

Lightspeed Commerce Inc.

Good F3Q, but outlook somewhat murky given macro and shifting G2M strategy

Reiterate Rating: NEUTRAL | PO: 19.00 USD | Price: 14.80 USD

Demand environment commentary cautious

Reiterate Neutral, but lower our US PO to \$19/\$25 CAD PO (from US \$20// \$26 CAD PO), as F3Q revenue and EBITDA were above Street, but a cautious outlook due to the macro and an increased go-to-market investments to drive growth likely weigh on margin expansion medium-term. While payments adoption target of 30-35% likely achieved for FY24, this is mostly driven by N. America success. International payments adoption could prove more difficult, requiring increased capacity to drive conversions. If payments adoption slows, transaction-based revenue growth also slows, affecting EBITDA/cash flow generation. We believe the risk/reward is balanced until there are concrete proof points that the international payments strategy is working. We use a slightly lower multiple (4.8x EV/CY24 gross profit, vs. 5.0x prior) for lower EBITDA forecast. Tweak model for F3Q results/guidance.

Shifting G2M to target higher GTV customers

The broader go-to-market (G2M) strategy is shifting to higher GTV customers that should carry better retention rates and higher customer lifetime values, which is a positive for long-term unit economics. However, following nearly a year of focusing S&M efforts on payments conversions, it could take time for new pipeline generation to ramp. Positively, the platform now offers multiple monetization levers (Capital, Tableside Service, etc.) which have the potential to drive higher merchant ARPUs.

Positives: GPV penetration reaches 29%

1) GPV growth accelerated to 69% y/y (+59% last qtr) representing \$6.6bn, and represents 29% of GTV, up from 25% last qtr; 2) customer retention around payments conversion is better than expected, with churn mostly limited to the lower end of the installed-base; 3) total revenue take-rate as a % of GMV reached 1.04%, up 6bps q/q; and 4) ARPU increased 28% y/y to \$447/merchant, up from \$425/merchant last quarter.

Negatives: Macro and some vert same-store sales weigh

1) GTV grew 3% y/y to \$23.1bn, decelerating from 5% last quarter, putting into question the future growth profile once payments adoption is complete, although some of the growth slowdown is attributable to verticals such as bikes/homes that had negative same-store sales; 2) macro commentary on the demand environment to start CY24 was muted, which could limit upside growth potential over the next several quarters; 3) and 3) growth investments likely to hinder meaningful margin expansion over the near-term.

Estimates(Mar) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(0.37)	(0.17)	0.19	0.04	0.10
EPS Change (YoY)	-37.0%	54.1%	NM	-78.9%	150.0%
DPS	0	0	0	0	0
Common - Dual Listed EPS (US\$)	(0.37)	(0.17)	0.19	0.04	0.10
Common - Dual Listed DPS (US\$)	0	0	0	0	0
Valuation (Mar)					
P/E	NM	NM	77.9x	370.0x	148.0x
EV / EBITDA*	NM	NM	195.4x	74.8x	37.5x
Free Cash Flow Yield*	-4.3%	-6.1%	-2.2%	0.8%	1.3%

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

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Timestamp: 08 February 2024 07:17PM EST

08 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	20.00	19.00
2024E Rev (m)	904.5	905.0
2025E Rev (m)	1,090.6	1,091.3
2026E Rev (m)	1,311.2	1,312.1
2024E EPS	0.08	0.19
2025E EPS	0.14	0.04
2026E EPS	0.23	0.10

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Stock Data

Price (NYS / TOR)	14.80 USD / 19.96 CAD
Price Objective	19.00 USD / 25.00 CAD
Date Established	8-Feb-2024 / 8-Feb-2024
Investment Opinion	C-2-9 / C-2-9
52-Week Range	12.23 USD - 21.71 USD
Market Value (mn)	2,268 USD
Free Float	90.2%
Average Daily Value	14.21 USD
Shares Outstanding (mn)	153.2 / 153.2
BofA Ticker / Exchange	LSPD / NYS
BofA Ticker / Exchange	YSPD / TOR
Bloomberg / Reuters	LSPD US / LSPD.N
ROE (2024E)	1.2%
Net Dbt to Eqty (Mar-2023A)	-32.0%

GTV = Gross transaction volume

GPV = Gross payments volume

ARPU = average revenue per user

iQprofileSM Lightspeed Commerce Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-1.7%	-0.7%	0.6%	0.2%	0.4%
Return on Equity	-2.0%	-0.8%	1.2%	0.3%	0.8%
Operating Margin	-10.0%	-6.5%	-0.4%	-0.1%	1.2%
Free Cash Flow	(98)	(138)	(49)	18	30

