

Assaí Atacadista

Conversions hit goal, market share gains, working capital strides

Maintain Rating: BUY | PO: 16.50 BRL | Price: 14.32 BRL

Sales +15.5%, Adj. EBITDA +22.6%, Adj. EPS -9.2%

EPS of R\$0.22 (-26.9% y/y) edged a R\$0.21 consensus. Ex-capitalized interest, EPS fell 9.2% y/y. Same-stores improved sequentially to 2.9% y/y (volumes +1.2%), despite food deflation. Total sales grew 15.5% on 11.4% new space. Assaí gained 1.4ppt of market share in the quarter (+0.7ppt same-stores). Adj. EBITDA ex-IFRS-16 grew 36.2% (margin +0.8ppt). Net income declined 26.8% y/y to BRL297mn.

Working capital improves, net debt ratio declines

Assaí's cash conversion cycle improved 5.6 days y/y, largely driven by an 8-day reduction in days inventory as new store openings normalized. Assaí's Net debt/EBITDA improved to 3.8x (Exhibit 3) from 4.4x in Sep/23 and 4.37x in Dec/22.

Conversions reach plan, rental income up 69%

Assaí hypermarket conversions appear to be achieving plan as 64 of 66 acquired locations were said to have tripled pre-conversion sales. Assaí also continues to re-open adjacent strip mall space. 70% of expected GLA is now occupied and rental income increased 69% vs 2022.

Deflation bottomed in October, prices to accelerate

Food deflation appears to have troughed in Oct/23, as El Niño weather conditions drives food inflation of 0.7% in January. At-home food inflation is now forecast to exceed the overall CPI in 3Q24, and end 2024 at 4.8% (Exhibit 4).

Exceptional leverage to rates and debt amortization

While tax reforms should adversely impact Assaí in 2024, we suggest a combination of deleveraging and lower interest rates capable of nearly doubling earnings in 2025. Assaí has also worked to address its governance discount, and we look for a combination of execution, rate cuts and amortization to increasingly address market concern and prove supportive of valuation. We reaffirm our Buy rating.

Estimates(Dec) (BRL)	2021A	2022A	2023E	2024E	2025E
EPS	1.20	0.91	0.53	0.59	1.10
EPS Change (YoY)	69.0%	-24.2%	-41.8%	11.3%	86.4%
DPS	0.10	0.13	0.11	0.10	0.17
ADR EPS (US\$)	1.11	0.88	0.54	0.60	1.11
ADR DPS (US\$)	0.10	0.12	0.11	0.10	0.17
Valuation (Dec)					
P/E	11.9x	15.7x	27.0x	24.3x	13.0x
Dividend Yield	0.7%	0.9%	0.8%	0.7%	1.2%
EV / EBITDA*	12.2x	10.4x	8.5x	7.2x	6.4x
Free Cash Flow Yield*	-2.5%	-0.5%	-8.9%	5.4%	8.6%

* For full definitions of *IQmethod*SM measures, see page 9.

21 February 2024

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Stock Data

Price (Common / ADR)	14.32 BRL / 14.36 USD
Price Objective	16.50 BRL / 16.50 USD
Date Established	14-Feb-2024 / 14-Feb-2024
Investment Opinion	C-1-7 / C-1-7
52-Week Range	10.38 BRL - 19.09 BRL
Market Value (mn)	19,353 BRL
Free Float	100.0%
Average Daily Value	32.36 USD
Shares Outstanding (mn)	1,351.5 / 270.3
BofA Ticker / Exchange	XFCXF / SAO
BofA Ticker / Exchange	ASAI / NYS
Bloomberg / Reuters	ASAI3 BZ / ASAI3.SA
ROE (2023E)	16.8%
Net Dbt to Eqty (Dec-2022A)	458.8%

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Refer to important disclosures on page 10 to 13. Analyst Certification on page 8. Price Objective Basis/Risk on page 8.

