

European Food, Tobacco & HPC

Year Ahead 2024: Market-share driven volume and mix to define winners

Reinstatement of Coverage

Market share dynamics to drive dispersion

With organic sales growth decelerating and limited room for price growth, ability to meet & beat long-term algorithms (MSD LfL growth and EPS growth>LfL) through volume and mix will define relative outperformers. With consumer sentiment being weak, we expect growth to be primarily market-share driven and expect a significant dispersion in performance between winners (outperformance in growth and upside risk to margins) and losers (risk to LfL and EPS consensus: Unilever).

Top picks: Strong categories, clear catalysts, self-help

We prefer stocks with 1) strong diversified category leadership, 2) clear 12-month catalysts (BAT, Haleon) and/or ongoing turnaround we are confident about. We are cautious about commoditized categories with growing private label share (home care/hygiene/laundry) and risks to pricing (Unilever) and categories with structural volume decline, such as China Infant Formula.

Idea 1: Return to positive volume contribution

Our '24E growth forecast is at the lower end of companies' LT OG targets. We are > cons on volumes (2.7% vs. cons. 2.2%) due to supportive '23 base, portfolio transformation results, white space/new product launch potential and < on price (less than 1% vs. cons at 1.6%). Premiumisation and market share gains will be the key source of organic sales growth with key risk coming from consumer sentiment and more sticky private label share gains from 2023.

Idea 2: COGS deflation + cost cutting = upside to EPS

We expect c200 bps higher '24E gross margins vs. '22 given 22-23 transformation efforts, led by new management teams and favourable cost environment (input prices down, except for some food ingredients and labour). While we expect A&P/brand investments, R&D to increase, we forecast an average positive effect of c. 100bps on operating margins level and EPS in '24E vs '22, which are returning to long term historical levels with large scale companies with clear market share growth potential to benefit the most.

Idea 3: Allocating capital post peak interest rates

After shareholders return decrease in FY23e, we expect it to rebound in FY24e and thereafter. The focus on deleveraging observed during 2023 should persist until we see interest rates effectively drop. After improving shareholder returns sequence, companies could turn to increased Capex or M&A to support continued growth, as they accumulate ca. 5% of market capitalization in excess cash.

11 January 2024

Equity
Europe
Food, Tobacco & HPC

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LfL= like-for-Like

OG = organic growth

A&P= advertising and promotion

R&D= research and development

BAT = British American Tobacco

Exhibit 1: New vs Old PO

Updated Price Objectives for our Food, HPC and Tobacco coverage

	Old PO	New PO	Rating
Unilever	3600	3600	A-3-7
Haleon	390	390	A-1-7
BAT		2900	A-1-7

Source: BofA Global Research estimates
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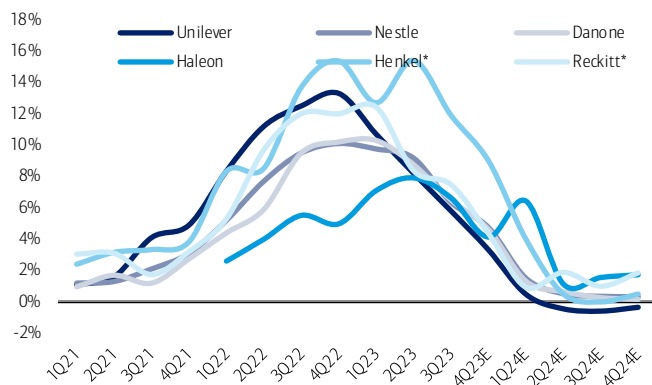
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6 Key charts for 2024

