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Global Brands: China Pulse

Issue #2: largely stable yet with rising conservatism in 4Q23

Industry Overview

"Global Brands: China Pulse" series

The BofA "China Pulse" series aim to provide investors with a quick snapshot of how global consumer brands performed in China in the previous quarter, by tracking their China data and management comments at earnings calls. Based on scale, exposure and data availability, we focus on nine sub-sectors (luxury, sportswear & apparel, beauty, milk powder, spirits, beer, restaurant, F&B and HPC), and 47 global consumer companies with a combined market cap of c.US$3.5tn. We add beer as a new sub-sector in this issue.

Our heat map: Neutral but rising conservatism QoQ

Our heat map suggests a neutral trend for global brands in China in 4Q23, with four positive (luxury, sportswear & apparel, milk powder, beer), one neutral (restaurant) and four negative (beauty, spirits, F&B and other HPC). This is similar to four positive and four negative in 3Q23 (we added one more sub-sector of beer). However, global brands turned more cautious on China due to a normalized base and soft consumer sentiment.

Key sub-sector highlights

1) **Luxury**. Commentary on the 4Q trends for Chinese consumer was mixed (see report). Chinese New Year has been better than expected with a recovery in domestic traffic and Chinese consumers' overseas consumption. 2) **Sportswear**. Brands witnessed good momentum in 4Q23, off an easy base and holiday seasons. Channel checks suggest 2024 YTD faster growth for international brands than locals. 3) **Beauty**. Market growth decelerated notably, with market share shift from Japanese/Korean brands to local ones. Post major de-stocking, travel retail inventory is almost back to normal. 4) **Milk powder**. Leading global brands sustained market share gain through the transition to new formula standards. 5) **Spirits**. Western spirits saw softening momentum compared with more resilient performance of baijiu. 6) **Beer.** Despite volume softness in the near term, most brewers are sanguine about the prospects of premiumization and see robust opportunities for channel expansion. 7) **Restaurant**. The sector saw rising promotional intensity, and accelerating expansion for international restaurants, despite slowing macro and more cautious spending. 8) **F&B**. Recovery of packed food suppliers is largely dependent on the rebound in activities from restaurant names. 9) **HPC**. Volumes continued to decline amid the soft demand and consumer shift to local brands.

Exhibit 1: Global brands: China momentum heat map

Our heat map suggests a generally neutral trend for global brands in China in the previous quarter

	Luxury	Sportswear & Apparel	Beauty	Milk Powder	Spirits	Beer	Restaurant	F&B	Other HPC
China momentum	↑	↑	↓	↑	↓	↑	↔	↓	↓

Source: Companies, BofA Global Research estimates

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Refer to important disclosures on page 26 to 28. 12669519

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Equity
Global
Consumer Products

Chen Luo, CFA >>
Research Analyst
Merrill Lynch (Hong Kong)
chen.luo@bofa.com

Lucy Yu >>
Research Analyst
Merrill Lynch (Singapore)
lucy.yu@bofa.com

Ashley Wallace >>
Research Analyst
MLI (UK)
awallace3@bofa.com

Lorraine Hutchinson, CFA
Research Analyst
BofAS
lorraine.hutchinson@bofa.com

Andrea Pistacchi >>
Research Analyst
MLI (UK)
andrea.pistacchi@bofa.com

Bryan D. Spillane
Research Analyst
BofAS
bryan.spillane@bofa.com

Sara Senatore
Research Analyst
BofAS
sara.senatore@bofa.com

David Errington >>
Research Analyst
Merrill Lynch (Australia)
david.errington@bofa.com

Victoria Petrova >>
Research Analyst
BofA Europe (Frankfurt)
victoria.petrova@bofa.com

Ahyung Cho >>
Research Analyst
Merrill Lynch (Seoul)
ahyung.cho@bofa.com

David Roux >>
Research Analyst
MLI (UK)
david.roux@bofa.com

Peter T. Galbo, CFA
Research Analyst
BofAS
peter.galbo@bofa.com

Geoffroy de Mendez >>
Research Analyst
MLI (UK)
geoffroy.de_mendez@bofa.com

Arashi Nishizawa >>
Research Analyst
BofAS Japan
arashi.nishizawa@bofa.com

Lynn Wu >>
Research Analyst
Merrill Lynch (Hong Kong)
lynn.wu@bofa.com

See Team Page for List of Analysts

Contents

Global brands in China: Heat map

- We focus on 47 global consumer companies in nine sub-sectors (luxury, sportswear & apparel, beauty, milk powder, spirits, beer, restaurant, F&B and HPC). In this issue, we add beer as a new sub-sector. ON and Adidas have not updated results since 3Q23, thus are not included this time. We added 5 new companies (Ralph Lauren, Beiersdorf, ABI, Heineken, and Carlsberg). Based on the China growth trends and management comments on China in the previous quarterly earnings release, we assign each company with a momentum sign (positive/neutral/negative) to gauge their China momentum.

- Aggregating the company-specific dynamics, we then rate each sub-sector based on the percentage of companies showing positive/negative/neural trends. This creates a heat map, offering a snapshot of sector-level momentum.

Exhibit 2: Global brands: China momentum heat map

Our heat map suggests a generally neutral trend for global brands in China in the previous quarter

		Luxury	Sportswear & Apparel	Beauty	Milk Powder	Spirits	Beer	Restaurant	F&B	Other HPC
China momentum		↑	↑	↓	↑	↓	↑	↔	↓	↓
Company momentum counts as % of total	Positive	67%	67%	38%	67%	20%	67%	0%	0%	0%
	Neutral	17%	33%	0%	33%	20%	33%	100%	60%	50%
	Negative	17%	0%	63%	0%	60%	0%	0%	40%	50%
Companies & brands included		LVMH	Nike	L'Oreal	Danone	Diageo	ABI	McDonald's	Coca-Cola	Unilever
		Kering	Puma	Estee Lauder	Nestle SA	Pernod	Heineken	Starbucks	McCormick & Co	P&G
		Richemont	Under Armour	L'Occitane Intl	A2 Milk	Campari	Carlsberg		Mondelez	
		Hermes	VF Corp	P&G		LVMH			Hormel Foods	
		Burberry	Columbia	Amore Pacific		Remy			Lamb Weston	
		Ralph Lauren	Asics	Shiseido						
		Brunello Cucinelli	Skechers	Kose						
		Swatch	Fast Retailing	Beiersdorf						
		Zegna	Lululemon							
		Salvatore Ferragamo								
		Prada								
		Hugo Boss								

Source: Companies, BofA Global Research estimates

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Luxury

- Chinese consumer remains the most robust consumer cohort as American and European consumer continues to normalize. Many companies confirmed that the Chinese consumer was >100% of 4Q group revenue growth. However, Chinese demand became more polarized in 4Q, with LVMH & Richemont seeing its 2yr stack demand similar to the 2023 average, while Burberry and Kering saw a deterioration.

- Chinese New Year data available so far has been better than expected, with domestic traffic at 119% vs 2019, compared with 89% in 2023 Chinese New Year. This is important as 85% of stores in China are in Tier-1 cities but 52% of Chinese luxury consumers live in a Tier-2 city or lower, making domestic traffic extremely important. International tourism was also very strong, CNY Hainan Duty Free sales were +60% YoY (with luxury likely taking share), Macau visitation was at 99% of 2019 levels vs 62% in CNY 2023 and Mainland Chinese visitation to Hong Kong at 89% of 2019.

- Chinese consumers spending overseas is recovering, but still much lower than pre-COVID. Hong Kong, Macau, Japan and ASEAN countries were the major beneficiaries of Chinese tourists in 3Q23, while the US and EU lagged. On a positive note, European VAT refunds rose 11% YoY in Jan'24, from +9% in 4Q. European luxury tourism revenues sequentially improved vs 2019, with January -14%, while 4Q was -18%. This improvement has been driven by Chinese spend at +288% YoY and -54% vs 2019, from -65% vs 2019 in 4Q and -72% in 2023. This is important for sentiment given the improvement comes ahead of CNY travel in Feb, with return of Chinese tourist being the biggest upside risk for European luxury.

Exhibit 3: Luxury

Chinese consumer consumption remained robust in 3Q vs 2021. Growth from offshore was ahead of onshore, but largely within Asia.

Company	Scope	Reporting period*	Comments on current Q	Outlook/strategy	Heatmap
LVMH	Chinese consumers	Dec-Q (Dec)	**Asia growth:** Asia ex JP revenue +15% in 4Q23 **Compared with past 2 yrs:** Customers in China in Q4 were about the same as in Q2 and Q3 (i.e., up over 30%+ in 4Q23 vs 4Q21) **Growing domestic purchase:** There are twice as many Chinese customers as in 2019. The share size of business from tourists is relatively down in percentage, but it's the same in absolute numbers.	**Watches & Jewelry**: The Maison announced its plans to open a new Galleria on the island of Hainan in China by 2026.	↑
Kering	Chinese consumers	Dec-Q (Dec)	**Asia growth:** Asia Pacific recovered mildly in Q4, up 8% on an undemanding comp base. **Chinese cluster: up 35%** YoY in Q4 (implying negative HSD on a 2yr stack, this compares to MSD positive in 9M). **By brand:** **- BV:** We achieved encouraging performances in Mainland China, where Bottega deployed sizable investments to amplify brand resonance. **- Balenciaga:** In China, it overperformed most of their competitors gaining market share. And it has increased its number, value and share of business with its top customers, confirming the desirability of the brand.	**Jan trend**: The comp base is quite demanding. We had two years of growth in China at the time of the Chinese New Year in 22 and 23, January was positive in China.	↔
Richemont	Chinese consumers	Dec-Q (Mar)	**China growth:** In Asia Pacific, sales growth of 13% was fueled by a **25% sales increase in mainland China, Hong Kong and Macau combined** **Chinese consumption mood: Chinese cluster or the clientele up by over 40%.** Business continued to rebuild in Japan, about mid-teens now of Japanese business is with Chinese, compared to 30% pre-COVID. So the rebuild is probably halfway done. Hong Kong, Macau is still below pre-COVID and outside of Mainland China, that is still rebuilding.	**Jan trend**: We've had the strong reopening effect in Mainland China, starting in the second half of January. **Outlook:** We go into this quarter with some degree of confidence, but aware of the very strong comparable that are stacked up against us.	↑
Hermes	Chinese consumers	Dec-Q (Dec)	**Asia growth:** Asia excluding Japan (+19%) pursued its strong growth, with significant increases in sales in all the countries of the region. **Store opening:** Two stores opened in China, Tianjin in July and Chengdu in Oct. **China consumption:** We do see that in China there are difficulties to real estate and Shanghai market so that can sort of have an impact. And that is why we can have beautiful results that we've had because I hear always talk about difficult economy. We did plus 20%. We don't do plus 20% in a very difficult economy.	...we remain confident on the Chinese market in the medium and long term.	↑

Exhibit 3: Luxury

Chinese consumer consumption remained robust in 3Q vs 2021. Growth from offshore was ahead of onshore, but largely within Asia.

