

## Ferguson PLC

## Q2 slightly below, H2 could sequentially improve, but consensus and valuation high

Reiterate Rating: UNDERPERFORM | PO: 13,500 GBp | Price: 16,000 GBp

## Q2 results slightly below from volumes and margins

Ferguson US organic sales were down c4%, slightly below consensus estimates (-3%) reflecting ongoing erosion in volumes (-1.7%) and deflation (-2%). The US trading profit was also below consensus at \$520m with a margin at 7.8% (consensus 8.5%). While the gross margin improved to 30.4% (+20bp y/y and q/q), this was offset by higher SG&A (+3% y/y after stable in Q1). The FY-24 guidance was confirmed (stable sales, trading margin 9.2-9.8%) implying some sequential improvement into H2 driven by an easier base effect on the top line. Management mentioned stable organic sales growth in February and was looking forward to less deflation effects into the second half.

## Estimates revision, we remain below consensus

We have raised our FY-24/25 trading profit and EPS estimates by c3% to account for slightly more optimistic volumes estimates, slightly higher margins and the contribution from recently announced acquisitions. Our estimates remain c3% below pre results consensus for FY-24 trading profit, reflecting c1% lower sales and a trading margin of 9.3% (consensus 9.5%), toward the lower end of the guidance. See Exhibits 1 and 2 for the details of our revisions and forecast.

## Underperform, PO revised to GBp13,500/\$171

We have raised our PO to GBp13,500 / \$171 (from GBp11,400 / \$144 previously) to account for the revision in our earnings estimates, adjustment to our discount rate and higher target multiples (forward P/E 18x and EV/EBITDA 13.5x from 16x and 12x previously), reflecting the recent rerating of the US peer group. We have an Underperform rating on Ferguson, reflecting ongoing challenges in underlying markets outlook (mixed residential demand especially e-commerce, uncertain commercial/industrial activity, strong infrastructure) and a full valuation (free cash flow of c4% and dividend yield below c2%).

Estimates (Jul) (USD)	2022A	2023A	2024E	2025E	2026E
EPS (Adjusted Diluted)	10.3	10.2	9.61	10.1	11.0
EPS Change (YoY)	40.8%	-0.9%	-5.8%	5.3%	8.5%
Dividend / Share	2.75	3.00	3.16	3.32	3.48
Common - Dual Listed EPS (Adjusted Diluted - US\$)	10.3	10.2	9.61	10.1	11.0
Common - Dual Listed Dividend / Share (US\$)	2.75	3.00	3.16	3.32	3.48
Valuation (Jul)					
P/E	18.9x	20.2x	21.1x	20.1x	18.5x
Dividend Yield	1.4%	1.5%	1.6%	1.6%	1.7%
EV / EBITDA*	14.6x	16.0x	16.1x	15.5x	14.5x
Free Cash Flow Yield*	1.9%	5.4%	4.2%	4.1%	4.2%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 6.

06 March 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	11,400.00p	13,500.00p
2024E EPS	9.34	9.61
2025E EPS	9.80	10.12
2026E EPS	10.65	10.99

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## Stock Data

Price (LSE / NYS)	16,000 GBp / 203.59 USD
Price Objective	13,500 GBp / 171.00 USD
Date Established	6-Mar-2024 / 6-Mar-2024
Investment Opinion	B-3-7 / B-3-7
52-Week Range	9,892 GBp-17,170 GBp
Market Value (mn)	32,608 GBP
Shares Outstanding (mn)	203.8 / 203.8
Average Daily Value (mn)	16.68 USD
Free Float	99.0%
BofA Ticker / Exchange	WOSCF / LSE
BofA Ticker / Exchange	FERG / NYS
Bloomberg / Reuters	FERG LN / FERG.L
ROE (2024E)	34.8%
Net Dbt to Eqty (Jul-2023A)	61.7%
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](#)".

