

## Deckers Outdoor Corp

## Hurdling over another high bar; Reiterate Buy

Reiterate Rating: BUY | PO: 875.00 USD | Price: 772.85 USD

## 3Q EPS beat led by UGG, higher gross margin

We reiterate our Buy and expect innovation and newness will continue to drive share gains at HOKA and UGG. DECK reported 3Q EPS of \$15.11, handily beating ests led by higher UGG sales and record margins. Gross margin increased 580bp to 58.7%, mainly driven by lower promos/higher pricing (+340bp), DTC mix (+100bp) and lower freight (+100bp). We are increasing our F24E EPS by 11% to \$27.05 as the 3Q beat is partially offset by lower 4Q ests due to a pull forward in UGG wholesale sales and higher SG&A. We are increasing our PO to \$875 (from \$740) to reflect our higher ests and 21x EV/EBITDA (from 19x) due to improved visibility on growth trends. DECK announced current CEO Dave Powers will retire in August and will be replaced by Stefano Caroti, current Chief Commercial Officer and interim President of HOKA.

## UGG: 3Q sets record with sales of \$1.1bn

UGG 3Q sales increased 15% to \$1.1bn, led by 20% growth in DTC. This quarter's outsized growth from DTC and select price increases on a few of the brand's most popular styles contributed to a double-digit increase in ASP during the quarter. We are encouraged by the breadth of success across key styles (relative to less diversification in the past) and how global demand continues to outpace product availability. We acknowledge this level of full price selling will be hard repeat in F25 but we expect merchandise margins will remain healthy given the brand's robust demand.

## HOKA: innovation pipeline and int'l expansion impress

HOKA 3Q sales increased 22%, led by 38% DTC growth. We expect 4Q growth will improve as strong 3Q sell-through should drive wholesale refill upside. We think HOKA will maintain momentum into F25 driven by a continuous flow of innovation, including launches of the Mach 6, Skyflow (cross over between Bondi/Clifton), and expanded colorways in key lifestyle shoes like the Transport. We continue to see untapped potential in HOKA's international markets, particularly in Europe and China.

## Increasing our F25E EPS by 7% to \$30

We are increasing our F25E EPS by 7% to \$30 to reflect higher UGG sales and stronger margins. Our F25E forecast includes 12% sales growth (HOKA +25%, UGG +3%) and a 50bp decline in EBIT margins to 19.9%. We think the stock will continue to outperform and think the elevated multiple vs peers will be supported by DECK's differentiated profile: consistent double-digit sales growth, peer-leading margins (we think higher end of high teens is doable in F25), clean balance sheet (no debt, \$1bn of share repurchase remaining), and most importantly, a consistent track record of beating expectations.

Estimates (Mar) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	16.26	19.37	27.05	30.00	32.65
EPS Change (YoY)	20.7%	19.1%	39.6%	10.9%	8.8%
Consensus EPS (Bloomberg)			24.13	27.68	32.02
DPS	0	0	0	0	0
Valuation (Mar)					
P/E	47.5x	39.9x	28.6x	25.8x	23.7x
EV / EBITDA*	31.0x	26.9x	20.5x	18.7x	17.2x
Free Cash Flow Yield*	0.6%	2.3%	3.9%	3.4%	3.7%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

02 February 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	740.00	875.00
2024E Rev (m)	4,118.0	4,215.5
2025E Rev (m)	4,619.5	4,727.9
2026E Rev (m)	5,181.4	5,276.7
2024E EPS	24.27	27.05
2025E EPS	28.07	30.00
2026E EPS	31.78	32.65

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## Stock Data

Price	772.85 USD
Price Objective	875.00 USD
Date Established	2-Feb-2024
Investment Opinion	B-1-9
52-Week Range	395.91 USD - 778.31 USD
Mkt Val (mn) / Shares Out (mn)	19,886 USD / 25.7
Free Float	98.8%
Average Daily Value (mn)	225.23 USD
BofA Ticker / Exchange	DECK / NYS
Bloomberg / Reuters	DECK US / DECK.N
ROE (2024E)	36.1%
Net Dbt to Eqty (Mar-2023A)	-44.5%
ESGMeter <sup>TM</sup>	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"](#).

