

Johnson & Johnson

4Q Preview: Earnings should be fine; 2024 outlook details / key events a key focus

Reiterate Rating: NEUTRAL | PO: 180.00 USD | Price: 161.68 USD

Biopharma remains attractive with current backdrop

As discussed in our [2024 Biopharma Outlook](#), we remain optimistic on Biopharma performance given a reasonable sector valuation, an improving macro backdrop and what's likely to be higher HC policy noise but no major action. Indeed, sentiment on the sector has turned more bullish since November, with increasing generalist interest beyond just obesity. Looking ahead, we think continued M&A / BD activities as well as break-through innovations / product launches in large therapeutic categories should continue to drive incremental investor interest. The next two weeks will be key for the sector based on initial 2024 guidance and more details across the industry on capital deployment strategies and the pace of pipeline / commercial investments. On that note, JNJ kicks off earnings season, which could help define the sector tone for 2024.

JNJ will report 4Q earnings Tuesday, 1/23 at 8:30am ET (877-869-3847).

4Q & 2024 in-line; pipeline progression in focus

Overall, we expect a muted 4Q given management reaffirmed 2023 results and provided 2024 guidance at the Enterprise Business Review Day in December (see [our takeaways](#)); as such, there should be no surprises coming out of 4Q earnings. That said, we anticipate the focus will be on the competitive dynamics and outlook for key growth franchises (Oncology & Immunology), data expectations for nivalimab and TARIS, as well as an update on talc litigation. Reiterate Neutral rating, \$180 PO.

We expect J&J's 4Q numbers to be at the higher end of guidance (2023e guidance: reported revenue \$83.6-84.0B and adj. op EPS \$9.85-\$9.91). We model total 4Q revenue of \$21.3B and EPS of \$2.31 (consensus \$21.1B and \$2.28) and 2024 revenue of \$88.2B and EPS of \$10.75 (consensus \$88.2B and \$10.69). In 2024, we expect a moderate pace of growth in Pharma segment (+3%, +\$1.4B y/y), driven by strong uptake in Oncology (+11%, +\$1.9B y/y; Darzalex +16%, +\$1.6B y/y; Carvykti +93%, +\$470M y/y), offset by declining sales in Infectious Diseases (-28%, -\$1.2B y/y; COVID vaccine -100%, -\$1.1B y/y) and stabilization of Immunology (+1%, +\$140M y/y; Tremfya +17%, +\$520M y/y), Neurosciences (+3%, +\$200M y/y) and Cardiometabolic/Pulmonary (+1%, +\$90M y/y) franchises. Compared to consensus, we're above on Stelara (+\$1.3B) due to delayed LOE impact but below on Darzalex (-\$400M) due to more moderate ex-US growth expectations. *Continued on pg3 for more details, including our thoughts on MedTech>>>*

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	9.80	10.15	9.95	10.75	10.80
GAAP EPS	7.81	6.73	5.54	6.16	6.20
EPS Change (YoY)	22.0%	3.6%	-2.0%	8.0%	0.5%
Consensus EPS (Bloomberg)			9.92	10.69	11.22
DPS	4.13	4.37	4.76	4.72	4.74
Valuation (Dec)					
P/E	16.5x	15.9x	16.2x	15.0x	15.0x
GAAP P/E	20.7x	24.0x	29.2x	26.2x	26.1x
Dividend Yield	2.6%	2.7%	2.9%	2.9%	2.9%
EV / EBITDA*	14.6x	14.5x	14.9x	14.1x	14.2x
Free Cash Flow Yield*	4.6%	4.0%	5.4%	4.7%	4.5%

* For full definitions of *IQmethod*SM measures, see page 7.

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12648726

Timestamp: 22 January 2024 05:30AM EST

22 January 2024

Equity

Key Changes

(US\$)	Previous	Current
2023E Rev (m)	84,809.1	85,054.8
2024E Rev (m)	88,440.9	88,231.6
2025E Rev (m)	88,726.8	89,290.7
2023E EPS	10.13	9.95
2024E EPS	10.90	10.75
2025E EPS	10.85	10.80
2023E EBITDA (m)	32,111.3	31,576.5
2024E EBITDA (m)	33,613.7	33,439.6
2025E EBITDA (m)	33,028.0	33,181.0
2023E DPS	4.85	4.76

