

## Amer Sports Inc

## Sporting a good look; Initiate at Buy

Initiating Coverage: BUY | PO: 18.00 USD | Price: 15.54 USD

## See upside from continued global expansion

We are initiating coverage on Amer Sports (AS) with a Buy rating and \$18 PO. Amer Sports is a portfolio of premium, performance driven brands led by Arc'teryx, Salomon, and Wilson. We think a valuation of 15.5x EV/EBITDA is compelling when considering its 13% sales growth and 20% EBITDA growth over the next three years. Our \$18 PO is based on 17.5x EV/EBITDA and is supported by our sum of the parts analysis (Exhibit 2).

## Arc'teryx is the crown jewel

We are most bullish on the outlook for Arc'teryx. We think the brand has strong momentum in the technical outdoor luxury category. We forecast Technical Apparel sales to grow at a 19% 2yr CAGR through F25 and expect its high margin profile (19-22% operating margin) will be accretive to total AS margins given the faster growth. Growth drivers for Arc'teryx include product innovation (including women's, year-round and other categories like footwear), store openings and geographic expansion. Rounding out the other segments we forecast 11% sales growth in Outdoor Performance (9-10% margin) and 7% growth in Ball and Racquet Sports (4% margin).

## A differentiated China strategy

We think a key competitive edge is Amer's expertise in China (18% of total sales). Chinese exposure is a key area of debate due to macro and geopolitical factors, but we view Amer as well-positioned to continue its growth trajectory. Amer has benefited from Anta's (largest China sportswear company, key shareholder) expertise in real estate, technology, and branding. Amer's CEO James Zheng, former President of Anta Sports, brings a local perspective that should help the brands expand successfully. We also expect the premium sportswear industry to grow faster than the apparel sector in China. We think the region will continue to be a core growth driver for both Technical Apparel (China represents 43% of sales) and Outdoor Performance (8%).

## Investment risks: leverage, wholesale, competition

We acknowledge macro and political volatility in China pose risks to Amer's growth outlook but think the premium price points and small relative size of the brands will provide a level of defensibility to growth amidst such challenges. Other risks include net leverage higher than peers (3.9x) and wholesale exposure (64% of sales). At the brand level, a slowdown in spending by higher income consumers could curtail Arc'teryx growth and we see risk to Salomon's footwear growth given competitiveness of the category.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	(0.25)	(0.50)	(0.42)	0.54	0.71
EPS Change (YoY)	46.8%	-100.0%	16.0%	NM	31.5%
Consensus EPS (Bloomberg)			(1.91)	0.49	0.68
DPS	0	0	0	0	0
<b>Valuation (Dec)</b>					
P/E	NM	NM	NM	28.8x	21.9x
EV / EBITDA*	34.4x	31.6x	23.7x	19.6x	16.8x
Free Cash Flow Yield*	2.6%	-2.2%	-2.3%	1.6%	1.7%

\* For full definitions of IQmethod<sup>SM</sup> measures, see page 17.

26 February 2024

## Equity

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## Stock Data

Price	15.54 USD
Price Objective	18.00 USD
Date Established	26-Feb-2024
Investment Opinion	C-1-9
52-Week Range	13.10 USD - 16.35 USD
Mrkt Val (mn) / Shares Out (mn)	7,852 USD / 505.2
Free Float	23.2%
Average Daily Value (mn)	NA
BofA Ticker / Exchange	AS / NYS
Bloomberg / Reuters	AS US / AS.N
ROE (2023E)	NA
Net Dbt to Eqty (Dec-2022A)	NA

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Timestamp: 26 February 2024 05:00AM EST

# iQprofile<sup>SM</sup> Amer Sports Inc

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

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	2.3%	0.7%	4.0%	5.7%	6.6%
Return on Equity	NM	NM	NM	13.3%	8.3%
Operating Margin	6.1%	1.4%	6.8%	10.6%	11.5%
Free Cash Flow	207	(169)	(181)	127	135

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

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	NM	NM	1.6x	1.2x
Asset Replacement Ratio	0.3x	0.4x	0.5x	1.4x	1.4x
Tax Rate	NM	NM	NM	24.0%	24.0%
Net Debt-to-Equity Ratio	NM	NM	NM	47.5%	39.5%
Interest Cover	0.7x	0.2x	0.7x	3.2x	3.9x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	3,067	3,549	4,360	4,941	5,555
% Change	25.4%	15.7%	22.9%	13.3%	12.4%
Gross Profit	1,506	1,764	2,269	2,635	3,007
% Change	31.1%	17.1%	28.7%	16.1%	14.1%
EBITDA	417	453	605	730	855
% Change	33.9%	8.7%	33.6%	20.6%	17.1%
Net Interest & Other Income	(277)	(233)	(408)	(162)	(162)
<b>Net Income (Adjusted)</b>	<b>(126)</b>	<b>(253)</b>	<b>(212)</b>	<b>274</b>	<b>362</b>
<b>% Change</b>	<b>46.7%</b>	<b>-100.3%</b>	<b>16.3%</b>	<b>NM</b>	<b>32.4%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(125)	(231)	(212)	274	362
Depreciation & Amortization	206	197	220	208	216
Change in Working Capital	424	84	125	614	623
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(237)	(141)	(195)	(669)	(766)
Capital Expenditure	(61)	(78)	(118)	(300)	(300)
<b>Free Cash Flow</b>	<b>207</b>	<b>-169</b>	<b>-181</b>	<b>127</b>	<b>135</b>
<b>% Change</b>	<b>0.3%</b>	<b>NM</b>	<b>-6.6%</b>	<b>NM</b>	<b>6.5%</b>
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(503)	(311)	(433)	(1,658)	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	567	402	484	76	231
Trade Receivables	531	659	785	782	879
Other Current Assets	795	1,112	1,330	1,490	1,671
Property, Plant & Equipment	369	362	362	454	538
Other Non-Current Assets	5,689	5,361	5,398	5,398	5,398
<b>Total Assets</b>	<b>7,950</b>	<b>7,895</b>	<b>8,360</b>	<b>8,201</b>	<b>8,717</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	947	1,279	1,441	1,089	1,155
Long-Term Debt	6,036	5,831	6,050	2,049	2,049
Other Non-Current Liabilities	929	858	906	906	906
<b>Total Liabilities</b>	<b>7,912</b>	<b>7,969</b>	<b>8,396</b>	<b>4,044</b>	<b>4,109</b>
<b>Total Equity</b>	<b>38</b>	<b>(74)</b>	<b>(36)</b>	<b>4,157</b>	<b>4,608</b>
<b>Total Equity &amp; Liabilities</b>	<b>7,950</b>	<b>7,895</b>	<b>8,360</b>	<b>8,201</b>	<b>8,717</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 17.

## Company Sector

Apparel

## Company Description

Amer Sports is a portfolio of premium, performance driven brands led by Arc'teryx, Salomon, and Wilson. The CEO of Amer Sports James Zheng is the former brand president at Anta Sports and roughly 18% of sales come from Greater China. Roughly two-thirds of sales come from the wholesale channel.

## Investment Rationale

We rate Amer Sports shares Buy. We believe AS has a unique set of high performance and technical brands that will lead to outsized sales and EBITDA growth over the medium term.

