cost deflation or margin pressures from product cost inflation, 4) potential pressures on profitability from high fuel costs, and 5) inability to achieve productivity improvements, which could pressure operating margins.

Target Corp. (TGT)
Our $160 PO is based on 17-18x our F2025E adjusted EPS of $9.15, which is near the midpoint of TGT's ten-year historical P/E range of roughly 11x-20x but warranted in our view, given discretionary peers lower overall P/E multiples offset by TGT's exposure less elastic consumables & essential categories.

Downside risks to our price objective are gross margin pressures from labor costs, investments, and the rapid growth of the lower-margin e-commerce channel as well as aggressive competition from competitors.

The Home Depot, Inc. (HD)
Our 12-month price objective of $372 is based on around 23x our 2024 EPS estimate. We believe a multiple above the hardline retail average (20x) and above HD's 10-year pre-COVID average of 18.5x is warranted given the relative resilience of the home improvement retailers in the current macro backdrop, likely market share gains, and consistent execution at the company.

Downside risks to our price objective are a weakening in the housing market/consumer backdrop beyond our forecasts, a significant increase in promotions by HD and/or competitors, unfavorable weather and poor execution in supply chain upgrades. Upside risks are a noticeable acceleration in the housing market or re-acceleration in same-store sales trends as HD continues to take market share.

The Kroger Co. (KR)
Our PO of $65 is based on roughly 15x our F2025E EPS of $4.45, a premium to conventional supermarket peers given our outlook for continued momentum from fresh, Our Brands, personalization & seamless initiatives, but a discount to the Food Retailers & Discount Stores group avg. (18-20x) given KR's lack of general merchandise offering that we think supports a higher multiple for key digital competitors.

We see upside to KR's valuation from strategic initiatives (including fresh, Our Brands & digital), alternative profit streams & continued cost savings execution.

Downside risks to our PO are greater-than-expected headwinds from pharmacy, fuel, the build-out of the Ocado network, and employee wage/healthcare benefits as well as potential for deflation or accelerating industry promotions.

Walmart Inc (WMT)
Our $190 price objective is based on 27x our F25E adj. EPS of $7.00, which is above WMT's average 2-year forward P/E multiple of roughly 21x but in line with a high of 27x over the past 5 years. Our multiple reflects an outlook for positive US comps (with positive traffic), omni-channel momentum, and healthy free cash generation. This P/E is more in line with other high-performing retailers such as COST but still a discount to other global ecommerce retailers.

Downside risks to our PO are the impacts of FX, pharmacy headwinds, slowing food inflation or deflation, Walmart's longer-term ability to continue gaining incremental market share given its large size, a weakening global retailing environment, competitive pressures at Sam's Clubs and/or Walmart International.

YETI Holdings, Inc. (YETI)
Our $50 price objective is based on roughly 17x our 2025E adjusted EPS of $3.00, a valuation slightly below discretionary peers (18x) given: (1) strong brand momentum, (2) significant under penetration in international, (3) healthy and stable margin outlook, and (4) long-term product and category expansion.

Risks to the downside are: 1) Earnings uncertainty related to softening consumer demand, 2) coolers and drinkware are very competitive categories with low barriers to entry, 3) significant supply chain constraints and heavy reliance on a few suppliers, 4) strong margins could be unsustainable, 5) limited replacement cycle because of durability of products, 6) high concentration of sales with a few retailers

Upside risks are: 1) international could perform better than expected, 2) new product launches could drive upside, & 3) margins could increase as freight pressures ease.

Analyst Certification

We, Robert F. Ohmes, CFA, Elizabeth L Suzuki and Kendall Toscano, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective 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
	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	SYY	SYY 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
	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