Company	Scope	Reporting period*	Comments on current Q	Outlook/strategy	Heatmap
			Price: We don't participate in the deflation. In 2024, there is an 8% to 9% price increase in Jan (7% in China according to BofA analyst).		
Burberry	Mainland China / Chinese consumers	Dec-Q (Dec)	**Mainland China/Chinese customers:** Mainland China +8% YoY in 4Q23 or down 16% over two years. Chinese customer group globally up 2% over the same period as Chinese travel resumed.		↓
Ralph Lauren	Mainland China	Dec-Q (Mar)	**China growth:** growth was again led by Asia, with particularly strong performance in China, where sales increased more than 30% this quarter on both comp and new store growth. This was ahead of our expectations, even with last year's easier compares due to the surge in COVID cases. **Online channel:** Our team delivered another successful Singles Day focused on brand building, with ralphlauren.cn sales up 25% on lower discounting and higher AURs to last year. Our early performance to date on Douyin has also been very encouraging following our limited launch last fall, with an expanded rollout this spring.	**Still at early stage**: We are still in the earlier stages of brand building in China, with meaningful outperformance versus peers in the quarter on consumer KPIs, including brand awareness, consideration and net promoter scores.	↑
Brunello Cucinelli	Greater China	Dec-Q (Mar)	**Asia growth:** Asia revenues of €306. 8 million, up 40.4% compared to 2022, with a sales weight of 26.9%. **China market:** In China, we are noticing in particular how the positioning of our brand is being confirmed as more and more clear and consistent with the rest of the world. The Chinese market continues to expand significantly, which goes hand in hand with the growth in appreciation by the end customer and their loyalty.		↑
Swatch	Mainland China	Dec-HY (Dec)	**Watch & Jewelry:** In Asia, double-digit growth was achieved in Hong Kong SAR, Macao and China for 2023.	**2024 outlook:** In China, the Swatch Group will enjoy additional demand with its strong brands in the lower and medium price segments.	↑
Zegna	Greater China / Chinese consumers	Dec-Q (Dec)	**China growth:** - **FY23:** Revenues in APAC were €788 million, of which €596 million (76%) came from the Greater China Region, up 20.5% year-over-year and up 25.7% on a constant currency basis, with an organic growth rate of 24.2%. - **4Q23:** revenues from the Greater China Region amounted to €176 million, up 35.0% year-over-year and up 39.3% on a constant currency basis, with an organic growth rate of 36.1%, thanks to the ZEGNA One Brand strategy execution and also as a result of the adverse impact of Covid-19-related restriction DTC channel: ...including a nearly 40% increase in the Greater China Region in 4Q23.		↑
Salvatore Ferragamo	Chinese consumers	Dec-Q (Dec)	**China growth:** Asia Pacific registered a 13.1% decrease in Net Sales (-8.3% at constant exchange rates1) vs. FY 2022. 4Q 23 net sales at constant exchange rates was +2.2% YoY, with **retail sales in Greater China up double-digit**. **Buyback of minorities in China JV:** Buy-back of the minorities in the joint ventures in Greater China, giving us more flexibility in the implementation of strategy in a key market. ..our teams and the knowledge of the market is quite deep, and we can rebalance also our activities in the different markets to give priorities to the most important one, in particular, China and Greater China. **Digital channel:** ....launched a new digital ecosystem including a specific model for China to maximize local opportunities.		↔
Prada	Chinese consumers	Dec-Q (Dec)	**Asia growth:** FY23 +24%, against a volatile basis of comparison in 2022. Q4 up 32%, driven in particular by Mainland China, Hong Kong and Macau, showing solid underlying trends and also reflecting easier comps. - Miu: +58% YoY, with a further acceleration at plus 82% in Q4 and supported by higher exposure to China and Asia. **Chinese cluster:** ...very good numbers and good growth on a two-year stack, which is more meaningful and stable. Travel transactions growing faster with acceleration in Q4 and also beginning of the year. - **Travel retail**: ...seeing many more Chinese in Japan and Europe in the past couple of		↑

Exhibit 3: Luxury

Chinese consumer consumption remained robust in 3Q vs 2021. Growth from offshore was ahead of onshore, but largely within Asia.

Company	Scope	Reporting period*	Comments on current Q	Outlook/strategy	Heatmap
			months, but most probably a different kind of Chinese attitude and more individual travelers than tour operated or group travelers		
Hugo Boss	Greater China	Dec-Q (Dec)	**China growth:** In Asia/Pacific, FY23 currency-adjusted revenues grew 32%, reflecting double-digit sales improvements in both China and Southeast Asia & Pacific. **- Hong Kong/Macau:** ...business in Hong Kong and Macau has picked up strongly, reflecting a gradual recovery in tourism. **- Recent trend:** ...flat vs last year. While we have seen an improvement on domestic and international tourism, the overall recovery around the consumer spending for fashion and apparel continues to **recover somewhat slower than anticipated**, because consumers are spending and focusing more on the payment. **New store opening:** A total of 33 BOSS stores were newly opened across all regions, with a particular focus on expanding our distribution footprint in China.	**Outlook:** Long-term business potential in Greater China remains unchanged...will continue to unleash the brands' full potential in both China and Southeast Asia & Pacific **Macro weakness:** China's economy is still struggling to regain its prior momentum, with consumer confidence hovering around its all-time low. This limits the upside in this strategically important market in the short term.	

Source: Companies, BofA Global Research (* the month info in brackets indicate fiscal year end)

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Sportswear & apparel

- International brands' revenue growth in China was mixed in 4Q23, on a two-year stacked basis. Some brands (Nike, VF and Crocs) accelerated in 4Q23 from 3Q23, while certain brands (slower growth than peers) saw further deterioration (Puma and Skechers). Smaller brands were still growing faster than industry average (Columbia, Asics).

- Holiday sales matter. 4Q growth could be partially supported by National Holiday in Oct and Double Eleven Shopping Festival in Nov. Both big brand and smaller brands still saw long-term growth potential from China market.

- Chinese sportswear brand growth accelerated YoY in 4Q23, off an easy base. But on a two-year stack basis, all domestic brands growth decelerated QoQ. Inventory-to-sales ratio trended lower QoQ, but still slightly higher than normal range. Discounting on average was largely flat YoY.

- CNY update: Offline retail sales declined YoY in Jan due to calendar shifts, but were estimated to grow single-digit during the CNY holiday period. Lower-tier cities saw better growth than upper-tier cities. We estimate that YTD (till mid-Feb) offline retail sales could be largely flattish for most brands. Discounting trended largely flat to slightly deeper vs. 4Q23 due to fall/winter inventory clearance. Inventory stayed at a similar level to 4Q23. Online sales could add to blended growth momentum, off an easy base.

Exhibit 4: Sportswear & apparel

International brands revenue growth in China was mixed in 4Q23, on a two-year stacked basis

Company	Scope	Reporting period*	Comments on current Q	Outlook/strategy	Heatmap
Nike	Greater China	Nov-Q (May)	**China sales:** Q2 revenue grew 8% and wholesale grew 19%. NIKE Direct declined 4% with NIKE stores growing 16% and NIKE Digital declining 22%. EBIT grew 1% on a reported basis (faster than revenue if excluding FX). Q2 was another strong quarter in brick-and-mortar with continued improvement in full-price sales. Sales in NIKE owned and partner doors growing mid-teens versus the prior year. **Holiday sales:** Greater China grew double-digits during National Day holiday and NIKE once again outperformed the industry during Double Eleven is the No.1 sport brand on Tmall. **Promotional marketplace:** On the whole, we are seeing a highly promotional marketplace with increased macro headwinds, especially on Digital... holding China margins back from moving back to pre-pandemic level.	**Macro headwinds in China:** We've taken a more prudent approach to our planning for the balance of the year given the increased macro headwinds we're seeing in China and EMEA. **Confident on long-term:** We remain confident in NIKE's brand strength, our deep consumer connections and our foundation for long-term growth in China. **Sports is back**: The China consumer is back out on the street with a real focus on active and healthy lifestyles. You see the government encouraging sport and healthy lifestyles and Gen Z is the most active generation ever. So that's a tailwind for our industry.	
Puma	Greater China	Dec-Q (Dec)	**Greater China sales** grew 31% in 4Q23, and 19.2% in 2023. (This is largely in-line with company's expectation of 20% growth). China contributes 7% of total revenue and expected to be 8% in 2024 (vs 6% in 2022) **Inventory:** Cleared up inventory in 2023, from almost c.10-months stock turn to 4.5 months, a healthy start for 2024 and going beyond. **New local mgmt team:** Hired new General Manager who is a native Chinese and 20 years of industry experience with a deep understanding of the Chinese market and consumer. In addition, we hired a new Commercial Director, Marketing Director, Digital Retail Director and Merchandise Director. Also set up one of the new functions called digital retail. **Sponsorship and ambassadors:** - Athletes: We have some key players from national basketball team and the national soccer team. Zhao Jiwei and Zhang Ru is from national basketball team and Yao Wei is from national football team. They are all key players in the team. - Event sponsorship: Sporting events work with different running club and other performance club and also collaborate with some universities. - Celebrity: Cecilia Cheung, a famous actress in China from April this year, we will have another celebrity. He is Henry Lau. He is an artist. He is a musician. He is a producer. And even better is he is a real fashion icon with large fan base. **Local for local:** ...already achieved 80% of the product produced in China among China range, and we achieved 40% of the product are locally designed through our strong	**2024 strategy:** We are fully focused on executing our strategic priorities: elevating the brand, increasing product excellence and improving our distribution quality - especially in the key markets U.S. and China. - New flagship store in Shanghai - First store of Shoebox, mainly to the sports fashion consumer in stylish part **Three-year strategic plan:** Last year is a year of reset. This year we call year of ignite, and the next year is year of unleash **Products:** - Football, we already achieved a great result in China market, top three in this category...keep this momentum. - Running is the untapped area for us, but with huge commercial opportunity in China. - Kids PUMA in China is almost a none in terms of scale. However, this market is still massive. Last year, in terms of retail sales, only kids market has EUR6 billion market.in next three years, we have ambition plan to grow our kids category. In retail sales, we will have 5x bigger than today in kids category to capture this	