## Stock Data

Average Daily Volume

NA

## Quarterly Earnings Estimates

	2022	2023
Q1	-0.06A	0.04A
Q2	-0.14A	-0.19A
Q3	0A	-0.07A
Q4	-0.29A	-0.19E

## Initiate with Buy rating; \$18 PO

Amer Sports is a portfolio of premium, performance driven brands led by Arc'teryx, Salomon, and Wilson. We think valuation of 15.5x EV/EBITDA, is compelling based on 13% sales growth and 20% EBITDA growth over the next three years. Our comp set includes high growth, athletic peers such as Nike (NKE), lululemon (LULU), and Deckers Outdoor (DECK), which trade at an average EV/EBITDA ('24E) multiple of 20.5x and have average sales/EBITDA growth ('25E) of 10%/14%, respectively. In addition, our comp set includes outerwear peers Moncler (MONC), Columbia (COLM), VF Corp (VFC), and Canada Goose (GOOS), which trade at an average EV/EBITDA ('24E) multiple of 10.4x and have an average sales/EBITDA growth ('25E) of 6%/12%.

Our \$18 PO is based on 17.5x EV/EBITDA and is supported by our sum of the parts analysis. Our 17.5x implied multiple for Amer Sports is at a slight discount to athletic peers despite Amer's stronger sales/EBITDA growth projections given the company's limited track record as a public company, higher wholesale exposure compared to peers and elevated leverage.

### Exhibit 1: Comp table

AS trading at 15.5x EV/EBITDA, discount to athletic peers and premium to outerwear peers

Company	Ticker	Mkt Cap (mn)	Sales growth	EBITDA growth	EBIT margin	P/E		EV/EBITDA	
			2025E	2025E	2025	2024E	2025E	2024E	2025E
Nike	NKE	\$160,042	7%	21%	14.4%	28.1x	22.9x	21.3x	17.6x
Lululemon	LULU	\$57,781	11%	13%	23.7%	31.9x	28.1x	18.9x	16.7x
Deckers	DECK	\$22,600	12%	9%	19.5%	30.0x	27.5x	21.4x	19.6x
<b>Athletic average</b>			<b>10%</b>	<b>14%</b>	<b>19.2%</b>	<b>30.0x</b>	<b>26.2x</b>	<b>20.5x</b>	<b>18.0x</b>
Moncler	MONC	\$17,604	10%	9%	30.2%	26.8x	24.2x	13.5x	12.4x
Columbia	COLM	\$5,006	5%	12%	8.8%	22.3x	19.0x	10.6x	9.5x
VF Corp	VFC	\$6,213	4%	25%	10.2%	12.5x	7.9x	10.5x	8.4x
Canada Goose	GOOS	\$1,818	6%	4%	12.6%	20.0x	17.3x	6.8x	6.5x
<b>Outerwear average</b>			<b>6%</b>	<b>12%</b>	<b>15.4%</b>	<b>20.4x</b>	<b>17.1x</b>	<b>10.4x</b>	<b>9.2x</b>
<b>Total average</b>			<b>8%</b>	<b>13%</b>	<b>17.1%</b>	<b>24.5x</b>	<b>21.0x</b>	<b>14.7x</b>	<b>13.0x</b>
<b>Amer Sports</b>	<b>AS</b>	<b>\$7,852</b>	<b>12%</b>	<b>20%</b>	<b>11.5%</b>	<b>28.8x</b>	<b>21.8x</b>	<b>15.5x</b>	<b>13.0x</b>

Source: BofA Global Research estimates

Note: MONC, GOOS in local currency; results are calendarized for all companies

AS EV/EBITDA based on EBITDA adjusted for IFRS rent add back (more comparable with GAAP peers)

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## Sum of the parts assumptions

To support our PO framework, we conducted a sum of the parts analysis, in which we valued each segment of the company independently and allocated corporate overhead costs to them (Exhibit 2). For **Technical Apparel** (roughly 90% of segment is Arc'teryx), we used a 23x EV/EBITDA multiple, a slight premium to when LULU was a similar size (in '12/'13) given our view that Arc'teryx growth profile is sustainable at peer-leading levels and could prove conservative. For **Outdoor Performance** (roughly 83% of segment is Salomon), we used a 12x EV/EBITDA multiple, a slight premium to the 9x average for the apparel/footwear vendors (CRI, VFC, RL, PVH, LEVI, CROX) given a more robust sales growth profile. For **Ball and Racquet Sports** (roughly 75% of segment is Wilson), we used an 5x EV/EBITDA multiple, a discount to the vendors due to a weaker margin profile and heavy wholesale concentration.

Our sum of the parts analysis implies a \$11.2bn enterprise value (EV). Using our current capital structure forecast of \$2.2bn in debt and \$251mn in cash, our analysis implies an equity value of \$9.2bn.



**Exhibit 2: Sum of the parts analysis**

Our sum of the parts analysis implies an equity value of \$9.4bn

<b>F24E</b>	<b>Technical</b>	<b>Outdoor</b>	<b>B&amp;R</b>	<b>Total</b>
Sales	\$1,923	\$1,832	\$1,187	\$4,941
Segment EBIT	\$382	\$173	\$46	\$602
Segment EBITDA (GAAP equiv.)	\$424	\$210	\$63	\$698
Total EBITDA (w/ corp)	\$376	\$186	\$56	\$618
Multiple	23.0x	12.0x	5.0x	18.1x
<b>EV</b>	<b>\$8,641</b>	<b>\$2,235</b>	<b>\$280</b>	<b>\$11,157</b>
Sales growth	22%	10%	6%	
Sales % of total	39%	37%	24%	
EBITDA margins	22.1%	11.5%	5.3%	
EBITDA % of total	61%	30%	9%	
Implied EV				\$11,157
Debt (1Q24)				\$2,188
Cash (1Q24)				\$251
Implied Equity Value				\$9,219
Shares (mn)				507.4
Share price				\$18.17

**Source:** BofA Global Research estimates

Note: analysis assumes corp costs of \$80mn in 2024

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**Path to deleverage begins with EBITDA acceleration**

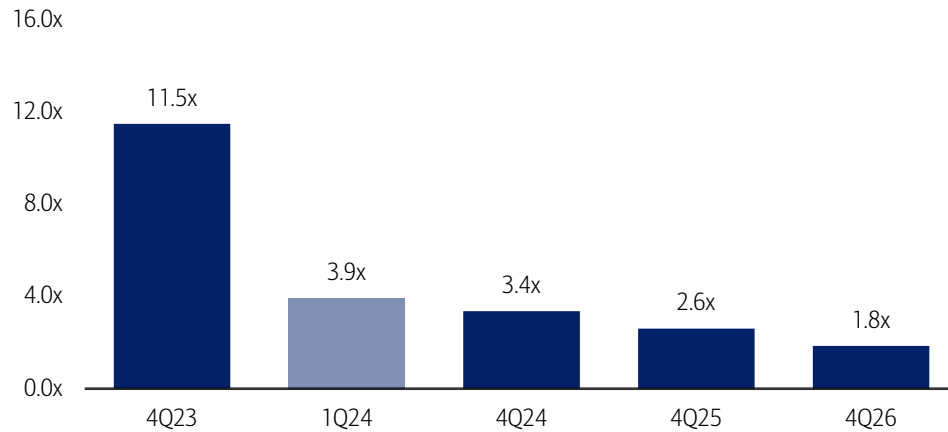
Amer Sports recently completed a \$800mn senior secured note offering at 6.75% and announced it is using the proceeds, in addition to the net proceeds from the previously announced \$500mn USD term loan, 700mn EUR term loan, and borrowings/cash, to repay all previously outstanding indebtedness under the company's previous credit facilities. We estimate post deal net leverage will be 3.9x (compared to 11.5x pre IPO).