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**Refer to important disclosures on page 7 to 10. Analyst Certification on page 5. Price Objective Basis/Risk on page 5.**

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Timestamp: 06 March 2024 12:30AM EST

# iQprofile<sup>SM</sup> Ferguson PLC

## Key Income Statement Data (Jul)

### (US\$ Millions)

	2022A	2023A	2024E	2025E	2026E
Sales	28,566	29,734	29,640	30,455	32,255
EBITDA Adjusted	3,234	2,957	2,936	3,051	3,260
Depreciation & Amortization	(301)	(165)	(165)	(165)	(165)
EBIT Adjusted	2,933	2,792	2,771	2,886	3,095
Net Interest & Other Income	(111)	(195)	(205)	(210)	(225)
Tax Expense / Benefit	(609)	(575)	(608)	(635)	(684)
Net Income (Adjusted)	2,254	2,115	1,958	2,040	2,186
Average Fully Diluted Shares Outstanding	219	207	204	202	199

## Key Cash Flow Statement Data

Net Income (Reported)	2,122	1,889	1,825	1,905	2,051
Depreciation & Amortization	301	165	165	165	165
Change in Working Capital	(1,271)	410	42.6	(80.8)	(212)
Deferred Taxation Charge	0	0	0	0	0
Other CFO	(3.00)	259	113	115	115
<b>Cash Flow from Operations</b>	<b>1,149</b>	<b>2,723</b>	<b>2,145</b>	<b>2,105</b>	<b>2,119</b>
Capital Expenditure	(290)	(441)	(420)	(430)	(440)
(Acquisition) / Disposal of Investments	(626)	(616)	(400)	(500)	(500)
Other CFI	(6.00)	3.00	0	(10.0)	(10.0)
<b>Cash Flow from Investing</b>	<b>(922)</b>	<b>(1,054)</b>	<b>(820)</b>	<b>(940)</b>	<b>(950)</b>
Share Issue / (Repurchase)	(1,637)	(908)	(550)	(600)	(600)
Cost of Dividends Paid	(538)	(711)	(712)	(736)	(760)
Increase (decrease) debt	1,218	(218)	(82.8)	(55.7)	(205)
Other CFF	213	30.0	67.8	40.7	190
<b>Cash Flow from Financing</b>	<b>(744)</b>	<b>(1,807)</b>	<b>(1,277)</b>	<b>(1,351)</b>	<b>(1,375)</b>
<b>Total Cash Flow (CFO + CFI + CFF)</b>	<b>(517)</b>	<b>(138)</b>	<b>48.2</b>	<b>(187)</b>	<b>(205)</b>
FX and other changes to cash	(47.0)	(32.0)	(48.2)	187	205
Change in Cash	(564)	(170)	0	0	0
Change in Net Debt	1,782	(48.0)	(82.8)	(55.7)	(205)
Net Debt	3,158	3,110	3,027	2,972	2,766

## Key Balance Sheet Data

Property, Plant & Equipment	1,376	1,595	1,830	2,075	2,330
Goodwill	2,048	2,241	2,241	2,241	2,241
Other Intangibles	782	782	802	832	862
Other Non-Current Assets	1,904	2,299	2,699	3,199	3,699
Trade Receivables	3,610	3,597	3,704	3,836	4,095
Cash & Equivalents	771	601	601	601	601
Other Current Assets	5,170	4,879	4,718	4,760	4,919
Total Assets	15,661	15,994	16,596	17,545	18,748
Long-Term Debt	250	0	0	0	0
Other Non-Current Liabilities	5,549	5,429	2,560	2,654	2,860
Short-Term Debt	3,679	3,711	3,628	3,573	3,367
Other Current Liabilities	1,518	1,817	4,182	3,848	3,681
Total Liabilities	10,996	10,957	10,370	10,074	9,908
Total Equity	4,665	5,037	6,225	7,471	8,839
Total Equity & Liabilities	15,661	15,994	16,596	17,545	18,748

## Business Performance\*

Return On Capital Employed	18.1%	16.1%	16.6%	17.6%	17.1%
Return On Equity	47.6%	43.6%	34.8%	29.8%	26.8%
Operating Margin	9.87%	8.94%	8.90%	9.03%	9.18%
Free Cash Flow (MM)	859	2,282	1,725	1,675	1,679

## Quality of Earnings\*

Cash Realization Ratio	0.51x	1.29x	1.10x	1.03x	0.97x
Asset Replacement Ratio	1.55x	13.8x	13.1x	14.3x	14.7x
Tax Rate	22.5%	23.3%	25.0%	25.0%	25.0%
Net Debt/Equity	67.7%	61.7%	48.6%	39.8%	31.3%
Interest Cover	26.4x	15.2x	13.5x	13.7x	13.8x

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 6.

