

The Home Depot, Inc.

Bull vs. Bear: Share gains, Pro, & new market opptys support sales in soft macro

Maintain Rating: BUY | PO: 372.00 USD | Price: 363.15 USD

F4Q home improvement spending remains muted

Spending at home improvement retailers declined (6.3%) y/y in F4Q24 (Nov-Jan), in-line with (6.2%) y/y declines in F3Q24, per BAC aggregated credit and debit card data. See the [BofA on USA note published 8 Feb 2024](#) for an explanation of the methodology, disclaimers, and limitations for BAC aggregated credit and debit card data. This compares to our 4Q comparable sales forecast of (3.1%) vs. (3.1%) reported in F3Q.

Ticket comps facing pressure from disinflation, big-ticket

HD's traffic has largely moderated back to 2019 levels as average ticket remains ~35% above. Ticket decelerated to a (0.3%) decline in F3Q vs. +0.1% in F2Q given moderating raw material costs and continued pressure in big-ticket discretionary. While we expect these trends to persist near-term, average ticket overall should see support from innovation and non-commodity price level stickiness.

See comp support from Pro, share gains, new markets

Home improvement supplier outlooks for 2024 have indicated expected choppiness and potential declines in the repair & remodel (R&R), with higher confidence in the Pro customer vs. DIY. We expect HD comps in 2024 to see support from the company's strong exposure to the pro customer (50%), on-shelf availability (OSA) improvements, and share gains driven by its everyday low price (EDLP) value proposition & strategic investments. Longer-term, HD also has opportunities in newer verticals including the complex Pro and the residential Maintenance, Repair & Operations (MRO) market.

Investments persist, but cost savings to be realized in '24

While timing issues pressured 3Q, we expect moderating raw material costs to support Gross Margin (GM) in the coming quarters as HD turns through its inventory. HD also continues to invest in its business (e.g. its recent \$1bn labor investment), but we believe these investments should drive continued share gains & productivity improvements and HD's expected \$500mn of annualized cost savings for 2024 provide an important offset.

Maintain Buy; HD well positioned in a choppy macro

We maintain our Buy rating and \$372 price objective, 23x our 2024E EPS estimate. While the macro remains choppy, we see signs of improvement from trough levels (see [our Feb 7 HD report](#)) and believe HD is well positioned to continue to gain share and outpace the market overall.

Estimates (Jan) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	15.53	16.69	15.29	16.16	17.62
EPS Change (YoY)	29.0%	7.5%	-8.4%	5.7%	9.0%
Consensus EPS (Bloomberg)			15.08	15.62	16.62
DPS	6.60	7.60	8.36	9.20	10.12
Valuation (Jan)					
P/E	23.4x	21.8x	23.8x	22.5x	20.6x
Dividend Yield	1.8%	2.1%	2.3%	2.5%	2.8%
EV / EBITDA*	16.2x	15.5x	16.9x	16.3x	15.4x
Free Cash Flow Yield*	3.9%	3.1%	4.9%	4.3%	4.6%

* For full definitions of *IQmethod*SM measures, see page 12.

12 February 2024

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Stock Data

Price	363.15 USD
Price Objective	372.00 USD
Date Established	15-Dec-2023
Investment Opinion	B-1-7
52-Week Range	274.26 USD - 365.65 USD
Mrkt Val (mn) / Shares Out (mn)	361,429 USD / 995.3
Free Float	99.9%
Average Daily Value (mn)	1184.07 USD
BofA Ticker / Exchange	HD / NYS
Bloomberg / Reuters	HD US / HD.N
ROE (2024E)	1,855.6%
Net Dbt to Eqty (Jan-2023A)	NA
ESGMeter™	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"](#).

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Timestamp: 12 February 2024 05:00AM EST

iQprofileSM The Home Depot, Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	36.5%	36.1%	31.2%	33.3%	35.3%
Return on Equity	2,050.3%	NM	1,855.6%	NM	NM
Operating Margin	15.2%	15.3%	14.3%	14.4%	14.7%
Free Cash Flow	14,005	11,087	17,759	15,539	16,472

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.0x	0.8x	1.4x	1.2x	1.2x
Asset Replacement Ratio	0.9x	1.0x	1.0x	1.0x	1.0x
Tax Rate	24.4%	23.9%	24.1%	24.5%	24.5%
Net Debt-to-Equity Ratio	NM	NM	NM	NM	NM
Interest Cover	17.7x	15.4x	13.3x	14.1x	15.3x

Income Statement Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	151,157	157,403	152,639	157,218	163,507
% Change	14.4%	4.1%	-3.0%	3.0%	4.0%
Gross Profit	50,832	52,778	50,922	52,511	54,611
% Change	13.3%	3.8%	-3.5%	3.1%	4.0%
EBITDA	25,426	26,494	24,329	25,155	26,652
% Change	23.8%	4.2%	-8.2%	3.4%	6.0%
Net Interest & Other Income	(1,303)	(1,562)	(1,636)	(1,605)	(1,571)
Net Income (Adjusted)	16,433	17,105	15,325	15,852	16,969
% Change	26.6%	4.1%	-10.4%	3.4%	7.0%