Exhibit 4: Sportswear & apparel

International brands revenue growth in China was mixed in 4Q23, on a two-year stacked basis

Company	Scope	Reporting period*	Comments on current Q	Outlook/strategy	Heatmap
			local design center. China is 32% of today's Puma sourcing, among which 8% is for China for China, and the remaining is export business. **Order time:** - Share of immediate order, being 8% last year will be dramatically increased to 35% this year and expected to improve to c.50% in the midterm and the long-term. - Last year, the immediate order lead time is around six to seven months, while shortened to 1.5 to four months this year. **China market position:** Puma took 1% of China's market share, smaller than international peers.	opportunity. **Long-term object:** - 10% share in Puma group - Top 5 in local market with 5% market share - Ambition plan to grow kids category - Increase store area (including both DTC and partners) by 50% by 2026 to 300,000 sqm (vs 200,000 in 2023) - Triple net sales in Wechat and TikTok stores in the next three years	
Under Armour	Greater China	Dec-Q (Mar)	**APAC growth:** APAC revenue was up 7% to $212 million were up 8% on a currency neutral basis. China was a leading contributor to 3Q growth (3QFY23: challenged in 3Q because of the number of lockdowns we had. We had 35%, 40% of our stores closed for much of Q3)		⟷
VF Corp	Greater China	Dec-Q (Mar)	**Revenue:** APAC region up 2% (up 3% in constant dollars), including Greater China up 5% (up 7% in constant dollars) - The North Face: APAC region up 26% (up 28% in constant dollars), including Greater China up 31% (up 32% in constant dollars)		⟷
Columbia	Greater China	Dec-Q (Dec)	**China performance:** China net sales increased high teens percent led by strong DTC performance. The team drove ecommerce growth across several platforms during those key Double 11 holiday period. In constant currency, China full year net sales grew low 30%. The investments in talent and operational improvements we've made over the last several years are yielding results. **Localized products:** Transit our premium China specific collection performed well this season, highlighting our continued efforts to create localized product that resonates with Chinese consumers. Under this strategy of our new leadership team, we're now gaining traction in this important market.	**Fastest growing in 2024:** We expect China to again be one of the fastest growing parts of our business in 2024.	↑
Asics	Greater China	Dec-Q (Dec)	**China:** 4Q23 net sales increased +9.9% (+24.4% for FY23) due to the strong sales in all categories. China accounted for 14.4% of net sales. Double digit growth in all categories except Onitsuka Tiger. **Margin:** We had a negative impact of 1.5ppt to gross margin in 2023 due to FX reserves. 2023 segment income increased 30.2% and operating margin +0.8ppt to 16.9%.	**FY24 forecast:** Greater China net sales +20% (+23% in constant currency) and operating income +34% (+36% in constant currency). - Jan regional net sales for Greater China +27% - By product, performance running +20% and sport style about +60%. - Margin: We assume that there will not be the same negative impact from FX in 2024. - Onitsuka Tiger also takes profitability into account and this contributes to profit. **Outlook:** ASICS' market share in Greater China is far less than other regions, so we have a lot of rooms for growth. We will continue to expand our business to tier 3 & 4 cities. We can further increase our share as China thoroughly promotes "Zenshin Kenmin Movement" (Promote healthy lifestyle and sports for all people).	↑
Skechers	Mainland China	Dec-Q (Dec)	**China sales:** China sales grew 22%, driven by double-digit growth across channels, including improved sales during the critical holiday period. We continue to be encouraged by the progress we see in China. China was up 15% in the full year. **Store network:** - DTC: We continued to expand our global reach with the addition of 27 stores in China. - Wholesale: 217 third-party stores opened, including 160 in China	**Momentum continues:** we continue to be encouraged by China in the early January reads, definitely outpacing our early expectations, which is good. China continues to do better than we originally expected and continues to show every marker of recovery that we could hope for. **Second DC in China:** ...the Company believes that total capital expenditures will be between $350 and $400 million in 2024, inclusive of construction of the Company's second distribution center in China.	↑

Exhibit 4: Sportswear & apparel

International brands revenue growth in China was mixed in 4Q23, on a two-year stacked basis

Company	Scope	Reporting period*	Comments on current Q	Outlook/strategy	Heatmap
Fast Retailing	Greater China	Nov-Q (Aug)	**China performance:** Mainland China market reported significantly higher revenue and profit in the first quarter.1Q (Nov-Q) same store sales rose by approximately 20% y/y. SG&A ratio and operating profit margin improved on significantly higher sales and stronger cost controls. **Success of Fall Winter series:** The launch of Fall Winter ranges was somewhat hampered by the warm weather in September and October, but sales proved extremely strong in November as the weather turned colder and we strengthened marketing of fleece, knitwear, Ultra Light Down, and other core Winter ranges. **Events:** Continued to strengthen branding with store staff communicating information over livestreaming. We also took part in the China international Import Expo and other marketing activities that enabled us to firmly capture demand during the actual demand period. **Single's Day:** Enjoyed significantly higher revenue around Singles' Day, securing the No.1 slot for apparel brands for the tenth consecutive year.	**Outlook:** - 1HFY24: Greater China region: Expect 1H revenue and profit gains that are roughly in line with expectations. - FY24: Predict significantly higher FY2024 revenue and profit. Expect to add 80 new stores in Greater China for FY24 (from 1039 at end Nov)	⬆
Lululemon	Mainland China	Dec-Q (Dec)	(Only flash result is out. No details on China was disclosed. Result is due Mar 28)	Comments from BofA analyst: Our base case in F24 includes 15% sales growth and modest op. margin expansion of 10bp. We expect int'l will continue to be the main driver of growth in F24, led by China. Over time, we expect China margins (2nd most profitable region) will equate to N.A. margins (most profitable) as the business scales. LULU saw China sales accelerate rapidly after the Beijing Olympics, partly due to the Canada team sponsorship	⬆

Source: Companies, BofA Global Research (* the month info in brackets indicate fiscal year end)

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Beauty

- **China beauty market deceleration**: Sector growth decelerated notably, with mid- to high-single digit decline in 4Q23 and a flattish trend for the full year (according to P&G and L'Oreal). Weakening consumer confidence has resulted in a disappointing Double 11. By category, derma remained most resilient, and L'Oreal grew six times faster than the segment. While early January trends looked positive (as noted by L'Oreal, L'Occitane, and Estee Lauder), most companies recognize that short-term uncertainties will remain and the sector will likely be in a transitional period. For the longer term, they remain optimistic, expecting gradual stabilization and likely an eventual return to mid-single digit growth. The sheer size of the addressable market represents great opportunity for future growth, and many international brands see opportunities in penetration.

- **Diverging company performance:** Amid sluggish industry growth, L'Oreal and L'Occitane outperformed the market, while most other companies recorded a decline in sales. L'Oreal delivered +5.4%/+7.7% growth in sell-in/sell-out, with strengthened leadership in offline and O2O. All divisions in L'Oreal gained market share in 2023. L'Occitane China sales were +15% in 3QFY24 (Dec-end), driven by increased marketing effort and new launch in Douyin. Estee Lauder saw small reduction in market share in the recent quarter, on soft skincare and disappointing Double 11. Japanese/Korean brands witnessed bigger drop in their China sales given brand headwinds and travel retail disruption, with Amore Pacific -40%, P&G -15% in 4Q (SKII -34%), Shiseido -4%, and Kose with a significant decline.

- **Premiumization:** despite all the macro headwinds, leading Western luxury brands were holding up relatively well. L'Oreal observed that their most expensive brands are the most dynamic, including Helena Rubinstein and YSL. For Estee Lauder, its La Mer grew double-digit with strong share gain.

- **Travel retail**: Given the Daigou policy disruption, Hainan market fell by 20% in 2023, according to L'Oreal. However, Western brands' inventory is gradually normalizing. L'Oreal's inventory was almost back to normal, as of Feb, and they expect challenges to persist in 1H24 but with a more dynamic 2H. Estee Lauder expects to see retail stocks in travel retail to be aligned, as of April.

- **Market share shift favor local and leading Western brands**: Currently, China beauty market is split between Western (44%), China (47%), and other Asia brands (7%). Market share shift has been mainly from Japan/Korea to China but not affecting Western brands in general. Major Western brands plan to continue investing in their product innovation and differentiation in order to strengthen their market share.

- **Focus on profitability:** There also appears to be increasing focus on profitability, as commented by L'Oreal, Shiseido, and Kose. Shiseido laid out its strategic plan to shift from a growth model to a more sustainable profit delivery model in China, with a focus on high-prestige brands and lower tier city penetration. Kose also targets improvement in profitability in China, with improving mix and operational efficiency.