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Timestamp: 21 February 2024 08:14PM EST

iQprofileSM Assaí Atacadista

iQmethodSM – Bus Performance*

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	17.9%	13.7%	11.1%	9.5%	11.1%
Return on Equity	78.3%	36.6%	16.8%	16.5%	25.7%
Operating Margin	6.2%	5.2%	4.9%	4.9%	5.3%
Free Cash Flow	(483)	(97)	(1,714)	1,045	1,664

iQmethodSM – Quality of Earnings*

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.1x	2.8x	4.6x	3.5x	2.2x
Asset Replacement Ratio	3.3x	3.5x	3.3x	1.0x	0.9x
Tax Rate	12.9%	8.6%	NM	29.7%	31.0%
Net Debt-to-Equity Ratio	335.9%	458.8%	443.6%	393.9%	307.6%
Interest Cover	2.8x	1.5x	1.1x	1.3x	1.8x

Income Statement Data (Dec)

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Sales	41,898	54,520	66,665	75,827	83,266
% Change	16.6%	30.1%	22.3%	13.7%	9.8%
Gross Profit	7,145	8,963	10,882	12,409	13,710
% Change	20.9%	25.4%	21.4%	14.0%	10.5%
EBITDA	3,265	3,840	4,728	5,574	6,278
% Change	32.7%	17.6%	23.1%	17.9%	12.6%
Net Interest & Other Income	(730)	(1,515)	(2,712)	(2,598)	(2,242)
Net Income (Adjusted)	1,610	1,220	710	802	1,489
% Change	68.2%	-24.2%	-41.8%	12.9%	85.7%

Free Cash Flow Data (Dec)

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	1,610	1,220	710	802	1,489
Depreciation & Amortization	686	990	1,486	1,760	1,795
Change in Working Capital	(411)	445	616	612	524
Deferred Taxation Charge	(127)	40	(192)	(118)	(70)
Other Adjustments, Net	46	713	614	(286)	(428)
Capital Expenditure	(2,287)	(3,505)	(4,948)	(1,725)	(1,646)
Free Cash Flow	-483	-97	-1,714	1,045	1,664
% Change	-373.9%	79.9%	NM	NM	59.2%
Share / Issue Repurchase	27	11	6	0	0
Cost of Dividends Paid	(148)	(168)	(168)	(140)	(243)
Change in Debt	(389)	2,993	(346)	(2,321)	(2,479)

Balance Sheet Data (Dec)

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	2,550	5,842	4,649	3,233	2,175
Trade Receivables	265	570	664	750	823
Other Current Assets	5,957	7,767	8,356	9,301	10,109
Property, Plant & Equipment	10,320	19,183	21,919	23,016	23,947
Other Non-Current Assets	3,762	7,256	7,579	7,780	7,950
Total Assets	22,854	40,618	43,167	44,079	45,004
Short-Term Debt	613	3,682	2,347	2,479	3,211
Other Current Liabilities	8,031	12,734	13,327	15,073	16,513
Long-Term Debt	11,227	20,036	22,586	21,136	18,713
Other Non-Current Liabilities	217	270	334	217	147
Total Liabilities	20,088	36,722	38,595	38,905	38,583
Total Equity	2,766	3,896	4,572	5,175	6,421
Total Equity & Liabilities	22,854	40,618	43,167	44,079	45,004

* For full definitions of iQmethodSM measures, see page 9.

Company Sector

Supermarkets/Food Retailers

Company Description

Assaí is Brazil's second-largest food retailer, focused on the fast-growing cash-and-carry segment. The company operates warehouse stores catering to individuals, small businesses, and the food service industry, including hotels, restaurants and cafés. In March 2021, GPA spun off its cash-and-carry business, listing Assaí (under the corporate name Sendas Distribuidora) on the Novo Mercado segment of Brazil's B3 and the New York Stock Exchange.

Investment Rationale

Assaí is a fast-growing and high-return warehouse store operator. Its disruptive value propositions, combined with the fragmentation of the Brazilian food retail and food-service segments, appear capable of sustaining longer term growth. Slower food inflation, industry space growth and elevated interest rates are headwinds. Deleveraging should contribute to longer-term earnings growth.

