

Dell Technologies Inc.

AI driving higher backlog, strong growth in ISG; PO to \$116

Reiterate Rating: BUY | PO: 116.00 USD | Price: 94.66 USD

F2H25 to see stronger growth; focus on capital returns

In F4Q24, Dell shipped \$800mn of AI optimized servers in the qtr and backlog nearly doubled q/q to \$2.9bn vs. \$1.6bn exiting the prior qtr. Mgmt. noted that AI optimized server orders grew +40% q/q. H100 GPU lead time is improving, although market demand continues to outpace GPU supply. F4Q24 rev/EPS of \$22.3bn/\$2.20 beat our ests of \$22.2bn/\$1.73 and Street at \$22.2bn/\$1.72, even ex \$0.19 benefit from lower tax rate. While F1Q25 EPS guide of \$1.15 (mid-point) is lower than our/Street prior ests of \$1.47/\$1.40, full year F25 EPS guide of \$7.50 (mid-point) is above our/Street prior ests of \$7.20/\$7.11. Dell announced a 20% increase to annual dividend, well above its long-term framework. We see FCF remaining strong, and DELL remaining focused on shareholder returns. Reiterate Buy on higher capital returns, AI tailwinds, and improving FCF benefiting from negative cash conversion cycle as PC rev continues to grow.

CSG: guides to low-single digit y/y growth for F25

CSG revs declined 12% y/y to \$11.7bn driven by a decline in units. Commercial rev declined 11% y/y, and consumer rev declined 19% y/y. OM came in at 6.2% (+120bps y/y) on higher GM and lower OpEx but offset by decline in rev. The PC market has been experiencing the longest down cycle of 8th consecutive quarters Mgmt. expects to see a recovery in F25 driven by: 1) Windows 11 upgrade and 2) COVID IB approaching its 5th year of service life. CSG revs for F1Q25 and F25 were guided to low-single digits y/y.

ISG: guides mid to-high teens y/y revenue growth

ISG rev declined -6% y/y to \$9.3bn and was +10q/q. Servers and networking revenue grew +4% q/q (-2% y/y). Server order growth was strong with the majority of AI-optimized server orders going into backlog. Storage rev grew 16% q/q (-10% y/y) to \$4.5bn as demand improved q/q across the portfolio above normal seasonality. ISG OM came in at 15.3%. AI optimized server orders increased 40% q/q while backlog nearly doubled q/q. Dell expects ISG revs to grow mid-teens in FY25 driven by AI demand.

Adjusting estimates; PO moves to \$116 (from \$98)

Our F25E rev/EPS move to \$92.3bn/\$7.60, from \$92.6bn/\$7.20. Our PO moves to \$116 (from \$98) on 14x (prior 12x) C25E EPS of \$8.27 (vs. prior \$7.85). We apply a higher multiple on more confidence in growth, strong FCF and continued capital returns.

Estimates (Jan) (US\$)	2023A	2024A	2025E	2026E	2027E
EPS	7.61	7.13	7.60	8.26	9.04
GAAP EPS	3.24	4.35	5.59	6.63	7.57
EPS Change (YoY)	22.3%	-6.3%	6.6%	8.7%	9.4%
Consensus EPS (Bloomberg)			7.11	7.87	NA
DPS	1.32	1.48	1.78	1.96	2.15
Valuation (Jan)					
P/E	12.4x	13.3x	12.5x	11.5x	10.5x
GAAP P/E	29.2x	21.8x	16.9x	14.3x	12.5x
Dividend Yield	1.4%	1.6%	1.9%	2.1%	2.3%
EV / EBITDA*	9.9x	10.5x	8.1x	7.4x	6.9x
Free Cash Flow Yield*	0.8%	8.4%	7.2%	9.0%	9.5%

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

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Refer to important disclosures on page 7 to 9. Analyst Certification on page 5. Price Objective Basis/Risk on page 5.