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Stock Data

Price	161.68 USD
Price Objective	180.00 USD
Date Established	18-Apr-2023
Investment Opinion	A-2-7
52-Week Range	144.95 USD - 175.97 USD
Mkt Val (mn) / Shares Out (mn)	431,944 USD / 2,671.6
Free Float	99.9%
Average Daily Value (mn)	1088.59 USD
BofA Ticker / Exchange	JNJ / NYS
Bloomberg / Reuters	JNJ US / JNJ.N
ROE (2023E)	33.4%
Net Dbt to Eqty (Dec-2022A)	33.2%
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"](#).



iQprofileSM Johnson & Johnson

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	18.4%	18.0%	16.3%	16.5%	16.6%
Return on Equity	38.2%	35.9%	33.4%	34.5%	34.4%
Operating Margin	31.5%	31.6%	32.8%	33.5%	33.6%
Free Cash Flow	19,758	17,185	23,443	20,237	19,348

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	0.9x	0.8x	1.1x	0.9x	0.9x
Asset Replacement Ratio	1.4x	1.5x	1.0x	1.0x	1.2x
Tax Rate	14.0%	15.2%	15.5%	16.2%	16.2%
Net Debt-to-Equity Ratio	26.0%	33.2%	23.8%	17.0%	11.6%
Interest Cover	NM	NA	NA	NM	NM

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	93,775	94,943	85,055	88,232	89,291
% Change	13.6%	1.2%	-10.4%	3.7%	1.2%
Gross Profit	68,752	68,797	63,936	88,232	89,291
% Change	16.6%	0.1%	-7.1%	38.0%	1.2%
EBITDA	32,221	32,642	31,576	33,440	33,181
% Change	17.7%	1.3%	-3.3%	5.9%	-0.8%
Net Interest & Other Income	936	1,915	2,200	1,720	1,420
Net Income (Adjusted)	26,195	27,038	25,438	26,178	26,343
% Change	22.2%	3.2%	-5.9%	2.9%	0.6%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	26,195	27,038	25,438	26,178	26,343
Depreciation & Amortization	2,693	2,677	3,687	3,921	3,165
Change in Working Capital	(4,238)	(4,011)	3,107	348	(64)
Deferred Taxation Charge	(2,079)	(1,663)	1,468	(286)	(95)
Other Adjustments, Net	839	(2,847)	(6,637)	(6,169)	(6,201)
Capital Expenditure	(3,652)	(4,009)	(3,619)	(3,755)	(3,800)
Free Cash Flow	19,758	17,185	23,443	20,237	19,348
% Change	-2.1%	-13.0%	36.4%	-13.7%	-4.4%
Share / Issue Repurchase	(3,456)	(6,035)	(4,500)	(4,500)	(4,500)
Cost of Dividends Paid	(11,032)	(11,682)	(11,371)	(10,733)	(10,801)
Change in Debt	(990)	7,452	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	14,487	14,127	21,699	26,704	30,751
Trade Receivables	15,283	16,160	13,982	14,504	14,678
Other Current Assets	31,209	25,007	21,320	33,962	40,699
Property, Plant & Equipment	18,962	19,803	19,874	19,948	20,022
Other Non-Current Assets	102,077	112,281	102,867	98,975	95,544
Total Assets	182,018	187,378	179,741	194,092	201,694
Short-Term Debt	3,766	12,771	12,771	12,771	12,771
Other Current Liabilities	41,460	43,031	30,912	43,392	49,894
Long-Term Debt	29,985	26,888	26,888	26,888	26,888
Other Non-Current Liabilities	32,784	27,884	33,597	34,851	35,270
Total Liabilities	107,995	110,574	104,167	117,903	124,823
Total Equity	74,023	76,804	75,574	76,190	76,871
Total Equity & Liabilities	182,018	187,378	179,741	194,092	201,694

* For full definitions of iQmethodSM measures, see page 7.

Company Sector

Pharmaceuticals

Company Description

Johnson & Johnson is a leading global health care company that develops, manufactures and markets a diversified portfolio of products in pharmaceuticals and medical devices.

