

e.l.f. Beauty

# Walmart shelf space: the next frontier; Raising estimates and PO

Reiterate Rating: BUY | PO: 230.00 USD | Price: 201.62 USD

## ELF has single-largest whitespace opportunity at Walmart

We continue to see the biggest near-term opportunity for ELF with shelf space expansions at Walmart. Currently, ELF has ~8 feet of shelf space at Walmart and ~3 feet at the drug channel, versus ~13 feet at Target and ~12 feet at Ulta versus ~20 feet for legacy brands, on average. ELF outperforms on market share in Target, at 18.2% versus 9.8% in tracked channels but is below average at Walmart, 9.4%, and drug, 5.4%. ELF continues to catch up to Target, with incremental gains at Walmart, with a further expansion in summer 2024. Over time, we expect shelf space at Walmart to exceed that of Target, as the retailer has 13x the number of Walmart supercenter locations versus the number of Target large format stores.

## Marketing ROI continues to increase, expands awareness

ELF invests in marketing and digital to drive sales, leverage costs, and grow EBITDA margin. The company still has significant room to expand its reach among demographics, while among ELF users, 55% view the brand very favorably and 38% view the brand somewhat favorably, according to Morning Consult. ELF's unaided brand awareness is just 26%, compared to 33% for L'Oreal, 43% for Cover Girl, and 52% for Maybelline.

## Raising our estimates, which remain above consensus

We raise our FQ4 sales estimate to +56% from +52%, above guidance of +48-53%, as tracked channel growth has exceeded the company's expectations of ~20%, and we expect untracked channel growth to beat. Our FQ4 adj. EBITDA estimate is unchanged at \$58m, as we expect higher marketing spend due to the Super Bowl commercial. We expect outsized growth in F25 despite difficult comps as ELF continues to increase brand awareness through marketing, continues to innovate with mix-accretive products, and gains market share.

## Reiterate Buy rating and raise PO to \$230 from \$200

We reiterate our Buy rating and raise our PO to \$230 from \$200 on our higher estimates. Our DCF analysis implies a 34x CY25e EV/EBITDA multiple (versus 32x previously given greater long-term growth prospects). We continue to view ELF as an outlier in our Consumer Staples coverage, as the company is still in a high-growth phase and continues to diversify its portfolio and customer base.

Estimates (Mar) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.84	1.66	3.20	3.78	4.16
GAAP EPS	0.41	1.11	2.28	2.79	3.05
EPS Change (YoY)	18.3%	97.6%	92.8%	18.1%	10.1%
Consensus EPS (Bloomberg)			2.96	3.59	4.40
DPS	0	0	0	0	0
Valuation (Mar)					
P/E	240.0x	121.5x	63.0x	53.3x	48.5x
GAAP P/E	491.8x	181.6x	88.4x	72.3x	66.1x
EV / EBITDA*	151.4x	96.8x	44.8x	31.6x	28.0x
Free Cash Flow Yield*	0.1%	0.9%	0.6%	1.9%	2.5%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 7.

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Timestamp: 06 March 2024 12:01AM EST

06 March 2024

Equity

### Key Changes

(US\$)	Previous	Current
Price Obj.	200.00	230.00
2024E Rev (m)	987.6	995.1
2025E Rev (m)	1,202.6	1,300.0
2026E Rev (m)	1,347.0	1,473.9
2025E EPS	3.61	3.78
2026E EPS	3.80	4.16

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### Stock Data

Price	201.62 USD
Price Objective	230.00 USD
Date Established	5-Mar-2024
Investment Opinion	C-1-9
52-Week Range	67.59 USD - 221.83 USD
Mrkt Val (mn) / Shares Out (mn)	11,118 USD / 55.1
Free Float	97.2%
Average Daily Value (mn)	347.03 USD
BofA Ticker / Exchange	ELF / NYS
Bloomberg / Reuters	ELF US / ELF.N
ROE (2024E)	34.6%
Net Dbt to Eqty (Mar-2023A)	-13.2%
ESGMeter <sup>TM</sup>	Medium

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".