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01 March 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	98.00	116.00
2025E Rev (m)	92,631.6	92,334.8
2026E Rev (m)	95,341.2	96,181.6
2027E Rev (m)	NA	102,787.3
2025E EPS	7.20	7.60
2026E EPS	7.85	8.26
2027E EPS	NA	9.04
2025E DPS	1.63	1.78

Wamsi Mohan

Research Analyst
BofAS
+1 646 855 3854
wamsi.mohan@bofa.com

Ruplu Bhattacharya

Research Analyst
BofAS
+1 646 855 0315
ruplu.bhattacharya@bofa.com

Joseph Leeman

Research Analyst
BofAS
+1 646 855 1262
joseph.leeman@bofa.com

Nathawan Asdornwised

Research Analyst
BofAS
+1 646 855 1848
nathawan.asdornwised@bofa.com

Stock Data

Price	94.66 USD
Price Objective	116.00 USD
Date Established	1-Mar-2024
Investment Opinion	B-1-7
52-Week Range	35.96 USD - 94.99 USD
Mrkt Val (mn) / Shares Out (mn)	70,711 USD / 747.0
Free Float	87.3%
Average Daily Value (mn)	424.62 USD
BofA Ticker / Exchange	DELL / NYS
Bloomberg / Reuters	DELL US / DELLN
ROE (2025E)	NA
Net Dbt to Eqty (Jan-2024A)	NA
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

iQprofileSM Dell Technologies Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Return on Capital Employed	16.1%	15.5%	15.9%	15.2%	15.0%
Return on Equity	NM	NM	NM	253.3%	74.7%
Operating Margin	8.4%	8.7%	8.6%	9.1%	8.8%
Free Cash Flow	562	5,920	5,087	6,340	6,721

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Cash Realization Ratio	0.6x	1.7x	1.5x	1.7x	1.7x
Asset Replacement Ratio	1.0x	0.8x	0.6x	0.5x	0.5x
Tax Rate	20.1%	17.3%	18.0%	24.0%	24.0%
Net Debt-to-Equity Ratio	NM	NM	NM	357.9%	106.0%
Interest Cover	7.1x	5.1x	8.6x	10.0x	14.5x

Income Statement Data (Jan)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Sales	102,301	88,425	92,335	96,182	102,787
% Change	1.1%	-13.6%	4.4%	4.2%	6.9%
Gross Profit	23,427	21,444	21,856	23,093	24,308
% Change	3.3%	-8.5%	1.9%	5.7%	5.3%
EBITDA	10,779	10,148	13,253	14,521	15,436
% Change	11.6%	-5.9%	30.6%	9.6%	6.3%
Net Interest & Other Income	(1,465)	(1,334)	(1,400)	(1,400)	(1,400)
Net Income (Adjusted)	5,735	5,248	5,396	5,577	5,829
% Change	16.5%	-8.5%	2.8%	3.4%	4.5%

Free Cash Flow Data (Jan)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Net Income from Cont Operations (GAAP)	9,594	9,539	10,552	11,811	12,555
Depreciation & Amortization	3,156	3,303	5,273	5,782	6,365
Change in Working Capital	(3,188)	961	(1,922)	(1,587)	(2,040)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(5,997)	(5,127)	(5,808)	(6,534)	(6,811)
Capital Expenditure	(3,003)	(2,756)	(3,008)	(3,133)	(3,348)
Free Cash Flow	562	5,920	5,087	6,340	6,721
% Change	-92.5%	953.4%	-14.1%	24.6%	6.0%
Share / Issue Repurchase	(3,276)	(2,442)	(3,800)	(2,400)	(1,152)
Cost of Dividends Paid	(964)	(1,072)	(1,264)	(1,322)	(1,389)
Change in Debt	2,654	(3,471)	(1,677)	(1,000)	(6,250)