Our base case forecast assumes net leverage is reduced to 3.4x by the end of 2024 due to the improvement in EBITDA (includes benefit from lower interest expense cost compared to pre IPO). Over the medium term, we forecast net leverage of 2.6x and 1.8x in 2025 and 2026, respectively. Our forecast post-1Q24 includes no incremental debt paydown but we think management will remain opportunistic on further reducing debt with excess free cash flow (FCF). Our base case includes a 3yr EBITDA growth CAGR of 20% through 2026 and \$127mn/\$135mn/\$267mn of free cash flow in 2024/2025/2026.

Amer Sports is targeting sub 2.0x net leverage over the medium term compared to 3.9x in 1Q24 post IPO. Our base case assumes no incremental debt paydown after the 1Q24.

**Exhibit 3: Net leverage forecast**

We are forecasting net leverage of 3.4x by the end of 2024



Source: BofA Global Research, company reports

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## Investment positive: Diversified portfolio

Amer Sports is a global portfolio of premium sports and outdoor brands, led by Arc'teryx (Technical Apparel), Salomon (Outdoor Performance) and Wilson (Ball and Racquet Sports). The brands are all rooted in technical performance and benefit from secular tailwinds such as health and wellness and premiumization.

### Technical Apparel (36% of F23 sales)

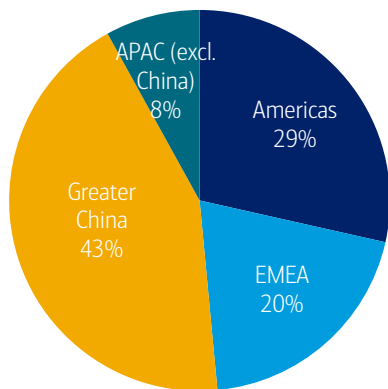
This segment is led by Arc'teryx (90% of segment sales), an outdoor apparel brand known for technical attributes and minimalist design. The brand was founded in 1989 in Vancouver. Its main products include technical outdoor apparel, footwear, accessories, and climbing gear. The other brand in this segment is Peak Performance (10% of segment sales), an apparel and accessories brand founded in the Swedish mountains.

The segment's largest sales by geography come from Greater China (43%, YTD through 9/30), followed by the Americas (29%), EMEA (20%), and APAC, excl. China (8%). By channel, 68% of sales (2023) come through direct to consumer (DTC) while 32% are from wholesale. DTC mix is up from 45% in 2020 as the brand has opened more stores, increased its digital penetration, and exited discount-oriented wholesale partners. In North America, the wholesale reduction allowed the brand to focus on key styles and cut SKUs.



**Exhibit 4: Technical Apparel: geographic mix**

43% of sales come from Greater China

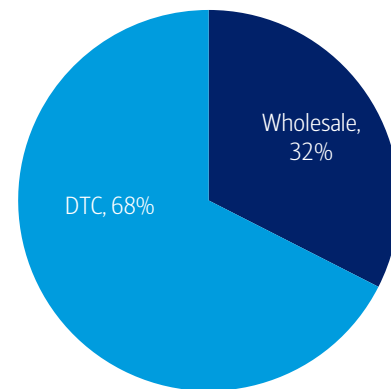


Source: Company filings

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**Exhibit 5: Technical Apparel: channel mix**

Majority of the business is DTC



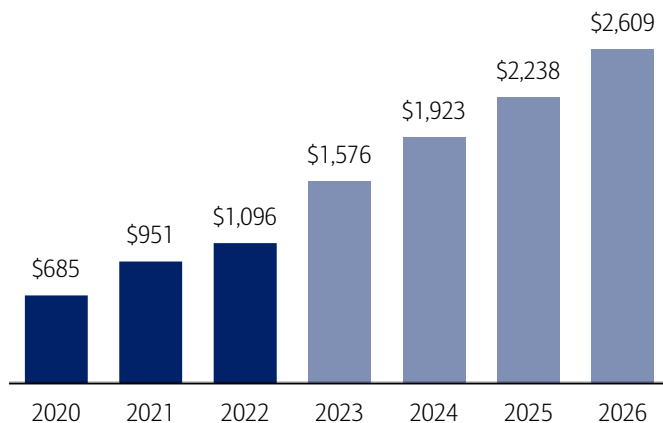
Source: Company filings

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**Technical Apparel:** We forecast 18% sales growth and 24% EBITDA growth on a 3yr CAGR through 2026. We see Arc'teryx becoming a larger percentage of the total company as the main driver of margin expansion at the total company level.

**Exhibit 6: Technical Apparel: sales growth**

We forecast 18% sales CAGR from 2023 to 2026

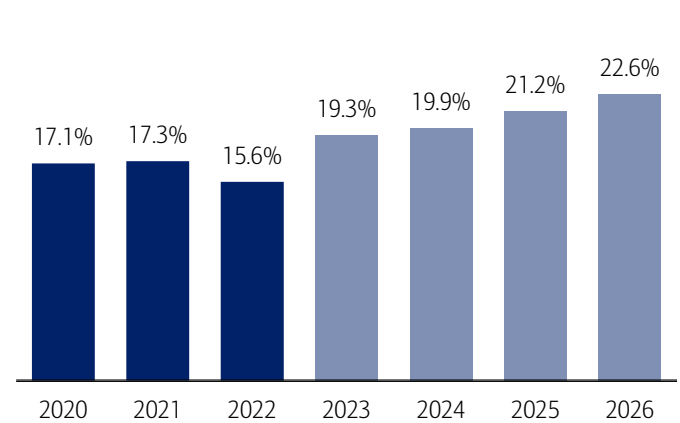


Source: BofA Global Research, company reports

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**Exhibit 7: Technical Apparel: operating margin**

We forecast 330bp of operating expansion from 2023 to 2026



Source: BofA Global Research, company reports

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**Arc'teryx growth drivers: new stores, women's, innovation**

**New stores:** Channel mix at Arc'teryx is 40% owned retail, 24% ecommerce, and 36% wholesale (through Sept '23). One of the major growth opportunities at Arc'teryx is opening more stores. Today, Arc'teryx has about 111 brand stores, of which 46 are in Greater China, 44 in North America, 17 in APAC, and 4 in EMEA, in addition to 35 factory stores. Store economics are very strong; in North America, the average brand store does roughly \$3mn of sales per year and in China, average brand store generates \$6mn of sales per year. Over the long term, we think there is an opportunity for 200-225 stores in the Americas, 75-100 in EMEA, 75-100 in China, and 75-100 in APAC excl. China. We expect 30-40 store openings at Arc'teryx in 2024 and 2025, with roughly half in the

Americas. New stores should help improve brand awareness, particularly in the US where awareness is only 4% today.

**Women's:** This represents roughly 20% of the business today and the company is focused on improving the mix. Some initiatives to help expand market share with female consumers are expanding the assortment, allocating more space in stores (targeting 50% split between men's and women's) and increasing engagement with female athletes.

**Innovation:** Arc'teryx has in-house capabilities to create best-in-class product at design centers located in Vancouver, Portland, and Tokyo. The brand benefits from testing product with world-class athletes in the Canadian Coast Mountains near the brand's headquarters. Footwear is another growth opportunity and focus has been accelerated by support from Salomon and the brand's new development office in Portland.