DCF: discounted cash flow  
PO: price objective

ROI: return on investment

# iQprofile<sup>SM</sup> e.l.f. Beauty

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	9.1%	18.6%	25.1%	20.8%	18.8%
Return on Equity	15.5%	25.4%	34.6%	28.6%	24.0%
Operating Margin	12.5%	16.6%	21.2%	22.1%	22.0%
Free Cash Flow	15	100	67	212	282

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.4x	1.1x	0.4x	1.0x	1.2x
Asset Replacement Ratio	0.2x	0.1x	0.2x	0.1x	0.1x
Tax Rate	19.9%	4.8%	14.1%	22.0%	22.0%
Net Debt-to-Equity Ratio	17.1%	-13.2%	22.9%	-6.7%	-28.7%
Interest Cover	20.1x	47.5x	48.8x	NA	NA

## Income Statement Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	392	579	995	1,300	1,474
% Change	23.3%	47.6%	71.9%	30.6%	13.4%
Gross Profit	252	390	701	926	1,060
% Change	22.1%	55.1%	79.6%	32.1%	14.4%
EBITDA	75	117	253	358	404
% Change	22.3%	56.4%	116.3%	41.8%	12.8%
Net Interest & Other Income	(12)	(5)	(13)	0	0
<b>Net Income (Adjusted)</b>	<b>45</b>	<b>92</b>	<b>185</b>	<b>224</b>	<b>253</b>
<b>% Change</b>	<b>22.3%</b>	<b>103.0%</b>	<b>101.4%</b>	<b>21.3%</b>	<b>12.9%</b>

## Free Cash Flow Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	45	92	185	224	253
Depreciation & Amortization	27	22	35	58	66
Change in Working Capital	(47)	(5)	(129)	(75)	(40)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(6)	(7)	(15)	13	13
Capital Expenditure	(5)	(2)	(8)	(8)	(10)
<b>Free Cash Flow</b>	<b>15</b>	<b>100</b>	<b>67</b>	<b>212</b>	<b>282</b>
<b>% Change</b>	<b>-36.1%</b>	<b>581.6%</b>	<b>-32.7%</b>	<b>213.9%</b>	<b>33.4%</b>
Share / Issue Repurchase	2	8	3	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(30)	(30)	109	0	0

## Balance Sheet Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	43	121	114	326	608
Trade Receivables	46	68	123	160	182
Other Current Assets	104	115	234	282	306
Property, Plant & Equipment	11	8	15	12	9
Other Non-Current Assets	291	284	633	604	571
<b>Total Assets</b>	<b>495</b>	<b>596</b>	<b>1,119</b>	<b>1,384</b>	<b>1,676</b>
Short-Term Debt	6	6	100	100	100
Other Current Liabilities	59	102	170	181	186
Long-Term Debt	91	61	164	164	164
Other Non-Current Liabilities	26	16	27	27	27
<b>Total Liabilities</b>	<b>182</b>	<b>185</b>	<b>461</b>	<b>472</b>	<b>478</b>
<b>Total Equity</b>	<b>312</b>	<b>411</b>	<b>657</b>	<b>912</b>	<b>1,198</b>
<b>Total Equity &amp; Liabilities</b>	<b>495</b>	<b>596</b>	<b>1,119</b>	<b>1,384</b>	<b>1,676</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 7.

## Company Sector

Household Products

## Company Description

e.l.f. Beauty, Inc. (ELF) sells professional-quality makeup and skincare products at affordable prices. Its products are vegan, paraben-free, cruelty-free, and focused on clean beauty. e.l.f. Beauty, Inc. operates with five brands: e.l.f. Cosmetics, e.l.f. SKIN, W3LL PEOPLE, Keys Soulcare, and Naturium. Brushes, primers, concealers, brows, and sponges comprise over 50% of ELF's sales. ELF has 15% of its sales outside of the U.S.

## Investment Rationale

We rate ELF shares Buy. The company has a #1 or #2 position across 16 segments of the color cosmetics category, which collectively comprise over 75% of sales. We expect continued market share growth across ELF's categories. Volumes remain strong despite higher-priced innovation. ELF has significant whitespace opportunity to increase shelf space with distributors. ELF has an attractive business model with a scalable supply chain, without need for significant capital to fund its manufacturing.

