

The Duckhorn Portfolio, Inc.

De-feathered

Reiterate Rating: UNDERPERFORM | PO: 8.00 USD | Price: 9.44 USD

Underwhelming 2Q sales & FY24 guidance cut

Yesterday after the close NAPA reported 2Q24 sales of \$103mm which was below our estimate of \$107mm and Visible Alpha Consensus of \$106mm. 2Q operating profit of \$32.6mm was in line with our forecast as better than expected gross margins and slightly lower than expected SG&A offset weaker sales. Adj. EBITDA of \$42.7mm was ahead of our forecast of \$40.3mm on higher D&A. NAPA also lowered the midpoint of its FY24 sales and adj. EBITDA outlook by about 5% and 3%, respectively. The lower outlook is driven by 1) further softening of the luxury wine category which we highlighted in our [downgrade note back in mid-February](#). NAPA's revised outlook assumes luxury wine category grows between +0-1% and the company grows market share. 2) Distributors taking on less inventory given softer market conditions for wine. We remain cautious on the category and as a result see further risk to sale estimates.

2H24 sales expected to grow between +LSD-MSD

NAPA expects 2H24 sales to grow between low to mid-single digits with stronger growth in 3Q24 versus 4Q24. 2H net sales are expected to be split 53% in 3Q and 47% in Q4 as the Kosta Browne Appellation offering shifts from 4Q23 to 3Q24. We are modeling 3Q24 sales up +13.5% y/y and 4Q24 sales down -8.5% y/y. On an underlying basis NAPA expects to bridge from category growth to its growth rate with help from a) innovation (Decoy Featherweight, Decoy Paso Robles), b) product availability (Duckhorn Chardonnay & Decoy Merlot) and c) incremental programming including "wine by the glass" program. NAPA expects 3Q24 and 4Q24 gross margins to be below the high point achieved in 2Q24 on trade spend returning to more historical levels

Lowering estimates; Maintain Underperform & \$8 PO

Given 2Q miss and lower outlook we are lowering our FY24/FY25/FY26 adj. EBITDAe from \$147.1mm/\$152.9mm/\$157.6mm to \$146.8mm/\$151.6mm/\$155.8mm, respectively. We also maintain our Underperform rating and \$8 PO which is still based on 7.5x our CY25 EV/EBITDA estimate. This is in line with where former public wine companies (VinCorp, Golden State Vitners and Robert Mondavi) traded in the early 2000's given variability in crop and poor returns on capital. We believe NAPA should trade at a premium versus those comps given its asset light nature (only 10% of acreage owned) but recognizing slowing topline.

Estimates (Jul) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.62	0.67	0.61	0.63	0.65
GAAP EPS	0.52	0.61	0.56	0.63	0.65
EPS Change (YoY)	6.9%	8.1%	-9.0%	3.3%	3.2%
Consensus EPS (Bloomberg)			0.67	0.73	0.81
DPS	0	0	0	0	0
Valuation (Jul)					
P/E	15.2x	14.1x	15.5x	15.0x	14.5x
GAAP P/E	18.2x	15.5x	16.9x	15.0x	14.5x
EV / EBITDA*	10.3x	9.1x	8.9x	8.6x	8.4x
Free Cash Flow Yield*	2.2%	-0.3%	5.4%	5.9%	5.9%

* For full definitions of *IQmethod*SM measures, see page 6.

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Timestamp: 08 March 2024 05:00AM EST

08 March 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	413.6	400.7
2025E Rev (m)	422.2	408.7
2026E Rev (m)	432.0	416.9
2024E EPS	0.65	0.61
2025E EPS	0.68	0.63
2026E EPS	0.71	0.65

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Stock Data

Price	9.44 USD
Price Objective	8.00 USD
Date Established	13-Feb-2024
Investment Opinion	B-3-9
52-Week Range	8.34 USD - 16.63 USD
Mkt Val (mn) / Shares Out (mn)	1,089 USD / 115.3
Free Float	42.7%
Average Daily Value (mn)	8.15 USD
BofA Ticker / Exchange	NAPA / NYS
Bloomberg / Reuters	NAPA US / NAPA.N
ROE (2024E)	7.2%
Net Dbt to Eqty (Jul-2023A)	24.0%
ESGMeter™	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".