Exhibit 5: Beauty

Sector growth decelerated notably in recent quarter, with diverging performance by brand

Company	Scope	Reporting period*	Comments on current Q	Outlook/strategy	Heatmap
L'Oreal	Mainland China+Hainan+HK	Dec-Q (Dec)	**Mainland China growth:** - Mainland China **beauty market remained flat**, having contracted slightly over the last quarter with a disappointing Double 11. **L'Oréal grew +5.4% in sell-in (+7.7% in sell-out)** (for the full-year), significantly **strengthening its leadership** – boosted by investment in offline distribution in a truly O+O (offline plus online) market. **- 2H23 disappointing:** Double 11 was not what we expected. We are disproportionately impacted by local markets decline with consumers' weak sentiment and festival fatigue. **- Positive Jan:** ...first numbers we get from January are **pretty positive** **Hainan:** - Market **fell more than 20%**, severely impacted by Daigou policy change. We slightly outperformed the market in sell-out, but not immune to the magnitude of the contraction (affected the entire 2H of the year). Today, we consider our **inventory to be almost back to normal**. 1H24 will remain challenging with the	**Outlook:** **- Market outlook:** The **near-term remains uncertain**, but its sheer size alone makes the **Chinese beauty market highly attractive**. Even if it grew only by mid-single-digits, it would add half an Italy every year. **- Penetration:** Right now we're only touching a quarter of our addressable consumer base of 400 million and we see an uplift with every new brand in every new city. **- Profitability:** The destiny of our business in China will be to **continue to improve its profitability**, not the opposite. We don't expect the Chinese market to be over-dynamic in the first half. We are **more ambitious in the second half,** but we intend to continue to grow on that market. And I think we've proven that we had probably the best team there and the best performance.	

Exhibit 5: Beauty

Sector growth decelerated notably in recent quarter, with diverging performance by brand

Company	Scope	Reporting period*	Comments on current Q	Outlook/strategy	Heatmap
			impact of the Daigou policy comparative, whilst 2H will be very dynamic. **By category:** - Professional products: Momentum was positive across all regions, led by China, the Division's second largest market - Dermatological Beauty: In mainland China, the Division significantly outperformed a market that proved resilient. which grew six times faster than the market - Luxe: record market share in Mainland China at 31.8%. **Local vs international brands:** - Market share: Western 44%/ Chinese 47%/ other Asian brands declining. - **Transfer from Japanese/Korean brands to Chinese brands**, not affecting our brands as **all the divisions of L'Oreal have gained share on the Chinese market in 2023**. **Product innovation:** we can offer consumers high-performing, valorized products and this is a crucial competitive advantage at a time when the Chinese consumer is becoming more sophisticated and more demanding. Even in the current context, **our most expensive brands are the most dynamic**, for example, Helena Rubinstein or YSL. **Distribution:** As consumers are increasingly looking for a true online plus offline experience, our continued investment in our offline presence is paying off alongside the fact that China is the market where we have our highest exposure to online at 62% of sales. And in a few months, we'll reinforce our logistic capabilities by inaugurating our first Smart Fulfillment Center in Suzhou, which will allow us to deliver millions of parcels to consumers. **Investment:** use our corporate VC to take positions in rising beauty startups like Documents or To Summer.		
Estee Lauder	Mainland China+Travel retail	Dec-Q (Dec)	**China growth** (in the quarter)**:** - In Mainland China, the **net sales declined** primarily **due to skin care** and reflected **lower sales and mixed performance during the 11.11** Global Shopping Festival. - **Prestige beauty** in mainland China **slowed down** in 2QFY24... with some soft consumer sentiment in the recent period **- Double 11:** The Company's 11.11 net sales growth on **Douyin more than doubled**, led by Estée Lauder and La Mer, and was more than offset by the net sales decline on Tmall **(total online sales declined)**. The decrease in skin care was partially offset by strong growth in fragrance, driven by the launch of Le Labo in 4Q and double-digit growth from Jo Malone London and TOM FORD, and in hair care (Aveda). **- Market share:** a small reduction of market share in Q2...but gained market share in skin care category by 80 points. Also gained in Fragrance and Hair Care. Grew substantial market share in Hong Kong. **- By brand:** In Mainland China, **La Mer grew double digits** to realize strong share gains in prestige skincare. **3Q offline momentum:** entered the third quarter in Mainland China with momentum in brick and mortar, having expanded our prestige beauty share offline in the second quarter, driven by **strong double digit retail sales growth** in each of the partner store specialty-multi and freestanding stores. **Travel retail:** **-** For Skin Care, the **retail stocks in TR will be aligned as of April**. - we had dramatically improved the model or the process between the China team and the TR team in making decisions about promotionality, pricing, channel	**2HFY24 Outlook:** - For the second half, we expect to **return to organic sales growth in Mainland China**, driven by a rich innovation pipeline for a greater contribution to sales from **new products** in the second half than the first half, and we are investing in exciting **go-to-market initiatives** across brick and mortar and online. - Distribution: building our distribution and winning **online** channels.... and continue to build market share in new cities in **brick and mortar.** - Will support **very strong holiday plans**, which, given high concentration of sales in China during the various holiday plans in the course of the year. - **Strong opportunity in the luxury area**, referring to Estee Lauder Re-Nutriv launch. La Mer, TOM FORD, Le Labo, Bobbi Brown have extraordinarily aggressive plans. Strong innovation plan in H2 will continue and accelerate leveraging our new laboratory in Shanghai **Long-term outlook:** - We remain very optimistic about the long-term opportunity in China and are continued to invest for growth...determined to continue building market share, winning in the long term.	⬇

Exhibit 5: Beauty

Sector growth decelerated notably in recent quarter, with diverging performance by brand

Company	Scope	Reporting period*	Comments on current Q	Outlook/strategy	Heatmap
			parabensation, and this is working better and better for the future. **Competition** **-** We completely acknowledge there will be a continuous development of local brands, and the strengths of our innovation and the differentiation of our brands is going to be key. We'll continue to **invest in this differentiation** and in these trends. - The investment in our local lab that will **develop local innovation** is part of the answer to how to compete in this evolving environment as well. **Supply chain:** - Shortening the supply chain with the factory in Asia Pacific...and increase the flexibility and the agility of our China team in following demand.		
L'Occitane Intl	Mainland China	Dec-Q (Mar)	**China sales growth:** China sales were +15% at constant rate in 3QFY24 (Dec-end), thanks to L'OCCITANE en Provence and continued development of ELEMIS. 3Q growth slowed down vs. 1H due to the soft economy. - **L'Occitane en Provence**: was +17.6% in China in 9MFY24 (slowed down from +22% in 1H). By month, we saw single-digit growth in the months of October and November and a very strong double-digit growth in December, primarily due to the low base from the previous year. - **ELEMIS**'s sales in China were essentially doubled compared to last year but maintained a small portion of its business at around 6%. **- Online sales** was driven by the recent launch of L'OCCITANE en Provence on Douyin in China. China is the 2nd largest single market for the group (13%). **- Drivers:** While the overall economy was sluggish, we were able to deliver solid growth thanks to our focused marketing efforts on the key product categories of face care, body care and hair care. Our iconic Shea Butter range remained our No. 1 product range, and the Almond range continued to be one of our bestsellers in China and was a top recruiting product line. **- Jan trend:** China high-single digit growth YoY (based on early observation)		
P&G	Greater China	Dec-Q (Dec)	**China growth** (for the quarter): Greater China organic sales were **down 15% YoY**. Underlying market growth was **down mid to high-single digits** as consumer confidence weakened further. The **SKII brand** in Greater China was **down 34% due to soft market conditions and a temporary headwind for Japanese brands in the market**.	The company continues to expect China market growth to improve and **over time return to mid-singles**. Our consumer research indicates SK2 brand sentiment is improving and we expect to see **sequential improvement** in the back half.	
Amore Pacific	Mainland China	Dec-Q (Dec)	**China growth (4Q23):** - Revenue **declined by 40% (local currency).** China sales accounting for late 40% of Asia sales. China business **incurred losses** in 4Q2023 - Overall revenue declined due to downsizing inventory in major channels and focusing on increasing customer purchase in order to improve its business structure. Total sales (GMV) during Double 11 grew with strengthened key products and diversified platform strategy. - Sales of Laneige and Mamonde increased by reinforcing competitiveness of key products. - Sulwhasoo operated a pop-up sotre and strengthened customer marketing, resulting in new customer acquisition within department stores. **China growth (FY2023)**: - Revenue **declined by mid-20%** (local currency). And China business incurred losses in FY2023 - Overall revenue declined due to brand renewals, restructuring of offline stores, and downsizing inventory in major channels - Laneige sales grew driven by e-Commerce channel growth by focusing on marketing key products and strengthening digital marketing content		

Exhibit 5: Beauty

Sector growth decelerated notably in recent quarter, with diverging performance by brand