## Stock Data

Average Daily Volume 1,721,211

## Quarterly Earnings Estimates

	2023	2024
Q1	0.39A	1.10A
Q2	0.36A	0.82A
Q3	0.48A	0.74A
Q4	0.42A	0.55E

## BofA estimates remain above consensus long term

ELF has exceeded Street estimates and raised guidance through F24, and our estimates remain above consensus for F24 and F25. For F24, ELF has guided to net sales of \$980-\$990m, or +69-71% growth y/y. In FQ4, we expect sales to increase +56%, with gross margin +100bps; for the full year, we expect sales growth of +72% and gross margin expansion of +300bps, ahead of management's guidance of +280bps gross margin expansion. ELF's long-term outlook calls for a net sales CAGR of + mid-single digit (MSD) to + high single digit (HSD) and for its adj. EBITDA CAGR to outpace net sales growth. We expect sales growth of +31% y/y in F25, with adj. EBITDA growth outpacing sales growth at +42%. Farther out, we expect top-line growth to moderate but remain elevated in the low double digits (LDD), with adj. EBITDA growth farther ahead in the +LDD range. We expect outsized growth in F25 despite difficult comps as ELF continues to create mix-accretive innovative products and gains market share with whitespace opportunities in lip, eye, and skincare.

### Exhibit 1: ELF BofA estimates versus guidance versus consensus

ELF has consistently raised guidance through F24 (fiscal year ends March)

ELF OUTLOOK	5/24/2023	8/1/2023	11/1/2023	2/6/2024					
(\$ in mm, except per share)	FY24 guidance	FY24 guidance	F24 guidance	F24 guidance	FY24 BofAe	FY24 Street	FY25 BofAe	FY25 Street	Long-term outlook
Net revenues	\$705-\$720	\$792-\$802	\$896-\$906	\$980-\$990	\$995	\$993	\$1,300	\$1,267	Grow +MSD to +HSD net sales CAGR
% change y/y	+22-24%	+37-39%	+55-57%	+69-71%	71.9%	71.5%	30.6%	27.6%	
Gross margin (bps)	+100	+150	+225	+280	303	260	79	50	
Marketing and digital investment	+22-24% of net sales	+22-24% of net sales	+22-24% of net sales	+22-24% of net sales					
Adjusted EBITDA	\$144.5-\$147.5	\$171-\$174	\$197-200	\$218-\$220	\$253	\$228	\$358	\$301	Adj. EBITDA CAGR to outpace sales growth
% change y/y	+24-26%	+46-49%	+69-71%	+87-88%	116.3%	94.8%	41.8%	32.3%	
Tax rate	21-22%	17-18%	17-18%	14%	14.1%	14.2%	22.0%	19.8%	
Adjusted net income	\$98.5-\$100.5	\$125-\$127	\$144-\$146	\$164-\$166	\$184.9	\$170.0	\$224.3	\$208.0	
EPS	\$1.73-\$1.76	\$2.19-\$2.22	\$2.47-\$2.50	\$2.84-\$2.87	\$3.20	\$2.96	\$3.78	\$3.59	
Share count	57.0	57.0	58.0	58.0	57.7	57.4	59.3	57.9	

Source: Company reports, BofA Global Research estimates, Bloomberg consensus estimates.

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## Shelf space and productivity continue to increase

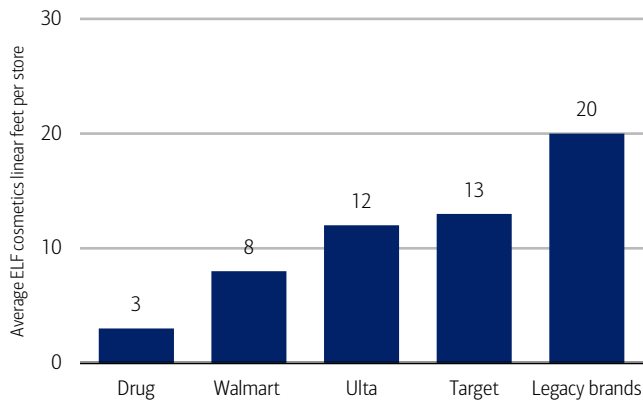
While we see further shelf space gains ahead at each retailer, we see the largest upside opportunity at Walmart given the retailer's footprint of supercenters (3500+ locations) versus Target's large-format stores with square footage over 170,000 (273 locations). Meanwhile, Target over-indexes in mid-sized stores, with square footage between 50,000 and 169,999 at 1500+ locations, compared to Walmart at 360 locations.