US - Retail Hardline Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Arhaus, Inc	ARHS	ARHS US	Jason Haas, CFA
	Boot Barn	BOOT	BOOT US	Jason Haas, CFA
	Driven Brands	DRVN	DRVN US	Jason Haas, CFA
	Five Below Inc.	FIVE	FIVE US	Jason Haas, CFA
	Floor and Decor Holdings, Inc.	FND	FND US	Robert F. Ohmes, CFA
	Genuine Parts	GPC	GPC US	Jason Haas, CFA
	Lowe's Companies, Inc.	LOW	LOW US	Elizabeth L Suzuki
	Mattel	MAT	MAT US	Jason Haas, CFA
	Mister Car Wash	MCW	MCW US	Jason Haas, CFA
	Ollie's	OLLI	OLLI US	Jason Haas, CFA
	O'Reilly Automotive, Inc.	ORLY	ORLY US	Jason Haas, CFA
	Petco	WOOF	WOOF US	Jason Haas, CFA
	PROG Holdings Inc	PRG	PRG US	Jason Haas, CFA
	Rollins Inc.	ROL	ROL US	Jason Haas, CFA
	Tempur Sealy International Inc.	TPX	TPX US	Jason Haas, CFA
	The Home Depot, Inc.	HD	HD US	Elizabeth L Suzuki
	Upbound Group Inc.	UPBD	UPBD US	Jason Haas, CFA
NEUTRAL				
	AutoZone Inc.	AZO	AZO US	Jason Haas, CFA
	Hasbro	HAS	HAS US	Jason Haas, CFA
	Sonos, Inc.	SONO	SONO US	Jason Haas, CFA
	Williams-Sonoma	WSM	WSM US	Jason Haas, CFA
UNDERPERFORM				
	Advance Auto Parts, Inc.	AAP	AAP US	Jason Haas, CFA
	Best Buy Co., Inc.	BBY	BBY US	Robert F. Ohmes, CFA
	Snap-on	SNA	SNA US	Elizabeth L Suzuki
	Tractor Supply Company	TSCO	TSCO US	Jason Haas, CFA
	Whirlpool	WHR	WHR US	Jason Haas, CFA

US - Retail Hardline Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst

Disclosures

Important Disclosures

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: Retailing Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

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.

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[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.

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.

Price Charts for the securities referenced in this research report are available on the Price Charts website, or call 1-800-MERRILL to have them mailed.
BofAS or one of its affiliates acts as a market maker for the equity securities recommended in the report: Academy, Albertsons, Best Buy, BJ's Wholesale, Costco, Dick's, Dollar General, Dollar Tree, Floor and Decor, Grocery Outlet, Lowe's, Sprouts Farmers Mkt, Sysco, Target Corp., The Home Depot, The Kroger Co., Walmart, YETI.
BofAS or an affiliate was a manager of a public offering of securities of this issuer within the last 12 months: Albertsons Companies, Dollar General Corp, Home Depot, Lowe's, Sysco Corporation, Walmart.
The issuer is or was, within the last 12 months, an investment banking client of BofAS and/or one or more of its affiliates: Albertsons Companies, Best Buy, BJ's Wholesale Club, Costco Wholesale, Dick's, Dollar General Corp, Dollar Tree Inc., Floor and Decor, Grocery Outlet, Home Depot, Lowe's, Sprouts Farmers Mkt, Sysco Corporation, Target Corp., The Kroger Co., Walmart, YETI Holdings, Inc.
BofAS or an affiliate has received compensation from the issuer for non-investment banking services or products within the past 12 months: Academy Sports + Out, Albertsons Companies, Best Buy, BJ's Wholesale Club, Costco Wholesale, Dick's, Dollar General Corp, Dollar Tree Inc., Floor and Decor, Grocery Outlet, Home Depot, Lowe's, Sprouts Farmers Mkt, Sysco Corporation, Target Corp., The Kroger Co., Walmart, YETI Holdings, Inc.
The issuer is or was, within the last 12 months, a non-securities business client of BofAS and/or one or more of its affiliates: Academy Sports + Out, Albertsons Companies, Best Buy, BJ's Wholesale Club, Costco Wholesale, Dick's, Dollar General Corp, Dollar Tree Inc., Floor and Decor, Grocery Outlet, Home Depot, Lowe's, Sprouts Farmers Mkt, Sysco Corporation, Target Corp., The Kroger Co., Walmart, YETI Holdings, Inc.
An officer, director or employee of BofAS or one of its affiliates is an officer or director of this issuer: Albertsons Companies, Target Corp.
BofAS or an affiliate has received compensation for investment banking services from this issuer within the past 12 months: Albertsons Companies, Best Buy, Dick's, Dollar General Corp, Floor and Decor, Grocery Outlet, Home Depot, Lowe's, Sprouts Farmers Mkt, Sysco Corporation, Target Corp., Walmart, YETI Holdings, Inc.
BofAS or an affiliate expects to receive or intends to seek compensation for investment banking services from this issuer or an affiliate of the issuer within the next three months: Albertsons Companies, Best Buy, BJ's Wholesale Club, Costco Wholesale, Dick's, Dollar General Corp, Dollar Tree Inc., Floor and Decor, Grocery Outlet, Home Depot, Lowe's, Sysco Corporation, Target Corp., The Kroger Co., Walmart, YETI Holdings, Inc.
BofAS together with its affiliates beneficially owns one percent or more of the common stock of this issuer. If this report was issued on or after the 9th day of the month, it reflects the