Stock Data

Average Daily Volume	11,149,760
Shares / ADR	5.00

4Q23 Results

Exhibit 1: Assaí summary Income Statement

EPS decrease of -26.9%; BRL, mn

	4Q22	4Q23	Δ	BofA	Δ	Cons	Δ
Total Stores	263	288	9.5%	288	0.0%	290	-0.5%
SSS	10.5%	2.9%		2.0%		2.3%	
Net Revenue	15,954	18,421	15.5%	18,583	-0.9%	18,458	-0.2%
Gross Profit	2,738	3,072	12.2%	3,133	-2.0%	3,142	-2.2%
EBITDA	1,158	1,434	23.8%	1,401	2.4%	1,382	3.8%
Adj. EBITDA*	1,171	1,436	22.6%	1,419	1.2%	1,388	3.5%
Operating Profit	868	1,042	20.0%	999	4.3%	989	5.3%
Pre-Tax Income	423	306	-27.7%	283	8.2%	299	2.5%
Net Income	406	297	-26.8%	297	-0.2%	283	5.0%
Adj. Net Income (ex-Capitalized Interest)**	302	275	-9.2%	271	1.3%		
EPS	0.30	0.22	-26.9%	0.22	-0.2%	0.21	5.0%
Adj. EPS**	0.22	0.20	-9.2%	0.20	1.3%		
Gross Margin	17.2%	16.7%	-49 bp	16.9%	-19 bp	17.0%	-35 bp
Adj. Expense Ratio	9.8%	8.9%	-94 bp	9.2%	-34 bp	9.5%	-62 bp
Adj. EBITDA Margin	7.3%	7.8%	46 bp	7.6%	16 bp	7.5%	28 bp
EBITDA Margin	7.3%	7.8%	53 bp	7.5%	25 bp	7.5%	30 bp
Operating Margin	5.4%	5.7%	22 bp	5.4%	28 bp	5.4%	30 bp
Net Margin	2.5%	1.6%	-93 bp	1.6%	1 bp	1.5%	8 bp
Adj. Net Margin	1.9%	1.5%	-40 bp	1.5%	3 bp		

*Adjusted by other revenues/expenses (R\$2mn in 4Q23 and R\$13mn in 4Q22)

**Excludes capitalized interest, net of tax (R\$22mn in 4Q23 and R\$104mn in 4Q22)

Source: Company filings, Visible Alpha, BofA Global Research

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Exhibit 2: ASAI Consolidated Income Statement

15.5% growth in Net revenues and -26.8% in Net income; BRL, mn

	4Q22	4Q23	% Chg
Net revenues	15,954	18,421	15.5%
Cost of revenues	(13,216)	(15,349)	16.1%
Gross profit	2,738	3,072	12.2%
Gross margin (%)	17.2%	16.7%	-49 bp
Selling expenses	(1,382)	(1,434)	3.8%
% of revenue	-8.7%	-7.8%	88 bp
General & Administrative expenses	(215)	(239)	11.2%
% of revenue	-1.3%	-1.3%	5 bp
Other operating income (expenses)	(283)	(372)	31.4%
% of revenue	-1.8%	-2.0%	-25 bp
Equity income	10	15	50.0%
% of revenue	0.1%	0.1%	2 bp
Total operating expenses	(1,870)	(2,030)	8.6%
% of revenue	-11.7%	-11.0%	70 bp
Operating income	868	1,042	20.0%
Operating margin (%)	5.4%	5.7%	22 bp
Net financial income (expense)	(445)	(736)	65.4%
Pre-tax income	423	306	-27.7%
Income tax	(17)	(9)	-47.1%
Effective tax rate (%)	4.0%	2.9%	-108 bp
Net income	406	297	-26.8%
Net margin	2.5%	1.6%	-93 bp

Source: Company filings, BofA Global Research

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Exhibit 3: Assaí holds a R\$18.5bn gross debt including the payables from the GPA transaction

Net debt including payables from the GPA transaction and discounted receivables, BRL mn

