

Kellanova

Waiting to see if “Dreams really do come true”...maintain Neutral

Reiterate Rating: NEUTRAL | PO: 60.00 USD | Price: 53.69 USD

Another food company, another 2H weighted outlook

Following [K's 4Q23 results](#) (the first post the company's spin of KLG), we maintain our EPS estimates in 2024-2025 of \$3.55 & \$3.80, respectively, while introducing 2026 EPS of \$4.05. K's management largely re-affirmed 2024 targets first outlined at its August Investor Day, reiterating absolute dollar targets for both adjusted operating income (\$1.85-\$1.9bn, which includes a 2pt hit from FX) as well as adjusted EPS (\$3.55-\$3.65, includes less than 2pt hit from FX). Organic net sales are expected to grow at the low end of algorithm (+3% vs +3-5% algorithm), while also absorbing 5-6pt headwind from unfavorable currency and ~50bps headwind from the Russia divestiture. We expect volume, profit & EPS growth to be 2H weighted as we wait to see benefits from 1) merchandizing efforts in North America (NA) flow through scanned channel data and 2) when network optimization benefits planned for 2024 flow through the P&L.

NA update: vols to improve sequentially w/ merchandizing

K believe its NA snacking business will see sequential volume improvement throughout 2024 on the back of increased merchandizing/promotional efforts after having minimal in market programming in 2023. This will include increased promotional efforts around Pringles ([including a Super Bowl commercial](#)) as well as other increased A&P that is weighted to 1H. K also expects lapping of SNAP related headwinds to abate sometime in 2Q. Finally, network optimization efforts at Eggo should also begin to deliver some benefits to profit in 2H. Europe cereal will also see network optimization in 2024.

2024 modeling puts & takes

Organic net sales +3% vs 2023's restated base of \$13.1bn, with incremental price actions in AMEA given Nigerian currency devaluation. 5-6pt headwind from FX driven by Nigeria & Argentinian Peso; Europe to be a positive offset. Gross margins to approach ~35% (even YoY improvement across quarters) with Operating margin of ~14% (BofAe ~14.4%). Interest expense of \$310mm (declining sequentially throughout 2024), Other income of \$50mm and tax of 23%.

Maintain Neutral & \$60 PO

We maintain our Neutral rating & \$60 PO still based on 16x our CY25 EPS estimate. This is a premium to center store packaged food peers and a discount to pure play snacking companies. In our view this is appropriate given its sales mix is 60% snacks.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.95	3.23	3.55	3.80	4.05
EPS Change (YoY)	-29.1%	9.5%	9.9%	7.0%	6.6%
Consensus EPS (Bloomberg)			3.64	3.82	4.04
DPS	2.32	2.32	2.27	2.34	2.41
Valuation (Dec)					
P/E	18.2x	16.6x	15.1x	14.1x	13.3x
Dividend Yield	4.3%	4.3%	4.2%	4.4%	4.5%
EV / EBITDA*	13.0x	11.8x	10.7x	10.1x	9.7x
Free Cash Flow Yield*	6.3%	5.2%	5.4%	6.6%	6.9%

* For full definitions of [IQmethod™](#) measures, see page 5.

09 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	13,128.6	12,808.9
2025E Rev (m)	13,587.3	13,243.4
2026E Rev (m)	14,067.3	13,697.6
2026E EPS	4.08	4.05

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Stock Data

Price	53.69 USD
Price Objective	60.00 USD
Date Established	15-Dec-2023
Investment Opinion	A-2-7
52-Week Range	47.63 USD - 67.84 USD
Mrkt Val (mn) / Shares Out (mn)	18,523 USD / 345.0
Free Float	78.0%
Average Daily Value (mn)	145.23 USD
BofA Ticker / Exchange	K / NYS
Bloomberg / Reuters	K US / K.N
ROE (2024E)	34.5%
Net Dbt to Eqty (Dec-2023A)	162.6%
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: 09 February 2024 05:00AM EST

iQprofileSM Kellanova

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	8.2%	10.6%	12.5%	12.8%	12.9%
Return on Equity	23.6%	28.7%	34.5%	33.2%	31.3%
Operating Margin	10.9%	12.3%	14.4%	14.7%	15.0%
Free Cash Flow	1,163	968	1,006	1,214	1,272