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	-1.2x	5.5x	3.1x
Asset Replacement Ratio	0.8x	1.0x	1.1x	0.7x	0.7x
Tax Rate	NM	NM	1,427.0%	NM	7,462.3%
Net Debt-to-Equity Ratio	-27.2%	-32.0%	-32.3%	-34.6%	0%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	548	731	905	1,091	1,312
% Change	147.3%	33.2%	23.9%	20.6%	20.2%
Gross Profit	278	339	395	468	551
% Change	112.0%	22.1%	16.5%	18.6%	17.6%
EBITDA	(42)	(34)	8	20	40
% Change	-95.8%	18.4%	NM	161.3%	99.6%
Net Interest & Other Income	3	25	34	6	2
Net Income (Adjusted)	(53)	(25)	29	6	16
% Change	-85.3%	52.7%	NM	-79.5%	162.1%

Free Cash Flow Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(1,155)	(2,492)	(392)	265	(1,241)
Depreciation & Amortization	13	14	14	21	25
Change in Working Capital	(26)	(57)	(30)	14	10
Deferred Taxation Charge	(28)	(7)	0	0	0
Other Adjustments, Net	1,109	2,417	374	(267)	1,255
Capital Expenditure	(11)	(13)	(15)	(15)	(18)
Free Cash Flow	-98	-138	-49	18	30
% Change	-3.2%	-41.4%	64.7%	NM	68.2%
Share / Issue Repurchase	807	5	2	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(7)	(39)	(6)	0	0

Balance Sheet Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	954	800	783	807	0
Trade Receivables	46	84	96	91	108
Other Current Assets	43	50	63	66	73
Property, Plant & Equipment	16	19	20	26	14
Other Non-Current Assets	2,561	1,715	1,634	1,529	1,522
Total Assets	3,620	2,669	2,597	2,519	1,717
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	158	150	155	167	200
Long-Term Debt	30	0	0	0	0
Other Non-Current Liabilities	33	21	20	19	19
Total Liabilities	221	171	175	185	219
Total Equity	3,399	2,497	2,422	2,331	1,498
Total Equity & Liabilities	3,620	2,669	2,597	2,517	1,717

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

Company Sector

Server & Enterprise Software

Company Description

Lightspeed is a point-of-sale software company with a focus on retail, hospitality, e-commerce, and golf shops. The company monetizes through software subscriptions and payments, and utilizes a tiered pricing plans. Front and back-office functionality includes inventory management, advanced reporting, kitchen display and customer-facing display.

Investment Rationale

We believe that Lightspeed has long-term potential to disrupt and take share within its target end-market verticals, and grow average revenue per user (ARPU) among the customer base through increasing payments adoption. However, we note that macro sensitivity in Lightspeed's end markets could prove to be a headwind to growth in 2023. Additionally, the company is in the process of integrating several acquisitions, which carries execution risk. As such, we see a balanced risk/reward for LSPD.

Stock Data

Average Daily Volume	959,930
Shares / Common - Dual Listed	1.00

Quarterly Earnings Estimates

	2023	2024
Q1	-0.12A	0A
Q2	-0.05A	0.04A
Q3	0A	0.08A
Q4	0A	0.07E

Key Changes

(US\$)	Previous	Current
Price Obj.	C\$26.00	C\$25.00
2024E EPS	0.08	0.19
2025E EPS	0.14	0.04
2026E EPS	0.23	0.10

F3Q Earnings Summary

- Total revenue of \$239.7mn (+27.0% y/y) was above our/Street \$234.5mn/236.5mn
- Subscription revenue of \$80.9mn (+8.6% y/y) was below our estimate of \$81.4mn but above Street of 80.8mn
- Transaction revenue of \$147.8mn (+38.0%) was above our/Street \$145.7mn/147.4mn
- Adjusted EBITDA of \$3.6mn (1.5% margin) was above our/Street \$2.4mn/2.3mn

FY24 Guidance

- 2024 total revenue guidance is raised by \$5mn at the low end to \$895-905mn from \$890-905mn, which is mostly below our/Street estimate of \$904.5mn/906.7mn
- Adjusted EBITDA was maintained at “breakeven or better” which is comparable to our/Street of \$5.8mn/1.6mn