ELF is the most productive brand at its top three retailers in the US (Target, Walmart, and Ulta) on dollars per linear square foot and top two retailers in the UK (Superdrug and Boots). ELF proactively reduces its stock-keeping unit (SKU) count by ~25% annually, with decision making driven by beauty squad and its direct-to-consumer (DTC) platform and focuses on the holy grail products that are most effective, allowing ELF to double its sales per SKU over the last 5 years. ELF's sales at Target have increased by +28% over the last 5 years, 24% driven by productivity and 4% driven by increased shelf space. The increase is evenly split between units and price/mix, as ELF continues to innovate with more premium offerings.



**Exhibit 2: ELF cosmetics average linear feet per store, February 2024**

ELF has largest opportunity at Walmart, which may exceed Target over time

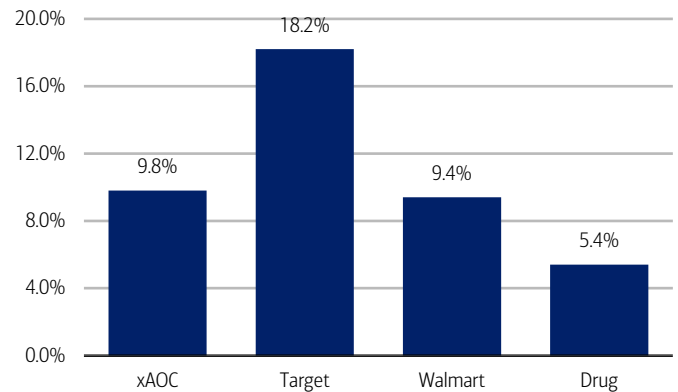


Source: Company reports, NielsenIQ.

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**Exhibit 3: ELF cosmetics market share**

ELF's market share at Target is nearly double that at Walmart



Source: Company reports, NielsenIQ L52W ending 12/30/23, color cosmetics category.

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**Exhibit 4: Walmart has significant square footage in supercenter format stores**

Square footage as of January 31, 2024

Walmart	Ending square footage	Total locations	Average Square footage
Walmart discount stores	37,815,673	360	105,044
Walmart supercenters	632,770,653	3,560	177,745

Source: Company reports and BofA Global Research.

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**Exhibit 5: Target has fewer than 300 large format stores**

Square footage as of November 2023

Target store square footage Q3'23	170,000 or more	50,000 - 169,999	49,999 or less	Total locations
	273	1542	141	1956

Source: Company reports and BofA Global Research.

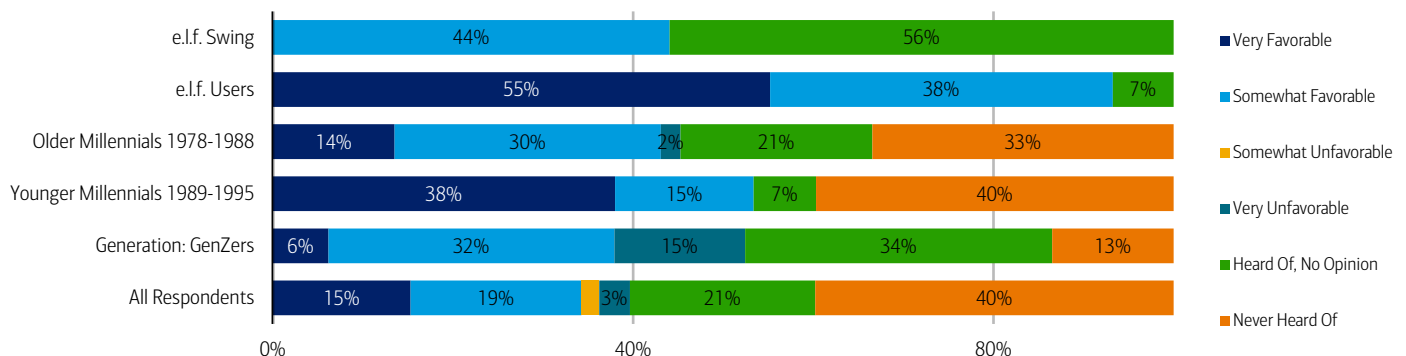
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**Brand awareness increasing through marketing efforts**