Investment Rationale

We rate JNJ Neutral given a stable risk profile and near term growth outlook, but murkier long term picture given impending erosion of major pharma products and talc uncertainty

Stock Data

Average Daily Volume 6,732,993

Quarterly Earnings Estimates

	2022	2023
Q1	2.67A	2.41A
Q2	2.59A	2.56A
Q3	2.55A	2.66E
Q4	2.35A	2.31E



Important pipeline updates over next 12 months

While expectations are generally low for nipocalimab due to albumin binding/LDL safety concerns, there may be an upside opportunity for the phase 3 readouts in myasthenia gravis and warm autoimmune hemolytic anemia in early 2024 if nipocalimab can demonstrate a competitive efficacy/safety profile vs. Argenx's Vyvgart. On TARIS, we think bladder cancer presents a significant long-term opportunity for J&J given the unmet needs and there is room for multiple players. That said, we will have a greater clarity on the long-term durability/tolerability profile of the pretzel system versus competitor CG Oncology's oncolytic virus in bladder cancer (see CG [bladder data takeaway](#)) in 2Q24 for J&J and 4Q24 for CG. Importantly, a positive aticaprant phase 3 data in adjunctive MDD (data expected in mid-2024) could lift the overall sentiment on the KOR approach for the treatment of MDD, a multi-billion dollar opportunity (see [NMRA initiation](#)).

MedTech should fare well in 4Q

J&J's Medech division should be largely in line to better as payers are calling out higher Nov/Dec utilization. We think we'll see normal to slightly elevated seasonality in Q4'23. The Street is modeling JNJ devices y/y growth of 6.7% which represents a 180bps comp adjusted deceleration from Q3'23 when the market should be stable to modestly better. For hips/knees specifically just normal seasonality suggests some upside to Street numbers (see [Q4 Hip and Knee after payer utilization commentary](#)).

Abbreviations:

BD: Business development
M&A: Mergers & acquisitions
MDD: Major depressive disorder
HC: Healthcare
LDL: Low-density lipoprotein

Continued on page 4 for Variance Table>>

Variance Table

Exhibit 2: JNJ 4Q Variance Table

We're modestly above consensus on 4Q revenue(+\$241M) and EPS (+\$0.03)

	4Q23		Change		2023E		2024E	
	BofA	Consensus	Q/Q	Y/Y	BofA	Consensus	BofA	Consensus
\$ in millions								
Stelara	2,754	2,592	(4%)	15%	10,859	10,315	11,019	9,722
Tremfya	916	899	3%	22%	3,153	3,023	3,676	3,572
Immunology	4,574	4,400	(6%)	11%	18,030	17,235	18,170	16,772
Prezista	444	440	(1%)	(10%)	1,859	1,854	1,707	1,573
COVID-19 Vaccine	-	42	(100%)	(100%)	1,073	1,097	0	224
Infectious Diseases	838	838	(2%)	(46%)	4,403	4,369	3,184	3,044
Invega	1,022	1,019	(1%)	1%	4,127	4,182	4,150	4,282
Concerta	202	204	10%	70%	685	765	1,020	745
Neuroscience	1,783	1,788	2%	3%	7,122	7,138	7,327	7,334
Imbruvica	773	760	(4%)	(11%)	3,250	3,222	2,837	2,843
Darzalex	2,574	2,540	3%	24%	9,768	9,893	11,365	11,777
Erleada	661	693	5%	22%	2,400	2,426	2,916	2,961
Carvykti	169	175	207%	NM	510	507	984	1,032
Oncology	4,758	4,598	5%	21%	17,801	17,666	19,718	20,069
Xarelto	627	660	0%	(6%)	2,467	2,594	2,393	2,522
Pulmonary hypertension	966	937	1%	11%	3,765	3,721	3,931	3,939
Total Pharmaceutical	13,840	13,526	(0%)	5%	54,876	54,096	56,297	55,601
Medical Devices	7,451	7,488	(0%)	10%	30,176	30,441	31,935	32,029
Total Revenue	21,291	21,050	(0%)	7%	85,055	84,818	88,232	88,180

	4Q23		Change		2023E		2024E	
	BofA	Consensus	Q/Q	Y/Y	BofA	Consensus	BofA	Consensus
\$ in millions								
Revenue	21,291	21,050	(0%)	(10%)	85,055	84,818	88,232	88,180
COGS	5,470	5,244	5%	(15%)	21,119	21,104	22,146	21,989
Gross Profit	16,053	15,806	(1%)	(7%)	63,936	63,714	66,086	66,191
SG&A	5,706	5,642	6%	(12%)	21,387	21,301	22,009	22,006
R&D	4,279	3,946	27%	16%	14,659	14,288	14,558	14,931
Adjusted Pre-Tax Income	6,516	6,564	(19%)	(12%)	30,090	30,140	31,239	30,943
Taxes	925	881	(26%)	(23%)	4,652	4,598	5,061	4,896
Net earnings	5,591	5,684	(18%)	(10%)	25,438	25,532	26,178	26,036
Non-GAAP EPS (diluted)	2.31	2.28	(13%)	(2%)	9.94	9.92	10.75	10.69
Shares Outstanding - Diluted	2,419	2,435	(5%)	(9%)	2,557	2,562	2,435	2,429

- Y/Y comp against pre-Kenvue spin-off

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH



Price objective basis & risk

Johnson & Johnson (JNJ)

Our price objective of \$180/share is based on a sum of the parts (SOTP) of roughly 18x MedTech multiple, and 14x pharma '24 multiple, slightly below peers given looming loss of exclusivity (LOE) and talc uncertainty, yielding \$57/share, and \$123/share, respectively.