## Company Sector

Business Services

## Company Description

Ferguson is a leading builders merchant/distributor, with a focus on heating and plumbing. It is the market leader in North America.

## Investment Rationale

We have an Underperform rating on Ferguson. We forecast further deterioration in organic growth for the US businesses reflecting lower volumes and fading inflation, our estimates are below consensus. The recent change of the stock primary listing from the UK to the US could support an inclusion in the S&P 500 index, although the valuation discount relative to the US peers is now reduced.

## Stock Data

Shares / Common - Dual Listed	1.00
Price to Book Value	6.6x

## Key Changes

(US\$)	Previous	Current
Price Obj.	144.00	171.00
2024E EPS	9.34	9.61
2025E EPS	9.80	10.12
2026E EPS	10.65	10.99

**Exhibit 1: Ferguson revised estimates**

Low single digit upgrade to estimates

July year end	2022A	2023A	2024E			2025E			2026E		
			Old	New	% chg	Old	New	% chg	Old	New	% chg
<b>Total revenue</b>	<b>28,566</b>	<b>29,734</b>	<b>29,276</b>	<b>29,640</b>	<b>1%</b>	<b>30,085</b>	<b>30,455</b>	<b>1%</b>	<b>31,864</b>	<b>32,255</b>	<b>1%</b>
<b>Total adjusted trading profit</b>	<b>2,951</b>	<b>2,917</b>	<b>2,687</b>	<b>2,771</b>	<b>3%</b>	<b>2,797</b>	<b>2,886</b>	<b>3%</b>	<b>3,000</b>	<b>3,095</b>	<b>3%</b>
<b>% sales</b>	<b>10.3%</b>	<b>9.8%</b>	<b>9.2%</b>	<b>9.3%</b>		<b>9.3%</b>	<b>9.5%</b>		<b>9.4%</b>	<b>9.6%</b>	
<b>USA</b>											
Sales	27,067	28,291	27,895	28,234	1%	28,732	29,081	1%	30,456	30,826	1%
Trading profit	2,893	2,892	2,678	2,767	3%	2,787	2,879	3%	2,985	3,083	3%
% sales	10.7%	10.2%	9.6%	9.8%		9.7%	9.9%		9.8%	10.0%	
<b>Canada</b>											
Sales	1,499	1,443	1,381	1,405	2%	1,354	1,374	1%	1,408	1,428	1%
Trading profit	112	76	64	62		65	65		70	70	
% sales	7.5%	5.3%	4.6%	4.4%		4.8%	4.7%		5.0%	4.9%	
<b>Central Costs</b>	<b>-54</b>	<b>-51</b>	<b>-54</b>	<b>-58</b>		<b>-55</b>	<b>-58</b>		<b>-55</b>	<b>-58</b>	
Discontinued	0	0	0	0	-	0	0	-	0	0	-
Interest	-111	-184	-200	-205	-	-220	-210	-	-240	-225	-
<b>PBT</b>	<b>2,708</b>	<b>2,464</b>	<b>2,354</b>	<b>2,433</b>	<b>3%</b>	<b>2,444</b>	<b>2,541</b>	<b>4%</b>	<b>2,627</b>	<b>2,735</b>	<b>4%</b>
<b>EPS</b>	<b>1029.7</b>	<b>1020.8</b>	<b>933.6</b>	<b>961.1</b>	<b>3%</b>	<b>979.8</b>	<b>1012.3</b>	<b>3%</b>	<b>1065.4</b>	<b>1098.7</b>	<b>3%</b>