Free Cash Flow Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	16,433	17,105	15,325	15,852	16,969
Depreciation & Amortization	2,862	2,975	3,035	3,095	3,157
Change in Working Capital	(3,123)	(6,240)	2,079	(645)	(772)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	399	366	373	381	388
Capital Expenditure	(2,566)	(3,119)	(3,053)	(3,144)	(3,270)
Free Cash Flow	14,005	11,087	17,759	15,539	16,472
% Change	-14.5%	-20.8%	60.2%	-12.5%	6.0%
Share / Issue Repurchase	(14,472)	(6,432)	(8,201)	(9,736)	(7,736)
Cost of Dividends Paid	(6,985)	(7,789)	(8,380)	(9,022)	(9,742)
Change in Debt	2,482	3,416	(1,395)	2,000	2,000

Balance Sheet Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	2,343	2,757	2,110	870	1,843
Trade Receivables	3,426	3,317	3,217	3,313	3,446
Other Current Assets	23,286	26,397	24,115	24,779	25,710
Property, Plant & Equipment	25,199	25,631	25,649	25,698	25,812
Other Non-Current Assets	17,622	18,343	18,381	18,543	18,754
Total Assets	71,876	76,445	73,471	73,203	75,565
Short-Term Debt	3,482	1,231	1,231	1,231	1,231
Other Current Liabilities	25,211	21,879	21,857	22,483	23,351
Long-Term Debt	36,604	41,962	40,567	42,567	44,567
Other Non-Current Liabilities	8,275	9,811	9,727	9,870	10,056
Total Liabilities	73,572	74,883	73,382	76,151	79,205
Total Equity	(1,696)	1,562	90	(2,947)	(3,640)
Total Equity & Liabilities	71,876	76,445	73,471	73,203	75,565

* For full definitions of iQmethodSM measures, see page 12.

Company Sector

Retailing-Hardlines

Company Description

Founded in 1978, the Home Depot (HD) is the leading North American home improvement retailer, with over 2,300 stores, including 182 stores in Canada and 133 in Mexico in FY22. HD sells to both the do-it-yourself and professional contractor markets.

Investment Rationale

Superior strategy and execution have underpinned HD's market share gains over the last decade, and we believe HD will continue to outperform the overall renovation category, which has favorable tailwinds for the near and long term. Improvements to productivity and supply chain should help to drive margin improvement, partially offset by near-term investments to drive future growth and deepen HD's competitive moat.

Stock Data

Average Daily Volume 3,248,076

Quarterly Earnings Estimates

	2023	2024
Q1	4.09A	3.82A
Q2	5.05A	4.65A
Q3	4.24A	3.81A
Q4	3.30A	3.00E

Exhibit 1: HD Bull vs. Bear Analysis

We outline key bull & bear arguments on HD below

Category	Bull	Bear
Existing Home Sales & Renovation Activity	Our Homebuilder team's US Existing Home Sales Indicator (see BofA US Home Sales Indicators report) improved sharply in Dec. as falling mortgage rates, higher MBA mortgage applications, and a rising pending home sales index inflected positively in the last three months. The Dec. RENO Barometer (see RENO Barometer report) also took another step higher, which indicates sequential recovery in 4Q23 - 2Q24. Favorable LT drivers include home price appreciation, an aging housing stock, pent up demand, millennial household formation, and increased usage (as individuals spend more time at home vs. pre-covid). HD & LOW are also less sensitive to housing turnover than retailers focusing on bigger-ticket categories like flooring, furniture, and mattresses, in our view.	We believe HD's share of PCE has not yet reverted to 2019 levels, and persistent tight fiscal policy could pressure the outlook for housing-related spend as the pandemic-era rotation into homes/home improvement may continue to reverse. Housing "lock-in" could cause existing home sales to remain lower for longer as existing home inventory is historically low with 79% of current homeowners locked in at <5% mortgage rates.
Top-line / Same-Store Sales	HD has improved its in-stock position in 2023 (while decreasing inventory levels) and HD's higher relative exposure to the pro customer (50%) & increased focus on the \$200BB "Complex" Pro should support better comps. Commodities deflation (which negatively impacted comps by 60bps in F3Q) should moderate as our BofA Paper/Forest & Packaging team forecasts framing lumber prices will inflect to a y/y increase by 2Q24. We also expect the continued rollout of Sidekick and computer vision to support on-shelf availability improvements.	Spending at home improvement retailers declined (7%) y/y in January, vs. (7.5%) y/y in Dec. and (4.6%) y/y in Nov., per BAC aggregated card data. Spending on housing-related services increased in January to +1.2% vs. (4.1%) in Dec. & (0.5%) in Nov. HD's traffic has largely moderated back to 2019 levels as customer transactions have been declining (vs. LY) for 2.5 years. Average ticket remains ~35% above 2019, but was down slightly in F3Q24 and could pressure same-store sales if trade down to smaller project sizes & big-ticket discretionary weakness persists and/or disinflation across the broader market requires price concessions.
Gross Margin	Timing issues in 3Q caused some prices to settle ahead of anticipated product & transportation cost benefits, which should support GM gains in the coming quarters as HD turns through its inventory. Longer-term, we expect HD to continue to see growth in Retail Media+ (which has grown exponentially since launching in 2019) which should drive increased vendor funding and offset cost of goods/potential promotional pressures.	HD's algorithm introduced at its analyst day assumes a flat Gross Margin, which suggests limited margin improvement opportunities outside of expense leverage from stronger sales / productivity improvements.
EBIT Margin	HD should benefit from its plan for \$500mn annualized cost savings to be realized in 2024. HD noted at its analyst day that in a market normalized case, the company expects margin expansion on 3-4% top line growth based on operating expense leverage.	Recent expenses, including HD's \$1bn labor investment, could imply a structurally higher cost to operate which would require higher comps to leverage.
Competitive Landscape	HD's \$1bn investment in labor has had greater than expected returns, improving attrition levels and customer service scores, which could drive share gains vs. peers. HD also remains focused on its EDLP value proposition, which should enable continued share gains vs. smaller independent home improvement retailers where price gaps remain strong. HD also has opportunities in new verticals including the complex pro and the residential MRO market, both of which are fragmented spaces where HD currently holds a small share. HD's \$975bn TAM includes both a \$100bn MRO and a \$200bn "complex pro" opportunity (HD recently announced organizational structure changes that support the company's focus in the complex pro area).	HD needs to develop wholesaler-like capabilities to effectively service the complex pro (e.g. order management systems, trade credit options), which will likely take additional time & investment.
Valuation	HD's growing whitespace opportunities, market share gains, and consistent execution warrant a premium valuation vs. history & peers. In addition to sales growth & operating leverage, we expect HD's track record of share repurchase to drive EPS growth & support the stock.	HD is trading at roughly 2 turns above its 10-year historical P/E and EV/EBITDA multiples despite negative comparable sales in 2023 through 3Q.