Exhibit 2: Pricing to normalize in FY24E as COGS pressure ease

Price growth across our Staples coverage since 1Q21 and BofAe forecasts



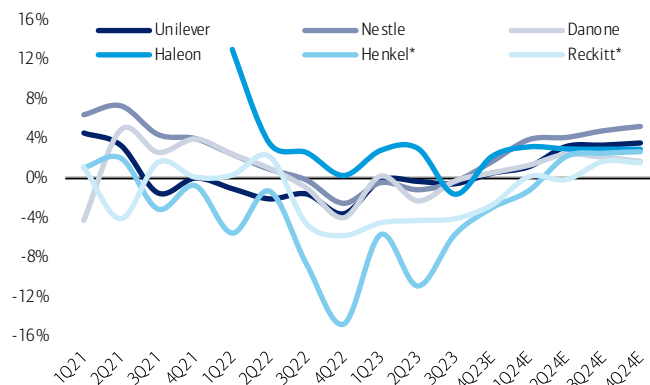
*For Henkel and Reckitt mix is included in price measure

Source: Company data, BofA Global Research estimates

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Exhibit 3: Volume/mix growth will be the key topline driver in FY24E

Volume/mix growth across our coverage since 1Q21 and BofAe forecasts



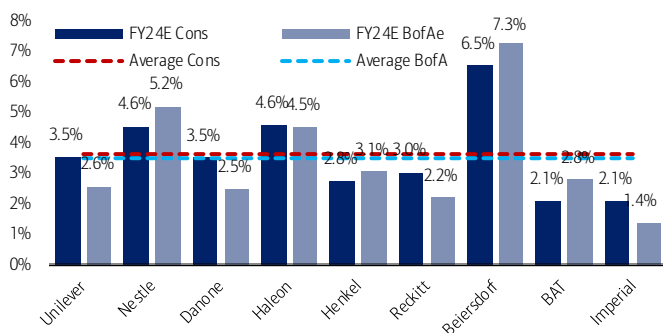
*For Henkel and Reckitt mix is included in price measure, so data is only volume %

Source: Company data, BofA Global Research estimates

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Exhibit 4: We are above FY24E OG Consensus on Nestle and Beiersdorf but below on Unilever, Danone and Reckitt

FY24E OG BofAe vs Visible Alpha consensus

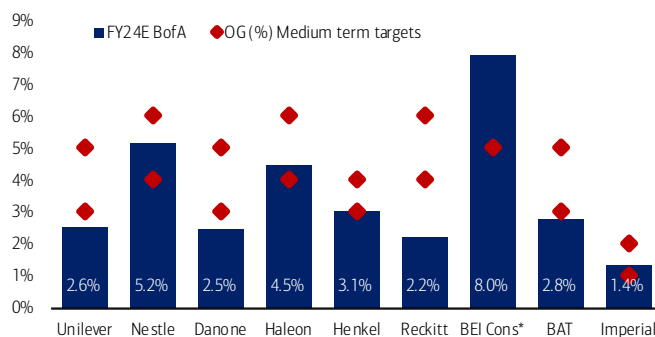


Source: BofA Global Research estimates, Visible Alpha

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Exhibit 5: We expect ULVR, BN FP and RKT to grow below their medium-term guidance in FY24e.

FY24E OG BofAe vs MT targets. Beiersdorf Consumer is soft comment



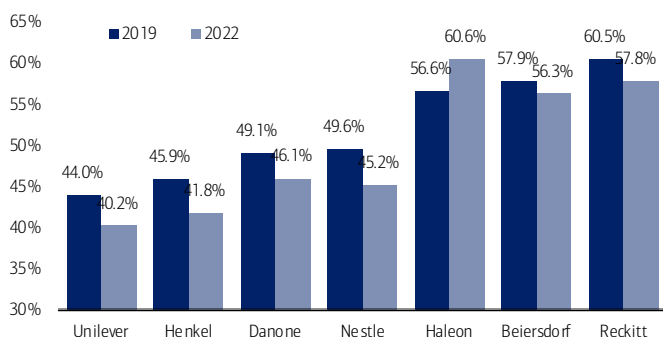
*Beiersdorf Consumer mid term guidance is to grow above markets.