Source: BofA Global Research estimates, company report

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**Exhibit 2: Ferguson revised divisional forecast**

Progressive earning recovery from FY-25

US\$ / July year end	2018A	2019A	2020A	FY-21A	FY-22A	FY-23A	FY-24E	FY-25E	FY-26E
<b>USA</b>									
Sales	16,670	18,358	18,857	21,478	27,067	28,291	28,234	29,081	30,826
	11.3%	10.1%	2.7%	13.9%	26.0%	4.5%	-0.2%	3.0%	6.0%
Organic growth	9.9%	6.2%	0.4%	12.8%	24.2%	1.5%	-2.6%	1.0%	4.0%
Volumes			-1.7%	9.8%	6.2%	-6.5%	-1.6%	1.0%	4.0%
Prices			2.1%	3.0%	18.0%	8.0%	-1.0%	0.0%	0.0%
Sales Days / other	0.0%	-0.3%	0.4%	-0.4%	-0.1%	0.4%	0.4%	0.0%	0.0%
Acquisitions / Divestments	1.4%	4.2%	1.9%	1.5%	1.9%	2.6%	2.0%	2.0%	2.0%
Adjusted trading profit (US GAAP)		1,508	1,586	2,070	2,893	2,892	2,767	2,879	3,083
Year on year change				30.5%	39.8%	0.0%	-4.3%	4.1%	7.1%
EBIT margin		8.2%	8.4%	9.64%	10.69%	10.22%	9.80%	9.90%	10.00%
<b>Canada</b>									
Sales	1,514	1,191	1,083	1,313	1,499	1,443	1,405	1,374	1,428
Year on year change	14.7%	0.0%	-9.1%	21.3%	14.1%	-3.7%	-2.6%	-2.3%	4.0%
Organic growth	6.9%	-1.1%	-8.0%	15.8%	13.3%	1.6%	-2.0%	-2.0%	4.0%
Sales Days / other	0.0%	0.0%	0.4%	-1.0%	0.3%	0.2%	0.4%	0.0%	0.0%
Acquisitions / Divestments	2.0%	5.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FX	5.8%	-3.9%	-1.6%	6.5%	0.5%	-5.5%	-1.0%	-0.3%	0.0%
CAD / USD	0.79	0.75	0.75	0.79	0.79	0.746	0.738	0.736	0.736
Adjusted trading profit (US GAAP)		68	43	76	112	76	62	65	70
Year on year change				76.7%	47.4%	-32.1%	-18.6%	4.4%	8.4%
EBIT margin		5.7%	4.0%	5.8%	7.5%	5.3%	4.40%	4.70%	4.90%
<b>Central costs</b>									
Adjusted trading profit - US GAAP		-46	-42	-54	-54	-51	-58	-58	-58
<b>GROUP</b>									
Sales	20,752	21,771	19,940	22,791	28,566	29,734	29,640	30,455	32,255
Year on year change	10.1%	4.9%	-8.4%	14.3%	25.3%	4.1%	-0.3%	2.8%	5.9%
Organic growth	7.5%	4.0%	-2.8%	13.0%	23.6%	1.5%	-2.6%	0.9%	4.0%
Volumes					5.6%	-6.5%	-1.6%		
Price/inflation					18.0%	8.0%	-1.0%		
Sales Days / other	0.0%	-0.2%	-0.7%	-0.4%	-0.1%	0.4%	0.4%	0.0%	0.0%
Acquisitions / Divestments	1.3%	3.7%	0.7%	1.4%	1.8%	2.5%	1.9%	1.9%	1.9%
FX	1.2%					-0.3%			
Gross profit				6,974	8,770	9,025	8,981	9,228	9,773
Year on year change					25.7%	2.9%	-0.5%	2.8%	5.9%
Adjusted Gross margin			30.0%	30.6%	30.7%	30.4%	30.3%	30.3%	30.3%
SG&A				-4,715	-5,617	-5,920	-6,020	-6,148	-6,481
y/y change					19.1%	5.4%	1.7%	2.1%	5.4%
% of sales				20.7%	19.7%	19.9%	20.3%	20.2%	20.1%
Adjusted EBITDA				2,259	3,153	3,105	2,961	3,079	3,292
Year on year change					39.6%	-1.5%	-4.6%	4.0%	6.9%
Adjusted EBITDA margin				9.9%	11.0%	10.4%	10.0%	10.1%	10.2%
Depreciation, amortization and impairment				-167	-202	-188	-190	-194	-198
Adjusted operating profit (US GAAP)		1,530	1,587	2,092	2,951	2,917	2,771	2,886	3,095
Year on year change			3.7%	31.8%	41.1%	-1.2%	-5.0%	4.1%	7.2%
Adjusted operating profit margin	0.0%	7.0%	8.0%	9.2%	10.3%	9.8%	9.35%	9.48%	9.6%