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.6x	1.5x	1.4x	1.3x	1.3x
Asset Replacement Ratio	1.0x	1.6x	1.7x	1.2x	1.2x
Tax Rate	20.8%	20.7%	23.0%	23.0%	23.0%
Net Debt-to-Equity Ratio	132.5%	162.6%	141.8%	116.4%	93.2%
Interest Cover	6.3x	5.3x	6.0x	6.5x	6.9x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	12,652	13,122	12,809	13,243	13,698
% Change	-10.8%	3.7%	-2.4%	3.4%	3.4%
Gross Profit	3,955	4,295	4,479	4,670	4,872
% Change	-14.1%	8.6%	4.3%	4.3%	4.3%
EBITDA	1,853	2,038	2,256	2,378	2,486
% Change	-18.4%	10.0%	10.7%	5.4%	4.5%
Net Interest & Other Income	(98)	(207)	(260)	(250)	(250)
Net Income (Adjusted)	1,014	1,113	1,220	1,306	1,392
% Change	-29.1%	9.8%	9.6%	7.1%	6.5%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,011	1,120	1,225	1,311	1,395
Depreciation & Amortization	478	419	405	425	425
Change in Working Capital	(14)	24	81	7	(20)
Deferred Taxation Charge	(46)	(63)	0	0	0
Other Adjustments, Net	222	145	(5)	(5)	(3)
Capital Expenditure	(488)	(677)	(700)	(525)	(525)
Free Cash Flow	1,163	968	1,006	1,214	1,272
% Change	1.3%	-16.8%	3.9%	20.7%	4.8%
Share / Issue Repurchase	(300)	(170)	0	0	0
Cost of Dividends Paid	(797)	(800)	(782)	(806)	(830)
Change in Debt	(279)	(722)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	299	274	497	905	1,348
Trade Receivables	1,736	1,568	1,531	1,510	1,563
Other Current Assets	2,151	1,488	1,532	1,575	1,612
Property, Plant & Equipment	3,789	3,212	3,507	3,607	3,707
Other Non-Current Assets	10,521	9,079	9,079	9,079	9,079
Total Assets	18,496	15,621	16,147	16,677	17,309
Short-Term Debt	780	663	663	663	663
Other Current Liabilities	5,569	4,397	4,585	4,658	4,728
Long-Term Debt	5,317	5,089	5,089	5,089	5,089
Other Non-Current Liabilities	2,455	2,103	2,103	2,103	2,103
Total Liabilities	14,121	12,252	12,440	12,513	12,583
Total Equity	4,375	3,369	3,706	4,164	4,726
Total Equity & Liabilities	18,496	15,621	16,147	16,677	17,309

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Food Processors

Company Description

Kellanova is a snacking led global food company with key brands Pringles, Cheez-It, Pop Tarts, Eggo and Rice Krispies Treats. The company generates approximately \$13bn in revenues of which approximately 60% come from snacks and 40% from international cereal, frozen foods and Noodles/Others. Geographic revenues split is approximately 50% North America and 50% International.

Investment Rationale

Our Neutral rating reflects our view that K shares should re-rate over time to a more premium snacking multiple, but in the near-term 2024's sales outlook may prove optimistic. In addition, recent scanner trends in snacking has been negative and likely need to see re-acceleration to become more constructive.