Source: Company data, BofA Global Research estimates

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Exhibit 6: Lower GM often implies higher raw mat exposure

Coverage Gross margins on a normalized level (2019) vs trough (2022)



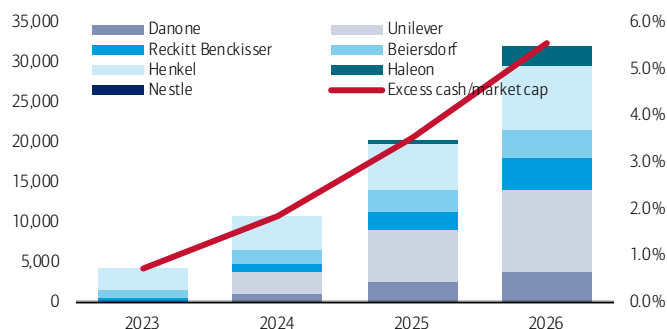
Source: Company data, BofA Global Research

* Unilever includes distribution in COGS instead of SG&A

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Exhibit 7: Excess cash will continue to accumulate across our coverage

Excess cash for our coverage in absolute term (in EURm) and in % of market cap, 2023-2026E



Source: Company data, BofA Global Research estimates

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Summary Stocks views

British American Tobacco: Buy, GBp2900

We reinstate coverage of British American Tobacco (BAT) with a Buy rating and GBp2900 PO. **Growth:** BAT is working to offset secular decline in traditional tobacco with high-speed growth of next-generation products (NGPs). **Market share:** We think a “cyclical” loss in US market share should stabilize as downtrading comes to an end.

Returns: We expect return to shareholders to accelerate again in 2025. We model EPS CAGR of +3.8% over the next 3 years. The group trades on a cheap 16% FCF yield in FY24 which supports its deleveraging strategy. Our 3-year average forecast DY of c. 11% offers a c. 5% dividend yield premium vs. global leader, Phillip Morris (PMI).

Estimates (Dec)

(GBp)	2021A	2022A	2023E	2024E	2025E
EPS (Adjusted Diluted)	329	371	375	382	415
EPS Change (YoY)	-0.8%	12.9%	0.9%	1.8%	8.9%
Dividend / Share	218	231	244	248	270

[British American Tobacco: Reinstate at Buy: Growth, market share, returns.](#)

Haleon: Buy, GBp390

We reiterate our Buy rating and GBp390 PO on Haleon. Our investment case is based on 3 key points: 1) The group has a unique leading exposure and shows market share gains in structurally growing categories (5.6% organic CAGR FY22-26E > 3.7% of consumer health category), 2) This resilience allows for above average staples margins (23-24%) as exposure to raw materials (10% of sales) is lower than average, and barriers to entry are higher (below staples average competition from small players in EM and private label in DM), 3) Strong cash conversion (93-97% over FY22-26E) allows for an accelerate rate of deleveraging (we estimate 1 turn every 24 months). While the shares are trading in line with its historical average (17x PE), they are trading at a c.10% discount to the wider European large cap staples. Our FY24E organic growth and EPS estimates are in line with consensus at 4.5% and GBp19.1 respectively.

Estimates (Dec)

(GBp)	2021A	2022A	2023E	2024E	2025E
EPS (Adjusted Diluted)	17.9	18.4	17.9	19.6	21.4
EPS Change (YoY)	6.7%	2.9%	-2.7%	9.2%	9.4%
Dividend / Share	0	2.40	5.39	5.89	7.51
ADR EPS (Adjusted Diluted - US\$)	0.49	0.45	0.46	0.50	0.55
ADR Dividend / Share (US\$)	0	0.06	0.14	0.15	0.19

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
Haleon: BofA Consumer & Retail Conference 2023 feedback: Health Check	Victoria Petrova	22 November 2023
Haleon: A picture of health: from top line to EPS	Victoria Petrova	07 November 2023

Unilever: Underperform, GBp3600

We reiterate our Underperform rating and GBp3600 PO. Our bear case is based on 3 key points: 1) **HPC** (64% of sales, 65% exposed to EM) we expect limited volume/mix recovery in 2024 on the back of difficult macro environment while pricing could come under pressure especially in the more commoditized part of the portfolio (Skin Cleansing, Fabric Cleaning, Fabric Enhancer, Home & Hygiene) and in some selective emerging markets such as India or Indonesia where prices can adjust quickly from local