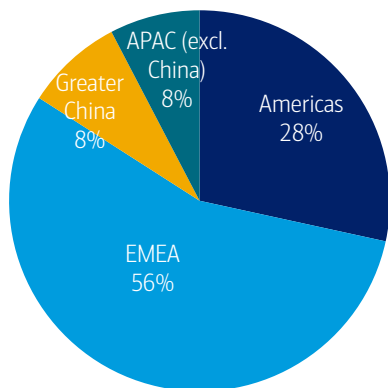
## Outdoor Performance (38% of F23 sales)

This segment is led by Salomon (83% of segment sales), a modern mountain sports lifestyle brand founded in the French Alps in 1947. Main products include hiking and running footwear, skiing and snowboarding gear, functional apparel, and lifestyle footwear. Salomon's product mix is 66% footwear, 24% winter sports equipment, and 10% apparel, accessories, bags. The other brands in the segment include Atomic (13%), one of the largest ski manufacturers in the world founded in the Austrian Alps; Armada (2%) an athlete-focused ski brand focused on technology superior products; and ENGE (2%), an aftermarket brand in the bike industry.

The segment's largest sales contribution by geography comes from EMEA (56%, YTD through 9/30), followed by the Americas (28%), Greater China (8%), and APAC, excl. China (8%). By channel, 79% of sales (2023) come through wholesale while 21% are from direct to consumer (DTC).

### Exhibit 8: Outdoor Performance: geographic mix

56% of sales come from EMEA

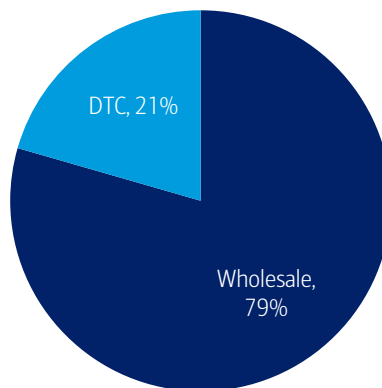


Source: Company filings

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### Exhibit 9: Outdoor Performance: channel mix

Majority of the business is wholesale



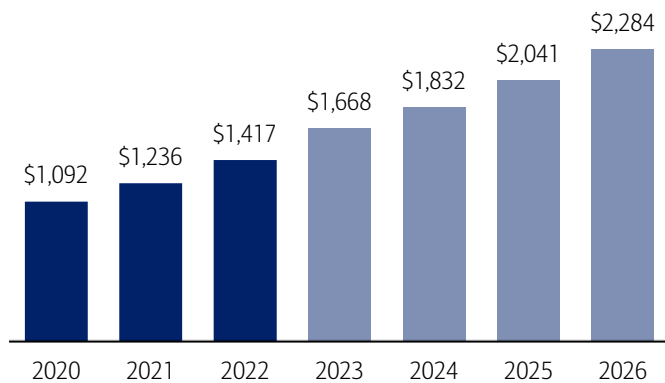
Source: Company filings

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**Outdoor Performance:** We forecast 11% sales growth and 12% EBITDA growth on a 3yr CAGR through 2026.

**Exhibit 10: Outdoor Performance: sales growth**

We forecast 11% sales CAGR from 2023 to 2026

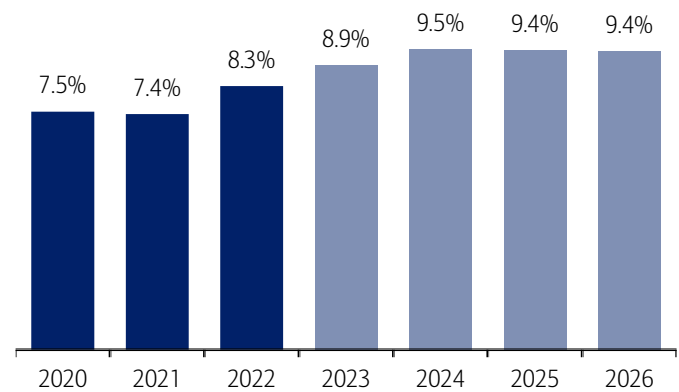


Source: BofA Global Research, company reports

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**Exhibit 11: Outdoor Performance: operating margin**

We forecast 50bp of operating expansion from 2023 to 2026



Source: BofA Global Research, company reports

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**Salomon growth drivers: footwear, China, DTC shift**

**Footwear:** Salomon is already a leader in trail running. Incremental opportunities include further expansion into lifestyle and road running. In the US, we expect the brand will be focused on trying to gain shelf space in the specialty run channel at retailers like Fleet Feet and increasing penetration at key accounts like Dick's Sporting Goods. The brand recently hired Steve Doolan from HOKA to run its North America business. In terms of lifestyle footwear, we expect newness and increased brand awareness will contribute to further growth. Brand awareness for Salomon's entire business is low; globally only 8%, China 3%, US 2%, France 15%.

**China:** Salomon has gained momentum in China partly due to the 2022 Winter Olympics in Beijing. The brand's growth in China is focused on expanding both sportstyle and outdoor footwear. Today, only 6% of Salomon's footwear business comes from China. Salomon will use the Arc'teryx playbook to successfully open more stores in that country and we expect around 100 new store openings in 2024.

**Shift to DTC:** The brand is still in the early stages of moving more business to DTC. In Europe, it has already reduced the number of wholesale accounts from 7,580 in 2019 to 4,905 in 2023. We expect new store openings will be focused on China, with select openings in other geographies.

**Ball and Racquet Sports (26% of F23 sales)**

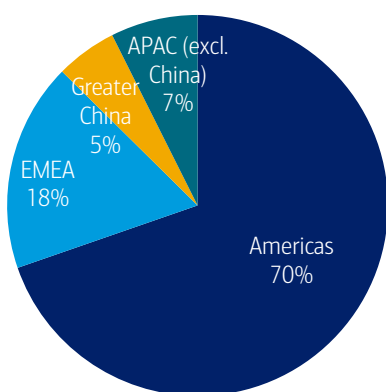
This segment is led by Wilson (roughly 75% of segment sales), the leading manufacturer of high-performance sports equipment, apparel, footwear, and accessories. The brand was founded in 1914 in Chicago and produces top of the line equipment in racquet sports, baseball, softball, football, basketball, volleyball, soccer, and golf. The brand has leading market share in major categories including rackets and balls (33%), basketballs (30%), footballs (59%), and bats and gloves (30%). In addition, Wilson has long duration contracts with the NBA, NFL, NCAA, and other major sports leagues. The other brands in the segment include Louisville Slugger and DeMarini (baseball equipment), EvoShield (custom-fitting protective gear and apparel for baseball, softball, football, and lacrosse) and ATEC (official training equipment supplier of Major League Baseball).

The segment's largest sales contribution by geography comes from the Americas (70%, YTD through 9/30), followed by EMEA (18%), APAC, excl. China (7%), and Greater China (5%). By channel, 86% of sales (2023) come through wholesale while 14% are from direct to consumer (DTC).



**Exhibit 12: Ball and Racquet Sports: geographic mix**

70% of sales come from the Americas

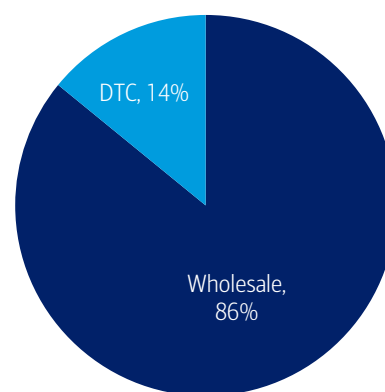


Source: Company filings

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**Exhibit 13: Ball and Racquet Sports: channel mix**

Majority of the business is wholesale



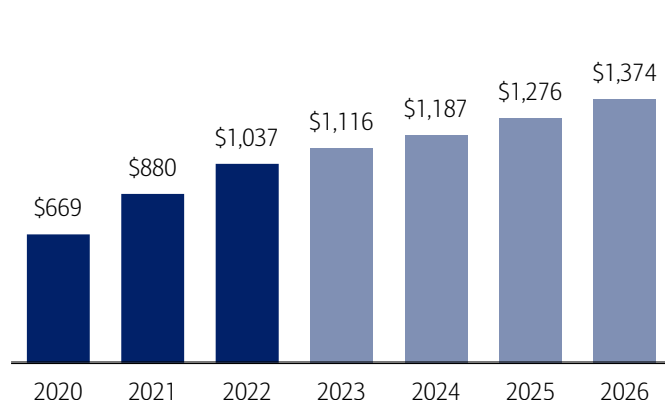
Source: Company filings

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**Ball and Racquet Sports:** We forecast 7% sales growth and 14% EBITDA growth on a 3yr CAGR through 2026.