ELF continues to reach new demographics through marketing efforts and is leaning into traditional marketing through linear TV ads (most recently at the Super Bowl) to increase brand awareness. ELF has a significant opportunity to increase brand awareness with younger and older millennials, as 40% and 33% of those groups have not heard of the brand, respectively. While fewer Gen Z respondents have never heard of the brand, at 13%, more respondents have heard of the brand but have no opinion, at 34%. Meanwhile, younger millennials overwhelmingly view the brand most favorably, with 38% viewing the brand very favorably and 15% viewing the brand somewhat favorably.

**Exhibit 6: ELF users view the brand overwhelmingly positively, but ELF has room to improve with every demographic**

ELF has the largest opportunity to gain brand awareness with younger and older millennials



Source: Morning Consult, BofA Global Research.

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**Exhibit 7: ELF Income Statement**

Fiscal year-end March, \$ in millions except per-share data

	FY24E					FY25E				
	Jun-23 Q1	Sep-23 Q2	Dec-23 Q3	Mar-24 Q4	Mar-24 2024	Jun-24 Q1	Sep-24 Q2	Dec-24 Q3	Mar-25 Q4	Mar-25 2025
<b>Total Sales</b>	<b>216.3</b>	<b>215.5</b>	<b>270.9</b>	<b>292.3</b>	<b>995.1</b>	<b>302.9</b>	<b>293.1</b>	<b>338.7</b>	<b>365.3</b>	<b>1,300.0</b>
% change y/y	76.5%	76.1%	84.9%	56.0%	71.9%	40.0%	36.0%	25.0%	25.0%	30.6%
Cost of Goods Sold	63.8	63.1	79.0	87.9	293.8	88.6	84.6	94.8	105.5	373.5
% change y/y	61.0%	47.6%	65.2%	51.0%	55.9%	39.0%	34.0%	20.0%	20.0%	27.1%
<b>Gross Profit</b>	<b>152.6</b>	<b>152.4</b>	<b>192.0</b>	<b>204.3</b>	<b>701.2</b>	<b>214.2</b>	<b>208.5</b>	<b>243.9</b>	<b>259.8</b>	<b>926.4</b>
Gross Margin %	70.5%	70.7%	70.8%	69.9%	70.5%	70.7%	71.1%	72.0%	71.1%	71.3%
Gross margin change (bps)	283.7	567.4	347.6	99.6	302.8	21.1	43.1	116.6	120.3	79.4
% change y/y	83.9%	91.5%	94.4%	58.3%	79.6%	40.4%	36.8%	27.1%	27.2%	32.1%
Increase in gross profit	69.6	72.8	93.2		255.6					
<b>Operating expenses</b>										
SG&A- reported	91.9	112.2	160.1	172.5	536.8	128.7	151.5	200.2	217.4	697.7
SG&A- ex-charges	84.4	97.8	147.4	162.3	491.8	118.1	132.0	184.2	204.5	638.8
SG&A as % of sales	39.0%	45.4%	54.4%	55.5%	49.4%	39.0%	45.1%	54.4%	56.0%	49.1%
y/y change	53.4%	76.7%	116.1%	42.5%	68.2%	40.0%	35.0%	25.0%	26.0%	29.9%
Share-based comp expense	7.2	11.2	11.0	16.1	45.5	16.7	16.1	18.6	20.1	71.5