Company	Scope	Reporting period*	Comments on current Q	Outlook/strategy	Heatmap
			- Sulwhasoo and Innisfree enhanced brand competitiveness by launching high-functional products and executing rebranding campaigns		
Shiseido	Greater China	Dec-Q (Dec)	**China growth:** 4Q23 turned negative due to online drop, while offline accelerated. Pullback on Japanese products by the treated water release - **Net sales** were ¥247.9 billion, down 4.0% YoY (reported)/ 6.4% YoY (FX-neutral basis)/ **down 4.6% year on year on a like-for-like basis** - **Core operating profit** was ¥7.0 billion, **returning to profitability** with an improvement of ¥10.9 billion year on year due primarily to higher gross profit driven by an increase in sales during the first half of the year, as well as agile cost management mainly in marketing investments in light of the decline in sales which started to be seen in 2H amid worsening market conditions. **- By brand**: While SHISEIDO and Clé de Peau Beauté continued to be the key drivers, but more than offset by the unfavorable impact of consumer pull back on purchases of Japanese products due to the release of treated water in Japan and the weakening sentiment towards China's economy **- Online channel:** During "Double 11", our e-commerce sales **underperformed the overall market** which also suffered a decline in sales from the prior year. **Market trend:** In China, while the market grew strongly in 1H due in part to the low base effect from COVID-19 lockdowns in major cities including Shanghai in the prior year, it **lost momentum in the second half** of the year amid challenging environment driven by weakening sentiment towards China's economy overall. **Duty free:** the duty-free retail market in South Korea and Hainan Island in China continued to experience softness owing primarily to retailer inventory adjustments from tighter regulations. Hainan down over 40% in 4Q and MSD% in 2023 **Strategy shift:** In the China Business, we are **making a shift from a growth model** primarily driven by large-scale promotions to **a more sustainable growth model** which focuses on **value-based brand** and product communication tailored to consumer needs.	**Outlook:** we expect that China's beauty market, including travel retail, is **in a transition period** after years of rapid economic growth, following a path to a stable growth. **2024 forecast:** China sales expected to **+5%.** Expect moderate market growth: Changes in consumer behavior, becoming pragmatic (focus on functionality and efficacy). Negative impact of the treated water release lingers in Q1 2024 followed by recovery in Q2. Outperforming the overall market by strengthening investment in growth opportunities **Winning in China (2024 & 2025 strategy):** - Market dynamics: China and travel retail shifting from rapid growth to steady growth; high prestige still has high growth while prestige and premium have persisting competitive landscape. Expanding growth opportunities in Tier 3-5 cities - Building a sustainable profit delivery business model - Focus on high-prestige brands targeting affluent consumer base (Shiseido, CPB, the Ginza) - Expand brand portfolio: NARS, Drunk Elephant growth acceleration - Brand expansion into Tier 3-5 cities targeting rising middle-class consumers- Business transformation: less reliance on large-scale events, reduce price promotions, optimize physical number of stores, streamline org structure - Integrated approach for China and Travel Retail: TR region CEO to report to China region CEP, integrated marketing, etc.	↓
Kose	Mainland China+Hainan	Dec-Q (Dec)	**China performance:** In 2023, China sales **declined significantly**....earnings decline due to sharp decline in sales in the China and South Korea travel retail sectors, which have high profit margins. - Online: In the EC category, **Singles Day sales were down** due to fierce competition and weak consumer spending. - Department stores: sales were strong in 1H as the economy recovered. 2H sales were impacted by the release of treated wastewater into the ocean from the Fukushima nuclear power plant and weak consumer spending. The result was no YoY change in total sales. **Macro trend:** In China, **cosmetics sales were down sharply** because of the slow pace of the country's economic recovery, intense competition and the negative reaction to the release of treated wastewater into the ocean from the Fukushima nuclear power plant that started in August. The government stepped up measures to support the economy, but the growth rate declined because of weakness in the real estate sector and other reasons. **Travel retail:** In the China and South Korea travel retail sectors, declines in purchases of merchandise by distributors caused a big downturn in sales. China duty free sales and earnings **far below the plan** due to tighter restrictions on bulk purchases by resellers and consistently high distributor inventories. For Japan market, the number of tourists from China has increased, but the **pace of the recovery in travel from China is slow**. **By brand:** ALBION: Sales declined in China; DECORTÉ: sluggish business in China	**2024 Outlook:** consumer spending in China is unlikely to recover soon due to the prolonged real estate market slump and rising unemployment. - Revenue: Expect **5% growth**. Moderate recovery in China, especially in the travel retail segment. - Profit: higher sales and an expected improvement in profitability in China - China travel retail: Expect **24% growth.** Expecting a challenge at the beginning of 2024 as high distribution channel inventories continue to hold down purchases by travel retailers. Forecast a slow and moderate recovery in shipments as inventories return to normal and consumer spending recovers. **Key initiatives in 2024:** Increase the value of brands and **improve profitability** in China and travel retail. **- Risks:** 1) Mid-range price products has a large share of sales in DECORTÉ lineups; 2) **Higher promotional expenses** for EC sales due to intense competition; 3) **Surplus inventories** in the market **- Initiatives:** 1) Use offline channels to increase sales of high end products. 2) Investments for more fans of KOSÉ brands	↓

Exhibit 5: Beauty

Sector growth decelerated notably in recent quarter, with diverging performance by brand

Company	Scope	Reporting period*	Comments on current Q	Outlook/strategy	Heatmap
			resulted in a 19.5% overall negative revenue decline, with negative performance of e-commerce business in China, especially on the Singles Day. SEKKISEI: struggled in China	and creating the next hit products. 3) Centralized control by the head office of the volume of products supplied	
Beiersdorf	Mainland China+Travel retail	Dec-Q (Dec)	**China performance:** La Prairie overall down -14.3% in 4Q, mainly driven by China decline (China Consumer about 40% of total sales on our forecasts) driven by destocking. La Prairie Q4 sellout returned to double-digit growth. **- Travel retail:** Difficult market circumstances in the travel retail business and in Mainland China, forced Beiersdorf to use 2023 as a transition year to clean up stocks and normalize inventory levels. **- YTD performance:** The first numbers for Q1 2024 for Chantecaille already look promising **W630 ingredient Product launches in China:** Working with the NIFDC on getting the regulatory approval on the ingredient, and then have to get the regulatory approval on the formula, Current plan is to have W630 on the various brands of the portfolio in '25, beginning of 2026, depending on the questions the regulatory authorities can ask and the test to submit.	**Outlook/Strategy:** Looking positively at 2024 with mostly healthy stock levels for both brands (La Prairie & Chantecaille), and travel retail stocks in Hainan will also be healthy at the end of Q1 2024. **- La Prairie:** In mainland China The great balance of brick-and-mortar touch points, e-commerce and the travel retail business will enable us to accelerate La Prairie in China in the future while not relying on promotions. **- Chantecaille:** Expect improved performance due to the expansion of the travel retail business. Working on the launch of Chantecaille in Mainland China and have already 2/3 of the portfolio, which has been regulatory approved and waiting for the last third, and planning to start selling Chantecaille in China in August 2024. So with a full launch in September 2024 with media, with influencers, with online and off-line	

Source: Companies, BofA Global Research (* the month info in brackets indicate fiscal year end)

BofA GLOBAL RESEARCH

Milk powder

- **Growth moderated but remain positive**: Group sales growth for the three leading dairy companies moderated from last quarter, with Danone (China, North Asia & Oceania) down from +8.4% in 3Q23 to 7.4% in 4Q, and Nestle (Greater China) went from +4.9% in 3Q to +2.5% in 4Q, and A2M (China & Other Asia) from +38% in FY23 to +16.5% in 1HFY24. However, growth remained positive and each recorded growth for IMF segment, compared with double-digit decline for the market (-13.6% value decline in 2H23, according to Kantar).

- **Share gain by leading international brands:** A2M and Danone indicated solid market-share gain, thanks to effective control on inventory and pricing through the market-wide transition to new GB (China's national food safety standards for infant formula) and successful launch of new GB products. A2M rose to Top 5 in China IMF market (share reached 6.4% in 1HFY24), supported by higher investment to support the transition. The new GB products launched by A2M (a2 Zhichu new upgrade) and Danone (Essensis) also received encouraging initial feedback from the market.

- **Early signs of market stabilization vs. long-term uncertainty**: The China IMF market shows early signs of stabilization, as volume trend for Stage 1 products improved recently (from -8.5% in 1H23 to +0.4% in 2H23), according to Kantar. We believe it could be attributable to a low base and initial stabilization of birth rate post re-opening. However, industry long-term outlook remains uncertain, given cumulative decline in newborns over the past few years. More meaningful recovery could take longer than initially assumed, as noted by A2M.

- **Opportunities in consolidation and penetration**: For the major international players, lower-tier cities remain relatively under-penetrated and represent opportunities for future growth. The GB registration also bolstered industry consolidation, with c.20% reduction in the number of IMF brands in the market (Nielsen, SAMR, A2M). While locally-produced brands benefited more from the shift in general, leading international brands also gained share, especially those with strong product portfolio and disciplined channel management, such as A2M and Danone.

Exhibit 6: Milk powder

Danone and A2M sustained market share gain through the sector-wide new GB transition

Company	Scope	Reporting period*	Comments on current Q	Outlook/strategy	Heatmap
Danone	China, North Asia & Oceania	Dec-Q (Dec)	**China, North Asia & Oceania**: **Sales +7.4% LFL in 4Q23,** led by volume/mix up +4.8% and price up +2.6%. FY23 +10.1% (volume/mix +8.6%, price +1.5%). 4Q by category: (1) Essential Dairy & Plant-based products (EDP) +13.1%, (2) specialized nutrition (including Early Life Nutrition and Advanced Medical Nutrition) +5.7% (Medical: double-digit growth), and (3) water +15.7%. **IMF** (part of specialized nutrition): **Aptamil** posted **another quarter of solid growth** and continued to **gain market share**, thanks to our local team that is running a tight control on our inventory and our pricing levels. We got all the registration we were looking for. We have launched Essensis in Q3, and **first indications are really encouraging**. **Water: Mizone +14.1% in FY23**, confirming its turnaround and back to competitive growth, with growth led by volumes and market share gains. **Profitability:** Confidence in IMF value creation: We had a strong investment in first semester in order to support the transformation of our portfolio in IMF, second semester margin bounce back. That's something also which gives us confidence into the Chinese value creation moving forward... We have three legs in China: adult medical, pediatrics, and IMF. We see that type of profitability helping us further build the resilience of the business.	**Outlook:** **- Penetration and consolidation**: We still have opportunities of penetration in tier 3 and 4 cities. We have opportunities as the new registration is coming with consolidation of the market. **- Disciplined approach:** We keep moving in China and keep strengthening our business in a very methodical way, being very disciplined on what is international, what is local, and on our inventories level to make sure that we keep a very healthy business.	⟺
Nestle SA	Greater China	Dec-Q (Dec)	**Greater China growth: Sales organic growth was +2.5% in 4Q23** (pricing -0.6%, real internal growth (RIG) +3.1%) , or **+4.2% in FY23** (pricing +1.7%, RIG +2.5%), despite the unfavorable timing of CNY. Reported sales -5.9% in FY23 (FX -10.2%). - **Drivers:** out-of-home businesses and e-commerce momentum; Nestlé Professional, culinary and confectionery - **Market share gains:** in soluble coffee, pet food and confectionery. **Category performance:** (1) Nestlé Professional was the largest growth contributor, (2) **Culinary** posted **HSD%** growth, with increased demand for Totole in out-of-home		⬆

Exhibit 6: Milk powder

Danone and A2M sustained market share gain through the sector-wide new GB transition