ownership position on the last day of the previous month. Reports issued before the 9th day of a month reflect the ownership position at the end of the second month preceding the date of the report: Academy Sports + Out, BJ's Wholesale Club, Costco Wholesale, Dollar General Corp, Dollar Tree Inc., Home Depot, Lowe's, Sysco Corporation, Target Corp.
BofAS or one of its affiliates is willing to sell to, or buy from, clients the common equity of the issuer on a principal basis: Academy, Albertsons, Best Buy, BJ's Wholesale, Costco, Dick's, Dollar General, Dollar Tree, Floor and Decor, Grocery Outlet, Lowe's, Sprouts Farmers Mkt, Sysco, Target Corp., The Home Depot, The Kroger Co., Walmart, YETI.
The issuer is or was, within the last 12 months, a securities business client (non-investment banking) of BofAS and/or one or more of its affiliates: Albertsons Companies, Best Buy, BJ's Wholesale Club, Costco Wholesale, Dick's, Dollar General Corp, Dollar Tree Inc., Floor and Decor, Home Depot, Lowe's, Sprouts Farmers Mkt, Sysco Corporation, Target Corp., The Kroger Co., Walmart, YETI Holdings, Inc.
BofA Global Research personnel (including the analyst(s) responsible for this report) receive compensation based upon, among other factors, the overall profitability of Bank of America Corporation, including profits derived from investment banking. The analyst(s) responsible for this report may also receive compensation based upon, among other factors, the overall profitability of the Bank's sales and trading businesses relating to the class of securities or financial instruments for which such analyst is responsible.

Other Important Disclosures

From time to time research analysts conduct site visits of covered issuers. BofA Global Research policies prohibit research analysts from accepting payment or reimbursement for travel expenses from the issuer for such visits.
Prices are indicative and for information purposes only. Except as otherwise stated in the report, for any recommendation in relation to an equity security, the price referenced is the publicly traded price of the security as of close of business on the day prior to the date of the report or, if the report is published during intraday trading, the price referenced is indicative of the traded price as of the date and time of the report and in relation to a debt security (including equity preferred and CDS), prices are indicative as of the date and time of the report and are from various sources including BofA Securities trading desks.
The date and time of completion of the production of any recommendation in this report shall be the date and time of dissemination of this report as recorded in the report timestamp.