DECK- Deckers Outdoor

ASP – Average selling price

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Timestamp: 02 February 2024 01:16AM EST

# iQprofile<sup>SM</sup> Deckers Outdoor Corp

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	25.9%	26.3%	29.8%	27.2%	24.7%
Return on Equity	30.3%	31.3%	36.1%	32.1%	28.2%
Operating Margin	17.9%	18.0%	20.4%	19.9%	19.4%
Free Cash Flow	121	456	772	685	741

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.4x	1.0x	1.3x	1.0x	1.0x
Asset Replacement Ratio	1.1x	1.6x	2.0x	1.7x	1.5x
Tax Rate	20.0%	22.4%	22.0%	22.0%	22.0%
Net Debt-to-Equity Ratio	-43.6%	-44.5%	-54.2%	-58.6%	-62.2%
Interest Cover	NA	NA	NA	NA	NA

## Income Statement Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	3,150	3,627	4,215	4,728	5,277
% Change	23.8%	15.1%	16.2%	12.2%	11.6%
Gross Profit	1,608	1,825	2,304	2,571	2,880
% Change	17.0%	13.5%	26.2%	11.6%	12.0%
EBITDA	608	701	918	1,007	1,096
% Change	11.5%	15.3%	31.0%	9.8%	8.9%
Net Interest & Other Income	0	13	41	40	32
<b>Net Income (Adjusted)</b>	<b>452</b>	<b>517</b>	<b>704</b>	<b>766</b>	<b>822</b>
<b>% Change</b>	<b>18.1%</b>	<b>14.4%</b>	<b>36.2%</b>	<b>8.8%</b>	<b>7.4%</b>

## Free Cash Flow Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	452	517	704	766	822
Depreciation & Amortization	44	50	58	66	75
Change in Working Capital	(326)	(54)	84	(65)	(75)
Deferred Taxation Charge	(28)	(10)	(1)	0	0
Other Adjustments, Net	30	35	41	33	33
Capital Expenditure	(51)	(81)	(114)	(114)	(114)
<b>Free Cash Flow</b>	<b>121</b>	<b>456</b>	<b>772</b>	<b>685</b>	<b>741</b>
<b>% Change</b>	<b>-78.5%</b>	<b>276.1%</b>	<b>69.1%</b>	<b>-11.2%</b>	<b>8.1%</b>
Share / Issue Repurchase	(353)	(291)	(359)	(300)	(300)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	(2)	0	0	0

## Balance Sheet Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	844	982	1,381	1,766	2,207
Trade Receivables	303	302	350	393	439
Other Current Assets	606	627	714	772	837
Property, Plant & Equipment	222	267	310	358	398
Other Non-Current Assets	358	379	398	398	398
<b>Total Assets</b>	<b>2,332</b>	<b>2,556</b>	<b>3,152</b>	<b>3,687</b>	<b>4,277</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	542	497	702	738	774
Long-Term Debt	172	196	223	223	223
Other Non-Current Liabilities	80	97	93	93	93
<b>Total Liabilities</b>	<b>793</b>	<b>790</b>	<b>1,018</b>	<b>1,054</b>	<b>1,089</b>
<b>Total Equity</b>	<b>1,539</b>	<b>1,766</b>	<b>2,134</b>	<b>2,633</b>	<b>3,188</b>
<b>Total Equity &amp; Liabilities</b>	<b>2,332</b>	<b>2,556</b>	<b>3,152</b>	<b>3,687</b>	<b>4,277</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Footwear

## Company Description

Deckers Brands designs and markets footwear and accessories for men, women and children. Deckers sells its products including accessories such as handbags, headwear and outerwear, through domestic and international retailers, international distributors, and directly to end-user consumers both domestically and internationally, through websites, and retail stores under the UGG (53% of revenue), HOKA (39%), Teva (5%), Sanuk (1%), and Other (2%) brands.

## Investment Rationale

We rate Deckers shares Buy. We believe DECK has significant EPS growth opportunity due to rapidly rising HOKA brand awareness, modest share gains from UGG, and share repurchases.