competition as seen during the last deflationary cycle of 2010, when Unilever pricing was -4.8% in Home Care and -1.4% in Beauty and Personal Care. 2) **Food** (36% of sales, 52% exposed to DM) pricing tailwind to continue in 2024 from sticky cost inflation in part of the COGS (labor, sugar, cocoa, dairy in some geographies...). Will impact elasticity and volume/mix recovery, especially in the more commoditized part of the portfolio (at-home Ice cream, dressings) and higher private label exposed geographies (western Europe). 3) **Unilever turnaround strategy** (management changes, SKU reduction, BMI reinvestments, disposal of underperforming assets) make sense but tangible results might take some time to materialize. Focusing on market share gains will be key after the through reached in 3Q23 at 38%, but it might require several quarters before going sustainably back to the 50% range.

Unilever shares are now trading at 16.2x FY24E PE, meaning an 8% discount to European large cap Staples (vs 10Y average of 2% discount) and 9% discount to Nestle (vs 10Y average of 8% discount) because of underwhelming topline & EPS growth development over the past 3 years. Our organic growth and EPS estimates are 140bps and ca. 3% below consensus in FY24 respectively.

Estimates (Dec)

(EUR)	2021A	2022A	2023E	2024E	2025E
EPS (Adjusted Diluted)	2.63	2.57	2.58	2.65	2.85
EPS Change (YoY)	5.6%	-2.3%	0.3%	3.0%	7.4%
Dividend / Share	1.71	1.71	1.71	1.75	1.88
ADREPS (Adjusted Diluted - US\$)	3.11	2.70	2.81	2.90	3.11
ADR Dividend / Share (US\$)	2.02	1.80	1.86	1.91	2.05

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
Unilever: BofA Consumer & Retail Conference 2023 feedback: Transformation vs momentum	Victoria Petrova	22 November 2023
Unilever: Turnarounds take time. Downgrades look inevitable to us	Victoria Petrova	11 October 2023

Idea 1: Topline recomposition

Our '24E growth forecast is at the lower end of companies' LT OG targets. We are > cons on volumes (2.7% vs. cons. 2.2%) due to supportive '23 base, portfolio transformation results, white space/new product launch potential and < on price (less than 1% vs. cons at 1.6%). Premiumisation and market share gains will be the key source of organic sales growth with key risk coming from consumer sentiment and more sticky private label share gains from 2023. We are more positive on categories with higher entry barriers and lower commoditization, such as Health (Haleon), certain Food segments and Beauty. A deflationary pressure is expected for other sectors, such as Home Care (Unilever), where private label or local competition in EM is particularly strong.

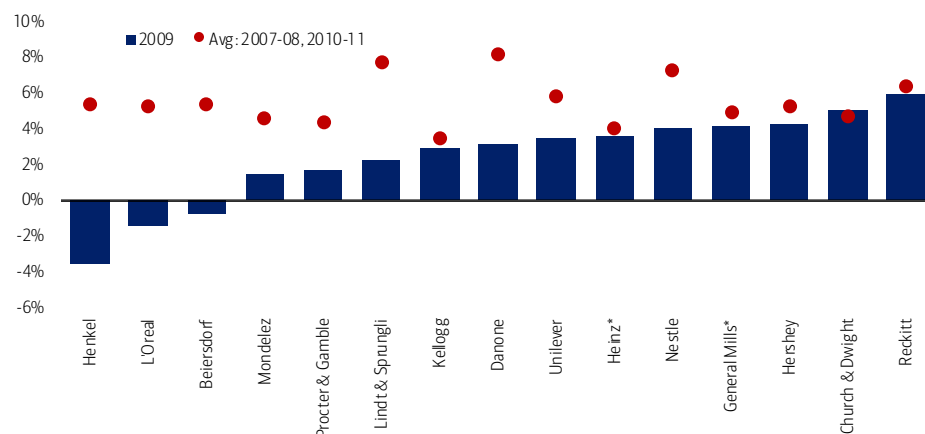
What the past tells us

In our analysis, we look at the last financial crisis, which technically lasted from 4Q08 to 3Q09. For our purposes we consider 2009 as a crisis year with rebound coming in 2010-2011. To estimate the past trends, we compare revenue growth (OG) delivered by different companies in different categories during 2009 and the average OG for the two years prior and after the financial crisis. This is to try and isolate the impact of the financial crisis vs. what was "normal" in that period as companies (and OG) were different back then (categories, geographic exposures, execution, strategy, etc.).

