

Clorox

FQ2 beats on volume restoration post-cybersecurity attack; Reiterate Neutral

Reiterate Rating: NEUTRAL | PO: 160.00 USD | Price: 148.04 USD

Clorox sees “vast majority” of inventory restored in FQ2

FQ2 results came in well ahead of expectations from the cyberattack recovery, with adj. EPS of \$2.16 ahead of our \$1.03 estimate and the Street's \$1.09. Clorox over-shipped vs. consumption with volumes +13%, price/mix +7%, and FX was a -4% drag. Gross margin was 43.5% (+730bps y/y), a level not achieved since F21, driven by better pricing and cost absorption from strong shipments more than offsetting unfavorable FX. However, volume growth outlook remains a question as we expect Clorox to continue inventory restocking in FQ3, but not fully regain distribution until Spring shelf resets.

F2H24 pricing benefits and margin expansion moderates

We expect margin expansion to moderate in F2H as pricing benefits wane (excluding pricing taken to offset hyperinflation in Argentina) and the company expects unfavorable inflation across the supply chain, including commodities. Clorox expects consumers to be pressured financially, contributing to a modest slowdown in category growth rates in 2H. To support distribution gains, Clorox plans to spend ~11% of sales on advertising in F24, with spending in 2H closer to 12%.

F24 guidance raised; nearly back to its initial F24 guide

CLX updated guidance for F24, now expecting net sales declines of -LSD (vs. -MSD to -HSD prior), gross margin +200bps (vs. flat prior), and adj. EPS of \$5.30-\$5.50 vs. \$4.30-\$4.80. Visibility remains low on the underlying volume trends as CLX continues to regain distribution and we expect volumes to better reflect consumption in FQ4. Meanwhile, benefits from pricing will likely offset FX effects in Argentina. Overall, our F24 adj. EPS moves to \$5.61 vs. \$4.47 prior, primarily on the FQ2 beat. Ultimately, we believe Clorox can achieve levels toward the low end of its initial F24 EPS guide set in August.

Reiterate Neutral and increase PO to \$160 from \$150

We reiterate our Neutral rating and increase our PO to \$160 from \$150 prior, reflecting a ~21x P/E multiple on CY25e EPS of \$7.47 vs. \$7.22 prior. We believe a ~21x multiple appropriately measures benefits from volume recovery while lapping pricing benefits in the U.S., along with associated market share challenges following the cybersecurity attack amid a potentially challenging consumer backdrop.

Estimates (Jun) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.11	5.12	5.61	6.57	8.26
GAAP EPS	3.80	1.30	4.82	6.57	8.26
EPS Change (YoY)	-43.3%	24.6%	9.6%	17.1%	25.7%
Consensus EPS (Bloomberg)			4.50	5.94	6.20
DPS	4.64	4.72	4.80	5.04	5.28
Valuation (Jun)					
P/E	36.0x	28.9x	26.4x	22.5x	17.9x
GAAP P/E	39.0x	113.9x	30.7x	22.5x	17.9x
Dividend Yield	3.1%	3.2%	3.2%	3.4%	3.6%
EV / EBITDA*	21.3x	17.7x	17.1x	15.1x	13.2x
Free Cash Flow Yield*	2.9%	5.0%	2.0%	4.7%	5.6%

* For full definitions of *IQmethod*SM measures, see page 5.

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Timestamp: 01 February 2024 11:06PM EST

01 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	150.00	160.00
2024E Rev (m)	6,916.8	7,256.6
2025E Rev (m)	7,630.3	7,631.8
2026E Rev (m)	7,859.2	7,861.9
2024E EPS	4.47	5.61
2025E EPS	6.59	6.57
2026E EPS	7.95	8.26

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Stock Data

Price	148.04 USD
Price Objective	160.00 USD
Date Established	1-Feb-2024
Investment Opinion	B-2-7
52-Week Range	114.69 USD - 178.21 USD
Mrkt Val (mn) / Shares Out (mn)	18,449 USD / 124.6
Free Float	99.6%
Average Daily Value (mn)	165.51 USD
BofA Ticker / Exchange	CLX / NYS
Bloomberg / Reuters	CLX US / CLX.N
ROE (2024E)	268.6%
Net Dbt to Eqty (Jun-2023A)	NA
ESGMeter™	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"](#).

iQprofileSM Clorox

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	13.6%	15.6%	20.5%	22.3%	25.4%
Return on Equity	77.2%	113.5%	268.6%	635.3%	480.7%
Operating Margin	11.4%	13.7%	14.4%	15.9%	17.9%
Free Cash Flow	535	930	367	859	1,034