## Stock Data

Average Daily Volume 298,286

## Quarterly Earnings Estimates

	2023	2024
Q1	1.66A	2.41A
Q2	3.80A	6.82A
Q3	10.48A	15.11A
Q4	3.46A	2.78E

**Exhibit 1: DECK Income Statement**

We are increasing our F25E EPS to \$30

Deckers Income statement	FY23	1Q24 June '23	2Q24 Sept '23	3Q24 Dec '23	4Q24E Mar '24	FY24E	1Q25E June '24	2Q25E Sept '24	3Q25E Dec '24	4Q25E Mar '25	FY25E	1Q26E June '25	2Q26E Sept '25	3Q26E Dec '25	4Q26E Mar '26	FY26E
UGG	1,929.1	195.5	610.5	1,072.0	320.5	2,198.5	209.4	568.8	1,149.8	340.6	2,268.6	215.1	578.7	1,178.8	350.6	2,323.2
HOKA	1,412.8	420.5	424.0	429.3	504.4	1,778.2	520.8	527.8	540.0	635.9	2,224.5	637.7	643.0	659.7	780.5	2,720.9
Teva	183.0	48.4	21.5	25.6	50.8	146.3	49.1	21.9	26.2	52.1	149.3	50.4	22.4	26.6	53.1	152.5
Sanuk	38.0	9.6	5.4	4.0	5.8	24.8	8.1	4.5	3.3	5.0	21.0	7.4	4.1	2.9	4.6	19.0
Other	64.1	1.8	30.6	29.6	5.7	67.7	1.7	29.0	28.2	5.5	64.5	1.6	27.6	26.7	5.2	61.2
<b>Net sales</b>	<b>3,627.3</b>	<b>675.8</b>	<b>1,091.9</b>	<b>1,560.5</b>	<b>887.3</b>	<b>4,215.5</b>	<b>789.1</b>	<b>1,152.1</b>	<b>1,747.5</b>	<b>1,039.1</b>	<b>4,727.9</b>	<b>912.1</b>	<b>1,275.8</b>	<b>1,894.7</b>	<b>1,194.1</b>	<b>5,276.7</b>
Cost of sales	1,801.9	329.4	508.9	643.7	429.9	1,911.9	374.7	542.7	738.4	500.9	2,156.7	430.9	597.8	795.8	572.6	2,397.0
Gross profit	1,825.4	346.4	583.0	916.8	457.4	2,303.6	414.4	609.4	1,009.2	538.2	2,571.2	481.3	678.0	1,098.9	621.5	2,879.6
SG&A	1,172.6	275.7	358.4	428.7	380.2	1,443.0	325.3	387.1	480.1	437.3	1,629.8	370.9	441.3	547.3	498.5	1,857.9
Income from operations	652.8	70.7	224.6	488.1	77.1	860.6	89.1	222.3	529.1	101.0	941.4	110.4	236.7	551.6	123.0	1,021.7
Other (income) expense, net	(13.3)	(10.6)	(9.7)	(11.2)	(10.0)	(41.5)	(10.0)	(10.0)	(10.0)	(10.0)	(40.0)	(8.0)	(8.0)	(8.0)	(8.0)	(32.0)
Income before income taxes	666.1	81.4	234.3	499.2	87.1	902.1	99.1	232.3	539.1	111.0	981.4	118.4	244.7	559.6	131.0	1,053.7
Income tax expense	149.3	17.8	55.8	109.1	15.7	198.4	21.8	51.1	118.6	24.4	215.9	26.0	53.8	123.1	28.8	231.8
Tax rate	22.4%	21.9%	23.8%	21.9%	18.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%
<b>Net income</b>	<b>516.8</b>	<b>63.6</b>	<b>178.5</b>	<b>390.1</b>	<b>71.5</b>	<b>703.7</b>	<b>77.3</b>	<b>181.2</b>	<b>420.5</b>	<b>86.6</b>	<b>765.5</b>	<b>92.4</b>	<b>190.9</b>	<b>436.5</b>	<b>102.2</b>	<b>821.9</b>
<b>Adjusted diluted EPS</b>	<b>\$19.37</b>	<b>\$2.41</b>	<b>\$6.82</b>	<b>\$15.11</b>	<b>\$2.78</b>	<b>\$27.05</b>	<b>\$3.01</b>	<b>\$7.09</b>	<b>\$16.51</b>	<b>\$3.41</b>	<b>\$30.00</b>	<b>\$3.65</b>	<b>\$7.57</b>	<b>\$17.37</b>	<b>\$4.08</b>	<b>\$32.65</b>
Basic Shares	26.3	26.2	26.0	25.7	25.6	25.6	25.5	25.4	25.3	25.2	25.2	25.2	25.1	25.0	24.9	24.9
Diluted Shares	26.7	26.3	26.2	25.8	25.7	26.0	25.6	25.6	25.5	25.4	25.5	25.3	25.2	25.1	25.0	25.2
Repurchase price					\$750.00	\$750.00	\$787.50	\$826.88	\$868.22	\$875.00	\$875.00	\$875.00	\$875.00	\$875.00	\$875.00	\$875.00
<b>Margins</b>																
Gross margin	50.3%	51.3%	53.4%	58.7%	51.5%	54.6%	52.5%	52.9%	57.7%	51.8%	54.4%	52.8%	53.1%	58.0%	52.0%	54.6%
bp change y/y	(70)	329	521	580	150	432	125	(50)	(100)	25	(26)	25	25	25	25	19
Freight (bp)		450														
FX (bp)		(100)														
SG&A ratio	32.3%	40.8%	32.8%	27.5%	42.9%	34.2%	41.2%	33.6%	27.5%	42.1%	34.5%	40.7%	34.6%	28.9%	41.7%	35.2%
bp change y/y	(77)	199	(76)	147	619	190	43	77	0	(77)	24	(57)	99	141	(33)	74
SG&A dollar growth	12.4%	15.6%	21.9%	22.5%	31.0%	23.1%	18.0%	8.0%	12.0%	15.0%	12.9%	14.0%	14.0%	14.0%	14.0%	14.0%
Operating margin	18.0%	10.5%	20.6%	31.3%	8.7%	20.4%	11.3%	19.3%	30.3%	9.7%	19.9%	12.1%	18.6%	29.1%	10.3%	19.4%
bp change y/y	7	130	597	433	(469)	242	82	(127)	(100)	102	(50)	82	(74)	(116)	58	(55)
vs C19																
<b>% change y/y</b>																
Revenue growth	15.1%	10.0%	24.7%	16.0%	12.1%	16.2%	16.8%	5.5%	12.0%	17.1%	12.2%	15.6%	10.7%	8.4%	14.9%	11.6%
Revenue growth (ccy)	18.4%	11.1%	24.2%	15.1%												
FX impact	-3.3%	-1.1%	0.5%	0.9%												
SG&A	12%	16%	22%	23%	31%	23%	18%	8%	12%	15%	13%	14%	14%	14%	14%	14%
Operating income growth	16%	26%	76%	35%	-27%	32%	26%	-1%	8%	31%	9%	24%	6%	4%	22%	9%
Net income growth	14%	42%	76%	40%	-22%	36%	22%	2%	8%	21%	9%	20%	5%	4%	18%	7%
<b>EPS growth</b>	<b>19%</b>	<b>45%</b>	<b>79%</b>	<b>44%</b>	<b>-20%</b>	<b>40%</b>	<b>25%</b>	<b>4%</b>	<b>9%</b>	<b>23%</b>	<b>11%</b>	<b>21%</b>	<b>7%</b>	<b>5%</b>	<b>20%</b>	<b>9%</b>