HPC and food broadly resilient but category exposure matters...

Exhibit 8: Food companies were overall more resilient than HPC ones in 2009

Food & HPC key companies during the financial crisis, 2009 OG vs average 2007-08 and 2010-11



*Calendarized

Source: Company data, BofA Global Research

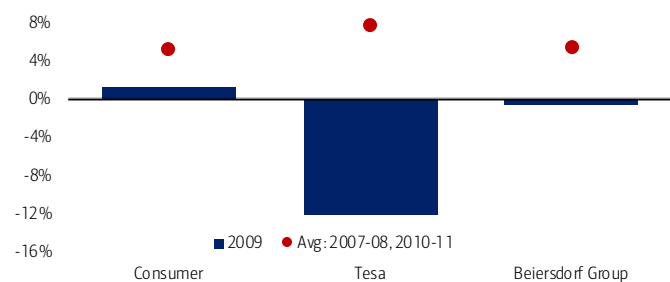
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Most companies in our sample reported positive organic revenue growth in 2009 except for Beiersdorf and Henkel dragged down by their adhesive segments. Without extrapolating too much from this, we would argue (rather unsurprisingly) that all our major "umbrella" categories, i.e. Food, Home Care, Personal Care (including beauty and Hygiene) as well as Health proved to be very resilient sectors. As data shows, in the macro downturns more defensive profiles are witnessed in categories with higher brand values, e.g. medical and baby nutrition or pet care, whilst other more commoditized categories in home care come under higher pressure with a possibility of pricing deflation backlash on the commodity cycle backend.

Similar exercise on relevant Unilever categories, and it expectedly shows that Health category with distinctive brands shows excellent resilience in the crisis, but also other categories such as Home and Personal Care/Beauty remain firmly in the positive territory.

Exhibit 9: Beiersdorf's Consumer part of business broadly resilient while adhesive was under pressure

Beiersdorf's organic revenue growth by categories in 2009

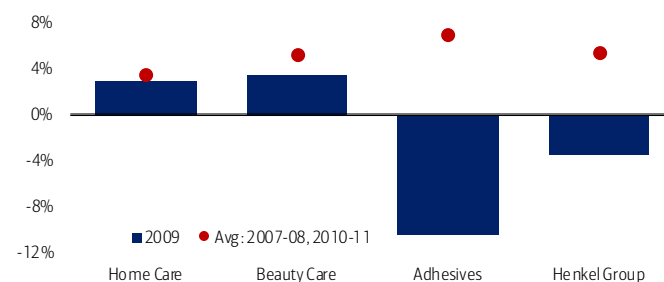


Source: Company data, BofA Global Research

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Exhibit 10: Henkel Consumer part of business broadly resilient while adhesive was under pressure

Henkel's organic revenue growth by categories in 2009

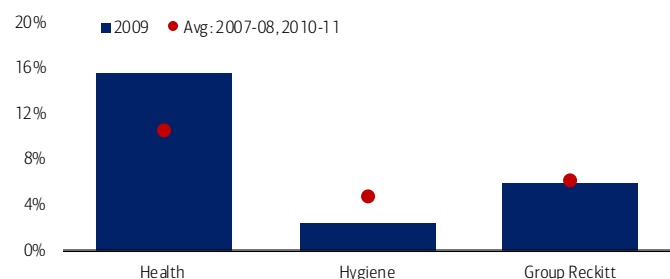


Source: Company data, BofA Global Research

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Exhibit 11: Reckitt was overall very resilient to the 2009 macro shock