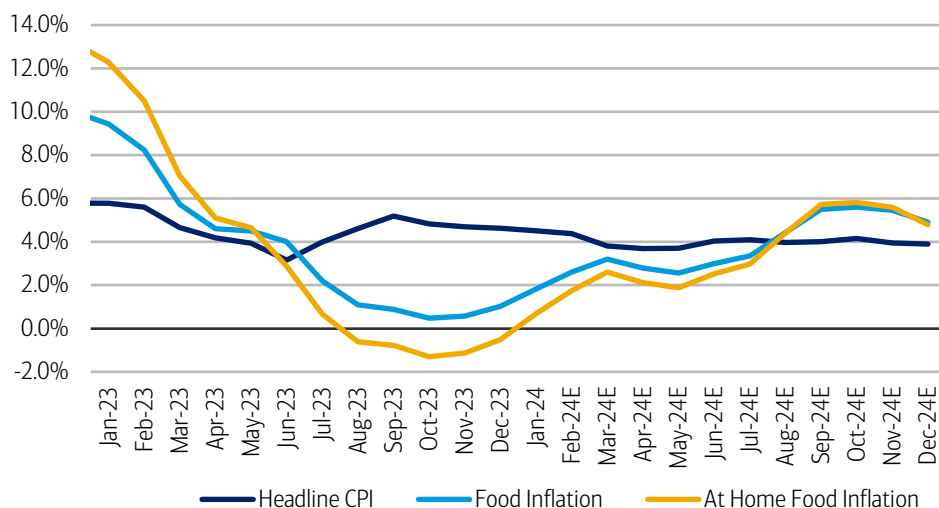
	4Q22	3Q23	4Q23	% y/y	% q/q
Short Term Debt	1,260	2,625	2,115	67.9%	-19.4%
Long Term Debt	11,331	11,469	13,069	15.3%	14.0%
Derivatives	(182)	(246)	(274)	50.5%	11.4%
Total Gross Debt	12,409	13,848	14,910	20.2%	7.7%
(+) GPA transaction payables (a)	3,202	2,068	892	-72.1%	-56.9%
(+) Discounted Receivables (b)	2,785	2,583	2,742	-1.5%	6.2%
Gross Debt including (a) + (b)	18,396	18,499	18,544	0.8%	0.2%
(-) Cash and Financial Investments	(5,842)	(4,417)	(5,459)	-6.6%	23.6%
Net debt including GPA payables (i)	12,554	14,082	13,085	4.2%	-7.1%
EBITDA ex-IFRS 16 LTM (ii)	2,868	3,171	3,444	20.1%	8.6%
Net Debt / EBITDA (i/ii)	4.4x	4.4x	3.8x	-0.6x	-0.6x

Source: Company filings, BofA Global Research

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At-home food inflation 2024E up 4.8% y/y**Exhibit 4: At-home food inflation up 0.7% y/y in January; expected to end 2024 at 4.8%**

IPCA: Overall CPI vs Food inflation, % Chg. y/y



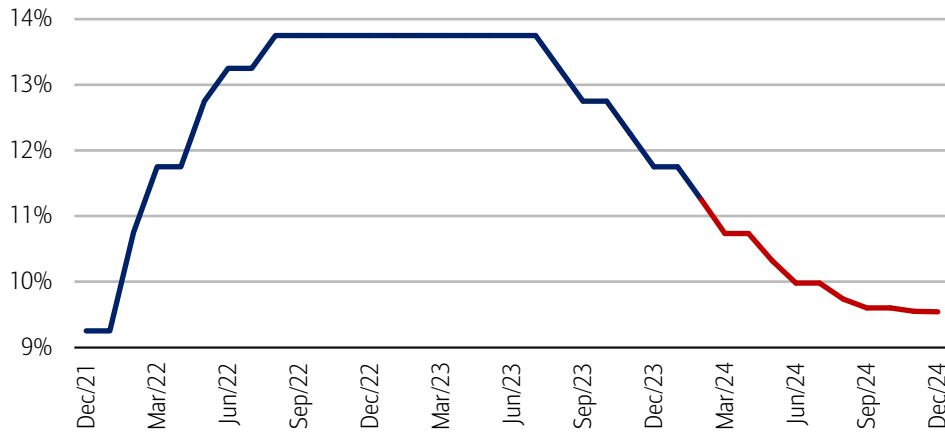
Source: IBGE, MCM Consultores, BofA Global Research