Exhibit 1: Variance

Total revenue exceeded our estimate by 2.2%

	3Q24A		
	BofA Estimate	Actual	Variance
Revenue build			
Subscription	81,385	80,882	(0.6%)
Y/Y change %	9.3%	8.6%	(67bps)
Transaction-based	145,732	147,834	1.4%
Y/Y change %	36.0%	38.0%	196bps
Hardware and other	7,399	10,979	48.4%
Y/Y change %	5.0%	55.8%	5080bps
Total Revenue	234,516	239,695	2.2%
Y/Y change %	24.3%	27.0%	274bps
Guidance	232,000 - 237,000		
Adjusted EBITDA	2,397	3,643	52.0%
Adjusted EBITDA margin	1.0%	1.5%	50bps
Guidance			
EPS (Pro Forma)	(\$0.00)	\$0.08	100.7%
Cash Flow from Operations	(12,243)	(18,195)	(32.7%)
OCF margin	(5.2%)	(7.6%)	(237bps)
Free cash flow	(15,526)	(20,477)	(24.2%)
FCF margin	(6.6%)	(8.5%)	(192bps)

Source: BofA Global Research estimates, company filings

BofA GLOBAL RESEARCH



Exhibit 2: Estimate Revisions

We forecast total revenue for FY24 of \$905.0mn

	4Q24E			FY24E			FY25E			FY26E		
	New Estimate	Old Estimate	Change %	New Estimate	Old Estimate	Change %	New Estimate	Old Estimate	Change %	New Estimate	Old Estimate	Change %
Revenue build												
Subscription	81,169	81,931	(0.9%)	321,821	323,086	(0.4%)	341,926	344,104	(0.6%)	369,280	368,191	0.3%
Y/Y change %	6.5%	7.5%	(100bps)	7.7%	8.1%	(42bps)	6.2%	6.5%	(26bps)	8.0%	7.0%	100bps
Transaction-based	138,400	142,382	(2.8%)	544,876	546,756	(0.3%)	705,381	710,783	(0.8%)	897,516	906,249	(1.0%)
Y/Y change %	39.0%	43.0%	(400bps)	36.4%	36.8%	(47bps)	29.5%	30.0%	(54bps)	27.2%	27.5%	(26bps)
Hardware and other	6,334	6,334	0.0%	38,260	34,680	10.3%	43,968	35,721	23.1%	45,287	36,792	23.1%
Y/Y change %	(25.0%)	(25.0%)	0bps	18.9%	7.7%	1112bps	14.9%	3.0%	1192bps	3.0%	3.0%	(0bps)
Total Revenue	225,902	230,647	(2.1%)	904,956	904,522	0.0%	1,091,276	1,090,608	0.1%	1,312,083	1,311,232	0.1%
Y/Y change %	22.6%	25.2%	(258bps)	23.9%	23.8%	6bps	20.6%	20.6%	2bps	20.2%	20.2%	0bps
Guidance				895,000 - 905,000	890,000 - 905,000							
Adjusted EBITDA	10,830	10,182	6.4%	7,704	5,810	32.6%	20,128	37,724	(46.6%)	40,174	61,713	(34.9%)
Adjusted EBITDA margin	4.8%	4.4%	38bps	0.9%	0.6%	21bps	1.8%	3.5%	(161bps)	3.1%	4.7%	(164bps)
Guidance				Breakeven+	Breakeven+							
EPS (Pro Forma)	\$0.07	\$0.06	13.9%	\$0.19	\$0.08	55.8%	\$0.04	\$0.14	(262.7%)	\$0.10	\$0.23	(132.0%)
Cash Flow from Operations	35,327	34,263	3.0%	(33,804)	(28,916)	(14.5%)	32,878	50,922	(54.9%)	47,974	74,464	(55.2%)
OCF margin	15.6%	14.9%	78bps	(3.7%)	(3.2%)	(54bps)	3.0%	4.7%	(166bps)	3.7%	5.7%	(202bps)
Free cash flow	32,164	31,034	3.5%	(41,158)	(37,337)	(9.3%)	17,600	35,654	(102.6%)	29,605	56,107	(89.5%)
FCF margin	14.2%	13.5%	78bps	-4.5%	-4.1%	(42bps)	1.6%	3.3%	(166bps)	2.3%	4.3%	(202bps)

Source: BofA Global Research estimates, company filings

BofA GLOBAL RESEARCH

Price objective basis & risk

Lightspeed Commerce Inc. (LSPD / YLSPD)

Our \$19 USD PO / \$25 CAD PO is based on 4.8x EV/C24E gross profit, or an EV/GP/G of 0.24x, which is a discount to its horizontal software peers at 7.7x/0.5x. We believe a discount multiple is warranted given the risks the company is facing due to recessionary pressure, inflationary pressure, and/ waning consumer demand, along with competition risk, and execution risk around its One Lightspeed strategy.