Stock Data

Average Daily Volume 2,705,046

Quarterly Earnings Estimates

	2023	2024
Q1	0.78A	0.75E
Q2	0.90A	0.93E
Q3	0.77A	0.91E
Q4	0.78A	0.96E

Income statement

Exhibit 1: K summary income statement

We maintain our FY24 adj. EPS of \$3.55

Income Statement		Mar-23	Jun-23	Sep-23	Dec-23		Mar-24	Jun-24	Sep-24	Dec-24			
(\$ in millions, except per share data)	F2022	1Q23	2Q23	3Q23	4Q23	F2023	1Q24E	2Q24E	3Q24E	4Q24E	F2024E	F2025E	F2026E
Net Sales	\$12,652	\$3,342	\$3,351	\$3,255	\$3,174	\$13,122	\$3,114	\$3,177	\$3,268	\$3,250	\$12,809	\$13,243	\$13,698
Cost of goods sold	8,697	2,305	2,241	2,183	2,098	8,826	2,079	2,054	2,120	2,077	8,330	8,573	8,826
Gross profit	\$3,955	\$1,037	\$1,110	\$1,072	\$1,076	\$4,295	\$1,035	\$1,122	\$1,148	\$1,173	\$4,479	\$4,670	\$4,872
Selling, general and admin expense	2,580	634	667	692	684	2,677	631	642	677	679	2,628	2,717	2,810
Operating profit	\$1,375	\$404	\$443	\$380	\$392	\$1,619	\$405	\$480	\$472	\$494	\$1,851	\$1,953	\$2,061
Interest expense	219	70	73	75	85	303	82	78	75	75	310	300	300
Other income (expense), net	121	17	28	26	25	96	13	13	13	13	50	50	50
Earnings before income taxes	\$1,277	\$351	\$398	\$331	\$332	\$1,412	\$335	\$415	\$409	\$431	\$1,591	\$1,703	\$1,811
Income taxes	266	79	85	65	63	292	77	95	94	99	366	392	417
Earnings (loss) from uncons. entities	10	2	2	-	2	6	1	1	1	1	5	5	5
NCI	2	4	6	-	3	13	3	3	3	3	10	10	8
Adj Net Income	\$1,014	\$270	\$309	\$266	\$268	\$1,113	\$257	\$318	\$314	\$331	\$1,220	\$1,306	\$1,392
Diluted EPS	\$2.95	\$0.78	\$0.90	\$0.77	\$0.78	\$3.23	\$0.75	\$0.93	\$0.91	\$0.96	\$3.55	\$3.80	\$4.05
Diluted shares out	343.3	345.0	345.0	345.0	344.0	344.8	344.0	344.0	344.0	344.0	344.0	344.0	344.0
Dividends	\$2.33	\$0.59	\$0.60	\$0.60	\$0.56	\$2.35	\$0.56	\$0.56	\$0.58	\$0.58	\$2.27	\$2.34	\$2.41
YoY \$ chg	1.3%	1.7%	3.4%	3.4%	-5.1%	0.9%	-5.1%	-6.7%	-3.9%	3.0%	-3.3%	3.0%	3.0%
EBITDA Bridge													
EBIT	\$1,374.8	\$403.8	\$443.0	\$380.1	\$391.8	\$1,618.7	\$404.6	\$480.4	\$471.8	\$493.9	\$1,850.7	\$1,953.2	\$2,061.3
D&A	478.0	116.0	110.0	112.0	81.0	419.0	101.3	101.3	101.3	101.3	405.0	425.0	425.0
EBITDA	\$1,852.8	\$519.8	\$553.0	\$492.1	\$472.8	\$2,037.7	\$505.8	\$581.7	\$573.0	\$595.2	\$2,255.7	\$2,378.2	\$2,486.3
Margin analysis			0.0%	1.9%									
Gross margin	31.3%	31.0%	33.1%	32.9%	33.9%	32.7%	33.2%	35.3%	35.1%	36.1%	35.0%	35.3%	35.6%
Variable gross margin	42.6%	25.3%	55.1%	2000.0%	951.5%	72.5%	1.0%	-6.9%	571.1%	127.8%	-58.7%	44.1%	44.3%
SG&A % sales	20.4%	19.0%	19.9%	21.3%	21.6%	20.4%	20.3%	20.2%	20.7%	20.9%	20.5%	20.5%	20.5%
Operating profit margin	10.9%	12.1%	13.2%	11.7%	12.3%	12.3%	13.0%	15.1%	14.4%	15.2%	14.4%	14.7%	15.0%
EBITDA margin	14.6%	15.6%	16.5%	15.1%	14.9%	15.5%	16.2%	18.3%	17.5%	18.3%	17.6%	18.0%	18.2%
Pretax income margin	10.1%	10.5%	11.9%	10.2%	10.5%	10.8%	10.8%	13.1%	12.5%	13.3%	12.4%	12.9%	13.2%
Net income margin	8.0%	8.1%	9.2%	8.2%	8.4%	8.5%	8.2%	10.0%	9.6%	10.2%	9.5%	9.9%	10.2%
Tax rate	20.8%	22.5%	21.4%	19.6%	19.0%	20.7%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
YoY % change													
Sales	-10.8%	9.3%	5.3%	0.1%	0.3%	3.7%	-6.8%	-5.2%	0.4%	2.4%	-2.4%	3.4%	3.4%
Gross Profit	-14.1%	7.5%	9.2%	8.1%	9.6%	8.6%	-0.2%	1.1%	7.1%	9.0%	4.3%	4.3%	4.3%
Operating profit	-23.8%	8.1%	20.1%	15.4%	29.3%	17.7%	0.2%	8.5%	24.1%	26.1%	14.3%	5.5%	5.5%
Pretax income	-30.5%	-0.8%	13.5%	10.6%	21.5%	10.6%	-4.5%	4.3%	23.6%	30.0%	12.7%	7.1%	6.3%
Net income	-29.1%	-4.5%	15.0%	8.5%	20.6%	9.8%	-4.8%	3.0%	18.0%	23.6%	9.6%	7.1%	6.5%
EPS	-29.1%	-5.4%	14.0%	8.2%	20.9%	9.3%	-4.6%	3.3%	18.3%	23.6%	9.9%	7.1%	6.5%
SG&A expense	-7.9%	7.1%	3.0%	4.4%	0.8%	3.7%	-0.5%	-3.8%	-2.2%	-0.7%	-1.8%	3.4%	3.4%
QoQ % change													
Sales		5.6%	0.3%	-2.9%	-2.5%		-1.9%	2.0%	2.9%	-0.6%			
Gross Margin		0.0%	6.7%	-0.6%	2.9%		-1.9%	6.3%	-0.5%	2.7%			
SG&A		-6.6%	5.3%	3.7%	-1.1%		-7.8%	1.7%	5.4%	0.4%			
EPS		21.5%	14.5%	-13.9%	0.9%		-4.1%	23.9%	-1.4%	5.4%			
YoY bps chg													
Gross margin	(122.4)	(53.4)	117.2	242.0	287.2	147.4	220.0	220.0	220.0	220.0	223.2	30.0	30.0
Operating margin	(185.4)	(13.9)	162.6	154.8	276.5	147.0	90.9	190.5	275.7	285.3	211.2	30.0	30.0
Adj EBITDA inc JV	(136.9)	(56.1)	116.8	151.3	130.3	88.6	68.9	180.9	241.4	341.7	208.1	34.7	19.4
Pre-tax income margin	(286.2)	(107.1)	84.9	96.6	182.3	66.7	26.3	118.5	235.0	282.1	166.0	44.2	36.3
Net income margin	(207.1)	(117.2)	77.1	63.0	141.8	46.7	17.2	79.8	142.8	174.6	104.3	34.2	29.5