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.5x	1.8x	0.8x	1.3x	1.2x
Asset Replacement Ratio	1.1x	1.0x	0.9x	0.9x	0.9x
Tax Rate	22.4%	32.4%	18.5%	24.0%	24.0%
Net Debt-to-Equity Ratio	347.5%	NM	NM	NM	NM
Interest Cover	7.7x	11.2x	11.4x	15.1x	NM

Income Statement Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	7,107	7,389	7,257	7,632	7,862
% Change	-3.2%	4.0%	-1.8%	5.2%	3.0%
Gross Profit	2,545	2,908	3,034	3,174	3,376
% Change	-20.4%	14.3%	4.3%	4.6%	6.4%
EBITDA	1,035	1,246	1,288	1,466	1,670
% Change	-29.4%	20.4%	3.4%	13.8%	13.9%
Net Interest & Other Income	(143)	(170)	(136)	(141)	(67)
Net Income (Adjusted)	510	634	697	815	1,020
% Change	-44.8%	24.3%	9.9%	16.9%	25.3%

Free Cash Flow Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	471	161	599	815	1,020
Depreciation & Amortization	224	236	246	254	261
Change in Working Capital	(99)	201	36	20	(12)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	190	560	(296)	0	0
Capital Expenditure	(251)	(228)	(218)	(229)	(236)
Free Cash Flow	535	930	367	859	1,034
% Change	-43.4%	73.8%	-60.5%	133.8%	20.4%
Share / Issue Repurchase	(20)	33	(70)	(195)	(195)
Cost of Dividends Paid	(571)	(583)	(598)	(625)	(652)
Change in Debt	(83)	(188)	204	0	0

Balance Sheet Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	178	367	272	311	498
Trade Receivables	681	688	557	585	603
Other Current Assets	866	773	693	726	730
Property, Plant & Equipment	1,334	1,345	1,311	1,298	1,284
Other Non-Current Assets	3,099	2,772	2,784	2,772	2,760
Total Assets	6,158	5,945	5,617	5,692	5,875
Short-Term Debt	237	137	339	339	339
Other Current Liabilities	1,547	1,780	1,480	1,561	1,570
Long-Term Debt	2,474	2,477	2,479	2,479	2,479
Other Non-Current Liabilities	1,171	1,163	1,189	1,189	1,189
Total Liabilities	5,429	5,557	5,487	5,568	5,577
Total Equity	729	388	131	126	299
Total Equity & Liabilities	6,158	5,945	5,618	5,693	5,876

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Household Products

Company Description

Clorox is a leading global manufacturer of consumer household and professional products, and derives 84% of its sales from the U.S. Clorox's products are well recognized by consumers, which include bleach and cleaning products, Pine-Sol cleaners, Liquid-Plumr clog cleaner, Glad bags, Kingsford grilling products, and many others. Clorox derives over 80% of its sales from brands which hold the #1 or #2 market share position in their categories.

Investment Rationale

We rate CLX shares Neutral. Following the 2023 cyberattack, we see a recovery taking shape, including: 1) volume and shelf space growth, 2) cost inflation moderating, 3) private label exposure steady in CLX's categories, and 4) potential for further market share gains due to investments in marketing. We see a balanced risk/reward due to the company's expected volume recovery amid a challenging economic environment for consumers and support from investment spend.