Balance Sheet Data (Jan)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Cash & Equivalents	8,607	7,366	5,711	7,329	5,260
Trade Receivables	12,482	9,343	10,956	11,542	12,318
Other Current Assets	21,262	19,238	19,537	21,128	22,892
Property, Plant & Equipment	6,209	6,432	7,057	7,737	8,558
Other Non-Current Assets	41,051	39,710	39,710	39,710	39,710
Total Assets	89,611	82,089	82,971	87,445	88,737
Short-Term Debt	6,573	6,982	6,498	6,498	6,498
Other Current Liabilities	45,081	41,512	41,286	41,850	42,348
Long-Term Debt	23,015	19,012	17,819	16,819	10,569
Other Non-Current Liabilities	17,967	16,892	17,431	17,812	18,182
Total Liabilities	92,636	84,398	83,034	82,979	77,597
Total Equity	(3,025)	(2,309)	(63)	4,467	11,140
Total Equity & Liabilities	89,611	82,089	82,971	87,445	88,737

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

Company Sector

IT Hardware

Company Description

Dell operates two primary business units: Infrastructure Solutions Group (ISG, provides servers, storage, hyper converged infrastructure, and networking), and Client Solutions Group (CSG, provides desktops, notebooks, workstations and displays). It also reports revenues derived from the external VMWare commercial partnership under 'Other' revenues.

Investment Rationale

Our Buy rating is based on broad product portfolio, growth faster than the market, continuing share gains, and opportunity to grow margins over the next several years on higher mix of storage and mix shift to premium configurations in PCs and servers, which offset risks including a slowing global economy, high financial leverage which limits buybacks, and limited shareholder voting rights.