Source: Company filings, BofA Global Research

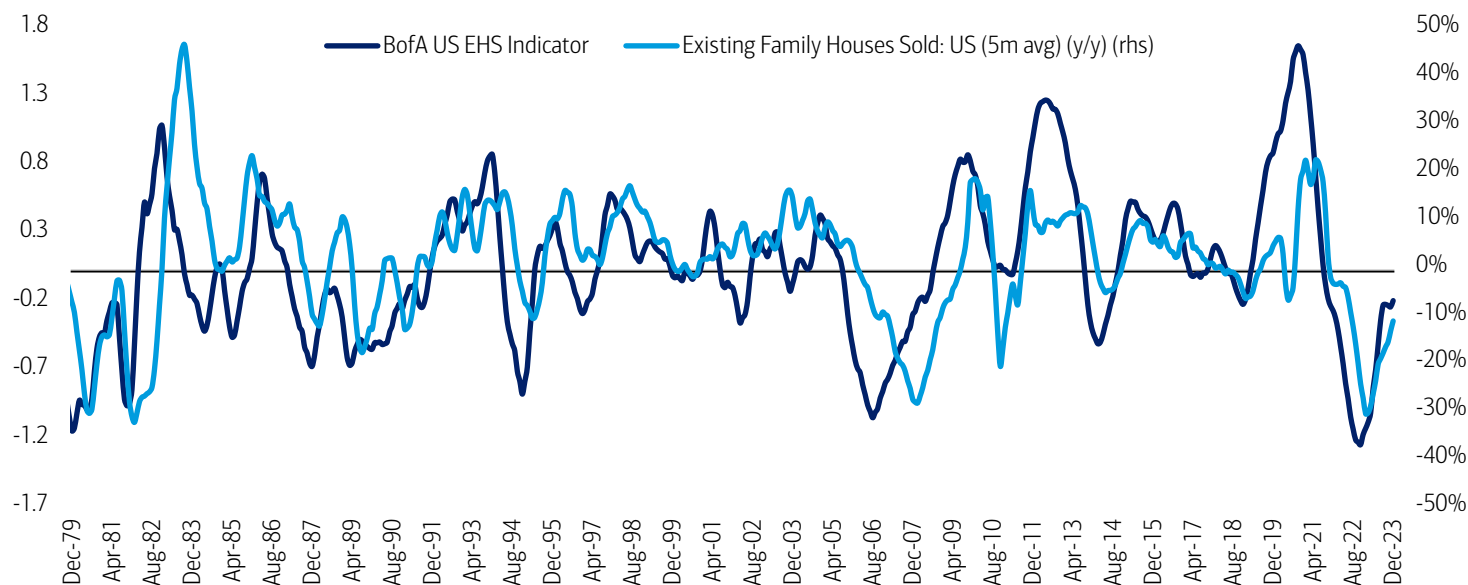
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Existing Home Sales & Reno Activity

Exhibit 2: BofA US Existing Home Sales Indicator vs. existing family houses sold year over year

The EHS indicator leads existing home sales by five months with a positive correlation (0.69 since 1979)

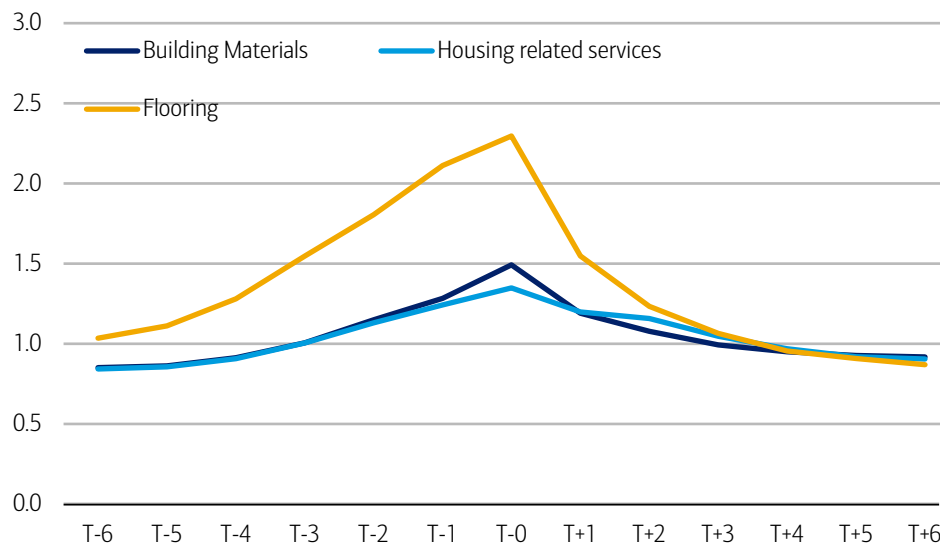


Source: BofA Global Research, National Association of Realtors. **Note:** The BofA US Existing Housing Indicator identified in this report is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or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