Risks to an investment in LSPD are 1) macro-sensitivity of the company's customer-base, 2) competition, 3) execution risk while integrating acquisitions, 4) payments adoption, and 5) path to profitability.

Analyst Certification

I, Koji Ikeda, 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 - Enterprise Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	8x8	EGHT	EGHT US	Michael J. Funk
	Adobe	ADBE	ADBE US	Brad Sills
	Alarm.com	ALRM	ALRM US	Michael J. Funk
	Amplitude, Inc.	AMPL	AMPL US	Koji Ikeda, CFA
	BILL	BILL	BILL US	Brad Sills
	CCC Intelligent Solutions	CCCS	CCCS US	Michael J. Funk
	Dropbox	DBX	DBX US	Michael J. Funk
	Dynatrace	DT	DT US	Koji Ikeda, CFA
	Elastic NV	ESTC	ESTC US	Koji Ikeda, CFA
	GitLab Inc.	GTLB	GTLB US	Koji Ikeda, CFA
	Global-e Online Ltd.	GLBE	GLBE US	Koji Ikeda, CFA
	HubSpot	HUBS	HUBS US	Brad Sills
	Informatica Inc.	INFA	INFA US	Koji Ikeda, CFA
	Intapp Inc.	INTA	INTA US	Koji Ikeda, CFA
	Intuit	INTU	INTU US	Brad Sills
	JFrog Ltd	FROG	FROG US	Koji Ikeda, CFA
	MeridianLink, Inc.	MLNK	MLNK US	Koji Ikeda, CFA
	Microsoft Corporation	MSFT	MSFT US	Brad Sills
	MongoDB Inc	MDB	MDB US	Brad Sills
	nCino, Inc.	NCNO	NCNO US	Adam Bergere
	NICE Ltd.	NICE	NICE US	Michael J. Funk
	NICE Ltd.	NCSYF	NICE IT	Michael J. Funk
	PagerDuty	PD	PD US	Koji Ikeda, CFA
	PowerSchool Holdings, Inc.	PWSC	PWSC US	Koji Ikeda, CFA
	RingCentral	RNG	RNG US	Michael J. Funk
	Salesforce.com	CRM	CRM US	Brad Sills
	ServiceNow	NOW	NOW US	Brad Sills
	UiPath	PATH	PATH US	Brad Sills
	Unity	U	U US	Michael J. Funk
	Weave	WEAV	WEAV US	Michael J. Funk
	Workday Inc.	WDAY	WDAY US	Brad Sills
	Zeta Global	ZETA	ZETA US	Koji Ikeda, CFA
	ZoomInfo	ZI	ZI US	Koji Ikeda, CFA
NEUTRAL				
	Autodesk	ADSK	ADSK US	Michael J. Funk
	Bentley Systems	BSY	BSY US	Michael J. Funk
	BigCommerce Holdings, Inc.	BIGC	BIGC US	Koji Ikeda, CFA
	Coveo	YCVO	CVO CN	Koji Ikeda, CFA
	Datadog Inc	DDOG	DDOG US	Koji Ikeda, CFA



US - Enterprise Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	DocuSign	DOCU	DOCU US	Brad Sills
	Freshworks, Inc.	FRSH	FRSH US	Adam Bergere
	HashiCorp	HCP	HCP US	Brad Sills
	Jamf	JAMF	JAMF US	Koji Ikeda, CFA
	Lightspeed Commerce Inc.	LSPD	LSPD US	Koji Ikeda, CFA
	Lightspeed Commerce Inc.	YLSPD	LSPD CN	Koji Ikeda, CFA
	Oracle Corporation	ORCL	ORCL US	Brad Sills
	Paycom	PAYC	PAYC US	Adam Bergere
	Paylocity	PCTY	PCTY US	Adam Bergere
	Shopify, Inc.	SHOP	SHOP US	Brad Sills
	Snowflake	SNOW	SNOW US	Brad Sills
	Veeva Systems, Inc.	VEEV	VEEV US	Brad Sills
	Zoom Video Communications	ZM	ZM US	Michael J. Funk

UNDERPERFORM

	AvidXchange, Inc.	AVDX	AVDX US	Brad Sills
	Blackbaud, Inc.	BLKB	BLKB US	Koji Ikeda, CFA
	BlackLine, Inc.	BL	BL US	Koji Ikeda, CFA
	C3.ai	AI	AI US	Brad Sills
	Confluent	CFLT	CFLT US	Brad Sills
	CS Disco, Inc.	LAW	LAW US	Koji Ikeda, CFA
	Enfusion, Inc.	ENFN	ENFN US	Koji Ikeda, CFA
	Five9	FIVN	FIVN US	Michael J. Funk
	Guidewire Software, Inc.	GWRE	GWRE US	Michael J. Funk
	Twilio	TWLO	TWLO US	Michael J. Funk
	Vertex, Inc.	VERX	VERX US	Brad Sills

RSTR

	Splunk	SPLK	SPLK US	Brad Sills
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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

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 valuations. 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.