Recipients who are not institutional investors or market professionals should seek the advice of their independent financial advisor before considering information in this report in connection with any investment decision, or for a necessary explanation of its contents.
Officers of BofAS or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.
Refer to BofA Global Research policies relating to conflicts of interest.
"BofA Securities" includes BofA Securities, Inc. ("BofAS") and its affiliates. Investors should contact their BofA Securities representative or Merrill Global Wealth Management financial advisor if they have questions concerning this report or concerning the appropriateness of any investment idea described herein for such investor. "BofA Securities" is a global brand for BofA Global Research.
Information relating to Non-US affiliates of BofA Securities and Distribution of Affiliate Research Reports:
BofAS and/or Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S") may in the future distribute, information of the following non-US affiliates in the US (short name: legal name, regulator): Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd., regulated by The Financial Service Board; MLI (UK): Merrill Lynch International, regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA); BofASE (France): BofA Securities Europe SA is authorized by the Autorité de Contrôle Prudentiel et de Résolution (ACPR) and regulated by the ACPR and the Autorité des Marchés Financiers (AMF). BofA Securities Europe SA ("BofASE") with registered address at 51, rue La Boétie, 75008 Paris is registered under no 842 602 690 RCS Paris. In accordance with the provisions of French Code Monétaire et Financier (Monetary and Financial Code), BofASE is an établissement de crédit et d'investissement (credit and investment institution) that is authorised and supervised by the European Central Bank and the Autorité de Contrôle Prudentiel et de Résolution (ACPR) and regulated by the ACPR and the Autorité des Marchés Financiers. BofASE's share capital can be found at www.bofaml.com/BofASEdisclaimer; BofA Europe (Milan): Bank of America Europe Designated Activity Company, Milan Branch, regulated by the Bank of Italy, the European Central Bank (ECB) and the Central Bank of Ireland (CBI); BofA Europe (Frankfurt): Bank of America Europe Designated Activity Company, Frankfurt Branch regulated by BaFin, the ECB and the CBI; BofA Europe (Madrid): Bank of America Europe Designated Activity Company, Sucursal en España, regulated by the Bank of Spain, the ECB and the CBI; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited, regulated by the Australian Securities and Investments Commission; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited, regulated by the Hong Kong Securities and Futures Commission (HKSFC); Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd, regulated by the Monetary Authority of Singapore (MAS); Merrill Lynch (Canada): Merrill Lynch Canada Inc, regulated by the Canadian Investment Regulatory Organization; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa, regulated by the Comisión Nacional Bancaria y de Valores; Merrill Lynch (Argentina): Merrill Lynch Argentina SA, regulated by Comisión Nacional de Valores; BofAS Japan: BofA Securities Japan Co., Ltd., regulated by the Financial Services Agency; Merrill Lynch (Seoul): Merrill Lynch International, LLC Seoul Branch, regulated by the Financial Supervisory Service; Merrill Lynch (Taiwan): Merrill Lynch Securities (Taiwan) Ltd., regulated by the Securities and Futures Bureau; BofAS India: BofA Securities India Limited, regulated by the Securities and Exchange Board of India (SEBI); Merrill Lynch (Israel): Merrill Lynch Israel Limited, regulated by Israel Securities Authority; Merrill Lynch (DIFC): Merrill Lynch International (DIFC Branch), regulated by the Dubai Financial Services Authority (DFSA); Merrill Lynch (Brazil): Merrill Lynch S.A. Corretora de Títulos e Valores Mobiliários, regulated by Comissão de Valores Mobiliários; Merrill Lynch KSA Company: Merrill Lynch Kingdom of Saudi Arabia Company, regulated by the Capital Market Authority.
This information: has been approved for publication and is distributed in the United Kingdom (UK) to professional clients and eligible counterparties (as each is defined in the rules of the FCA and the PRA) by MLI (UK), which is authorized by the PRA and regulated by the FCA and the PRA - details about the extent of our regulation by the FCA and PRA are available from us on request; has been approved for publication and is distributed in the European Economic Area (EEA) by BofASE (France), which is authorized by the ACPR and regulated by the ACPR and the AMF; has been considered and distributed in Japan by BofAS Japan, a registered securities dealer under the Financial Instruments and Exchange Act in Japan, or its permitted affiliates; is issued and distributed in Hong Kong by Merrill Lynch (Hong Kong) which is regulated by HKSFC; is issued and distributed in Taiwan by Merrill Lynch (Taiwan); is issued and distributed in India by BofAS India; and is issued and distributed in Singapore to institutional investors and/or accredited investors (each as defined under the Financial Advisers Regulations) by Merrill Lynch (Singapore) (Company Registration No 198602883D). Merrill Lynch (Singapore) is regulated by MAS. Merrill Lynch Equities (Australia) Limited (ABN 65 006 276 795), AFS License 235132 (MLEA) distributes this information in Australia only to 'Wholesale' clients as defined by s.761G of the Corporations Act 2001. With the exception of Bank of America N.A., Australia Branch, neither MLEA nor any of its affiliates involved in preparing this information is an Authorised Deposit-Taking Institution under the Banking Act 1959 nor regulated by the Australian Prudential Regulation Authority. No approval is required for publication or distribution of this information in Brazil and its local distribution is by Merrill Lynch (Brazil) in accordance with applicable regulations. Merrill Lynch (DIFC) is authorized and regulated by the DFSA. Information prepared and issued by Merrill Lynch (DIFC) is done so in accordance with the requirements of the DFSA conduct of business rules. BofA Europe (Frankfurt) distributes this information in Germany and is regulated by BaFin, the ECB and the CBI. BofA Securities entities, including BofA Europe and BofASE (France), may outsource/delegate the marketing and/or provision of certain research services or aspects of research services to other branches or members of the BofA Securities group. You may be contacted by a different BofA Securities entity acting for and on behalf of your service provider where permitted by applicable law. This does not change your service provider. Please refer to the Electronic Communications Disclaimers for further information.
This information has been prepared and issued by BofAS and/or one or more of its non-US affiliates. The author(s) of this information may not be licensed to carry on regulated activities in your jurisdiction and, if not licensed, do not hold themselves out as being able to do so. BofAS and/or MLPF&S is the distributor of this information in the US and accepts full responsibility for information distributed to BofAS and/or MLPF&S clients in the US by its non-US affiliates. Any US person receiving this information and wishing to effect any transaction in any security discussed herein should do so through BofAS and/or MLPF&S and not such foreign affiliates. Hong Kong recipients of this information should contact Merrill Lynch (Asia Pacific) Limited in respect of any matters relating to dealing in securities or provision of specific advice on securities or any other matters arising from, or in connection with, this information. Singapore recipients of this information should contact Merrill Lynch (Singapore) Pte Ltd in respect of any matters arising from, or in connection with, this information. For clients that are not accredited investors, expert investors or institutional investors Merrill Lynch (Singapore) Pte Ltd accepts full responsibility for the contents of this information distributed to such clients in Singapore.
General Investment Related Disclosures:
Taiwan Readers: Neither the information nor any opinion expressed herein constitutes an offer or a solicitation of an offer to transact in any securities or other financial instrument. No part of this report may be used or reproduced or quoted in any manner whatsoever in Taiwan by the press or any other person without the express written consent of BofA Securities.
This document provides general information only, and has been prepared for, and is intended for general distribution to, BofA Securities clients. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other financial instrument or any derivative related to such securities or instruments (e.g., options, futures, warrants, and contracts for differences). This document is not intended to provide personal investment advice and it does not take into account the specific investment objectives,