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Interest rate cuts

Exhibit 5: Futures imply about 175bp of rate cuts by year-end

Historical Brazil base rate (Selic) and implied expectations based on rates futures, %



Note: Selic estimate based on DI futures from Feb 15th, 2024

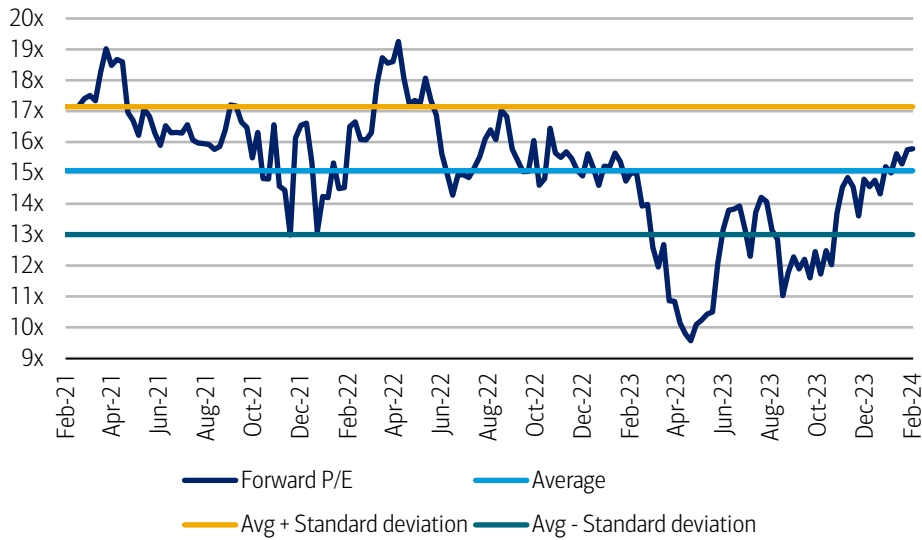
Source: Bloomberg, BofA Global Research

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Valuation

Exhibit 6: Assai is trading above its historical average of 15.1x earnings

Consensus 12-month forward P/E



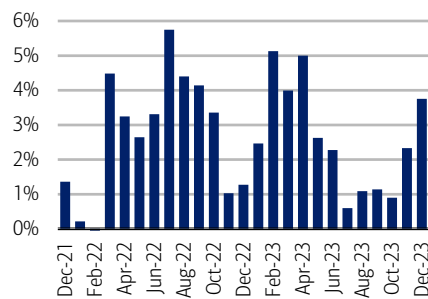
Source: Bloomberg, BofA Global Research

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Brazil macroeconomic indicators

Exhibit 7: Economic activity accelerating

IBC-BR, % chg y/y

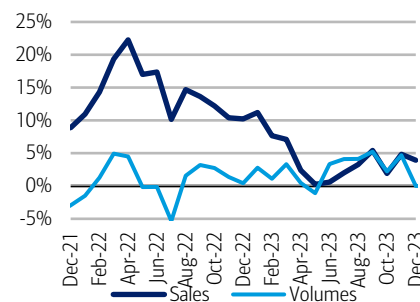


Source: Banco Central do Brasil

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Exhibit 8: Retail sales entirely driven by inflation

Nominal retail sales and volumes ex. auto and construction, % chg y/y

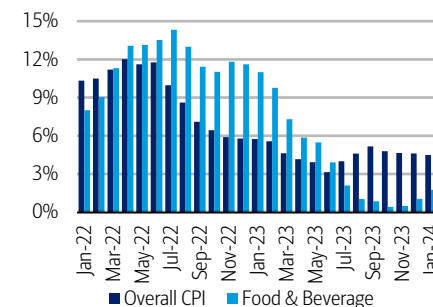


Source: IBGE

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Exhibit 9: Food and beverage inflation accelerated to +1.8% y/y in January; -0.8% y/y deflation in at-home food