Source: K, BofA Global Research

BofA GLOBAL RESEARCH



Price objective basis & risk

Kellanova (K)

Our price objective of \$60 is based on 16x our CY25 EPS estimate. This is a premium to center store packaged food peers and a discount to pure play snacking companies. In our view this is appropriate given its sales mix is 60% snacks.

Upside risks are: 1) Snacks portfolio growth accelerates given the more focused portfolio and strategy 2) Margins expand ahead of expectations on over delivery of productivity and sales leverage and 3)

Downside risks are: 1) Non-snacks drags growth more than expected 2) Investor sentiment weakens on the growth prospects for snacking 3) greater than expected trade down to private label in developed markets, and 4) inflation to taper slower than expected and pressuring margins.

Analyst Certification

I, Peter T. Galbo, 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 - Consumables Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	BellRing Brands Inc	BRBR	BRBR US	Bryan D. Spillane
	Coca-Cola Europacific Partners plc	CCEP	CCEP US	Bryan D. Spillane
	Colgate-Palmolive Company	CL	CL US	Bryan D. Spillane
	Constellation Brands	STZ	STZ US	Bryan D. Spillane
	Coty Inc.	COTY	COTY US	Anna Lizzul
	e.l.f. Beauty	ELF	ELF US	Anna Lizzul
	Freshpet, Inc.	FRPT	FRPT US	Bryan D. Spillane
	Kenvue Inc.	KVUE	KVUE US	Anna Lizzul
	Keurig Dr Pepper	KDP	KDP US	Bryan D. Spillane
	Kraft Heinz Company	KHC	KHC US	Bryan D. Spillane
	Lamb Weston Holdings Inc	LW	LW US	Peter T. Galbo, CFA
	McCormick & Co.	MKC	MKC US	Peter T. Galbo, CFA
	Mondelez International	MDLZ	MDLZ US	Bryan D. Spillane
	Monster Beverage Corporation	MNST	MNST US	Peter T. Galbo, CFA
	PepsiCo	PEP	PEP US	Bryan D. Spillane
	Philip Morris International	PM	PM US	Lisa K. Lewandowski
	Pilgrim's Pride Corp.	PPC	PPC US	Peter T. Galbo, CFA
	The Coca Cola Company	KO	KO US	Bryan D. Spillane
	The Procter & Gamble Company	PG	PG US	Bryan D. Spillane
NEUTRAL				
	Altria Group	MO	MO US	Lisa K. Lewandowski
	Celsius Holdings Inc	CELH	CELH US	Jonathan Keypour
	Church & Dwight	CHD	CHD US	Anna Lizzul
	Clorox	CLX	CLX US	Anna Lizzul
	Conagra Brands, Inc.	CAG	CAG US	Peter T. Galbo, CFA
	Estee Lauder Companies Inc.	EL	EL US	Bryan D. Spillane
	General Mills	GIS	GIS US	Bryan D. Spillane
	JM Smucker Company	SJM	SJM US	Peter T. Galbo, CFA
	Kellanova	K	K US	Peter T. Galbo, CFA
	Molson Coors Beverage Company	TAP	TAP US	Bryan D. Spillane
	The Duckhorn Portfolio, Inc.	NAPA	NAPA US	Peter T. Galbo, CFA
	The Hershey Company	HSY	HSY US	Bryan D. Spillane
	Tyson Foods, Inc.	TSN	TSN US	Peter T. Galbo, CFA
	Utz Brands	UTZ	UTZ US	Peter T. Galbo, CFA
	WK Kellogg Co	KLG	KLG US	Peter T. Galbo, CFA