LSD: low single digit

MSD: mid single digit

iQprofileSM The Duckhorn Portfolio, Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	6.4%	6.8%	6.1%	5.8%	5.7%
Return on Equity	8.5%	8.5%	7.2%	6.9%	6.8%
Operating Margin	27.7%	28.7%	27.3%	27.4%	27.8%
Free Cash Flow	24	(3)	59	64	65

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.0x	0.9x	1.4x	1.4x	1.4x
Asset Replacement Ratio	1.9x	2.6x	1.0x	1.0x	1.1x
Tax Rate	26.8%	26.4%	25.2%	25.5%	25.5%
Net Debt-to-Equity Ratio	25.8%	24.0%	16.8%	9.7%	3.5%
Interest Cover	15.2x	9.9x	6.6x	7.1x	7.4x

Income Statement Data (Jul)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	373	403	401	409	417
% Change	10.7%	8.2%	-0.6%	2.0%	2.0%
Gross Profit	190	216	214	218	224
% Change	12.4%	13.5%	-0.8%	1.9%	2.4%
EBITDA	128	144	147	152	156
% Change	13.4%	13.3%	1.6%	3.3%	2.7%
Net Interest & Other Income	(6)	(11)	(16)	(15)	(15)
Net Income (Adjusted)	71	77	70	72	75
% Change	15.0%	8.6%	-9.3%	3.1%	4.2%

Free Cash Flow Data (Jul)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	71	77	70	72	75
Depreciation & Amortization	23	28	36	39	39
Change in Working Capital	(24)	(34)	(10)	(7)	(6)
Deferred Taxation Charge	4	0	0	0	0
Other Adjustments, Net	(6)	(1)	(2)	0	0
Capital Expenditure	(45)	(73)	(36)	(40)	(44)
Free Cash Flow	24	-3	59	64	65
% Change	-52.2%	NM	NM	9.2%	1.0%
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	NA	NA	NA	NA	NA
Change in Debt	(26)	6	50	0	0

Balance Sheet Data (Jul)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	3	6	115	179	244
Trade Receivables	37	49	53	54	55
Other Current Assets	299	332	319	325	330
Property, Plant & Equipment	270	324	330	343	360
Other Non-Current Assets	642	637	624	612	601
Total Assets	1,252	1,348	1,440	1,513	1,589
Short-Term Debt	13	10	10	10	10
Other Current Liabilities	47	62	46	46	47
Long-Term Debt	214	224	274	274	274
Other Non-Current Liabilities	111	107	105	105	105
Total Liabilities	384	402	434	435	435
Total Equity	867	945	1,006	1,078	1,153
Total Equity & Liabilities	1,252	1,348	1,440	1,513	1,588

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Spirits, Wines & Ciders

Company Description

Duckhorn is a pure play luxury wine producer (\$15+ per 750ml bottle) based in Napa, California. The company sold around 1.3mm cases of wine in FY20 ranging from \$20 to \$200/bottle with highly relevant brands including Duckhorn, Decoy and Kosta Browne. Historically, 80-85% of sales have been in the off-premise channel, with 15-20% in on-premise.

Investment Rationale

We rate NAPA shares Underperform. We see downside to 2H24 sale estimates given that retail sales for premium wine (\$15+/bottle) continues to decelerate and NAPA faces difficult comparisons in 2H24 (particularly in Decoy & Duckhorn). We also believe that a take out appears less likely given that BF/B owns 21.5% of shares and does not have interest in long-term ownership of wine.