Company	Scope	Reporting period*	Comments on current Q	Outlook/strategy	Heatmap
			channels and new product launches, (3) **Confectionery** recorded **MSD%** growth, led by Shark wafer and Hsu Fu Chi. (4) **Infant Nutrition saw positive growth**, led by NAN hypoallergenic and specialty offerings. (5) Sales of **healthy aging products** grew at a **double-digit** rate, supported by the launch of N3 milk, a unique science-based innovation that is as nutritious as milk and low in lactose. (6) **Coffee** reported **low single-digit** growth, supported by ready-to-drink offerings. (7) Sales for Purina PetCare grew at a double-digit rate, based on new product launches and strong e-commerce momentum. **Margin:** underlying trading operating profit margin was 16.5% increased by 40 basis points, driven by favorable mix and disciplined cost control.		
A2 milk company Ltd	China and other Asia	Dec-HY (Jun)	**China & Other Asia growth:** China & Other Asia segment sales +16.5% and EBITDA +21.9%. Total **IMF sales growth of +1.5%** (despite market down 13.6%). China label sales up 10.4% and English label sales down 6.9%. Other nutritionals: +48.5%. IMF market share: a2MC Achieved **top-5 China IMF position** (with brand health reaching new highs supported by record levels of marketing), increasing from 4.9% (China IMF value share) in FY21 to 6.4% on an MAT basis in 1H24. **China IMF market trend:** - **Total China IMF market -13.6% (value)**/-10.7% (volume) in 1H24. Key&A/BCD market value were -13.7%/-13.5%. Market has contracted more than expected. Market value decline reflects the cumulative decrease in newborns over the past few years, increased competitive intensity and promotional activity (amplified by the market-wide transition to new GB registered products), and macroeconomic conditions impacting retail sales. - **Increased brand concentration:** GB registration process has reduced the number of brands in market by ~20% with a shift towards local brands (but less so by value) - **Market share shift:** from China label to English label channels in 1H24. China label market value -15.2% while English label -0.1%. English label share/total market value increased from 14.9% (2H23) to 16.3% (1H24). Within English label channels, continued shift from Daigou to CBEC and O2O with CBEC (largest English label channel) +2.4%, O2O +6.8%, while Daigou was -18.6% in 1H24 **Higher marketing expense:** Marketing investment in 1H24 was higher than both 1H23 and 2H23, reflecting the continued step-up in China investment and increased support for the transition to new GB registered China label product **Product & channel:** **- New GB registered China label** product was first launched online in October 2023 on flagship stores (JD, Tmall and TikTok) and has been well received by the market. - **Improved key business health indicators**, including market pricing, share of early-stage product sales, channel inventory and product freshness	**Industry outlook:** (1) **Early signs of stabilization/ positive outlook for CY24**: Stage 1 volume trend for the market has improved recently (from -8.5% in 2H23 to +0.4% in 1H24). (2) But **long-term uncertain**. It will take longer to recover than initially assumed **Strategy:** Growth strategy focused on capturing full potential of China market with supply chain transformation a key priority. Strategic priorities for China label IMF: increase share in key accounts, expand in lower tier cities, further accelerate online growth, continue to investment in brand to create demand pull, broaden product portfolio. Strategic priorities for English label: accelerate online growth in CBEC, develop O2O channel, focus on more controlled channels	⬆

Source: Companies, BofA Global Research (* the month info in brackets indicate fiscal year end)

BofA GLOBAL RESEARCH

Spirits

- **Cautious near-term outlook given challenging macro**: Spirits market has been adversely affected by the challenging macro environment and weak consumer sentiment, an observation made by most companies. This has resulted in less favorable recent performance. In light of these macro factors, companies have adopted a more prudent near-term outlook. However, they remain optimistic for the medium term, citing significant penetration opportunities (category penetration + lower-tier city expansion).

- **Resilient Chinese spirits vs. decelerating western spirits:** Chinese spirits exhibited higher resilience, supported by the recovery of on-trade activities, while international spirits faced decelerating momentum, as noted by Diageo. Hennessy cognac was affected by mixed recovery in China. Remy suggested improving value depletion in recent quarter but sales remain on a decline given major destocking.

- **Local color:** For Chinese spirits, recent trends were CNY momentum turned out better than feared. The industry in general saw positive sell-out growth, better than bearish expectation prior to the holiday. Low/mid-end family banquets and gifting bolstered holiday consumption, while business banquets remained relatively subdued.

Exhibit 7: Spirits

Western spirits saw softening momentum compared with more resilient performance of baijiu.

Company	Scope	Reporting period*	Comments on current Q	Outlook/strategy	Heatmap
Diageo	Greater China	Dec-HY (Jun)	**China growth:** - Greater China **net sales grew 18%**, primarily driven by strong growth in **Chinese white spirits**, reflecting the **recovery of the on-trade** following the easing of Covid-19 restrictions. - **Chinese white spirits grew 32%** as we lap the first half of fiscal '23, when Covid-19 restrictions were still in place. Our participation in Chinese white spirits through Shui Jing Fang puts us in a unique position amongst global Spirits players operating in Greater China. With the lifting of on-trade restrictions, which were in place in the prior year, Chinese white spirits proved to be more resilient in the half, driving our growth - ...while **momentum decelerated in our international spirits business**. - Markets holding/gaining share include several large markets, including China **- Incremental investment** in Chinese white spirits (drove the growth in marketing investment in APAC)	**Outlook**: In the second half of fiscal '24, we expect growth in APAC to continue from the first half, supported by lapping of subdued Chinese New Year in the prior year, balanced by the weaker consumer confidence we see across the region.	↑
Pernod	Mainland China	Dec-Q (Jun)	**China growth:** - **China sales organic growth -9% in 1H (c.-10% in 2Q)**, driven by **HSD in pricing. China weight in sales = 11%** - Softened consumer demand in a challenging macro environment - Dynamism of international premium spirits notably strong growth of Absolut, Jameson, tequila and gin - Martell Noblige resilient, Premium and Super premium whiskies performance including Chivas Regal in growth - Cautious trade sentiment ahead of CNY - Chinese travel recovery lagging (impacting global travel retail) **Whiskey:** We are very excited about The Chuan (the first whiskey distillery in China invested by an international spirits group), which we started commercializing in China since Christmas. The Chuan is just **going to be incremental**. The opportunity to grow Western-style spirits is quite significant in China. **Downtrading?:** It's a bit early to start saying there's a downtrading. As we entered into Chinese New Year, we see pretty good performance of Absolut and our whiskey brands, very strong resilience of Martell Noblige and some softness around XO. **Anti-dumping:** From a Pernod Ricard standpoint, we are confident there's no dumping on Martell.	**Outlook:** - **Near term:** the current macroeconomic environment is more of a headwind. Consumer confidence is relatively weak. So far, the trade has been quite **cautious** as we enter into Chinese New Year. - Expect China to deliver **high-single-digit to low-double-digit growth over time** (for the next 15 years)**.** There'll be better years and worse years. For the foreseeable future, you should expect, on average, China to be within that range. For the **mid term, the fundamentals are absolutely unchanged.** **- Penetration potential:** our consumer pool in China is middle class Chinese households, which are expanding. Our penetration rate (household/market penetration rate) is still extremely low at 2%. There are macroeconomic headwinds. The consumer is here but basically putting money in the bank rather than spending it. But over time, we remain very confident on China.	↓
Campari	Greater China	Dec-Q (Dec)	**China growth:** China registered positive overall growth against an easy comparison base, thanks to SKYY and Aperol.	**Strengthening of commercial capabilities in China.** (1) The Group has announced the creation of a new	↔

Exhibit 7: Spirits

Western spirits saw softening momentum compared with more resilient performance of baijiu.

Company	Scope	Reporting period*	Comments on current Q	Outlook/strategy	Heatmap
			By brand: Aperol grew triple digits in China in FY23. For SKYY Vodka, China is among the Top 5 markets by value. X-Rated was overall positive thanks to China and South Korea.	route-to-market in China with a targeted regional distribution model, ahead of the Courvoisier integration. (2) With a strong portfolio of brands, the Group is confident in successfully building the Chinese business using a strengthened distribution platform in accordance with the strategy for that market.	
LVMH	Chinese consumers	Dec-Q (Dec)	Wine and spirit: Hennessy cognac was affected by a mixed recovery in China		↓
Remy	Greater China	Dec-Q (Mar)	**China growth:** Value depletions had **MSD% decline YoY in 9M**, and grew >35% vs. 9MFY19-20. On a four-year basis, China's value depletion were +35% in 9M. **In Q3, value depletions +LSD% YoY, improved sequentially** versus Q2 **- E-commerce:** direct channels in China showed a strong performance, thanks to all specific activation made around 11.11 and Tmall alongside the launch of an exclusive edition CLUB Sheep Chen Le Centaure. **- On-trade:** improved slightly, but showing some downtrading trend to cheaper categories is not there, even if we got a good performance that we gained this positive light loss to single digit. **Destocking:** ...major destocking in China and softer market condition in the rest of Asia. ....the underlying performance in China, is close to our most cautious scenario....at the end of the nine months, our level of inventory is still slightly high, but much lower compared to the end of Q2....destocking is catching up quickly in January. **Cognac:** very strong double-digit decline in sales in Q3, impacted by major destocking before CNY and negative calendar effects - Underlying trends are softer due to lower consumer confidence and rising cash pressures in the trade - On-trade channel is slightly improving but shows some downtrading; in off-trade, banquets are more resilient and e-commerce still very dynamic boosted by 11/11 - Strong quarter for Hong Kong and Taiwan while Macau remained weak as gaming has not yet bounced back - ....high end of cognac portfolio more affected the current context. So a little bit of negative mix inside this recovery. **Liqueurs and Spirits:** very strong double-digit sales decline in Q3, impacted by continued destocking in whiskies and weak end-demand (mainly from younger generation) -...whisky was the category most impacted by the destocking in the performance. And also probably a stronger exposure to younger generation, a little bit more volatile considering the context. It's not an issue for Bruichladdich, it's more general for the whisky, the most precious and prestigious whisky in China. - The transition of LOUIS XIII model more retail, it is clearly a huge journey. It's taking a little more time to educate, to have the level of requirement respected. But also like LOUIS XIII, even more direct channels clearly outperform the weighted average. **Chinese investigation:** On 5th January 2024, industry associations, spirits EUROPE, and BNIC industry players, including Rémy Cointreau were informed that the Chinese MOFCOM had opened an antidumping investigation. This investigation targets brandy exports from European Union member countries to China in containers under 200 litres for the period between 1st October 2022 to 30th September 2023. It may run for up to 12 months and can be extended for a further six months. - Rémy Cointreau immediately contacted its trade representatives, is **fully cooperating**	**Outlook:** **- Sales:** ...Q4 sales should sequentially improve driven by less destocking and a positive calendar effect in Q4. We anticipate in the quarter a strong growth that sell-in will determine that a yearly level, and we will end in China with a slight positive sales growth, even if strongly below the budget expectation. **- Value depletion:** ...we expect the Q4 and so the H2 in terms of value depletion for China to be positive compared to the previous year. The aim is to end the year strongly than Q3 and with the health inventories condition. **FY24-25:** ...the comps for 24-25 is very high in the H1. And the context is improving, but still is a bit softer than we expected at the budget time.	↓

Exhibit 7: Spirits

Western spirits saw softening momentum compared with more resilient performance of baijiu.