Stock Data

Average Daily Volume 1,118,025

Quarterly Earnings Estimates

	2023	2024
Q1	0.93A	0.49A
Q2	0.98A	2.16A
Q3	1.51A	1.48E
Q4	1.67A	1.47E

Exhibit 1: CLX Income Statement

Fiscal year end June; \$ in millions, except per share data

	2023					2024E					2025E				
	Sep-22 Q1	Dec-22 Q2	Mar-23 Q3	Jun-23 Q4	Jun-23 FY23	Sep-23 Q1	Dec-23 Q2	Mar-24 Q3	Jun-24 Q4	Jun-24 FY24E	Sep-24 Q1	Dec-24 Q2	Mar-25 Q3	Jun-25 Q4	Jun-25 FY25E
Net Sales	\$1,740	\$1,715	\$1,915	\$2,019	\$7,389	\$1,386	\$1,990	\$1,925	\$1,956	\$7,257	\$1,816	\$1,819	\$1,983	\$2,013	\$7,632
Growth	-3.7%	1.4%	5.9%	12.1%	4.0%	-20.3%	16.0%	0.5%	-3.1%	-1.8%	31.1%	-8.6%	3.0%	2.9%	5.2%
Health & Wellness	657	577	647	651	2,532	504	720	660	625	2,509	685	619	680	644	2,628
Growth	-3.4%	-0.3%	8.4%	14.0%	4.3%	-23.3%	24.8%	2.0%	-4.0%	-0.9%	36.0%	-14.0%	3.0%	3.0%	4.8%
Household	423	462	550	663	2,098	325	502	545	643	2,015	439	492	555	656	2,142
Growth	-4.3%	9.2%	2.0%	14.3%	5.7%	-23.2%	8.7%	-1.0%	-3.0%	-4.0%	35.0%	-2.0%	2.0%	2.0%	6.3%
Lifestyle	320	332	353	333	1,338	270	403	353	316	1,342	354	326	364	326	1,370
Growth	-3.3%	2.5%	15.4%	14.0%	6.8%	-15.6%	21.4%	0.0%	-5.0%	0.3%	31.0%	-19.0%	3.0%	3.0%	2.0%
International	285	286	305	305	1,181	229	311	308	305	1,153	279	327	323	320	1,250
Growth	-1.0%	-3.4%	1.0%	3.7%	0.1%	-19.6%	8.7%	1.0%	0.0%	-2.4%	22.0%	5.0%	5.0%	5.0%	8.4%
Corporate and Other	55	58	60	67	240	58	54	59	66	238	59	55	61	68	242
Growth	-15.4%	-15.9%	-7.7%	4.7%	-8.7%	5.5%	-6.9%	-1.0%	-1.0%	-0.9%	2.0%	2.0%	2.0%	2.0%	2.0%
COGS	1,114	1,095	1,115	1,157	4,481	854	1,124	1,115	1,129	4,222	1,105	1,060	1,144	1,149	4,458
Gross profit	626	620	800	862	2,908	532	866	810	826	3,034	712	759	838	865	3,174
Gross margin	36.0%	36.2%	41.8%	42.7%	39.4%	38.4%	43.5%	42.1%	42.3%	41.8%	39.2%	41.7%	42.3%	42.9%	41.6%
Gross margin change (bps)	(112)	315	590	560	355	241	737	31	(44)	246	80	(178)	20	68	(23)
Selling & Administrative	222	256	262	286	1,026	225	262	273	287	1,047	231	230	265	275	1,002
as % of sales	12.8%	14.9%	13.7%	14.2%	13.9%	16.2%	13.2%	14.2%	14.7%	14.4%	12.7%	12.7%	13.4%	13.7%	13.1%
y/y chg (bps)	36	156	163	167	132	348	(176)	50	50	54	(350)	(50)	(80)	(100)	(129)
Advertising	161	156	206	211	734	165	186	226	230	807	189	188	213	216	807
as % of sales	9.3%	9.1%	10.8%	10.5%	9.9%	11.9%	9.3%	11.8%	11.8%	11.1%	10.4%	10.3%	10.8%	10.8%	10.6%
y/y chg (bps)	(82)	(78)	230	(104)	(4)	265	25	100	130	119	(150)	100	(100)	(100)	(55)
R&D	32	33	35	38	138	29	32	38	39	139	36	36	40	40	153
as % of sales	1.8%	1.9%	1.8%	1.9%	1.9%	2.1%	1.6%	2.0%	2.0%	1.9%	2.0%	2.0%	2.0%	2.0%	2.0%
Operating income- reported	172	149	248	284	853	62	386	272	271	1,042	255	304	320	333	1,212
Operating income	211	175	297	327	1,010	113	386	272	271	1,042	255	304	320	333	1,212
Operating margin	9.9%	8.7%	13.0%	14.1%	11.5%	4.5%	19.4%	14.1%	13.8%	14.4%	14.0%	16.7%	16.1%	16.5%	15.9%
Operating margin chg (bps)	(224)	183	13	391	99	(541)	1,071	119	(23)	281	957	(267)	200	268	153
Restructuring/asset impair/other			445		445		60								
Interest expense	22	23	24	21	90	21	26	22	22	91	20	20	20	20	81
Other expense (income)	34	(4)	24	26	80	12	164	20	20	216	15	15	15	15	60
Other expense (income)	34	(4)	24	26	80	12	(7)	20	20	45	15	15	15	15	60
Pretax income	116	130	(245)	237	238	29	136	230	228	734	220	269	285	298	1,072
Pretax - ex-charges	155	156	249	280	840	80	367	230	228	905	220	269	285	298	1,072
Pretax - FASB 142 adj.															
Pretax margin	6.7%	7.6%	-12.8%	11.7%	3.2%	2.1%	6.8%	12.0%	11.7%	10.1%	12.1%	14.8%	14.4%	14.8%	14.0%
Income taxes	29	28	(36)	56	77	4	40	46	46	136	53	65	68	71	257
Income taxes - ex-charges	38	34	62	72	206	19	98	46	46	209	53	65	68	71	257
Tax rate	25.0%	21.5%	14.7%	23.6%	32.4%	13.8%	29.4%	20.0%	20.0%	18.5%	24.0%	24.0%	24.0%	24.0%	24.0%
Tax rate - ex-charges	24.5%	21.8%	24.9%	25.8%	24.5%	23.8%	26.7%	20.0%	20.0%	23.0%	24.0%	24.0%	24.0%	24.0%	24.0%
Net income - cont ops	87	102	(209)	181	161	25	96	184	183	599	167	205	217	226	815
Net earnings (GAAP)	85	99	(211)	176	149	22	93	184	183	593	167	205	217	226	815
EPS - reported	\$0.69	\$0.82	(\$1.71)	\$1.41	\$1.30	\$0.18	\$0.75	\$1.48	\$1.47	\$4.82	\$1.35	\$1.65	\$1.75	\$1.83	\$6.57
EPS - ex-charges	\$0.93	\$0.98	\$1.51	\$1.67	\$5.12	\$0.49	\$2.16	\$1.48	\$1.47	\$5.61	\$1.35	\$1.65	\$1.75	\$1.83	\$6.57
Shares Outstanding—Diluted	123.9	124.0	123.6	124.6	123.8	124.7	124.6	124.4	124.2	124.3	124.1	124.0	123.9	123.7	123.9