The downside risks to our PO are slower growth in MedTech due to competitive pressure and faster-than-expected erosion from biosimilars to the pharma business.

Upside risks to our PO are better-than-expected launch of new products, better-than-expected clinical data for the pharma pipeline, quick resolution of talc litigation, and constructive M&A.

Analyst Certification

I, Geoff Meacham, 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 - Biopharmaceuticals Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	89bio, Inc	ETNB	ETNB US	Geoff Meacham
	Acumen Pharma	ABOS	ABOS US	Geoff Meacham
	Agiros Pharmaceuticals	AGIO	AGIO US	Greg Harrison, CFA
	Amylyx Pharmaceuticals	AMLX	AMLX US	Geoff Meacham
	BioMarin	BMRN	BMRN US	Geoff Meacham
	BioXcel Therapeutics	BTAI	BTAI US	Greg Harrison, CFA
	BridgeBio Pharma	BBIO	BBIO US	Greg Harrison, CFA
	Caribou	CRBU	CRBU US	Geoff Meacham
	CRISPR Therapeutics	CRSP	CRSP US	Geoff Meacham
	Eli Lilly and Company	LLY	LLY US	Geoff Meacham
	Gilead Sciences Inc.	GILD	GILD US	Geoff Meacham
	HUTCHMED	HCM	HCM US	Alec W. Stranahan
	Immatics	IMTX	IMTX US	Alec W. Stranahan
	Insmid Incorporated	INSM	INSM US	Jason Zemansky
	Intellia Therapeutics	NTLA	NTLA US	Greg Harrison, CFA
	Janux Therapeutics	JANX	JANX US	Geoff Meacham
	Keros	KROS	KROS US	Greg Harrison, CFA
	Kiniksa Pharmaceuticals, Ltd.	KNSA	KNSA US	Geoff Meacham
	Krystal Biotech	KRYS	KRYS US	Alec W. Stranahan
	Kura Oncology	KURA	KURA US	Jason Zemansky
	Liquidia Corporation	LQDA	LQDA US	Greg Harrison, CFA
	Lyell Immunopharma	LYEL	LYEL US	Geoff Meacham
	MeiraGTx	MGTX	MGTX US	Alec W. Stranahan
	Merck & Co.	MRK	MRK US	Geoff Meacham
	Mineralys Therapeutics	MLYS	MLYS US	Greg Harrison, CFA
	Neumora Therapeutics	NMRA	NMRA US	Geoff Meacham
	Rani Therapeutics	RANI	RANI US	Geoff Meacham
	Regenxbio, Inc.	RGNX	RGNX US	Alec W. Stranahan
	Revolution Medicines	RVMD	RVMD US	Alec W. Stranahan
	Rocket Pharmaceuticals, Inc.	RCKT	RCKT US	Greg Harrison, CFA
	Royalty Pharma	RPRX	RPRX US	Geoff Meacham
	Sana Biotechnology	SANA	SANA US	Geoff Meacham
	SpringWorks	SWTX	SWTX US	Alec W. Stranahan
	Syndax Pharmaceuticals	SNDX	SNDX US	Jason Zemansky
	Traverse Therapeutics Inc	TVTX	TVTX US	Greg Harrison, CFA
	Turnstone Biologics	TSBX	TSBX US	Geoff Meacham