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Exhibit 3: Within home improvement categories, flooring is materially impacted by housing turnover, with movers spending 2.3x as much as non-movers

Home improvement spending comparison by month for households who moved in month T-0 vs. households which did not move, according to BAC aggregated card data

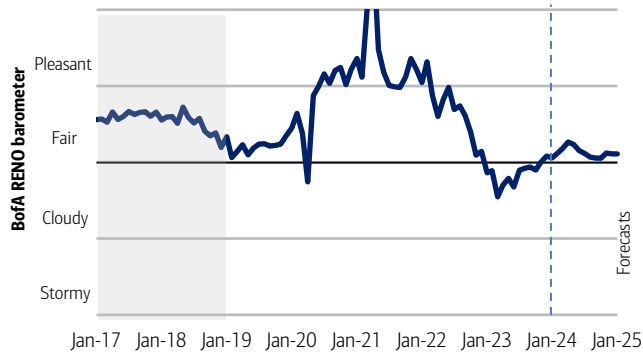


Source: BAC internal data

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Exhibit 4: The BofA RENO Barometer is moving past the 1H23 trough

BofA RENO Barometer recent readings and forecasts

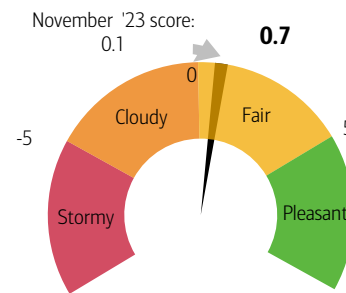


Source: BofA Global Research. The shaded area represents backtested results from Feb 2009-Sep 2018. The unshaded area represents actual performance since Oct 2018. This performance is back-tested and does not represent the actual performance of any account or fund. Back-tested performance depicts the theoretical (not actual) performance of a particular strategy over the time period indicated. No representation is being made that any actual portfolio is likely to have achieved returns similar to those shown herein.

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Exhibit 5: The BofA RENO Barometer for December '23 ticked up vs November, remaining "Fair"

Most recent BofA RENO Barometer reading

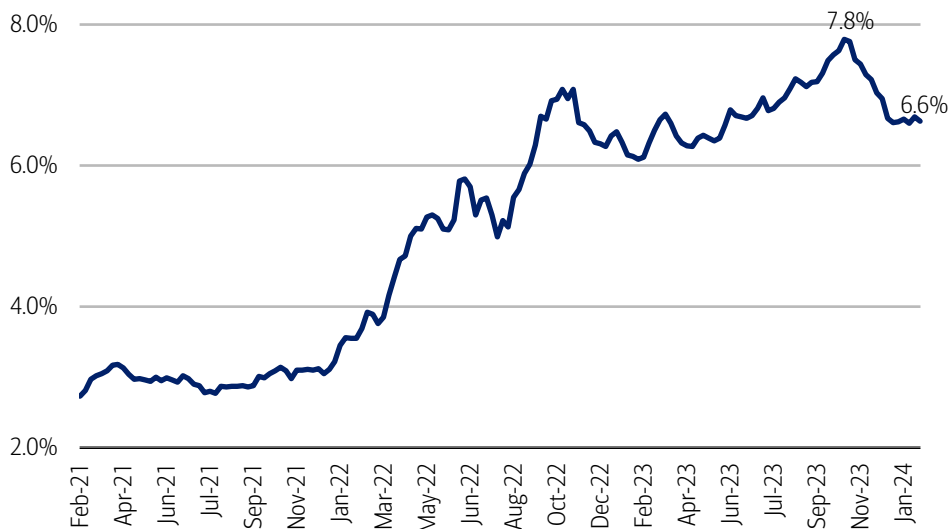
**Source:** BofA Global Research

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

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Exhibit 6: Freddie Mac Enhanced PMMS US 30 Year Fixed Mortgage Rate (NSA, %)

Mortgage rates are up y/y, but have declined over 100bps since they reached a peak of 7.78% in October of 2023

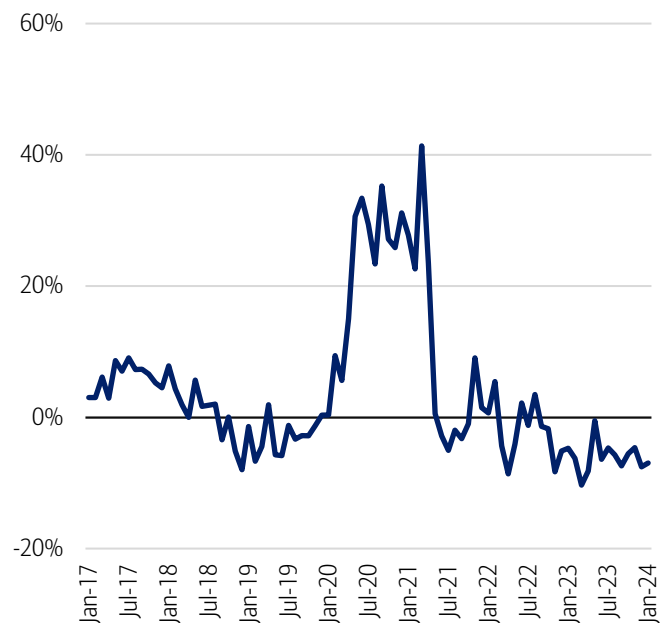
**Source:** Bloomberg, Freddie Mac Primary Mortgage Market Survey (PMMS)