**Exhibit 14: Ball and Racquet Sports: sales growth**

We forecast 7% sales CAGR from 2023 to 2026

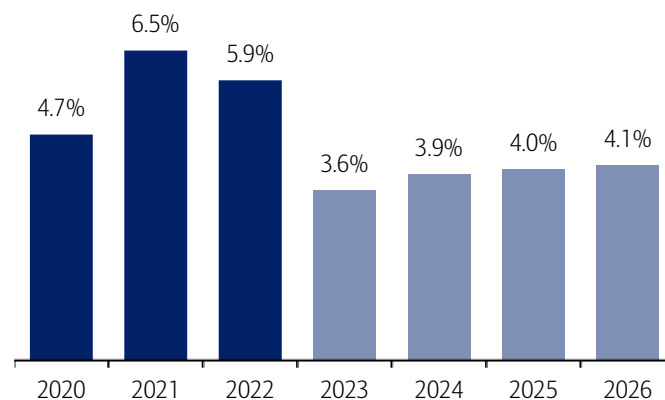


Source: BofA Global Research, company reports

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**Exhibit 15: Ball and Racquet Sports: operating margin**

We forecast 50bp of operating expansion from 2023 to 2026



Source: BofA Global Research, company reports

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**Wilson growth drivers: Paddle sports, international, apparel**

**Paddle sports:** Wilson should benefit from expansion of racquet categories such as padel and pickleball given the brand's leading position in racquet sports. Equipment market share in both paddle sports is fragmented and allows Wilson to lean into innovation to gain incremental market share.

**International:** There is an opportunity to expand on the brand's leadership position in North America by moving more into Europe and Asia. We expect Wilson will leverage its partnership with the NBA (renewed contract in 2021) and capitalize on increasing global participation in sports and outdoor activities.

**Shift to DTC:** Today DTC represents roughly 12% of sales and the brand has 8 retail stores. We think a continued shift to DTC will be part of the company's strategy but acknowledge the business will remain predominately wholesale. We expect Wilson will focus more on apparel to help complement its sporting goods business.

## Investment positive: A business transformation

Amer Sports was delisted from the Nasdaq Helsinki stock exchange in 2019 and was acquired by a private group of investors including Anta Sports, FountainVest, Anamered (entity affiliated with Chip Wilson) and Tencent. The new management has made many key changes while private.

### Assembled a new leadership team

James Zheng joined Amer Sports as CEO in 2020. He was previously President of Anta Sports and worked in senior roles with adidas China. This is key hire, driven by the Anta ownership structure, has helped the company improve its playbook on how to succeed in China. Other key hires during 2020 and 2021 included Michael Hauge Sorensen (COO), Victor Chen (Chief Strategy Officer), Stuart Haselden (Arc'teryx CEO), Franco Fogliato (Salomon CEO), and John Yao (China General Manager).

### Brand-direct operating introduced

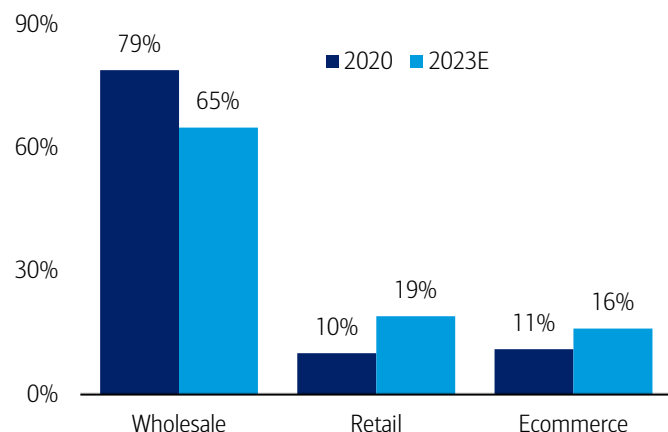
Amer transitioned to a brand direct operating model delivering a tailored consumer experience by bringing in three brand CEOs responsible for product, brand, and go-to market strategy. This change has allowed each brand CEO to operate the business as a standalone company while still benefitting from learning from other brands (i.e. Arc'teryx developing footwear while gaining advice from Salomon's success). The group level helps support supply chain and IT functions.

### Accelerated DTC strategy

DTC mix has shifted from 22% of the company in 2020 to 35% in 2023. Each segment saw an increase in DTC mix, but the vast majority of the gain was led by Arc'teryx, which has seen its DTC mix increase from 45% to 68% over the last three years. This was due to a combination of rationalizing less productive wholesale partners and investing in ecomm and new store openings. We are encouraged that Arc'teryx CEO Stuart Haselden has significant experience at LULU and think this should help him deliver on the DTC led strategy at Arc'teryx. In addition, Outdoor Performance DTC mix has increased from 15% to 20% (from '20 to '23) and Ball and Racquet Sports has increased from 8% to 14% over the same time period. Longer term, the company is targeting an 80% DTC mix in Technical Apparel, 30% in Outdoor Performance, and 25% in Ball and Racquet Sports.

**Exhibit 16: Amer Sports channel mix changes from '20 to '23**

Wholesale represents roughly 65% of sales today compared to 79% in '20

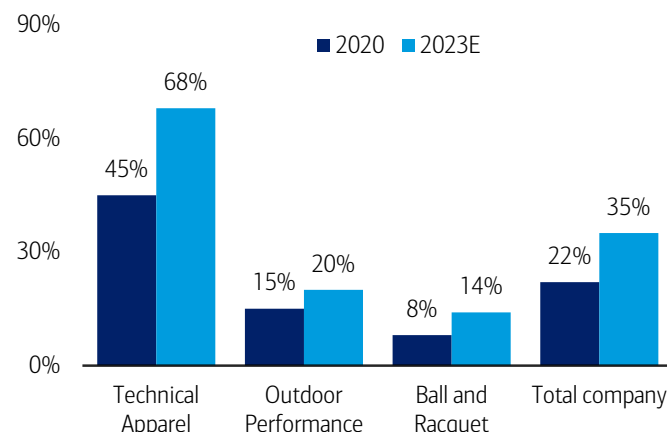


Source: Company filings

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**Exhibit 17: Segment channel mix changes from '20 to '23**

Technical Apparel DTC mix has increased from 45% to 68%



Source: Company filings

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**Divested noncore brands**

Brand divestitures included Mavic (bicycle company) in 2019, Precor (fitness company) in 2020, and Suunto (watch company) in 2021. This has allowed Amer to reinvest more resources into its core brands.

Over the last four years, the management team has developed three \$1bn brands in Arc'teryx, Salomon, and Wilson. The DTC business has nearly tripled, and Greater China business has increased from \$0.2bn to \$0.8bn.