Stock Data

Average Daily Volume 4,485,715

Quarterly Earnings Estimates

	2024	2025
Q1	1.31A	1.20E
Q2	1.74A	1.82E
Q3	1.88A	2.11E
Q4	2.20A	2.50E

Model

Figure 1: DELL Income Statement

Our F25 revenue/EPS are \$92.3bn/\$7.60

	F2024				F2025E								
(\$ Millions Except Per Share Data)	4/23	7/23	10/23	01/24	4/24E	7/24E	10/24E	01/25E	F2023	F2024	F2025E	F2026E	F2027E
Income Statement													
Revenue	20,922	22,934	22,251	22,318	21,498	23,072	23,114	24,651	102,301	88,425	92,335	96,182	102,787
Cost of Goods Sold	15,758	17,398	16,975	16,850	16,695	17,724	17,530	18,529	78,874	66,981	70,479	73,089	78,480
non-GAAP Gross Profit	5,164	5,536	5,276	5,468	4,803	5,347	5,584	6,122	23,427	21,444	21,856	23,093	24,308
Non-GAAP Operating Expense	3,566	3,559	3,312	3,329	3,396	3,406	3,421	3,652	14,790	13,766	13,876	14,354	15,237
non-GAAP R&D	612	625	614	620	601	638	641	685	2,478	2,471	2,566	2,671	2,854
non-GAAP SG&A	2,954	2,934	2,698	2,709	2,795	2,769	2,780	2,967	12,312	11,295	11,310	11,684	12,383
non-GAAP Operating Income (pre-SBC)	1,598	1,977	1,964	2,139	1,407	1,941	2,163	2,469	8,637	7,678	7,980	8,738	9,070
Total Interest and Other Income/(Expense)	(352)	(366)	(322)	(294)	(350)	(350)	(350)	(350)	(1,465)	(1,334)	(1,400)	(1,400)	(1,400)
Pretax Income	1,246	1,611	1,642	1,845	1,057	1,591	1,813	2,119	7,172	6,344	6,580	7,338	7,670
Provision for Income Taxes (Credit)	283	328	253	235	190	286	326	381	1,443	1,099	1,184	1,761	1,841
Net Income (Pre Adjustments)	963	1,283	1,389	1,610	867	1,305	1,487	1,738	5,729	5,245	5,396	5,577	5,830
Adjustments (net of tax)	174	178	192	177	143	153	153	184	743	721	633	612	653
Net Income (Post adjustments)	789	1,105	1,197	1,433	724	1,151	1,333	1,554	4,986	4,524	4,762	4,965	5,176
Minority Interest/Adjustments	(3)	(2)	0	2	(1)	(0)	0	0	(6)	(3)	(0)	0	0
non gaap NI Attributable to Dell Tech-diluted	966	1,285	1,389	1,608	867	1,305	1,486	1,737	5,735	5,248	5,396	5,577	5,829
Basic EPS (Post Stock-based Comp. Expense)	1.09	1.52	1.66	2.02	0.95	1.50	1.74	2.03	6.79	6.29	6.22	6.48	6.76
Basic EPS (Pre Stock-based Comp. Expense)	1.33	1.77	1.92	2.27	1.13	1.70	1.94	2.27	7.81	7.29	7.04	7.28	7.61
Diluted EPS (Post Stock-based Comp. Expense)	\$1.07	\$1.50	\$1.62	\$1.96	\$1.00	\$1.61	\$1.89	\$2.24	\$6.62	\$6.14	\$6.71	\$7.36	\$8.02
Diluted EPS (Pre Stock-based Comp. Expense)	\$1.31	\$1.74	\$1.88	\$2.20	\$1.20	\$1.82	\$2.11	\$2.50	\$7.61	\$7.13	\$7.60	\$8.26	\$9.04
Diluted Shares	737	738	740	731	725	715	705	695	753	737	710	675	645
Income Statement (Cont'd)													
% of Revenues													
Gross Profit	24.7%	24.1%	23.7%	24.5%	22.3%	23.2%	24.2%	24.8%	22.9%	24.3%	23.7%	24.0%	23.6%
Opex	17.0%	15.5%	14.9%	14.9%	15.8%	14.8%	14.8%	14.8%	14.5%	15.6%	15.0%	14.9%	14.8%
R&D	2.9%	2.7%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.4%	2.8%	2.8%	2.8%	2.8%
SG&A	14.1%	12.8%	12.1%	12.1%	13.0%	12.0%	12.0%	12.0%	12.0%	12.8%	12.2%	12.1%	12.0%
EBIT (Pre-options)	7.6%	8.6%	8.8%	9.6%	6.5%	8.4%	9.4%	10.0%	8.4%	8.7%	8.6%	9.1%	8.8%
Stock Based Compensation Expense	1.1%	1.0%	1.0%	0.9%	0.8%	0.8%	0.8%	0.9%	0.9%	1.0%	0.8%	0.8%	0.8%
EBIT (Post-options)	6.6%	7.6%	7.8%	8.7%	5.7%	7.6%	8.5%	9.1%	7.5%	7.7%	7.8%	8.2%	8.0%
Pretax Income	6.0%	7.0%	7.4%	8.3%	4.9%	6.9%	7.8%	8.6%	7.0%	7.2%	7.1%	7.6%	7.5%
Tax Rate	22.7%	20.4%	15.4%	12.7%	18.0%	18.0%	18.0%	18.0%	20.1%	17.3%	18.0%	24.0%	24.0%
Net Income (Operating)	3.8%	4.8%	5.4%	6.4%	3.4%	5.0%	5.8%	6.3%	4.9%	5.1%	5.2%	5.2%	5.0%
Net Income (Operating, options adjusted)	4.6%	5.6%	6.2%	7.2%	4.0%	5.7%	6.4%	7.0%	5.6%	5.9%	5.8%	5.8%	5.7%
% Growth Rates													
Revenues (Y/Y)	(20%)	(13%)	(10%)	(11%)	3%	1%	4%	10%	1%	(14%)	4%	4%	7%
Organic Growth (Y/Y)	(20%)	(13%)	(10%)	(11%)	3%	1%	4%	10%	1%	(14%)	4%	4%	7%
Opex (Y/Y)	(6%)	(4%)	(5%)	(12%)	(5%)	(4%)	3%	10%	(1%)	(7%)	1%	3%	6%
R&D (Y/Y)	1%	11%	2%	(12%)	(2%)	2%	4%	10%	9%	(0%)	4%	4%	7%
SG&A (Y/Y)	(8%)	(6%)	(6%)	(13%)	(5%)	(6%)	3%	10%	(3%)	(8%)	0%	3%	6%
Op. Income (Y/Y)	(25%)	1%	(17%)	(1%)	(12%)	(2%)	10%	15%	11%	(11%)	4%	10%	4%
Pretax Income (Y/Y)	(30%)	2%	(19%)	3%	(15%)	(1%)	10%	15%	18%	(12%)	4%	12%	5%
Net Income (pre-SBC) (Y/Y)	(33%)	1%	(19%)	22%	(10%)	2%	7%	8%	16%	(8%)	3%	3%	5%
Op. EPS (Y/Y)	(33%)	5%	(20%)	25%	(7%)	7%	17%	14%	77%	(7%)	9%	10%	9%
Op. EPS Option adj (Y/Y)	(29%)	4%	(18%)	22%	(9%)	5%	12%	14%	22%	(6%)	7%	9%	9%
Diluted Shares (Y/Y)	(6%)	(2%)	(0%)	(1%)	(2%)	(3%)	(5%)	(5%)	(5%)	(2%)	(4%)	(5%)	(4%)
Revenues (Q/Q)													
Opex (Q/Q)	(6%)	(0%)	(7%)	1%	2%	0%	0%	7%					
R&D (Q/Q)	(13%)	2%	(2%)	1%	(3%)	6%	1%	7%					
SG&A (Q/Q)	(5%)	(1%)	(8%)	0%	3%	(1%)	0%	7%					
Op. Income (Q/Q)	(26%)	24%	(1%)	9%	(34%)	38%	11%	14%					
Diluted Shares (Q/Q)	0%	0%	0%	(1%)	(1%)	(1%)	(1%)	(1%)					