financial situation and the particular needs of, and is not directed to, any specific person(s). This document and its content do not constitute, and should not be considered to constitute, investment advice for purposes of ERISA, the US tax code, the Investment Advisers Act or otherwise. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Any decision to purchase or subscribe for securities in any offering must be based solely on existing public information on such security or the information in the prospectus or other offering document issued in connection with such offering, and not on this document.

Securities and other financial instruments referred to herein, or recommended, offered or sold by BofA Securities, are not insured by the Federal Deposit Insurance Corporation and are not deposits or other obligations of any insured depository institution (including, Bank of America, N.A.). Investments in general and, derivatives, in particular, involve numerous risks, including, among others, market risk, counterparty default risk and liquidity risk. No security, financial instrument or derivative is suitable for all investors. Digital assets are extremely speculative, volatile and are largely unregulated. In some cases, securities and other financial instruments may be difficult to value or sell and reliable information about the value or risks related to the security or financial instrument may be difficult to obtain. Investors should note that income from such securities and other financial instruments, if any, may fluctuate and that price or value of such securities and instruments may rise or fall and, in some cases, investors may lose their entire principal investment. Past performance is not necessarily a guide to future performance. Levels and basis for taxation may change.

This report may contain a short-term trading idea or recommendation, which highlights a specific near-term catalyst or event impacting the issuer or the market that is anticipated to have a short-term price impact on the equity securities of the issuer. Short-term trading ideas and recommendations are different from and do not affect a stock's fundamental equity rating, which reflects both a longer term total return expectation and attractiveness for investment relative to other stocks within its Coverage Cluster. Short-term trading ideas and recommendations may be more or less positive than a stock's fundamental equity rating.

BofA Securities is aware that the implementation of the ideas expressed in this report may depend upon an investor's ability to "short" securities or other financial instruments and that such action may be limited by regulations prohibiting or restricting "shortselling" in many jurisdictions. Investors are urged to seek advice regarding the applicability of such regulations prior to executing any short idea contained in this report.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or financial instrument mentioned herein. Investors in such securities and instruments, including ADRs, effectively assume currency risk.

BofAS or one of its affiliates is a regular issuer of traded financial instruments linked to securities that may have been recommended in this report. BofAS or one of its affiliates may, at any time, hold a trading position (long or short) in the securities and financial instruments discussed in this report.

BofA Securities, through business units other than BofA Global Research, may have issued and may in the future issue trading ideas or recommendations that are inconsistent with, and reach different conclusions from, the information presented herein. Such ideas or recommendations may reflect different time frames, assumptions, views and analytical methods of the persons who prepared them, and BofA Securities is under no obligation to ensure that such other trading ideas or recommendations are brought to the attention of any recipient of this information.

In the event that the recipient received this information pursuant to a contract between the recipient and BofAS for the provision of research services for a separate fee, and in connection therewith BofAS may be deemed to be acting as an investment adviser, such status relates, if at all, solely to the person with whom BofAS has contracted directly and does not extend beyond the delivery of this report (unless otherwise agreed specifically in writing by BofAS). If such recipient uses the services of BofAS in connection with the sale or purchase of a security referred to herein, BofAS may act as principal for its own account or as agent for another person. BofAS is and continues to act solely as a broker-dealer in connection with the execution of any transactions, including transactions in any securities referred to herein.