**Exhibit 18: Business transformation since 2020**

DTC is now 33% of the business (prev 22%) and Greater China is now 18% of the business (prev 8%)

	Arc'teryx	Salomon	Wilson	DTC	Greater China
2020	\$0.5bn	\$0.9bn	\$0.7bn	\$0.5bn	\$0.2bn
LTM Sept '23	\$1.3bn	\$1.3bn	\$1.1bn	\$1.4bn	\$0.8bn
20-22 CAGR	32%	12%	25%	41%	61%
YTD Sept '23 y/y growth	65%	35%	10%	57%	68%

Source: Company filings

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**Investment positive: China advantage**

A key competitive advantage at Amer Sports is its expertise in China (18% of total sales). While Chinese exposure is a key area of debate due to macro and geopolitical factors, we view Amer as well-positioned to continue its growth trajectory there. Amer has benefited from Anta's (largest China sportswear company, key shareholder) expertise in real estate, technology and branding. Amer's CEO James Zheng, former President of Anta Sports, brings a local perspective that should help the brands expand successfully. Anta has provided Amer with a lot of know-how on how to build its retail operations, how to manage deliveries and build the right logistics infrastructure to support digital business. Group headcount in China has increased from 450 employees in 2018 to 800 employees as of Sept. '23.

We also expect the premium sportswear industry to grow faster than the apparel sector in China. The sports industry is expanding in China at a rate greater than GDP growth,



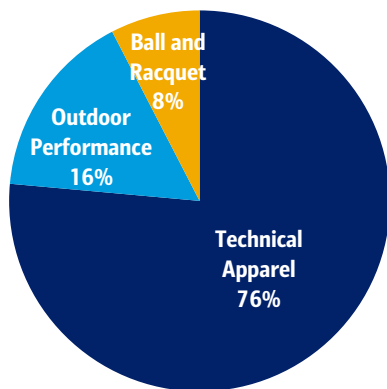
with strong demand from premium segment products in hiking, outdoor and ski, which are all gaining popularity after the Winter Olympics.

Sales in Greater China represent 18% of total sales today compared to 8% in 2020. We expect China will reach 25-30% of the business over the medium term.

Growth in Greater China has been driven by Arc'teryx, where the brand has grown through a combination of owned retail store openings and partner franchise stores. The company has proven it knows how to deliver a luxury-oriented in-store presentation and is able to secure highly attractive store locations in the country. Today (through Sept '23), the brand has 63 owned Arc'teryx stores, 30 owned Salomon stores, and a total of 67 Salomon distribution points (includes retail and partner stores) in Greater China. The company's retail strategy includes bigger stores, interactive displays, and product tryouts in an experiential space for an immersive experience, and elevating brand positioning by locating more stores on the lower floors.

**Exhibit 19: China sales mix by segment (YTD through Sept '23)**

76% of China sales come from the Technical Apparel segment

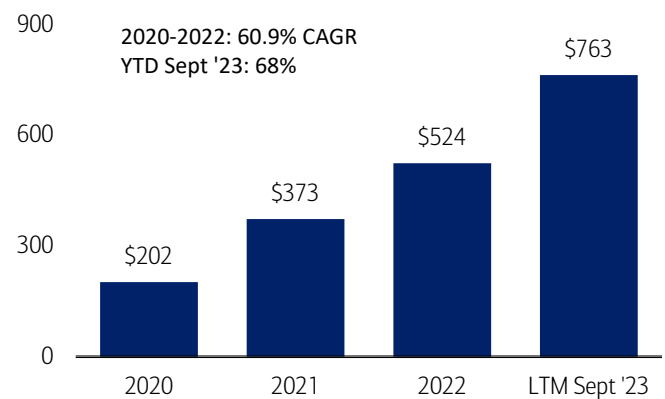


Source: Company filings

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**Exhibit 20: Greater China sales (\$mn)**

Greater China sales increased at 60.9% CAGR from 2020 to 2022



Source: Company filings

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## Investment risks

### China macro and tariffs

One key risk for this stock is the potential volatility in China from a macro and geopolitical perspective given the importance of China as a growth driver. Another risk is the potential for tariffs on China goods since roughly 36% of Amer Sports production is sourced from China (and a portion of that goes to the US).

### Performance footwear market is competitive

The key growth driver of the Salomon brand is footwear. There is execution risk given the competitiveness of the road running category given the current strength of HOKA, ON, Brooks, Asics, and New Balance, along with the potential for Nike and adidas to improve their positioning in the specialty run channel. The Sportstyle footwear segment also brings risk given that segment of the business is more fashion-oriented and it is unclear how long that style will remain popular.

### Promotions may linger in Ball and Racquet Sports.

The Ball and Racquet Sports segment was more promotional than expected in the most recent holiday season. There is risk that both the promotional environment lingers into

this year and key wholesale accounts order more cautiously until there is improved visibility on inventory clean up and demand.

### Wholesale reliance

Roughly two-thirds of the business comes from wholesale. Therefore, some of the success of Amer Sports will be dependent on the trends and success from key wholesale partners.

### Leverage higher than peers

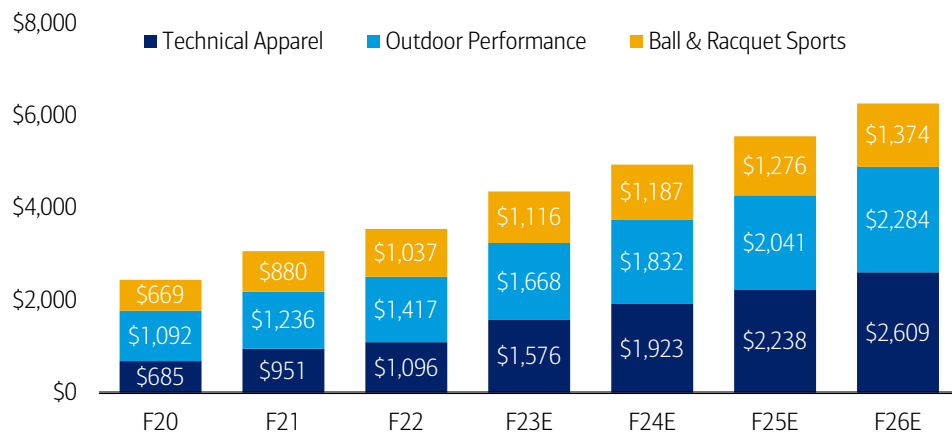
Post IPO, we forecast Amer Sports net leverage at 3.9x, or higher than the peer average.

## Financial outlook

We forecast a 13% sales growth CAGR from '23 to '26; by segment, Technical Apparel 18%, Outdoor Performance 11%, and Ball & Racquet Sports 7%

### Exhibit 21: AS sales growth

We forecast 13% sales growth CAGR for Amer Sports from '23 to '26, led by Technical Apparel



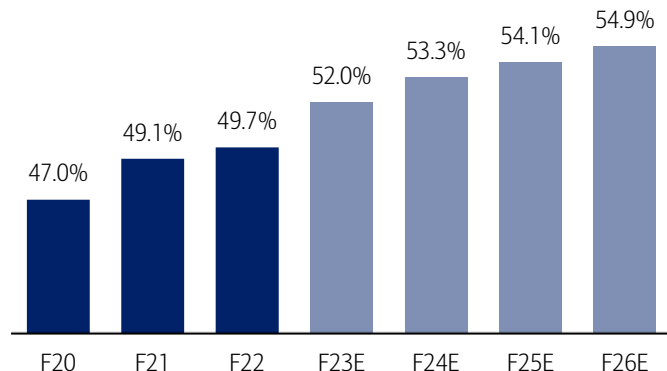
Source: BofA Global Research, company filings

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Amer's margin expansion is led by Arc'teryx (the company's highest margin business) becoming a larger portion of the total company.