CPI: total vs. food, % chg y/y

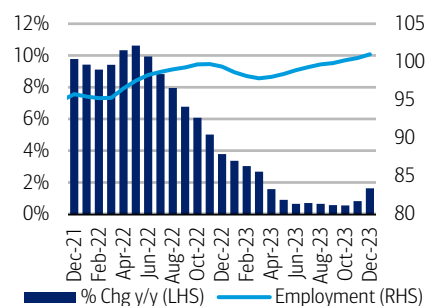


Source: IBGE

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Exhibit 10: Brazilian job growth improving, +1.6% y/y in December

Employment, mln of inhabitants and % chg y/y

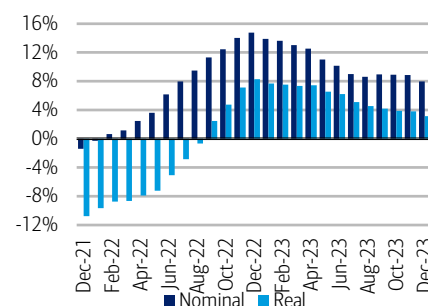


Source: IBGE

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Exhibit 11: Real wages up 3.1% y/y in December

Real vs. nominal wages, % chg y/y

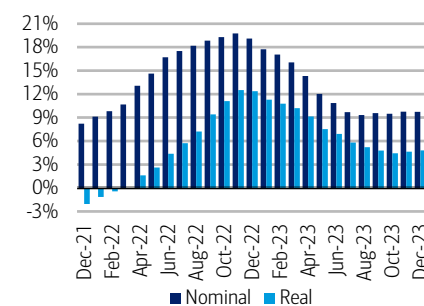


Source: IBGE

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Exhibit 12: Wage growth driving real salary mass expansion

Real vs. nominal salary mass, % chg y/y

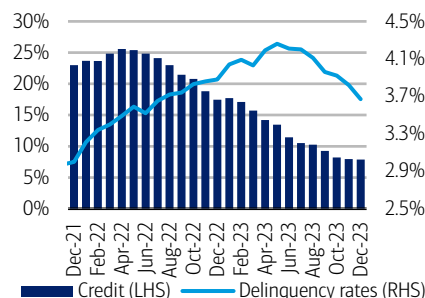


Source: IBGE

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Exhibit 13: Credit grow slowing; delinquency rates down from recent highs

Consumer credit growth and > 90-day delinquency rate

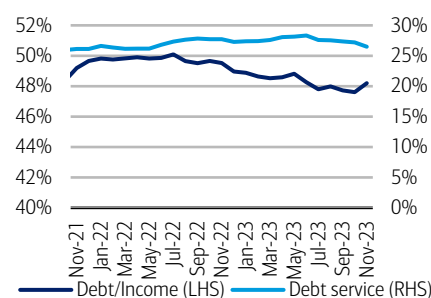


Source: Banco Central do Brasil

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Exhibit 14: Consumers appear to be deleveraging; debt service at 26.5% of aggregate income in last print

Indebtedness and interest burden, % of disposable income

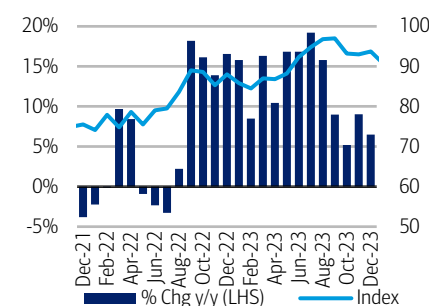


Source: Banco Central do Brasil

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Exhibit 15: Consumer confidence weakened slightly in December, but still up 9% y/y

Total consumer confidence



Source: FGV

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Price objective basis & risk

Assaí Atacadista (XFCXF / ASAI)

Our price objective of R\$16.50 (US\$16.50 per ADS) is based on a 15x multiple of 2025E EPS, in line with Assaí's historical P/E average of 15.0x, and publicly traded wholesaler and warehouse club compares. We continue to perceive Assaí to be exceptionally well managed and positioned to further consolidate the Brazilian food retail and wholesale markets over the longer term

Risks to our price objective are weaker investor sentiment, an erosion in demand, food deflation, competition, execution lapses, higher funding costs, dilutive acquisitions, adverse tax or regulatory changes and corporate governance.