BofA ESGMeter Methodology:

ESGMeter is a proprietary metric based on quantitative analysis and fundamental analyst inputs that reflects our assessment of a company's Environmental, Social and Governance-related attributes. The ESGMeter is intended to indicate a company's likelihood of experiencing stronger financial stability (higher return on equity and lower earnings and price volatility) over the next three years relative to peer group. There are three ESGMeter levels - Low, Medium, and High - which indicate whether a company has attributes most likely to translate into superior financial stability (in the case of a High level) or weaker financial stability (in the case of a Low level) over the next three years relative to its peer group. A Medium level suggests that a company exhibits ESG characteristics that are likely associated with financial stability results in line with its peer group over the next three years. Full details of our methodology, financial stability definition and disclaimers are available at BofA ESGMeter methodology. ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of the BofA Global Research fundamental equity analyst's investment rating, volatility risk rating, income rating or price objective for that company.

Copyright and General Information:

Materials prepared by BofA Global Research personnel are based on public information. Facts and views presented in this material have not been reviewed by, and may not reflect information known to, professionals in other business areas of BofA Securities, including investment banking personnel. BofA Securities has established information barriers between BofA Global Research and certain business groups. As a result, BofA Securities does not disclose certain client relationships with, or compensation received from, such issuers. To the extent this material discusses any legal proceeding or issues, it has not been prepared as nor is it intended to express any legal conclusion, opinion or advice. Investors should consult their own legal advisers as to issues of law relating to the subject matter of this material. BofA Global Research personnel's knowledge of legal proceedings in which any BofA Securities entity and/or its directors, officers and employees may be plaintiffs, defendants, co-defendants or co-plaintiffs with or involving issuers mentioned in this material is based on public information. Facts and views presented in this material that relate to any such proceedings have not been reviewed by, discussed with, and may not reflect information known to, professionals in other business areas of BofA Securities in connection with the legal proceedings or matters relevant to such proceedings.

This information has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. None of BofAS any of its affiliates or their research analysts has any authority whatsoever to make any representation or warranty on behalf of the issuer(s). BofA Global Research policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

The information herein (other than disclosure information relating to BofA Securities and its affiliates) was obtained from various sources and we do not guarantee its accuracy. This information may contain links to third-party websites. BofA Securities is not responsible for the content of any third-party website or any linked content contained in a third-party website. Content contained on such third-party websites is not part of this information and is not incorporated by reference. The inclusion of a link does not imply any endorsement by or any affiliation with BofA Securities. Access to any third-party website is at your own risk, and you should always review the terms and privacy policies at third-party websites before submitting any personal information to them. BofA Securities is not responsible for such terms and privacy policies and expressly disclaims any liability for them.

All opinions, projections and estimates constitute the judgment of the author as of the date of publication and are subject to change without notice. Prices also are subject to change without notice. BofA Securities is under no obligation to update this information and BofA Securities ability to publish information on the subject issuer(s) in the future is subject to applicable quiet periods. You should therefore assume that BofA Securities will not update any fact, circumstance or opinion contained herein.

Subject to the quiet period applicable under laws of the various jurisdictions in which we distribute research reports and other legal and BofA Securities policy-related restrictions on the publication of research reports, fundamental equity reports are produced on a regular basis as necessary to keep the investment recommendation current.

Certain outstanding reports or investment opinions relating to securities, financial instruments and/or issuers may no longer be current. Always refer to the most recent research report relating to an issuer prior to making an investment decision.

In some cases, an issuer may be classified as Restricted or may be Under Review or Extended Review. In each case, investors should consider any investment opinion relating to such issuer (or its security and/or financial instruments) to be suspended or withdrawn and should not rely on the analyses and investment opinion(s) pertaining to such issuer (or its securities and/or financial instruments) nor should the analyses or opinion(s) be considered a solicitation of any kind. Sales persons and financial advisors affiliated with BofAS or any of its affiliates may not solicit purchases of securities or financial instruments that are Restricted or Under Review and may only solicit securities under Extended Review in accordance with firm policies.

Neither BofA Securities nor any officer or employee of BofA Securities accepts any liability whatsoever for any direct, indirect or consequential damages or losses arising from any use of this information.