Stock Data

Average Daily Volume 863,222

Quarterly Earnings Estimates

	2023	2024
Q1	0.18A	0.15A
Q2	0.18A	0.15A
Q3	0.16A	0.16E
Q4	0.15A	0.12E

Variance table

Exhibit 1: NAPA 2Q24 variance

2Q24 adj. EBITDA of \$42.7mm was ahead of our \$40.3mm estimate on higher-than-expected D&A

Variance	2Q24	2Q24E	A vs. E	Per Share	2Q23	% Chg
Net Sales	\$103.0	\$106.6	(\$3.5)	(\$0.02)	\$103.5	-0.4%
Cost of Goods Sold	\$45.4	\$48.5	(\$3.1)	(\$0.02)	\$48.1	-5.6%
Gross Profit	\$57.6	\$58.1	(\$0.5)	(\$0.00)	\$55.3	4.1%
Gross Margin	55.9%	54.5%	140bps		53.5%	242bps
SG&A	\$25.0	\$25.6	(\$0.6)	(\$0.00)	\$24.5	2.1%
Operating Income	\$32.6	\$32.5	\$0.1	\$0.00	\$30.8	5.6%
Operating Margin	31.6%	30.5%	111bps		29.8%	182bps
Comparable Adjusted EBITDA	\$42.7	\$40.3	\$2.5		\$38.8	10.1%
Adj EBITDA Margin	41.5%	37.8%	370bps		37.5%	396bps
Interest expense	4.5	3.8	\$0.8	(\$0.00)	2.7	
Other expense (income), net	(\$0.5)	(\$0.3)	(\$0.2)	\$0.00	(\$0.4)	1.1%
Pre-Tax Income	\$28.5	\$29.0	(\$0.5)	(\$0.00)	\$28.6	-0.2%
Income Tax Expense	\$7.8	\$7.5	\$0.3	\$0.00	\$7.5	5.2%
Tax Rate	27.5%	26.0%	148bps		26.1%	141bps
Net Income	\$20.7	\$21.5	(\$0.8)	(\$0.01)	\$21.1	-2.2%
Adjusted diluted EPS	\$0.18	\$0.19	(\$0.01)		\$0.18	-2.2%
Shares outstanding	115.4	115.3	0.1	(\$0.00)	115.3	0.1%
Operating statistics						
Sales:						
% chg volume	-2.7%	2.0%	-470bps		-0.4%	
% chg price/mix	2.3%	1.0%	130bps		5.2%	
Outside CA, wholesale	0.9%	4.0%	-313bps		-4.4%	
In CA, direct to retail	-1.5%	3.0%	-447bps		1.1%	
Direct to consumer	-3.5%	0.0%	-348bps		58.0%	