% of sales	3.3%	5.2%	4.1%	5.5%	4.6%	5.5%	5.5%	5.5%	5.5%	5.5%
Amortization expense	2.0	2.0	6.1		10.2					-
Other non-cash and non-recurring	(1.7)	(4.5)			(6.2)					-
Restructuring & other	1.5	3.2			4.7					-
Operating income GAAP	60.6	41.5	31.8	31.8	165.8	85.5	57.0	43.7	42.4	228.7
<b>Operating income</b>	<b>68.4</b>	<b>55.9</b>	<b>44.6</b>	<b>42.1</b>	<b>211.0</b>	<b>96.1</b>	<b>76.4</b>	<b>59.7</b>	<b>55.3</b>	<b>287.6</b>
Operating margin %	31.6%	25.9%	16.5%	14.4%	21.2%	31.7%	26.1%	17.6%	15.1%	22.1%
y/y change	144.6%	138.7%	46.1%	202.6%	120.2%	40.4%	36.8%	33.9%	31.6%	36.3%
D&A	3.9	5.6	10.3	10.3	30.0	12.7	14.4	15.4	15.4	57.9
D&A margin %	1.8%	2.6%	3.8%	4.4%	3.0%	4.2%	4.9%	4.6%	4.2%	4.5%
EBITDA reported	63.9	46.6	44.7	42.1	197.3	98.2	71.4	59.2	57.8	286.6
<b>Adj. EBITDA</b>	<b>74.3</b>	<b>61.0</b>	<b>59.1</b>	<b>58.2</b>	<b>252.6</b>	<b>114.9</b>	<b>87.5</b>	<b>77.8</b>	<b>77.9</b>	<b>358.1</b>
EBITDA margin %	34.3%	28.3%	21.8%	19.9%	25.4%	37.9%	29.9%	23.0%	21.3%	27.5%
y/y change	134.5%	124.0%	61.4%	173.8%	116.3%	54.6%	43.4%	31.6%	34.0%	41.8%
Interest Expense	0.3	-	4.0	-	4.3	-	-	-	-	-
Other expense (income) GAAP	0.6	0.4	(2.6)		(1.5)					-
Other expense (income) ex-charges	(2.8)	(0.3)	(5.5)		(8.6)					-
Pretax income GAAP	59.7	41.0	30.4	31.8	162.9	85.5	57.0	43.7	42.4	228.7
Pretax income ex-charges	71.0	56.2	46.1	42.1	215.3	96.1	76.4	59.7	55.3	287.6
Pretax margin %	32.8%	26.1%	17.0%	14.4%	21.6%	31.7%	26.1%	17.6%	15.1%	22.1%
Income tax benefit (provision)	(6.7)	(6.5)	(3.5)	(10.1)	(26.8)	(21.1)	(16.8)	(13.1)	(12.2)	(63.3)
Income taxes ex-charges	(8.1)	(9.0)	(3.2)	(10.1)	(30.4)	(21.1)	(16.8)	(13.1)	(12.2)	(63.3)
Tax rate ex-charges %	11.4%	16.1%	7.0%	24.0%	14.1%	22.0%	22.0%	22.0%	22.0%	22.0%
Minority interest										
Adjusted minority interest										
Net income GAAP	53.0	30.1	26.9	21.7	131.7	64.4	40.2	30.6	30.3	165.5
Net income ex-charges	62.9	47.1	42.9	32.0	184.9	75.0	59.6	46.6	43.2	224.3
<b>EPS from continuing operations</b>										
EPS - reported	0.93	0.52	0.49	0.37	2.28	1.10	0.68	0.51	0.50	2.79
<b>EPS - ex-charges</b>	<b>1.10</b>	<b>0.82</b>	<b>0.74</b>	<b>0.55</b>	<b>3.20</b>	<b>1.28</b>	<b>1.01</b>	<b>0.78</b>	<b>0.72</b>	<b>3.78</b>
Basic shares	53.9	54.4	55.1	55.3	54.7	55.5	55.7	55.9	56.14	55.8
Diluted shares	57.2	57.4	58.0	58.3	57.7	58.7	59.1	59.5	59.9	59.3

Source: Company reports and BofA Global Research estimates.