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Top-line / Same-store sales

Exhibit 7: Monthly BAC aggregated card spending data at home improvement retailers (y/y % change)

For January 2024, spending at home improvement retailers declined (7%) y/y vs. (7.0%) y/y in December 2023, per BAC aggregated card data

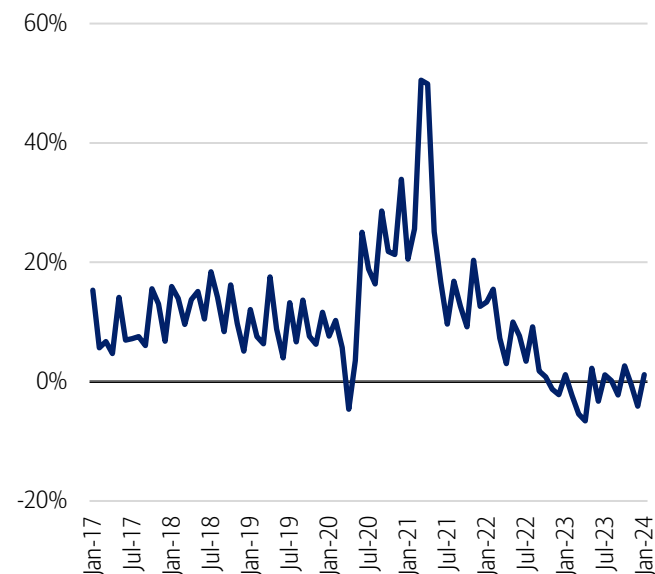


Source: BAC internal data

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Exhibit 8: Monthly BAC aggregated card spending data at housing-related services (y/y % change)

For January 2024, spending on housing-related services increased +1.2% y/y vs. (4.1%) y/y in December 2023, per BAC aggregated card data

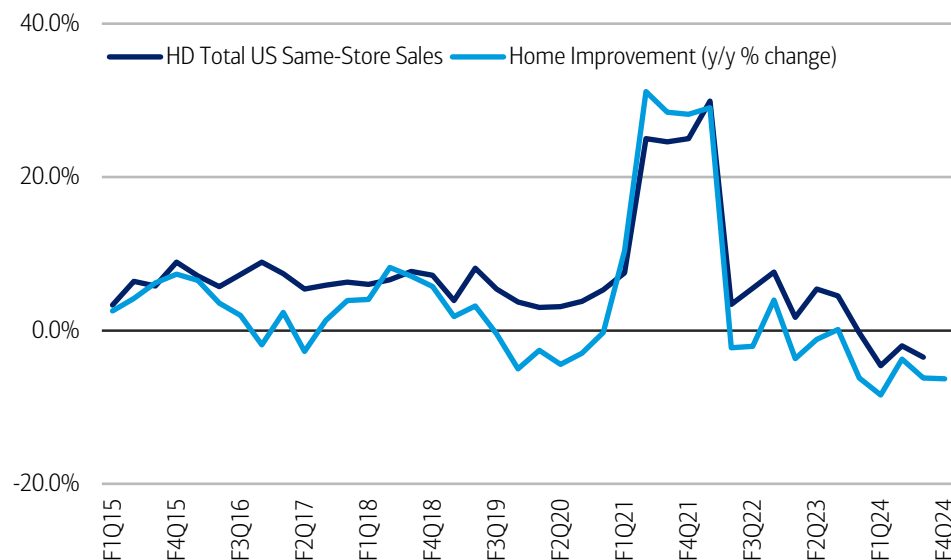


Source: BAC internal data

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Exhibit 9: Quarterly BAC aggregated card spending data at home improvement retailers vs. HD comparable sales (y/y % change)

F4Q (Nov-Jan) spending at home improvement retailers is down (6.3%), compared to a (6.2%) decline in F3Q. Home improvement spending has a 95% correlation with HD U.S. comps



Source: Company filings, BAC Internal Data; TD = To-date & represents November & December data

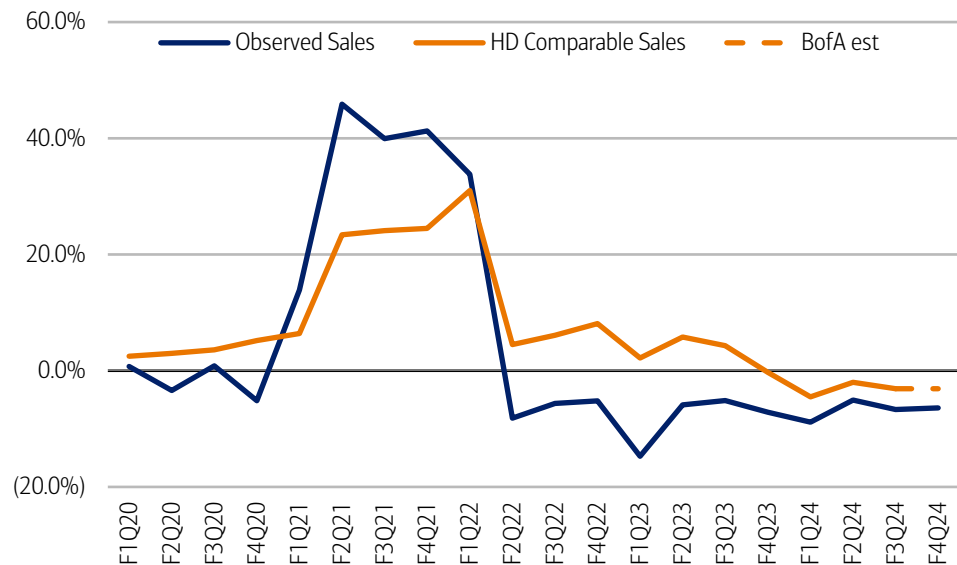
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See [BofA on USA note published 08 Feb 2024](#) for an explanation of the methodology, disclaimers, and limitations for BAC aggregated credit and debit card data.