Reckitt's organic revenue growth by categories in 2009

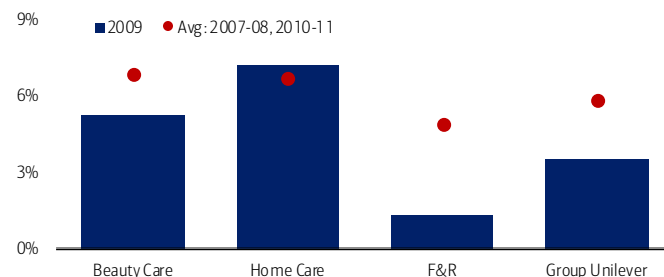


Source: Company data, BofA Global Research

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Exhibit 12: HPC part of Unilever was very resilient while the F&D part was more under pressure

Unilever's organic revenue growth by categories in 2009



Source: Company data, BofA Global Research

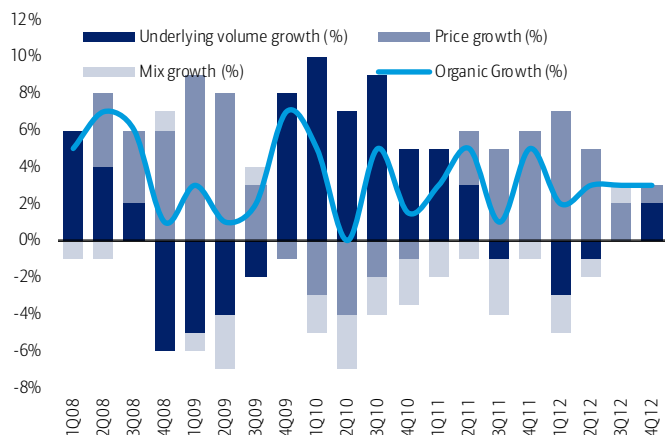
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... and deflation can bite

The past data shows us noticeably negative pricing pattern for the year following commodity price inflation (2010), and a return to price growth pattern in the year thereafter. The examples of P&G, Henkel and Unilever also show us that the deflation pattern is more evident in the in the categories with more local competition and weaker brand equity (Home Care).

Exhibit 13: In 2010, P&G Home Care faced significant negative price and mix growth

Procter & Gamble Fabric and Home Care division growth split between volume - mix - price. Calendarized.

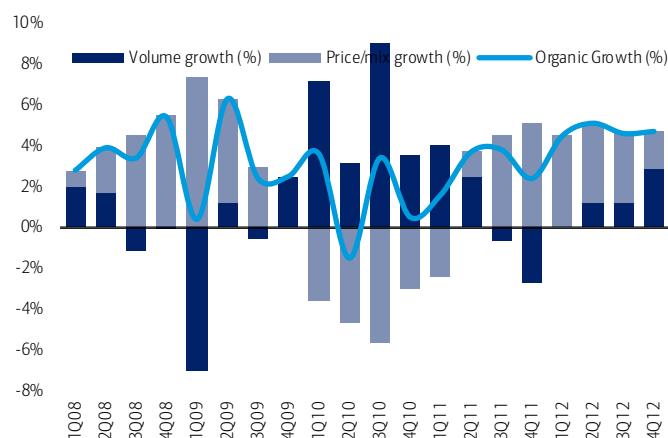


Source: Company data, BofA Global Research

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Exhibit 14: In 2010, Henkel Home Care faced significant negative price/mix growth

Henkel Home Care division growth split between volume - price/mix.

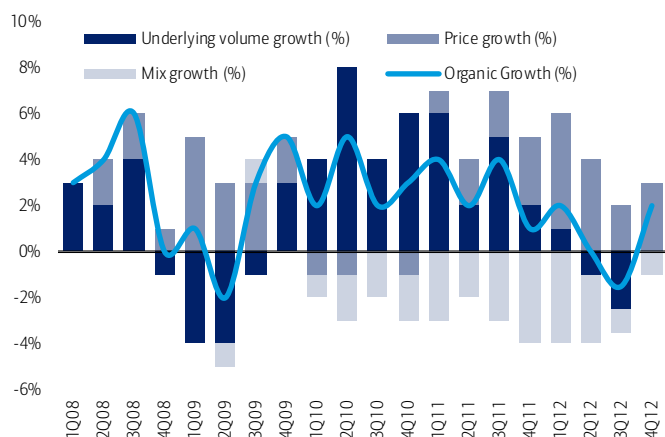


Source: Company data, BofA Global Research

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Exhibit 15: In 2010, P&G Beauty faced some negative price and mix growth

Procter & Gamble Beauty division growth split between volume - mix - price. Calendarized.