Source: BofA Global Research, company reports

BofA GLOBAL RESEARCH

## Price objective basis & risk

### Deckers Outdoor Corp (DECK)

Our \$875 price objective is based on 21x EV/EBITDA ('25E), a premium to DECK's historical valuation given HOKA now represents a larger portion of the business but a discount to other premium, high growth athletic brands and retailers.

Downside risks to our PO are macro headwinds in Europe and China (including FX pressure to sales and gross margin), fashion risks associated with selling casual and athletic footwear, and operating margins could be pressured by investments in retail and international expansion.

Upside risks to our PO include stronger growth at UGG and HOKA than expected, better than expected margin gains.

## Analyst Certification

I, Christopher Nardone, 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>				
	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

## US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Gap Inc.	GPS	GPS US	Lorraine Hutchinson, CFA
	Kohl's	KSS	KSS US	Lorraine Hutchinson, CFA
	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 &amp; 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

**iQmethod<sup>SM</sup>** 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.

**iQdatabase<sup>®</sup>** is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

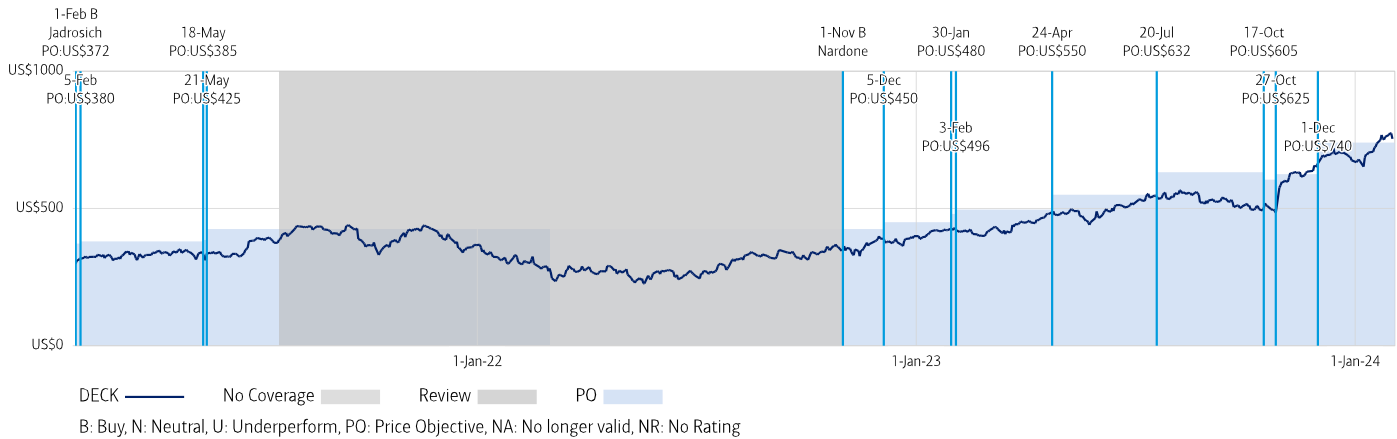
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# Disclosures

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### Deckers (DECK) 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: 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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