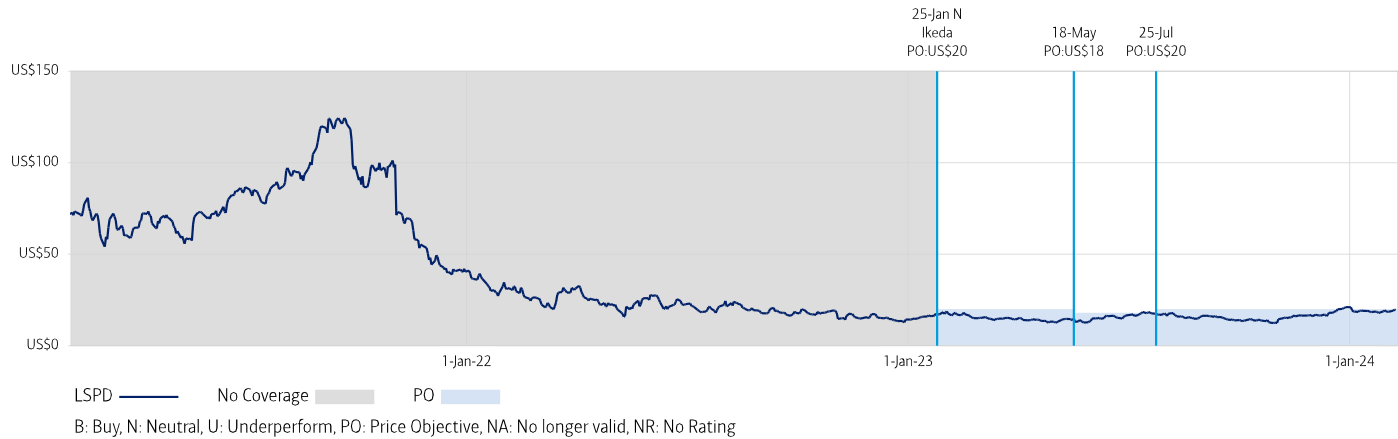
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Disclosures

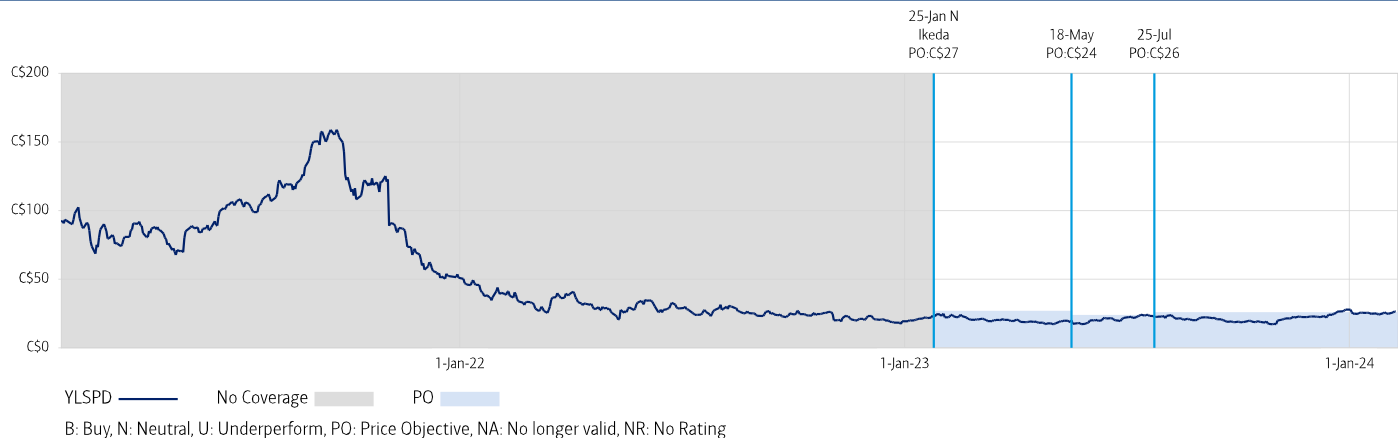
Important Disclosures

Lightspeed (LSPD) 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.

Lightspeed (YLSPD) 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: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

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.



FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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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