Source: BofA Global Research

BofA GLOBAL RESEARCH



Income statement

Exhibit 2: NAPA income statement

BofA forecasting FY24 adj. EBITDAo f \$146.8mm

Income Statement	Jul-22	Jul-23	Oct-23	Jan-24	Apr-24	Jul-24	Jul-24	Jul-25	Jul-26
(Millions, except for per share data)	FY22	FY23	1Q24	2Q24	3Q24e	4Q24e	FY24e	FY25e	FY26e
Sales forecast									
YoY change in volumes	9.4%	5.6%	-3.4%	-2.7%	9.5%	-8.5%	-1.6%	2.0%	2.0%
YoY change in price/mix	1.3%	2.6%	-1.8%	2.3%	4.0%	0.0%	1.0%	0.0%	0.0%
Sales growth	10.7%	8.2%	-5.2%	-0.4%	13.5%	-8.5%	-0.6%	2.0%	2.0%
Net Sales	\$372.5	\$403.0	\$102.5	\$103.0	\$103.6	\$91.6	\$400.7	\$408.7	\$416.9
Cost of Goods Sold	182.1	186.9	49.4	45.4	47.6	44.0	186.4	190.3	193.3
Gross Profit	\$190.4	\$216.1	\$53.2	\$57.6	\$55.9	\$47.6	\$214.3	\$218.4	\$223.6
Selling, general & administrative	87.3	100.4	25.7	25.0	28.5	25.6	104.8	106.5	107.6
Operating income (adjusted)	\$103.1	\$115.7	\$27.5	\$32.573	\$27.4	\$22.0	\$109.5	\$111.8	\$116.0
Interest expense	6.8	11.7	4.0	4.5	4.0	4.0	16.5	15.8	15.8
Other expense (income), net	(1.0)	(1.0)	0.1	(0.5)	(0.3)	(0.3)	(0.9)	(1.0)	(1.0)
Earnings before income taxes (adjusted)	\$97.3	\$105.0	\$23.4	\$28.524	\$23.7	\$18.2	\$93.8	\$97.1	\$101.2
Income tax expense	26.1	27.7	6.2	7.8	5.4	4.2	23.7	24.8	25.8
Adjusted Net income	\$71.3	\$77.3	\$17.2	\$20.7	\$18.2	\$14.0	\$70.1	\$72.3	\$75.4
Net income attributable to NCI	(0.0)	0.0	(0.0)	0.0	-	-	(0.0)	-	-
Adjusted Net income attributable to Duckhorn	\$71.2	\$77.4	\$17.2	\$20.7	\$18.2	\$14.0	\$70.1	\$72.3	\$75.4
Non-recurring items	(11.1)	(7.4)	(1.6)	(3.9)	-	-	(5.5)	-	-
GAAP Net income	\$60.1	\$69.9	\$15.5	\$16.8	\$18.2	\$14.0	\$64.6	\$72.3	\$75.4
GAAP EPS	\$0.52	\$0.61	\$0.13	\$0.15	\$0.16	\$0.12	\$0.56	\$0.63	\$0.65
Adjusted EPS	\$0.62	\$0.67	\$0.15	\$0.18	\$0.16	\$0.12	\$0.61	\$0.63	\$0.65
Weighted avg diluted shares	115.4	115.4	115.3	115.4	115.4	115.4	115.4	115.4	115.4
EBITDA Analysis									
Adjusted Operating Income	\$103.1	\$115.7	\$27.5	\$32.6	\$27.4	\$22.0	\$109.5	\$111.8	\$116.0
(+) other expense (income)	(1.0)	(1.0)	0.1	(0.5)	(0.3)	(0.3)	(0.9)	(1.0)	(1.0)
Adjusted EBIT	\$104.1	\$116.7	\$27.4	\$33.0	\$27.7	\$22.2	\$110.3	\$112.8	\$117.0
Depreciation / Amortization	23.4	27.8	7.3	9.7	9.7	9.7	36.4	38.8	38.8
Comparable Adjusted EBITDA	\$127.5	\$144.5	\$34.7	\$42.7	\$37.4	\$31.9	\$146.8	\$151.6	\$155.8
Margin analysis									
Adjusted Gross Margin (excludes purchase accounting)	51.1%	53.6%	51.9%	55.9%	54.0%	52.0%	53.5%	53.4%	53.6%
SG&A as a % of sales	23.4%	24.9%	25.1%	24.3%	27.5%	28.0%	26.2%	26.1%	25.8%
Adjusted Operating margin	27.7%	28.7%	26.8%	31.6%	26.5%	24.0%	27.3%	27.4%	27.8%
Adjusted EBITDA margin	34.2%	35.9%	33.9%	41.5%	36.1%	34.9%	36.6%	37.1%	37.4%
Pre-tax margin	26.1%	26.1%	22.8%	27.7%	22.9%	19.9%	23.4%	23.8%	24.3%
Net margin (continuing ops)	19.1%	19.2%	16.7%	20.1%	17.6%	15.3%	17.5%	17.7%	18.1%
Effective tax rate	26.8%	26.4%	26.6%	27.5%	23.0%	23.0%	25.2%	25.5%	25.5%
YoY % change									
Net sales	10.7%	8.2%	-5.2%	-0.4%	13.5%	-8.5%	-0.6%	2.0%	2.0%
COGS	8.9%	2.6%	-7.5%	-5.6%	17.9%	-2.3%	-0.3%	2.1%	1.6%
Gross profit	12.4%	13.5%	-3.0%	4.1%	10.0%	-13.5%	-0.8%	1.9%	2.4%
SG&A	16.3%	15.0%	4.2%	2.1%	27.0%	-10.9%	4.4%	1.6%	1.0%
Adjusted Operating income	9.3%	12.2%	-9.0%	5.6%	-3.5%	-16.4%	-5.4%	2.2%	3.7%
Adjusted EBITDA	13.4%	13.3%	-2.7%	10.1%	4.4%	-6.7%	1.6%	3.3%	2.7%
Income before income taxes	19.2%	7.9%	-15.7%	-0.2%	-7.4%	-21.0%	-10.6%	3.5%	4.2%
Income tax expense	32.1%	6.2%	-14.7%	5.2%	-17.2%	-34.0%	-14.4%	4.5%	4.2%
Net income	15.0%	8.6%	-16.1%	-2.1%	-4.0%	-16.1%	-9.3%	3.1%	4.2%
Adjusted EPS	7.3%	8.5%	-16.2%	-2.2%	-4.0%	-16.2%	-9.3%	3.1%	4.2%