**Exhibit 22: Gross margin**

Increase in GM forecast primarily driven by Arc'teryx and DTC mix shift

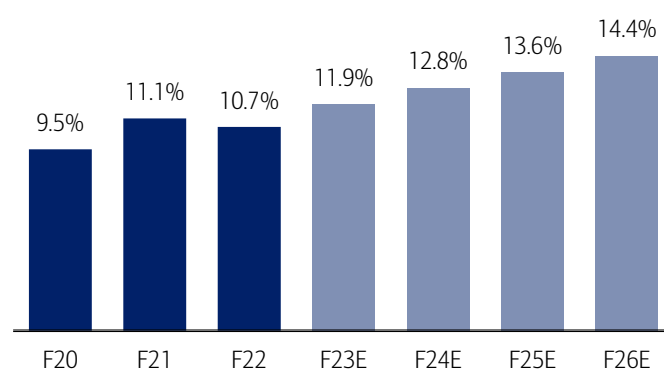


Source: BofA Global Research, company filings

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**Exhibit 23: EBITDA margin (adjusted for IFRS)**

Increase in EBITDA margin forecast primarily driven by Arc'teryx mix shift



Source: BofA Global Research, company filings

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## Management

**James Zheng, Board Director and CEO:** Hired as CEO in 2020, served as President of Anta Sports until 2023. Previously held senior roles at Adidas, Reebok, and Procter and Gamble. James has served on the board of Anta Sports since 2009.

**Andrew Page, CFO:** Hired in 2023 as CFO. Previously, Andrew was CFO at Foot Locker from 2021 to 2023, Chief Accounting Officer at Advance Auto Parts from 2019 to 2021 and held senior roles at Under Armour from 2011 to 2019.

**Stuart Haselden, CEO, Arc'teryx:** Hired in 2021 as CEO of Arc'teryx. Previously, Stuart was CEO of Away from 2020 to 2021 and held senior roles at lululemon from 2015 to 2020 including Chief Operating Officer, Chief Financial Officer, and Head of International.

**Franco Fogliato, President and CEO, Salomon:** Hired in 2021 as President and CEO of Salomon. From 2013 to 2021, Franco served in multiple roles at Columbia Sportswear including General Manager EMEA and prior to that role, Franco was CEO at Billabong from 2004 to 2013.

**Joe Dudy, President and CEO, Wilson:** President and CEO of Wilson since 2019. Joe joined Wilson in 1995 and served in multiple roles at the brand including Finance Director of Wilson Team Sports and VP Finance of Wilson Sporting Goods.

**Exhibit 24: AS Income Statement**

We forecast \$0.54 in EPS in 2024

	FY2022	Q1'23	Q2'23	Q3'23	Q4'23E	FY2023E	Q1'24E	Q2'24E	Q3'24E	Q4'24E	FY2024E	Q1'25E	Q2'25E	Q3'25E	Q4'25E	FY2025E	FY2026E
<b>Income Statement (\$M, except where noted)</b>																	
Technical Apparel	1,095.5	355.2	303.0	385.0	533.1	1,576.3	425.0	362.6	461.3	673.9	1,922.8	517.0	419.0	526.9	774.8	2,237.6	2,608.8
Outdoor Performance	1,416.5	377.5	273.6	493.2	523.9	1,668.3	381.8	290.0	540.0	619.8	1,831.6	425.2	325.7	598.9	691.3	2,041.0	2,284.4
Ball & Racquet Sports	1,036.7	317.6	280.2	269.0	249.1	1,115.9	305.0	300.0	290.0	291.9	1,186.9	327.4	322.3	312.5	314.1	1,276.3	1,373.8
<b>Net Sales</b>	<b>3,548.7</b>	<b>1,050.3</b>	<b>856.8</b>	<b>1,146.3</b>	<b>1,306.1</b>	<b>4,360.5</b>	<b>1,111.8</b>	<b>952.6</b>	<b>1,291.3</b>	<b>1,585.5</b>	<b>4,941.3</b>	<b>1,269.6</b>	<b>1,067.0</b>	<b>1,438.2</b>	<b>1,780.1</b>	<b>5,554.9</b>	<b>6,267.1</b>
COGS	1,785	495.4	400.2	564.9	630.6	2,091	527.0	447.7	618.6	713.1	2,306	584.0	490.8	676.0	797.1	2,548	2,824
<b>Gross Profit</b>	<b>1,763.2</b>	<b>554.9</b>	<b>456.6</b>	<b>581.4</b>	<b>675.6</b>	<b>2,268.5</b>	<b>584.8</b>	<b>504.9</b>	<b>672.8</b>	<b>872.4</b>	<b>2,634.9</b>	<b>685.6</b>	<b>576.2</b>	<b>762.3</b>	<b>983.0</b>	<b>3,007.0</b>	<b>3,443.5</b>
<b>Total SG&amp;A</b>	<b>1,522.2</b>	<b>422.4</b>	<b>445.3</b>	<b>481.3</b>	<b>620.9</b>	<b>1,969.9</b>	<b>470.1</b>	<b>498.8</b>	<b>529.4</b>	<b>614.5</b>	<b>2,112.8</b>	<b>536.5</b>	<b>560.4</b>	<b>592.5</b>	<b>679.1</b>	<b>2,368.4</b>	<b>2,663.2</b>
Impairment losses	202.1	2.8	4.7	(2.9)	0.0	4.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other operating income	(11.3)	(0.7)	(0.9)	(1.7)	0.0	(3.3)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Operating profit (non adj pre 4Q23)</b>	<b>50.2</b>	<b>130.4</b>	<b>7.5</b>	<b>104.7</b>	<b>54.7</b>	<b>297.3</b>	<b>114.7</b>	<b>6.1</b>	<b>143.4</b>	<b>257.9</b>	<b>522.1</b>	<b>149.1</b>	<b>15.8</b>	<b>169.8</b>	<b>303.9</b>	<b>638.6</b>	<b>780.4</b>
Finance income	3.3	1.3	1.8	1.4	2.0	6.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Finance cost	236.4	86.1	101.1	109.4	118.0	414.6	40.5	40.5	40.5	40.5	162.1	40.5	40.5	40.5	40.5	162.1	162.1
Net finance cost	(233.1)	(84.8)	(99.3)	(108.0)	(116.0)	(408.1)	(40.5)	(40.5)	(40.5)	(40.5)	(162.1)	(40.5)	(40.5)	(40.5)	(40.5)	(162.1)	(162.1)
<b>Loss before tax</b>	<b>(182.9)</b>	<b>45.6</b>	<b>(91.8)</b>	<b>(3.3)</b>	<b>(61.3)</b>	<b>(110.8)</b>	<b>74.1</b>	<b>(34.4)</b>	<b>102.9</b>	<b>217.4</b>	<b>360.0</b>	<b>108.6</b>	<b>(24.7)</b>	<b>129.2</b>	<b>263.4</b>	<b>476.5</b>	<b>618.3</b>
Income tax expense	48.4	26.6	5.2	32.6	37	101	18	(8)	25	52	86	26	(6)	31	63	114	148
Tax rate	-26%	58%	-6%	-988%	-60.0%	-91%	24.0%	24.0%	24.0%	24.0%	24%	24.0%	24.0%	24.0%	24.0%	24%	24%
<b>Income (loss) from continuing operations</b>	<b>(231)</b>	<b>19</b>	<b>(97)</b>	<b>(36)</b>	<b>(98)</b>	<b>(212)</b>	<b>56</b>	<b>(26)</b>	<b>78</b>	<b>165</b>	<b>274</b>	<b>83</b>	<b>(19)</b>	<b>98</b>	<b>200</b>	<b>362</b>	<b>470</b>
<b>Net income (loss)</b>	<b>(253)</b>	<b>19</b>	<b>(97)</b>	<b>(36)</b>	<b>(98)</b>	<b>(212)</b>	<b>56</b>	<b>(26)</b>	<b>78</b>	<b>165</b>	<b>274</b>	<b>83</b>	<b>(19)</b>	<b>98</b>	<b>200</b>	<b>362</b>	<b>470</b>
<b>EPS</b>	<b>(0.50)</b>	<b>0.04</b>	<b>(0.19)</b>	<b>(0.07)</b>	<b>(0.19)</b>	<b>(0.42)</b>	<b>0.11</b>	<b>(0.05)</b>	<b>0.15</b>	<b>0.33</b>	<b>0.54</b>	<b>0.16</b>	<b>(0.04)</b>	<b>0.19</b>	<b>0.39</b>	<b>0.71</b>	<b>0.93</b>
Share count	507.4	507.4	507.4	507.4	507.4	507.4	507.4	507.4	507.4	507.4	507.4	507.4	507.4	507.4	507.4	507.4	507.4
<b>% change y/y</b>																	
Sales	16%	30%	24%	35%	9%	23%	6%	11%	13%	21%	13%	14%	12%	11%	12%	12%	13%
Total SG&A	15%	21%	31%	32%	32%	29%	11%	12%	10%	-1%	7%	14%	12%	12%	11%	12%	12%
EBITDA	9%	75%	59%	50%	-4%	34%	-10%	-12%	12%	71%	21%	22%	21%	14%	15%	17%	18%
Net income	100%	-165%	33%	1322%	-34%	-16%	197%	-73%	-318%	-268%	-229%	46%	-28%	26%	21%	32%	30%
<b>Margins</b>																	
Gross margin	49.7%	52.8%	53.3%	50.7%	51.7%	52.0%	52.6%	53.0%	52.1%	55.0%	53.3%	54.0%	54.0%	53.0%	55.2%	54.1%	54.9%
bp change y/y	59	333	589	(26)	150	234	(23)	(29)	138	330	130	140	100	90	20	81	81
SG&A % of sales	42.9%	40.2%	52.0%	42.0%	47.5%	45.2%	42.3%	52.4%	41.0%	38.8%	42.8%	42.3%	52.5%	41.2%	38.1%	42.6%	42.5%
bp change y/y	(38)	(289)	282	(98)	844	228	207	39	(99)	(878)	(242)	(3)	16	20	(61)	(12)	(14)
\$ growth	14.7%	21.1%	30.7%	32.2%	32.5%	29.4%	11.3%	12.0%	10.0%	-1.0%	7.3%	14.1%	12.3%	11.9%	10.5%	12.1%	12.4%
Operating margin (adjusted post 4Q23)	1.4%	12.4%	0.9%	9.1%	4.2%	6.8%	10.3%	0.6%	11.1%	16.3%	10.6%	11.7%	1.5%	11.8%	17.1%	11.5%	12.5%
bp change y/y	(468)	630	248	87	904	540	(210)	(24)	197	1,208	375	143	84	70	81	93	96
Adjusted EBITDA margin (IFRS)	12.8%	17.4%	7.3%	15.4%	14.0%	13.9%	14.7%	5.8%	15.4%	19.7%	14.8%	15.8%	6.3%	15.8%	20.3%	15.4%	16.0%
bp change y/y	(83)	446	161	154	(191)	112	(266)	(152)	(6)	569	89	104	47	40	54	61	64
Adjusted EBITDA margin (adjusted for IFRS 16)	10.7%	15.6%	5.1%	13.6%	11.9%	11.9%	12.5%	3.2%	13.4%	18.2%	12.8%	13.8%	3.9%	14.0%	18.9%	13.6%	14.4%
bp change y/y	(44)	502	215	176	(257)	119	(312)	(189)	(15)	622	86	132	76	60	71	83	85