Company	Scope	Reporting period*	Comments on current Q	Outlook/strategy	Heatmap
			with the Chinese authorities in this investigation. China is a long-standing trade partner of Rémy Cointreau and the European Spirits Industry as well. And we have always had excellent relations and levels of cooperation. So we are convinced that our products and business practices comply fully with Chinese international regulation and approach future discussion with confidence and diligence.		

Source: Companies, BofA Global Research (* the month info in brackets indicate fiscal year end)

BofA GLOBAL RESEARCH

Beer

- **Cautiously optimistic industry outlook**: 2023 was marked by flattish industry volume for the full-year, with a significant weakening in 2H. Initial feedback from CNY suggested largely unchanged trend sequentially, as noted by ABI and Carlsberg. Companies are overall cautiously optimistic about sector volume outlook and expect potential stabilization for the full year.

- **Premium growth**: While brewers remain positive on premiumization in general, their premium performance and observations were more nuanced. ABI and Heineken outperformed in premium than Carlsberg. For ABI, premium and super premium had double-digit YoY revenue growth in 2023, while core & value fell below expectation. Heineken had strong double-digit growth in China (50-70%), supported by an increase in sales and marketing investment. In contrast, Carlsberg saw its local mainstream beer delivering strong volume growth (+7%), benefiting from an increase in domestic tourism (which favored their local brands). Its premium portfolio grew slower in comparison, with worsening mix (Wusu and 1664 softer than Carlsberg and Tuborg). When it comes to premium growth outlook, ABI and Heineken were more optimistic, highlighting continued strong premiumization and channel expansion opportunities.

- **Distribution expansion**: Companies have slightly differentiated strategy on expansion. ABI leverages its digitization tools, as BEES expanded presence to 260 cities with 70% of digital revenue contribution. Heineken capitalizes on CRB's extensive distribution network. With penetration at only 20% of CRB footprint, it has plenty of headroom for growth. Carlsberg has a slight tweak in its big city expansion, with balance shifting a bit from adding new cities to accelerating growth in existing cities.

Exhibit 8: Beer

Industry growth weakened in 2H but most brewers remain optimistic on the outlook for premiumization with focus on distribution expansion.

Company	Scope	Reporting period	Comments on current Q	Outlook/strategy	Heatmap
ABI	Greater China	Dec-Q (Dec)	China growth: - **4Q23:** Revenue +11.2%/ revenue per hl +14.7% (premiumization + favorable comparable)/ volumes declined -3.1%/ EBITDA +31.6%. Mainstream industry softer, but our premium and super-premium volumes grew by double-digits. - **FY23:** Revenue +12.3%/ revenue per hl +7.6%/ volume +4.3% (outperforming the industry/expanded market share)/ EBITDA +16.3%/ EBITDA margin expansion +125bps. - **Digitization**: BEES present in c.260 cities, with 70% of revenue generated through digital channels in December. Premiumization: Our brands, both in **premium and in super-premium, they grew double digits in revenue** in 2023, performed very well in China. And we see a little bit of this **bifurcation** when you take the core with a performance that was a little bit below what we were expecting. But combined, China had a very decent industry last year in revenue and good volumes. Not great, but good volumes, led by premium and super premium. CNY: what we saw was normal. A little bit of constraint in core value brands, while **premium, super premium doing very well** and performing well.	**Premiumization outlook**: we continue to see premiumization as a very strong trend. Core and value we need to keep an eye on and understand the overall sentiment for consumers and how this is going to come. And that was somehow a behavior that we saw across many categories and different players.	↑
Heineken	Greater China	Dec-Q (Dec)	China growth: - Volume for the Heineken brand has increased by a factor of 4.5 times since 2019, making China the **second largest market** for the brand globally, just behind Brazil. - The growth is from both Original and Silver, with strong momentum continuing this year, **up more than 50% and 70% respectively**. The brand benefits from strong incremental investments in sales and marketing, increasing its brand power. Profit contribution from CRB: This partnership is increasingly becoming an important contributor to our bottom line, via the share of profits from our stake in CRB. In 2023 this was more than 5% of our total EPS, and on top of this royalties.	Outlook: we're excited for the future in China and see plenty of headroom for further growth, as we continue to build brand power, distribution and scale with CRB. Last year we **reached about 20% of the POS** in their footprint, so **plenty of headroom** to grow.	↑
Carlsberg	Mainland China	Dec-Q (Dec)	China growth: - **Industry:** the Chinese beer market was **flat** (estimate) for the year, but **weakened considerably during 2H**. - **Revenue: -3% in 2023**, China = 18% of global revenue (vs. 20% in 2022). - **Volume: +5% in 2023** and strengthened market share (#5 in China with 9% market share/ #1 in Western China with 67% share) - **Mix: negative mix**, with mainstream growing > premium. Within premium, Carlsberg and Tuborg > Wusu and 1664 Blanc (more expensive).	2024 outlook: - We are **cautiously optimistic** that that growth will stabilize during the year. - Volume: need to continue to grow share in China, and we would also **expect to see good volume growth again this year** in China. - Mix: as the big city strategy picks up with an improving consumer, then you would also **see again a better premium mix**.	↔

Exhibit 8: Beer

Industry growth weakened in 2H but most brewers remain optimistic on the outlook for premiumization with focus on distribution expansion.

Company	Scope	Reporting period	Comments on current Q	Outlook/strategy	Heatmap
			By brand: - **Local power brands**, such as Chongqing, Wusu and Wind Flower Snow Moon, did particularly well, supported by an increase in domestic tourism. **Local mainstream core beer portfolio in China was +7%** (c.60% of China volume). - **International brands:** Our premium brands Carlsberg and Tuborg grew strongly, while 1664 Blanc was impacted by consumers becoming **more price sensitive**. - **Wusu:** volume +double-digit in 4Q, but softer outside of Xinjiang. - **WFSM:** expanded the reach of Wind Flower Snow Moon (WFSM) (volume +over 60%) through the launch of the low-alcohol WFSM in the Beyond Beer space. The low-alcohol WFSM will play in the premium-plus segment and be a vehicle for further expansion outside the home region of Yunnan. Acquisition: The step acquisition of Jing-A Group was completed to further strengthen the Group's presence in the growing craft beer segment in China CNY updates: Not seeing any significant step change in Chinese consumer sentiment (relatively unchanged vs. a declining beer market in 2H23). No deterioration but also not seeing any particular pick up.	Product portfolio: **(1) Premium: a**lthough our market share in premium is significantly above our average national market share, we see comprehensive opportunities for growth. Therefore, we will invest in the further development of our premium portfolio. **(2) Local power brands**: having a more comprehensive product portfolio...a little bit less driven by international brands but also by local power brands **Nuance to big city expansion:** still expect to continue adding cities to the big city strategy, but moving some of the balance of our focus from seeding new cities into **accelerating existing cities**, where we can see we have traction, where our portfolio works, where our go-to-market works **Increase commercial investment:** the importance of the increased commercial investments in China. Important that we continue to build out our go-to-market model, keep on building out our sales force and, solidify the market share gains we've had and create the platform for us to grow further	

Source: Companies, BofA Global Research

BofA GLOBAL RESEARCH

Restaurant

- Headwinds from negative mix (lower price points, smaller baskets) were more evident for restaurant players as consumers seek more accessible price points and greater value-for-money food options. Store rollout will be the key growth driver in both near-term and long-term.
- To put things into perspective, local full-service restaurant operators have also witnessed pricing pressure. Some players have stepped up promotions. In addition, local full-service restaurant operators on average showed weaker store opening momentum than global quick service restaurant peers.

Exhibit 9: Restaurant

Headwinds from negative mix (lower price points, smaller baskets) were more evident for restaurant players

Company	Scope	Reporting period*	Comments on current Q	Outlook/strategy	Heatmap
McDonald's	Mainland China	Dec-Q (Dec)	**China performance:** We had a very good 2023 in China and see strong growth there. We also built 1,000 restaurants in China (+16% YoY to 5.9k stores according to press), very much on track from our development aspirations, and we would expect to do something similar in 2024 from that standpoint. **Consumer trend:** ...consumer sentiment in the country is a little bit more under pressure right now. ...in Q4 in particular, we saw **the environment get more promotional**. Our focus is on making sure that we remain competitive. **Store opening:** We also expect to open more than 1,600 restaurants in our IDL segment this year, **including about 1,000 in China**, where we recently completed the acquisition of Carlyle's 28% stake in McDonald's China. **Market campaign:** In China, with **slowing macroeconomic conditions and consumer confidence near record lows**, the market continued to build brand equity by combining our delicious food with culture and community through a collaboration with local streetwear designer, VERDY. The campaign not only featured access to exclusive merchandise, but put our delicious chicken at the center, and drove **incremental traffic** into our restaurants by offering customers a discount on a second order.	**Outlook:** We're going to continue to see good comp performance in that market as consumer wealth and GDP continue to grow mid-single digits. There's going to be an opportunity for us to continue to build out development and penetration in that market to many places where we don't really have McDonald's presence. ...outlook on China for us **continues to be very robust**, which is why we increased our stake as Ian mentioned. **Store target:** we're looking forward to getting that market to **10,000 restaurants by end of 2028**	
Starbucks	Mainland China	Dec-Q (Mar)	**China growth:** China **comparable store sales increased 10%,** driven by a **21% increase in comparable transactions** and **9% decline in average ticket.** **Store number:** At the end of Q1, stores in the U.S. and China comprised 61% of the company's global portfolio, with 16,466 and **6,975 stores** in the U.S. and China (China store count grew 15% YoY or 2.5% QoQ). **Slow recovery:** Slower than expected recovery in China, driven by **more cautious consumer**. While we had a **relatively very strong Double 11** holidays, the overall market weakness led to **significantly increased pricing competition**. We responded quickly to these headwinds. **Strong supply chain:** The company has used the COVID-19 pandemic as an opportunity to reset its business in China, resulting in end-to-end cost savings and digitization of the supply chain that is "**incredibly strong**." **New product:** Positive traction from new product innovations, **exciting momentum in China with our focus on premium**, and progress on the execution of our Triple Shot strategy. Based on our latest brand tracker, Starbucks continues to be the first choice in away-from-home coffee, including among the Gen Z consumers.	**Outlook:** We aim to be the best in the premium market in China. In China, we remain very confident in the long term. The market is going through a transition as we see an increase in mass market competitors which we believe will shake out over time and the market will emerge looking fundamentally different than what we see today. We expect a much larger and tiered market as per capita consumption continues to increase and the market matures. **Strategy:** There are three key elements in our China strategy. First, we are offering more coffee forward **locally relevant product innovations** and we're increasing **engagement in social media channels** to influencers and partnerships, which are highly effective in China. These actions are increasing awareness and have led to greater customer frequency. Second, we have made **significant investments in technology**, increasing our omnichannel capability, allowing us to serve more customers through new occasions. These investments have also led to a more digitized store environment, increasing efficiency of our supply chain and stores, while enhancing the partner experience and strengthening our unit economics in both existing and new stores. Finally, we are increasing the percentage of **new stores**	