Analyst Certification

We, Robert E. Ford Aguilar, CFA, Vinicius Pretto and Wellington Santana, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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Latin America - Consumer Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Alsea	ALSSF	ALSEA* MM	Robert E. Ford Aguilar, CFA
	Arcos Dorados	ARCO	ARCO US	Robert E. Ford Aguilar, CFA
	Arezzo & Co	XARZF	ARZZ3 BZ	Robert E. Ford Aguilar, CFA
	Assaí Atacadista	XFCXF	ASAI3 BZ	Robert E. Ford Aguilar, CFA
	Assaí Atacadista	ASAI	ASAI US	Robert E. Ford Aguilar, CFA
	Chedraui	GCHZF	CHDRAUIB MM	Robert E. Ford Aguilar, CFA
	CVC	CVCBF	CVCB3 BZ	Robert E. Ford Aguilar, CFA
	FEMSA	FMX	FMX US	Robert E. Ford Aguilar, CFA
	FEMSA	FMXUF	FEMSAUBD MM	Robert E. Ford Aguilar, CFA
	Grupo SOMA	XNASF	SOMA3 BZ	Robert E. Ford Aguilar, CFA
	Hypera Pharma	XHPYF	HYPE3 BZ	Robert E. Ford Aguilar, CFA
	Kimberly-Clark de México	KCDMF	KIMBERA MM	Robert E. Ford Aguilar, CFA
	Lojas Quero-Quero	XZUXF	LJQQ3 BZ	Robert E. Ford Aguilar, CFA
	Mercadolibre	MELI	MELI US	Robert E. Ford Aguilar, CFA
	Natura &Co Holding SA	XZVAF	NTCO3 BZ	Robert E. Ford Aguilar, CFA
	Natura &Co Holding SA	NTCO	NTCO US	Robert E. Ford Aguilar, CFA
	RaiaDrogasil S.A.	RAIAF	RADL3 BZ	Robert E. Ford Aguilar, CFA
	Smartfit	XSMRF	SMFT3 BZ	Robert E. Ford Aguilar, CFA
	Track & Field	XWZRF	TFCO4 BZ	Robert E. Ford Aguilar, CFA
	Vivara	XUVZF	VIVA3 BZ	Robert E. Ford Aguilar, CFA
NEUTRAL				
	Alpargatas S.A.	SRDDF	ALPA4 BZ	Robert E. Ford Aguilar, CFA
	Cencosud	XCSCF	CENCOSUD CI	Robert E. Ford Aguilar, CFA
	Falabella	XDIYF	FALAB CI	Robert E. Ford Aguilar, CFA
	Grupo Carrefour Brasil	XLDPF	CRFB3 BZ	Robert E. Ford Aguilar, CFA
	Magazine Luiza	MGZZF	MGLU3 BZ	Robert E. Ford Aguilar, CFA
	Multilaser	XMTLF	MLAS3 BZ	Robert E. Ford Aguilar, CFA
	Petz	XUXUF	PETZ3 BZ	Robert E. Ford Aguilar, CFA
UNDERPERFORM				
	CBD	CBD	CBD US	Robert E. Ford Aguilar, CFA

Latin America - Consumer Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	CBD	GPSAF	PCAR3 BZ	Robert E. Ford Aguilar, CFA
	El Puerto de Liverpool	ELPQF	LIVEPOLC MM	Robert E. Ford Aguilar, CFA
	Grupo Casas Bahia SA	GBXPF	BHIA3 BZ	Robert E. Ford Aguilar, CFA
	Lojas Renner SA	LORPF	LREN3 BZ	Robert E. Ford Aguilar, CFA
	Soriana	ONZBF	SORIANAB MM	Robert E. Ford Aguilar, CFA
	Walmex	WMMVF	WALMEX* MM	Robert E. Ford Aguilar, CFA
	Walmex	WMMVY	WMMVY US	Robert E. Ford Aguilar, CFA

iQmethodSM 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 & 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