Source: Company reports and BofA Global Research estimates.

BofA GLOBAL RESEARCH



Price objective basis & risk

Clorox (CLX)

Our \$160 PO for CLX is based on 21x our CY25e EPS. We believe a 21x multiple reflects a balanced risk/reward of volume/margin recovery, and inflation more in-line with the historical average, amid a potentially challenging consumer environment.

Upside risks to our price objective are: 1) success of the IGNITE strategy lifts volumes and sales, 2) a better than expected consumer environment leads to healthy pricing implementation, 3) input cost benefits provide for margin expansion, 4) the international portfolio stabilizes with consistent sales growth and expansion, 5) robust demand in CLX's portfolio of products due to a resurgence in COVID-19 or other global health conditions.

Downside risks to our price objective are: 1) demand falling with higher pricing amid an uncertain economic outlook, 2) persistent cost inflation and inability to take further pricing, 3) shifting retailer inventory to private label and lower cost products, and 4) low visibility into margin recovery which is farther out than F24.

Analyst Certification

I, Anna Lizzul, 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
	The Duckhorn Portfolio, Inc.	NAPA	NAPA US	Peter T. Galbo, CFA

US - Consumables Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	The Hershey Company	HSY	HSY US	Bryan D. Spillane
	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	YWEE	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 Nutrition Ltd	HLF	HLF US	Anna Lizzul
	Hormel Foods Corp.	HRL	HRL US	Peter T. Galbo, CFA
	Kimberly-Clark	KMB	KMB US	Anna Lizzul
	Tyson Foods, Inc.	TSN	TSN US	Peter T. Galbo, CFA

RSTR

	The Vita Coco Company, Inc.	COCO	COCO US	Bryan D. Spillane
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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 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.

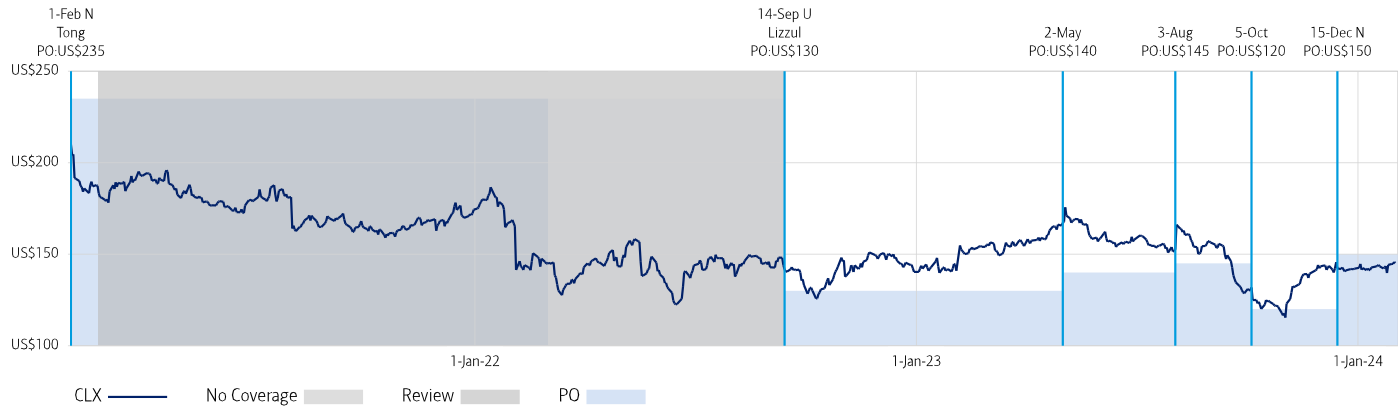
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Disclosures

Important Disclosures

Clorox (CLX) 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: Consumer Products Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	32	50.00%	Buy	16	50.00%
Hold	19	29.69%	Hold	8	42.11%
Sell	13	20.31%	Sell	7	53.85%

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%

^{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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