US - Consumables Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
UNDERPERFORM	Brown-Forman Corporation	BFB	BF/B US	Bryan D. Spillane
	Campbell Soup Company	CPB	CPB US	Peter T. Galbo, CFA
	Canopy Growth	YWEE	WEED CN	Lisa K. Lewandowski
	Canopy Growth	CGC	CGC US	Lisa K. Lewandowski
	Cronos Group	YCRON	CRON CN	Lisa K. Lewandowski
	Cronos Group	CRON	CRON US	Lisa K. Lewandowski
	Dole plc	DOLE	DOLE US	Bryan D. Spillane
	Herbalife Nutrition Ltd	HLF	HLF US	Anna Lizzul
	Hormel Foods Corp.	HRL	HRL US	Peter T. Galbo, CFA
RSTR	Kimberly-Clark	KMB	KMB US	Anna Lizzul
	The Vita Coco Company, Inc.	COCO	COCO US	Bryan D. Spillane

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

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

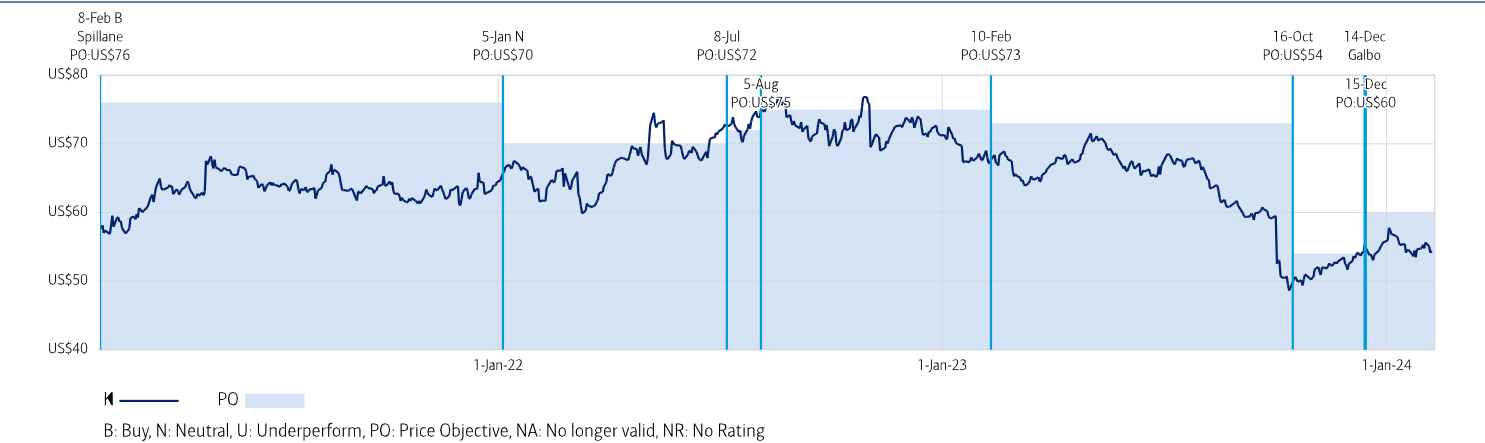
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Disclosures

Important Disclosures

Kellanova (K) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Food Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	33	49.25%	Buy	16	48.48%
Hold	17	25.37%	Hold	10	58.82%
Sell	17	25.37%	Sell	8	47.06%

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.

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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%

^{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.

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