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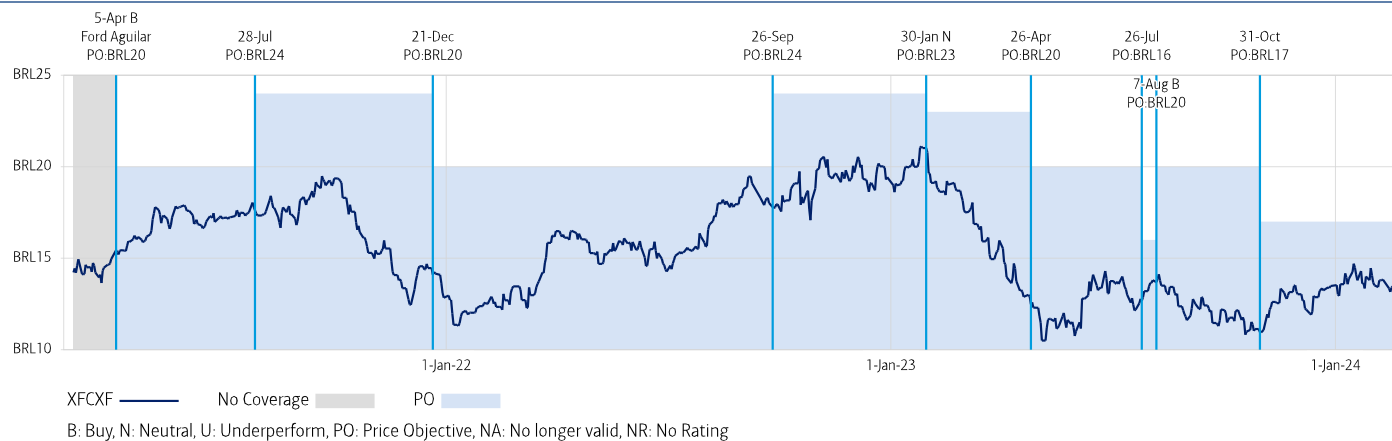
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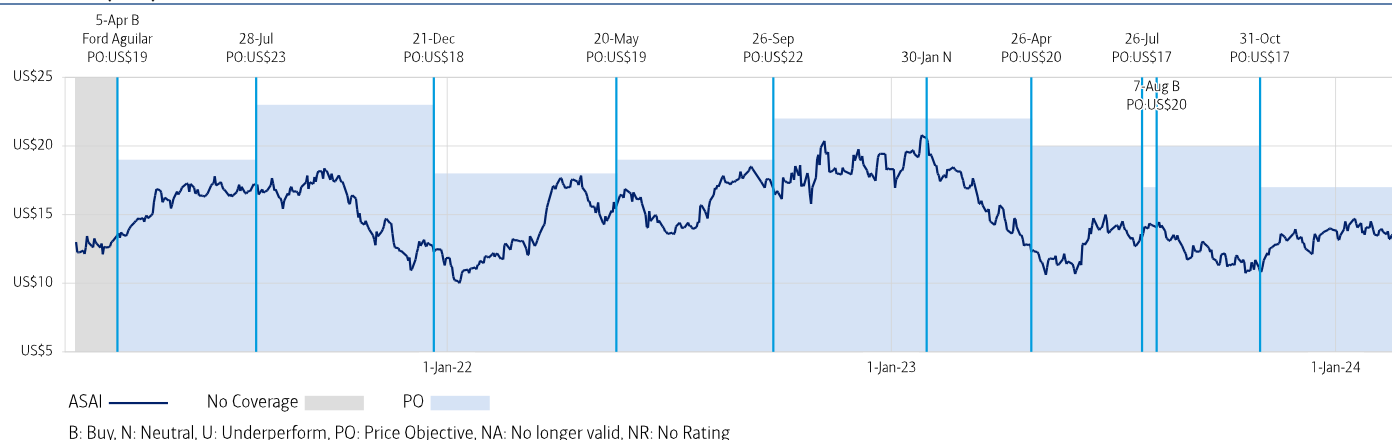
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Assaí Atacadista (XFCXF) Price Chart



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Assaí Atacadista (ASAI) Price Chart



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Equity Investment Rating Distribution: Retailing Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

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}
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