Source: BofA Global Research estimates, company report

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## Price objective basis & risk

### Ferguson PLC (WOSCF / FERG)

Our price objective for Ferguson is £135 / US\$171 and is set by applying 18x P/E and 13.5x EV/EBITDA multiples to our annualised 2024E and 2025E EPS and EBITDA estimates (with a 50% weighting for each year). Our target multiples account for the optionality from the US relisting, which drives Ferguson multiples closer to its US listed peers.

Upside risks to our PO are an acceleration of organic growth in the US, incremental margin improvement, macro-economic upturn in the Canada and GBP weakness.

Downside risks to our price objective are the pace of recovery in construction markets in both the US and Canada, management execution, changes in pricing, and competition, which could impact negatively upon gross margin.

## Analyst Certification

I, Arnaud Lehmann, 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.

### EMEA - Building, Construction & Cement Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
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	Buzzi	BZZUY	BZZUY US	Lukha Aggarwal
	CRH	CRHCF	CRH LN	Arnaud Lehmann
	CRH	CRH	CRH US	Arnaud Lehmann
	Heidelberg Materials	HLBZF	HEI GY	Arnaud Lehmann
	Heidelberg Materials	HDELY	HDELY US	Arnaud Lehmann
	Kingspan Group PLC	KGSPF	KSP ID	Arnaud Lehmann
	Taylor Wimpey	TWODF	TW/ LN	Arnaud Lehmann
	Vistry Group PLC	BVHMF	VTY LN	Lukha Aggarwal
<b>NEUTRAL</b>				
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	Ashtead Group Plc	ASHTF	AHT LN	Arnaud Lehmann
	Holcim	HCMLY	HCMLY US	Arnaud Lehmann
	Holcim Ltd	HCMLF	HOLN SW	Arnaud Lehmann
	Persimmon	PSMMF	PSN LN	Arnaud Lehmann
	Persimmon	PSMMY	PSMMY US	Arnaud Lehmann
	Saint-Gobain	CODGF	SGO FP	Arnaud Lehmann
	Saint-Gobain	CODY	CODY US	Arnaud Lehmann
	Sika	SKFOF	SIKA SW	Arnaud Lehmann
	Sika	SXYAY	SXYAY US	Arnaud Lehmann
<b>UNDERPERFORM</b>				
	Barratt Developments	BTDPF	BDEV LN	Lukha Aggarwal
	Bellway	BLWYF	BWY LN	Lukha Aggarwal
	Berkeley Group	BKGFF	BKG LN	Lukha Aggarwal
	Ferguson PLC	WOSCF	FERG LN	Arnaud Lehmann
	Ferguson PLC	FERG	FERG US	Arnaud Lehmann
	Geberit	GBERF	GBN SW	Arnaud Lehmann
	Rockwool International A/S	RKWBF	ROCKB DC	Arnaud Lehmann
	Skanska	SKSBF	SKAB SS	Arnaud Lehmann
	Travis Perkins	TPPKF	TPK LN	Arnaud Lehmann

## 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 &amp; 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

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.