Exhibit 9: Restaurant

Headwinds from negative mix (lower price points, smaller baskets) were more evident for restaurant players

Company	Scope	Reporting period*	Comments on current Q	Outlook/strategy	Heatmap
				opening in lower-tier markets and new county cities where we see meaningfully stronger new store economics.	

Source: Companies, BofA Global Research (* the month info in brackets indicate fiscal year end)

BofA GLOBAL RESEARCH

F&B

- On beverage side, the 4Q momentum continued to be soft and 1Q24 could be another quarter of high base, although the Chinese New Year has shouldered great hopes of growth. The growing trend of healthy living in China has had significant implications for the Chinese beverage market so the soft drinks sector has faced challenges from consumers' shift to heathy beverages and must innovate to maintain its growth. Some local names, which are more exposed to low/non-sugar products, have therefore gained market shares.
- The recovery in volumes of US Packaged Food companies with exposure to China largely depends on re-acceleration in the restaurant channel and a rebound in activity from restaurant names.
- Continued investments to expand the capacities and store network in China have proved the faith in long-term growth opportunity of their China business, despite some volatility in short-term demand.

Exhibit 10: F&B

Recovery in volumes is largely dependent on re-acceleration in the restaurant channel and a rebound in activity from restaurants

Company	Scope	Reporting period	Comments on current Q	Outlook/strategy	Heatmap
Coca-Cola	Mainland China	Dec-Q (Dec)	**China market:** Asia Pacific unit case volume grew 2% for the quarter led by India and China. 2023 started very strongly in China, as the company had invested very heavily behind Chinese New Year. Although total volumes for 2023 full year still grew, revenues did soften during 2-4Q23 in China.	**Outlook:** China's macro environment remains uncertain. We have invested strongly again in Chinese New Year and are expecting sales growth to be a little slower in 1Q24 off the high base. We are going to keep investing not just key moments like Chinese New Year but restoring more momentum to sparkling and really focusing on RGM and execution opportunities.	
McCormick & Co	Greater China	Dec-Q (Dec)	**China market:** The recovery from COVID-related disruptions in China was in line with the expectations we had at the beginning of the quarter. Consumer sales in the Asia Pacific region grew by 28% YoY. In constant currency, sales increased 31% including an expected **benefit from lapping the impact of China's prior year COVID-related disruption.** **Flavor Solutions:** In APAC region, Flavor Solutions sales grew 5% in constant currency with a 6% contribution from pricing, offset by a 1% volume decline. **China business has delivered strong growth.**	**Outlook:** Our food away-from-home business is expected to be impacted by slower demand in the first half of the year and as such we expect China Consumer sales to be comparable to 2023 for the full year. While we recognize there has been volatility in demand in China, we continue to believe in the long-term growth trajectory of our China business.	
Mondelez International	Greater China	Dec-Q (Dec)	**China growth: high single digits for the year and the quarter** **Store network:** 1.7 million stores were added since in China, India, and Brazil but the penetration still can improve. For instance, our biscuits and gum are now in about 3mn/2mn of the potential 6mn stores in China.	**Outlook:** expecting the momentum in China will continue.	
Hormel Foods Corporation	Greater China	Jan-Q (Oct)	**China growth:** China foodservice sales improved given COVID-related disruption last year and the benefit was more than offset by continued weakness in the retail channel. **Lower branded export sales and lower sales in China led to international net sales and profit declines** in the quarter.		
Lamb Weston Holdings	Greater China	Nov-Q (May)	**China growth:** China restaurant traffic grew by double-digit	**Strategy:** The new greenfield processing facility in China is now operational. It gives us considerable flexibility as we're thinking about the next year's contracting coming up.	

Source: Companies, BofA Global Research

Other HPC

- 4Q23 was another tough quarter for HPC (home & personal care) brands, meaning a slower pace of China recovery and lasting volume declines. In a deflationary market with low consumer confidence, the shift to some domestic HPC brands seemed obvious. Beside soft market conditions, other headwinds include geopolitical unrest, foreign exchange, and regional safety incidents.

- They remain positive on the future prospects of China market given enlarging group of mid-incomers and the potential to penetrate there but still believe it will take some time for the market to come back.

Exhibit 11: Other HPC

Mixed post-Covid recovery amid weak macro; but China remains promising given its large scale and resumed growth potential beyond 2023

Company	Scope	Reporting period	Comments on current Q	Outlook/strategy	Heatmap
Unilever	Mainland China	Dec-Q (Dec)	Sales in China **grew low-single digit** led by volume while the market recovery continued to be uneven and slower than expected, in a **deflationary market with low consumer confidence.** Growth was driven by a strong performance in Unilever Food Solutions and growth in Beauty & Wellbeing, while Home Care, Personal Care and Ice Cream declined. As the food service market in China fully reopened, food solutions grew **double-digit**, helped by market making innovation such as extending Knorr bouillon to more flavors, tapping into evolving consumer preferences.		⟺
P&G	Greater China	Dec-Q (Dec)	**China growth**: Greater China organic sales were **down minus 15% YoY while** underlying market growth was **down mid to high-single digits** as consumer confidence weakened further. **Skin and Personal Care:** was down mid-singles mainly because SK2 brand was **down 34% due to soft market conditions and a temporary headwind for Japanese brands in the market (related to the release of wastewater from the Fukushima nuclear facility)**. In addition, the heaviest purchase period historically in China was in November but the amount of movement during that period this year was much lower, which P&G believes it's a temporary and quarter impact. Our consumer research indicates SK2 brand sentiment is improving and we expect to see sequential improvement in the back half.	**Outlook**: The company continues to expect China market growth to improve and over time return to mid-singles. We believe that a focus on brand equity, a focus on strong everyday value via superiority will allow us to help grow the market back to mid-single digits and strengthen our position in the market. Although the near term is likely to present some challenges, the long-term China opportunity remains intact given 1) the underlying market size, 2) the potential development of the middle class, 3) the ability to drive category penetration in our categories.	⬇

Source: Companies, BofA Global Research

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[Global Brands: China Pulse: Inaugural issue: mixed trends, but relative strength in a soft market]

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Research Analysts

Ahyung Cho >>
Research Analyst
Merrill Lynch (Seoul)
+82 2 3707 0527
ahyung.cho@bofa.com

Alexander Perry
Research Analyst
BofAS
+1 646 855 1365
aperry3@bofa.com

Alice Ma >>
Research Analyst
Merrill Lynch (Hong Kong)
+852 3508 8752
alice.ma@bofa.com

Andrea Pistacchi >>
Research Analyst
MLI (UK)
+44 20 7996 4938
andrea.pistacchi@bofa.com

Anna Lizzul
Research Analyst
BofAS
+1 646 855 2569
anna.lizzul@bofa.com

Arashi Nishizawa >>
Research Analyst
BofAS Japan
+81 3 6225 6402
arashi.nishizawa@bofa.com

Ashley Wallace >>
Research Analyst
MLI (UK)
+44 20 7996 0104
awallace3@bofa.com

Bryan D. Spillane
Research Analyst
BofAS
+1 646 855 1979
bryan.spillane@bofa.com

Chen Luo, CFA >>
Research Analyst
Merrill Lynch (Hong Kong)
+852 3508 2009
chen.luo@bofa.com

Christopher Nardone
Research Analyst
BofAS
+1 646 743 2016
christopher.nardone@bofa.com

Daria Nasledysheva >>
Research Analyst
MLI (UK)
+44 20 7996 1087
daria.nasledysheva@bofa.com

David Errington >>
Research Analyst
Merrill Lynch (Australia)
+61 3 9659 2527
david.errington@bofa.com

David Roux >>
Research Analyst
MLI (UK)
+44 20 7996 9236
david.roux@bofa.com

Geoffroy de Mendez >>
Research Analyst
MLI (UK)
+44 20 7995 8920
geoffroy.de_mendez@bofa.com

Jack Chen >>
Research Analyst
Merrill Lynch (Hong Kong)
+852 3508 8776
ruofan.chen@bofa.com

Lorraine Hutchinson, CFA
Research Analyst
BofAS
+1 646 855 0951
lorraine.hutchinson@bofa.com

Lucy Yu >>
Research Analyst
Merrill Lynch (Singapore)
+65 6678 0417
lucy.yu@bofa.com

Lynn Wu >>
Research Analyst
Merrill Lynch (Hong Kong)
+852 3508 3957
lynn.wu@bofa.com

Peter T. Galbo, CFA
Research Analyst
BofAS
+1 646 743 0175
peter.galbo@bofa.com

Sara Senatore
Research Analyst
BofAS
+1 646 743 2110
sara.senatore@bofa.com

Victoria Petrova >>
Research Analyst
BofA Europe (Frankfurt)
+49 69 5899 5078
victoria.petrova@bofa.com

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