Source: BofA Global Research

BofA GLOBAL RESEARCH



Price objective basis & risk

The Duckhorn Portfolio, Inc. (NAPA)

Our \$8 PO is based on 7.5x our CY25 EPS estimate. This is in line with where former public wine companies (VinCorp, Golden State Vitners and Robert Mondavi) traded in the early 2000's given variability in crop and poor returns on capital. We believe NAPA should trade at a premium versus those comps given its asset light nature (only 10% of acreage owned) but recognizing slowing topline.

Upside risks: 1) NAPA's innovation launch of a low-alc Decoy Sauvignon Blanc, shipping in FY24 which could boost sales in the short run. 2) If the US consumer holds up/strengthens this could benefit Direct to Consumer business for higher end wines that are margin accretive.

Downside risks: 1) further slowing of the premium/luxury wine category, 2) greater sourcing of demand from Spirits relative to wine, 3) agricultural/weather events that could disrupt wine production/supply, 4) price discounting by competitors.

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



US - Consumables Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
	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

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

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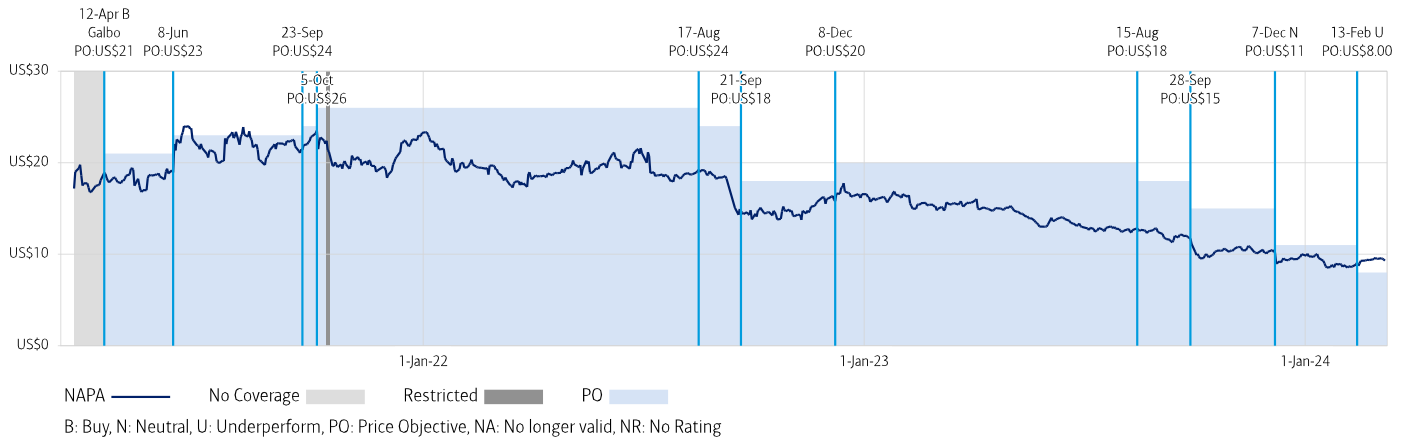
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Duckhorn (NAPA) Price Chart



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Equity Investment Rating Distribution: Beverages - Alcoholic Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	22	61.11%	Buy	15	68.18%
Hold	6	16.67%	Hold	4	66.67%
Sell	8	22.22%	Sell	2	25.00%

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%

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