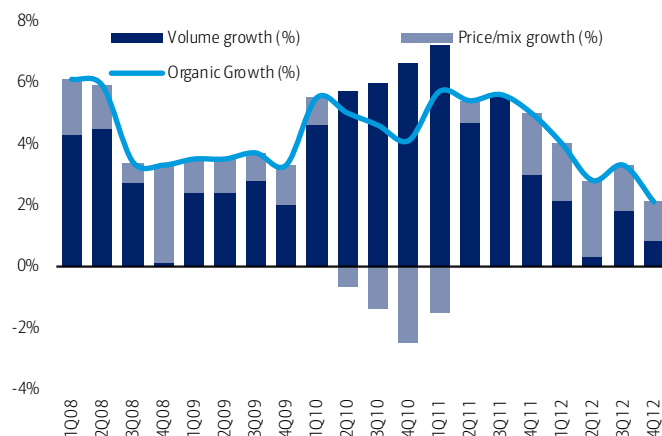


Source: Company data, BofA Global Research

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Exhibit 16: In 2010, Henkel Beauty faced some negative price/mix growth

Henkel Beauty division growth split between volume - price/mix.

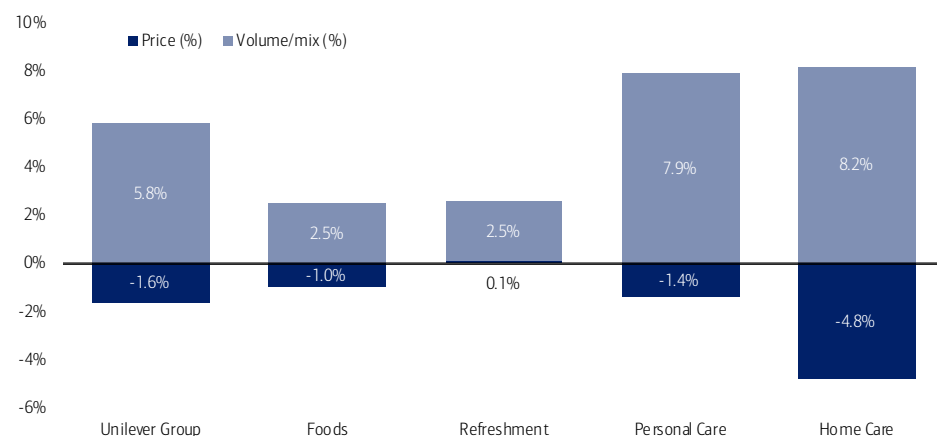


Source: Company data, BofA Global Research

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Exhibit 17: Despite strong volume/mix growth, Unilever HPC and Home Care in particular faced price deflation in 2010

Unilever category growth split between volume/mix and price in 2010



Source: Company data, BofA Global Research

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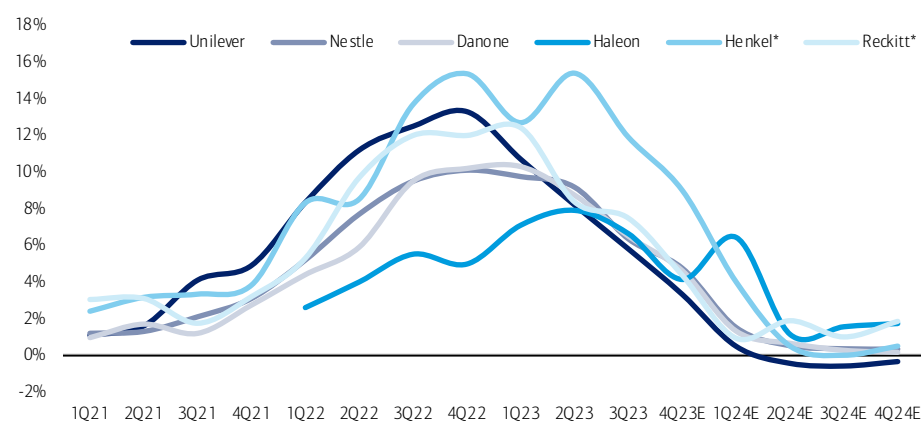
While the macro background and conditions of the commodity cycle are rather different back in 2010 and today and we do not expect the pattern to repeat itself fully, the past data suggests we should watch negative pricing tendencies more carefully, especially in the Home Care category.