Source: Company reports, BofA Global Research estimates



Abbreviations

CSG: Client Solutions Group

ISG: Infrastructure Solutions Group

FCF: Free Cash Flow

GM: Gross Margin

OM: Operating Margin

n-t: Near-Term

l-t: Long-Term

ASP: Average Sell Prices

Price objective basis & risk

Dell Technologies Inc. (DELL)

Our PO of \$116 is based on approximately 14x our C25 EPS estimate of \$8.27. Our target multiple compares to median 5x of historical range 3x-8x for Dell since it returned to the public markets in 2019. Dell went private in 2013 and prior to that the company had a very different structure. As such, we do not believe earlier historical trading multiples are meaningful. In our opinion, a multiple higher than the historical range is warranted given improved storage portfolio, lower financial leverage and it balances opportunities to invest in core areas of growth, with ongoing weak macro and component shortages.

Downside risks: faster-than-expected slowdown in the global economy, which could prove to be a headwind to revenue growth, faster-than-expected strengthening of the U.S. dollar, trade war with China, and higher-than-expected tariffs, Dell not being able to source needed processors from Intel, new sales teams not being able to ramp as expected, and unexpected share loss to competitors.

Upside risks: faster-than-expected revenue growth and market share gain, faster mix shift to storage and premium PC and server configurations, which can drive upside to margins, faster-than-expected ramp of new sales teams, and component shortages normalizing more quickly than expected, which can drive upside to cash flow.