Bloomberg Second Measure

Exhibit 10: Bloomberg Second Measure credit and debit card data – Observed Sales

HD observed sales declined (6.4%) y/y in F4Q vs. a (6.7%) y/y decline observed in F3Q

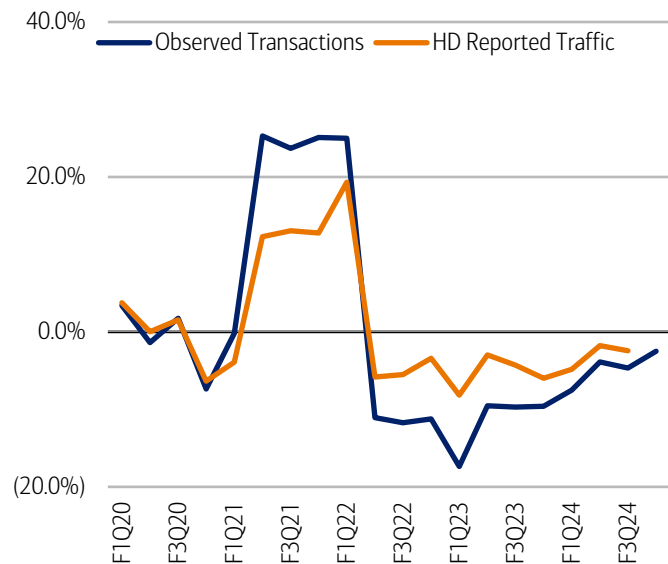


Source: Bloomberg Financial LP – ALTD <GO>, Company filings, BofA Global Research

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Exhibit 11: Bloomberg Second Measure credit and debit card data – Observed Transactions

Observed transactions improved sequentially in F4Q to (2.5%) y/y vs. (4.7%) y/y observed in F3Q

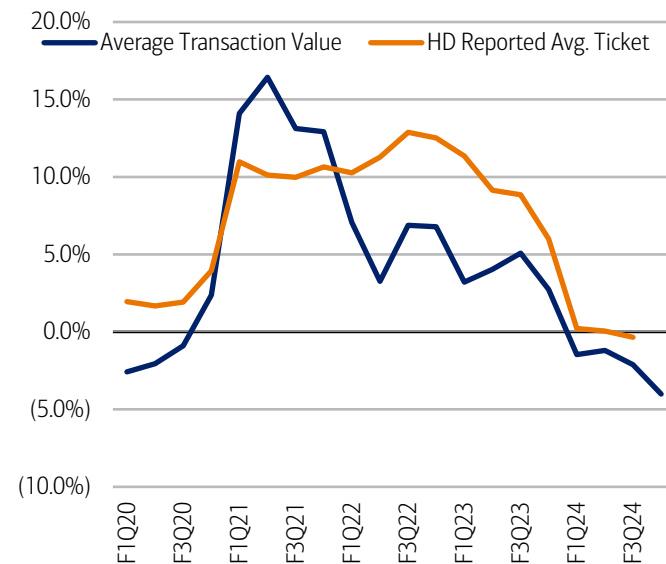


Source: Bloomberg Financial LP – ALTD <GO>, Company filings

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Exhibit 12: Bloomberg Second Measure credit and debit card data – Average Transaction Value (ATV)

Average transaction value (ATV) decelerated sequentially to (4%) y/y vs. (2.1%) y/y in F3Q