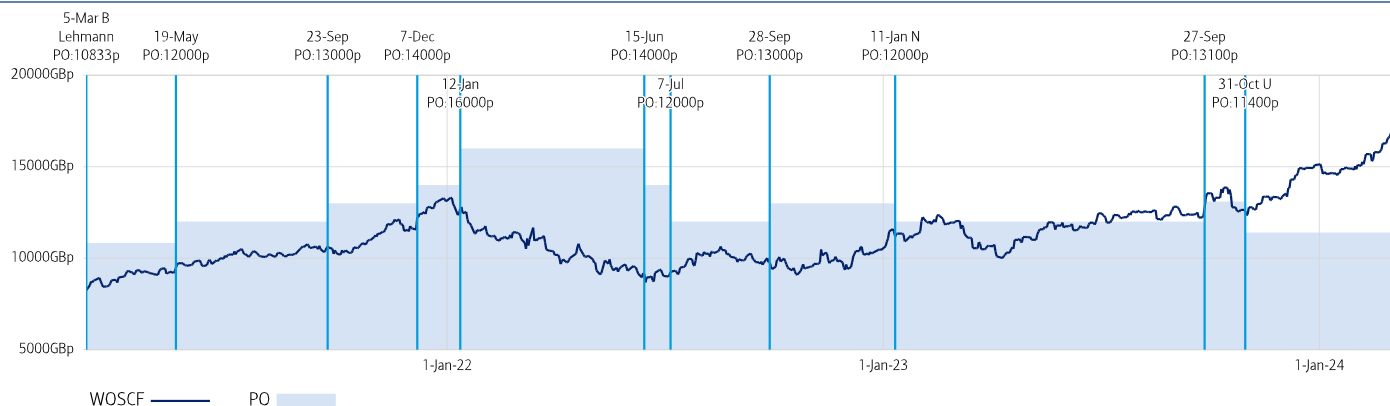
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# Disclosures

## Important Disclosures

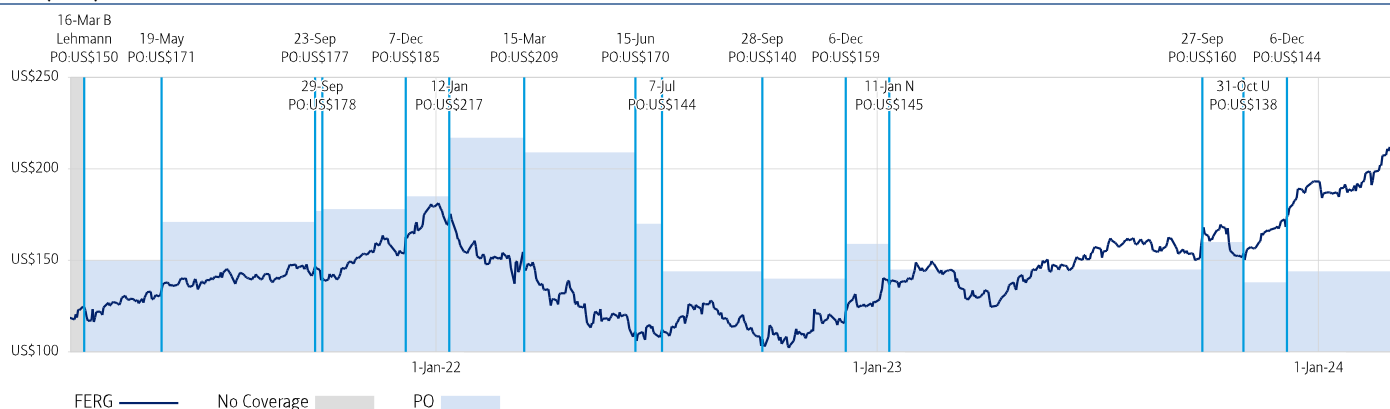
### Ferguson (WOSCF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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.

### Ferguson (FERG) Price Chart



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### Equity Investment Rating Distribution: Business Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	26	55.32%	Buy	17	65.38%
Hold	8	17.02%	Hold	3	37.50%
Sell	13	27.66%	Sell	11	84.62%

### 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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