Source: BofA Global Research estimates, company reports

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## Price objective basis & risk

### Amer Sports Inc (AS)

Our \$18 price objective is based on 17.5x F2024E EV/EBITDA. Our \$18 PO is based on 17.5x EV/EBITDA, a slight discount to athletic peers despite Amer's stronger sales/EBITDA growth projections given the company's limited track record as a public company, higher wholesale exposure compared to peers and elevated leverage.

Upside risks to our PO are better-than-expected results in China, a faster pace of deleveraging the balance sheet, and margin upside from better results at Arc'teryx. Downside risks to our PO are a destocking wholesale environment, slowdown in China, and slowing brand heat at Arc'teryx, Salomon, and Wilson.

## Analyst Certification

I, Lorraine Hutchinson, 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 - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Amer Sports Inc	AS	AS US	Lorraine Hutchinson, CFA
	Bath & Body Works Inc	BBWI	BBWI US	Lorraine Hutchinson, CFA
	Burlington Stores	BURL	BURL US	Lorraine Hutchinson, CFA
	Crocs, Inc.	CROX	CROX US	Christopher Nardone
	Deckers Outdoor Corp	DECK	DECK US	Christopher Nardone
	European Wax Center	EW CZ	EW CZ US	Lorraine Hutchinson, CFA
	lululemon athletica Inc	LULU	LULU US	Lorraine Hutchinson, CFA
	Oddity Tech	ODD	ODD US	Lorraine Hutchinson, CFA
	PVH Corp	PVH	PVH US	Christopher Nardone
	Ralph Lauren	RL	RL US	Christopher Nardone
	Ross Stores Inc	ROST	ROST US	Lorraine Hutchinson, CFA
	Tapestry Inc.	TPR	TPR US	Lorraine Hutchinson, CFA
	TJX Companies	TJX	TJX US	Lorraine Hutchinson, CFA
	Urban Outfitters	URBN	URBN US	Lorraine Hutchinson, CFA
	Victoria's Secret & Co	VSCO	VSCO US	Alice Xiao
<b>NEUTRAL</b>				
	American Eagle	AEO	AEO US	Christopher Nardone
	Birkenstock	BIRK	BIRK US	Lorraine Hutchinson, CFA
	FIGS, Inc.	FIGS	FIGS US	Alice Xiao
	Foot Locker	FL	FL US	Lorraine Hutchinson, CFA
	Levi Strauss & Co.	LEVI	LEVI US	Christopher Nardone
	Nike	NKE	NKE US	Lorraine Hutchinson, CFA
	Signet Jewelers	SIG	SIG US	Lorraine Hutchinson, CFA
	Ulta Beauty	ULTA	ULTA US	Lorraine Hutchinson, CFA
	Under Armour Inc	UAA	UAA US	Lorraine Hutchinson, CFA
<b>UNDERPERFORM</b>				
	Aritzia	YATZ	ATZ CN	Alice Xiao
	Aritzia	ATZAF	ATZAF US	Alice Xiao
	Carter's Inc	CRI	CRI US	Christopher Nardone
	Gap Inc.	GPS	GPS US	Lorraine Hutchinson, CFA
	Kohl's	KSS	KSS US	Lorraine Hutchinson, CFA



## US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Nordstrom	JWN	JWN US	Lorraine Hutchinson, CFA
	Revolve	RVLV	RVLV US	Alice Xiao
	V F Corp	VFC	VFC US	Lorraine Hutchinson, CFA
<b>RSTR</b>				
	Macy's	M	M US	Lorraine Hutchinson, 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 & 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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### Equity Investment Rating Distribution: Textiles/Apparel Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	13	52.00%	Buy	8	61.54%
Hold	6	24.00%	Hold	3	50.00%
Sell	6	24.00%	Sell	2	33.33%

### 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.

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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.

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