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## Price objective basis & risk

### e.l.f. Beauty (ELF)

Our price objective (PO) of \$230 is based on a discounted cash flow (DCF) analysis and implies a 34x CY25e EV/EBITDA multiple. Our DCF is predicated on a weighted-average cost of capital (WACC) of 9.7% and terminal growth rate of 4%. This is a premium to publicly traded beauty and Home and Personal Care (HPC) peers given stronger volume growth, price/mix gains, and market share momentum. We believe that this multiple is warranted as the company is still in a high-growth phase and continues to diversify its portfolio and customer base.

Downside risks to our price objective are 1) changing consumer preferences, particularly among younger consumers, 2) difficulty diversifying sales into older demographic groups, 3) operational and geopolitical risk from third-party manufacturing in China. ELF uses several third-party suppliers and manufacturers in China to source and manufacture nearly all of its products. Any disruption to their relationships may be detrimental to the company's sales.

## Analyst Certification

I, Anna Lizzul, 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
<b>BUY</b>				
	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
<b>NEUTRAL</b>				
	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 Hershey Company	HSY	HSY US	Bryan D. Spillane
	The Vita Coco Company, Inc.	COCO	COCO US	Bryan D. Spillane
	Tyson Foods, Inc.	TSN	TSN US	Peter T. Galbo, CFA

## US - Consumables Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Utz Brands	UTZ	UTZ US	Peter T. Galbo, CFA
	WK Kellogg Co	KLG	KLG US	Peter T. Galbo, CFA

## UNDERPERFORM

	Brown-Forman Corporation	BFB	BF/B US	Bryan D. Spillane
	Campbell Soup Company	CPB	CPB US	Peter T. Galbo, CFA
	Canopy Growth	YWEED	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 Ltd	HLF	HLF US	Anna Lizzul
	Hormel Foods Corp.	HRL	HRL US	Peter T. Galbo, CFA
	Kimberly-Clark	KMB	KMB US	Anna Lizzul
	The Duckhorn Portfolio, Inc.	NAPA	NAPA US	Peter T. Galbo, CFA

**iQmethod<sup>SM</sup> 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

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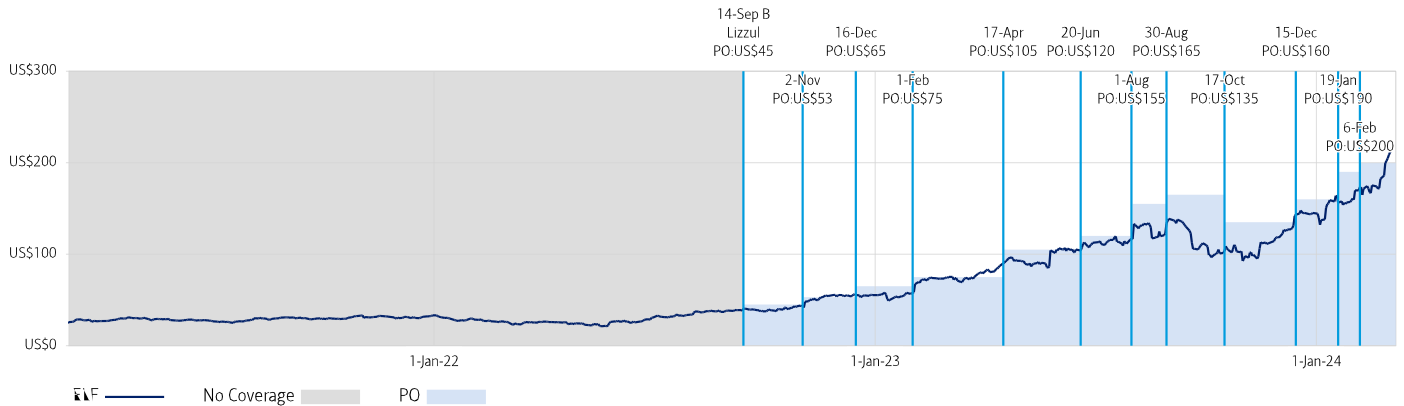
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### Equity Investment Rating Distribution: Consumer Products Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	32	50.00%	Buy	16	50.00%
Hold	19	29.69%	Hold	8	42.11%
Sell	13	20.31%	Sell	7	53.85%

### 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%

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