US - Biopharmaceuticals Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Vertex Pharmaceuticals Inc.	VRTX	VRTX US	Geoff Meacham
	Werewolf Therapeutics	HOWL	HOWL US	Jason Zemansky
	Xencor	XNCR	XNCR US	Alec W. Stranahan
NEUTRAL				
	AbbVie	ABBV	ABBV US	Geoff Meacham
	Alector, Inc	ALEC	ALEC US	Greg Harrison, CFA
	Amgen Inc.	AMGN	AMGN US	Geoff Meacham
	Arcus Biosciences	RCUS	RCUS US	Jason Zemansky
	Beam Therapeutics	BEAM	BEAM US	Greg Harrison, CFA
	Biogen Inc.	BIIB	BIIB US	Geoff Meacham
	Bristol-Myers Squibb	BMJ	BMJ US	Geoff Meacham
	Cytokinetics, Incorporated	CYTK	CYTK US	Jason Zemansky
	Editas Medicine	EDIT	EDIT US	Greg Harrison, CFA
	Erasca	ERAS	ERAS US	Alec W. Stranahan
	Esperion	ESPR	ESPR US	Jason Zemansky
	Exscientia	EXAI	EXAI US	Alec W. Stranahan
	IGM Biosciences	IGMS	IGMS US	Greg Harrison, CFA
	Johnson & Johnson	JNJ	JNJ US	Geoff Meacham
	Kymira Therapeutics	KYMR	KYMR US	Geoff Meacham
	Moderna	MRNA	MRNA US	Geoff Meacham
	Pfizer	PFE	PFE US	Geoff Meacham
	Recursion Pharmaceuticals, Inc.	RXR	RXR US	Alec W. Stranahan
	Tyra Biosciences	TYRA	TYRA US	Greg Harrison, CFA
	Vir	VIR	VIR US	Geoff Meacham
	Y-mAbs Therapeutics, Inc	YMAB	YMAB US	Alec W. Stranahan
UNDERPERFORM				
	AlloVir, Inc.	ALVR	ALVR US	Jason Zemansky
	CureVac	CVAC	CVAC US	Geoff Meacham
	Day One Biopharmaceuticals	DAWN	DAWN US	Alec W. Stranahan
	LianBio	LIAN	LIAN US	Geoff Meacham
	Novavax	NVAX	NVAX US	Alec W. Stranahan
	Regeneron Pharmaceuticals Inc.	REGN	REGN US	Geoff Meacham
	Reneo Pharmaceuticals	RPHM	RPHM US	Jason Zemansky
	TG Therapeutics	TGTX	TGTX US	Alec W. Stranahan
	United Therapeutics Corporation	UTHR	UTHR US	Greg Harrison, CFA

IQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

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

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

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

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



Valuation Toolkit

Numerator

Denominator

*IQmethod*SM 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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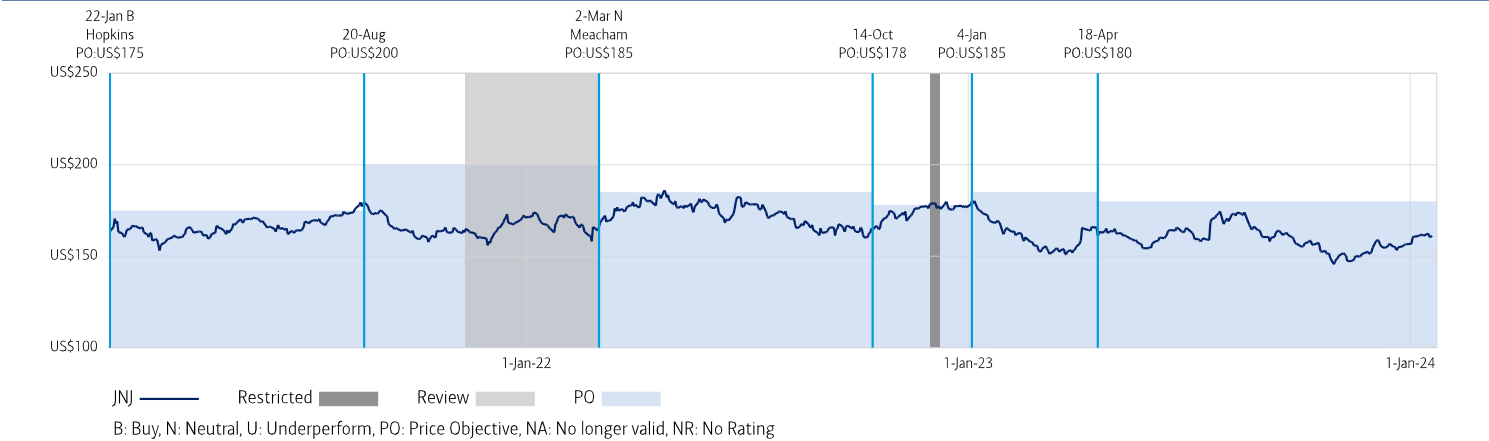
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Disclosures

Important Disclosures

Johnson & Johnson (JNJ) 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: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

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}
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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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