Analyst Certification

I, Wamsi Mohan, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - IT Hardware and Technology Supply Chain Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Amphenol	APH	APH US	Wamsi Mohan
	Apple Inc.	AAPL	AAPL US	Wamsi Mohan
	Corning Inc.	GLW	GLW US	Wamsi Mohan
	Dell Technologies Inc.	DELL	DELL US	Wamsi Mohan
	Flex Ltd.	FLEX	FLEX US	Ruplu Bhattacharya
	HP Inc.	HPQ	HPQ US	Wamsi Mohan
	International Business Machines Corp.	IBM	IBM US	Wamsi Mohan
	Jabil Inc.	JBL	JBL US	Ruplu Bhattacharya
	Nutanix Inc	NTNX	NTNX US	Wamsi Mohan
	Roku, Inc.	ROKU	ROKU US	Ruplu Bhattacharya
	Seagate Technology	STX	STX US	Wamsi Mohan
	Super Micro Computer Inc.	SMCI	SMCI US	Ruplu Bhattacharya
	TD Synnex Corp	SNX	SNX US	Ruplu Bhattacharya
	TE Connectivity Ltd.	TEL	TEL US	Wamsi Mohan
	Western Digital Corporation	WDC	WDC US	Wamsi Mohan
NEUTRAL				
	Arrow Electronics Inc.	ARW	ARW US	Ruplu Bhattacharya
	Avnet Inc.	AVT	AVT US	Ruplu Bhattacharya
	CDW Corp	CDW	CDW US	Ruplu Bhattacharya
	Concentrix Corporation	CNXC	CNXC US	Ruplu Bhattacharya
	Hewlett-Packard Enterprise	HPE	HPE US	Wamsi Mohan
	Pure Storage	PSTG	PSTG US	Wamsi Mohan
	Sensata Technologies Holdings Plc	ST	ST US	Wamsi Mohan
	Teradata Corporation	TDC	TDC US	Wamsi Mohan



US - IT Hardware and Technology Supply Chain Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
UNDERPERFORM	DigitalOcean	DOCN	DOCN US	Wamsi Mohan
	NetApp Inc.	NTAP	NTAP US	Wamsi Mohan
	Sanmina Corporation	SANM	SANM US	Ruplu Bhattacharya
	Vishay Intertechnology, Inc.	VSH	VSH US	Ruplu Bhattacharya

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales
Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

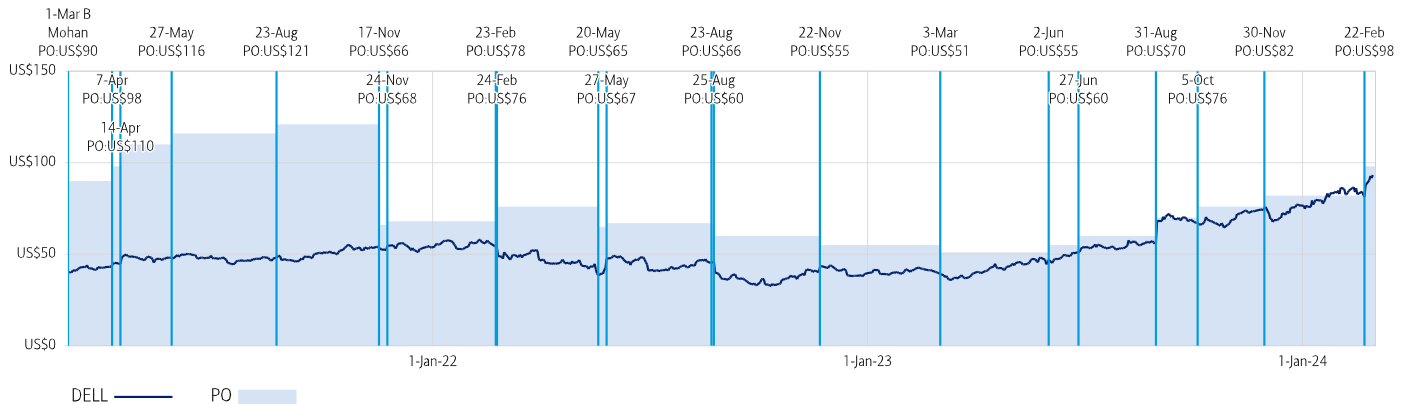
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Dell Inc. (DELL) Price Chart



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

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

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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