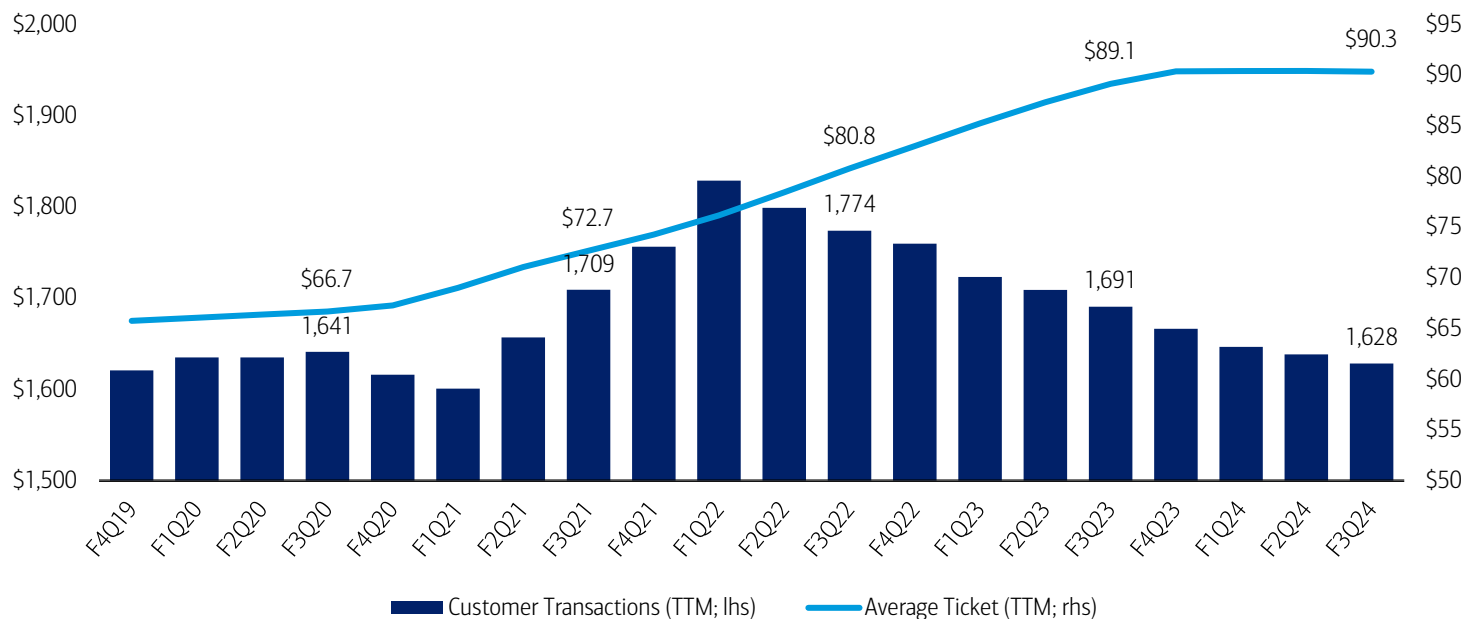
Source: Bloomberg Financial LP – ALTD <GO>, Company filings

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Traffic vs. Ticket trends

Exhibit 13: HD Customer Transactions & Average Ticket

HD Customer Transactions have largely returned to 2019 levels while average ticket remains ~35% above

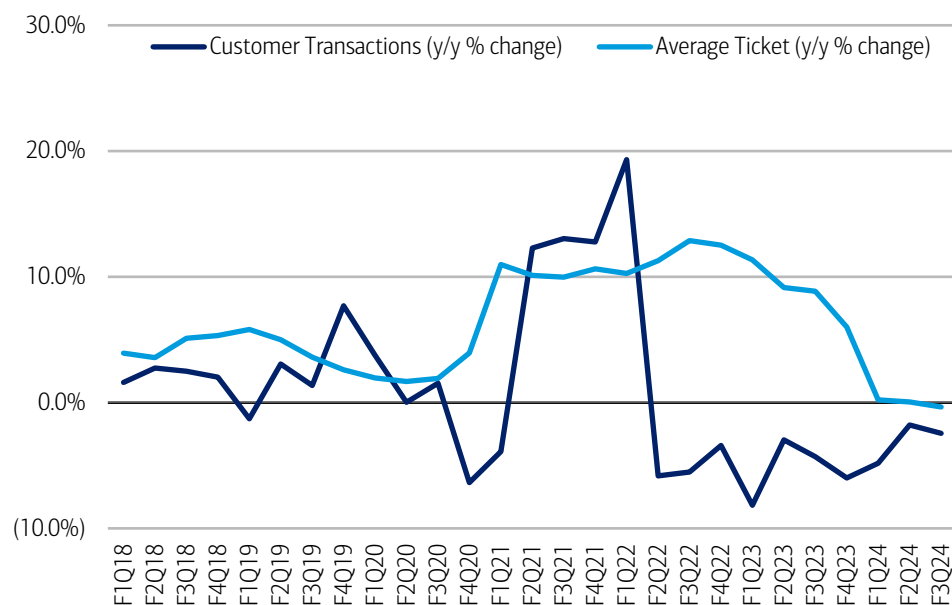


Source: Company filings

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Exhibit 14: HD y/y % change in Customer Transactions & Average Ticket

Average ticket growth has decelerated and inflected negative in F3Q driven by pressure in commodity prices and pull-forward / deferral of larger projects & big-ticket purchases



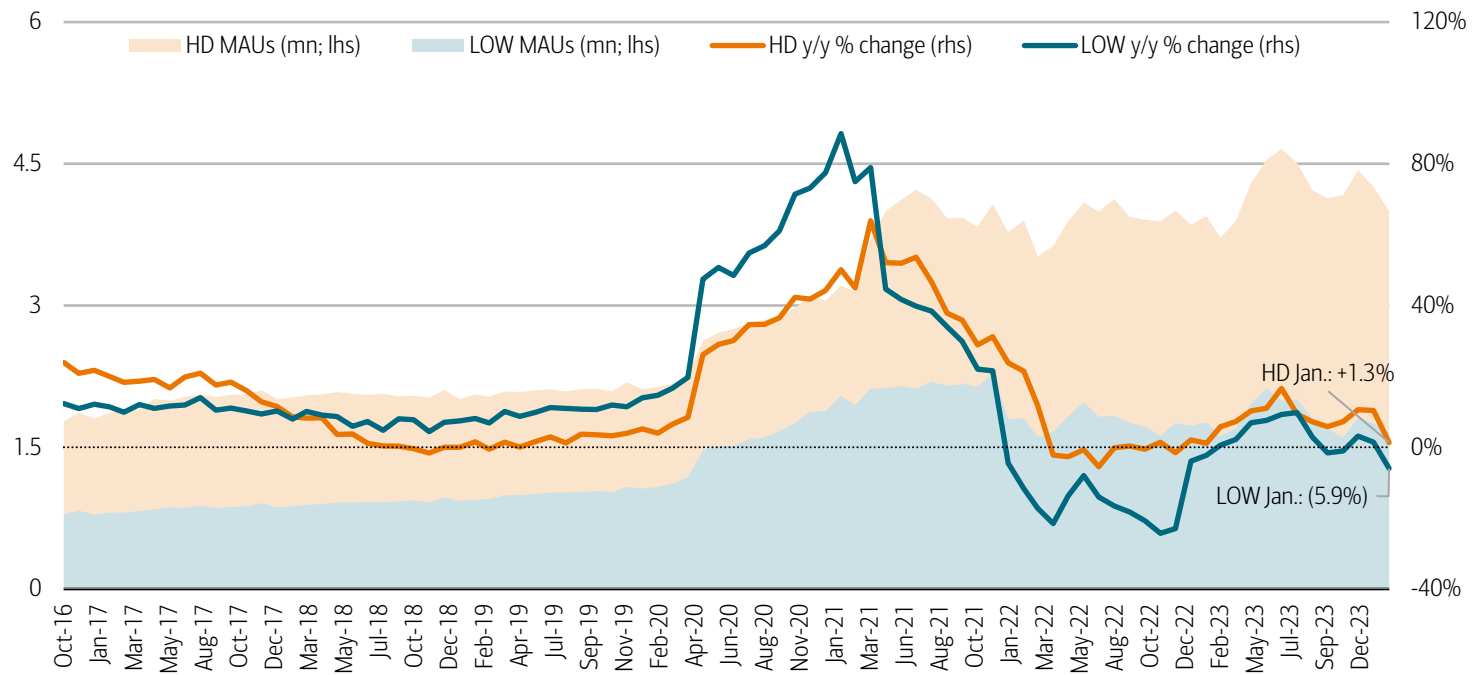
Source: Company filings

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Digital / Mobile App Monthly Active Users

Exhibit 15: Sensor Tower Mobile App Monthly Active User (MAU) trends

HD Monthly Active Users increased +1.3% y/y, which compares to a >10% y/y increase in November & December of 2023, and +1.1% y/y increase LY



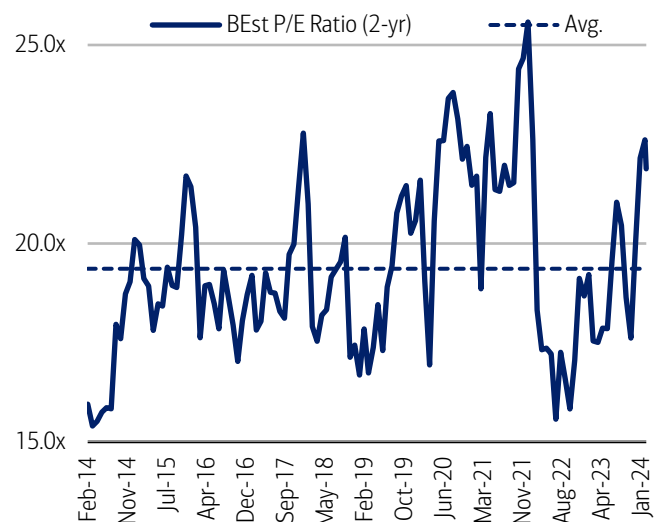
Source: SensorTower

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Valuation

Exhibit 16: HD 2-yr P/E Ratio

HD is currently trading at 21.9x Bloomberg consensus 2025 EPS of \$16.62 compared to its 10-year average of 19.4x

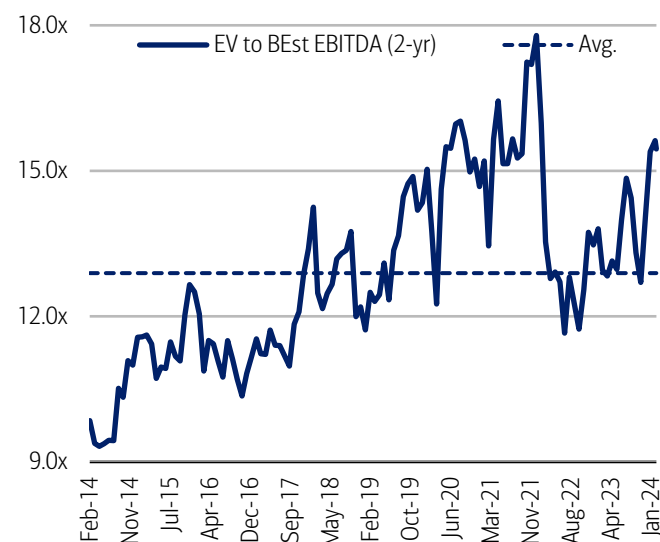


Source: Bloomberg

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Exhibit 17: HD 2-yr EV/EBITDA Ratio

HD is currently trading at 15.5x Bloomberg consensus 2025 EBITDA of \$26bn, compared to its 10-year average of 12.9x



Source: Bloomberg

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Price objective basis & risk

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.

Analyst Certification

I, Robert F. Ohmes, CFA, 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 - 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	Robert F. Ohmes, CFA
	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



iQmethodSM 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

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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%

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%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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