Post-inflationary top-line developments

Stepping into 2024e, we expect pricing momentum to head to low single digit (below 1.5% for most of the companies in our coverage), and even negative for some categories. In our view the individual price curve of each company will be shaped by several factors, including 1) category exposure with more room for price increase in less discretionary categories; 2) private label exposure (in DM) or local competition exposure (in EM); and 3) regional exposure with inflation pattern and therefore price carry over being different in Europe, USA and EM.

Exhibit 18: Cumulatively, Haleon had so far put the least pricing while Henkel had the most elevated one

Price growth across our Staples coverage since 1Q21 and BofAe forecasts from 4Q23E onward



*For Henkel and Reckitt mix is included in price measure

Source: Company data, BofA Global Research estimates

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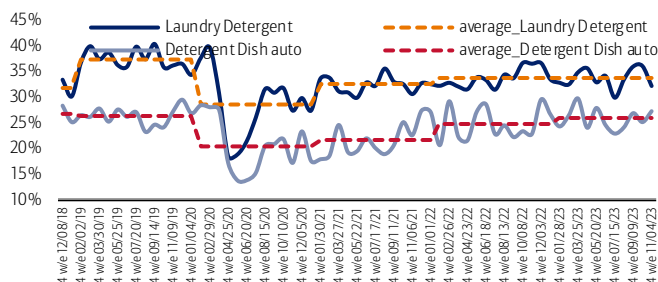
Categories: Less promos = more leeway

Looking at the ongoing promotional activities on the US and European markets, we can observe that current statistics supports our historical observations, i.e more elevated

level promo activities in Home Care (in the US as well as Europe), leading to higher price pressure in 2024e.

Exhibit 19: US Home Care promotion % of sales going up implying some price pressure

Home Care Categories \$ value promotional activity %

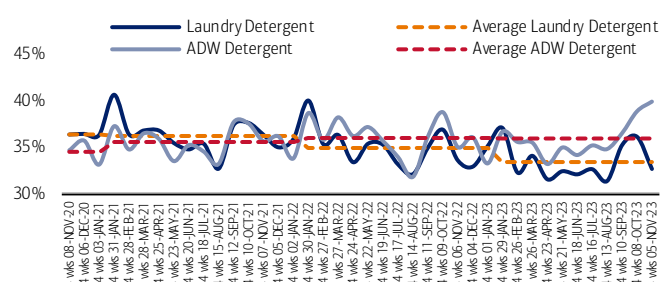


Source: NielsenIQ, BofA Global Research

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Exhibit 20: EU Home Care promotion % of sales fairly stable, but picking up in ADW

Home Care Categories EUR value promotional activity %



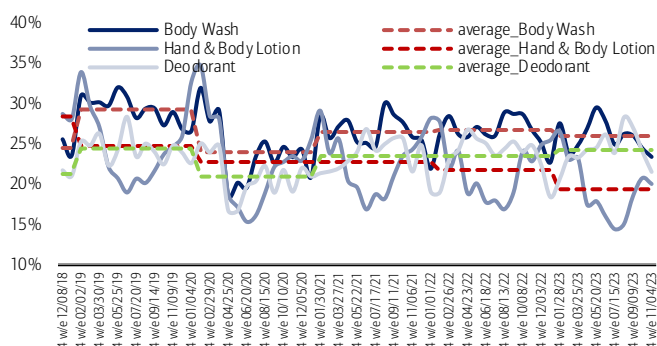
Source: NielsenIQ, BofA Global Research

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In Personal Care categories we see percentage of promo sales being stable across the key categories both in the US and in Europe

Exhibit 21: Personal Care US categories broadly stable on promotional activity

Personal Care US Categories \$ value promotional activity %

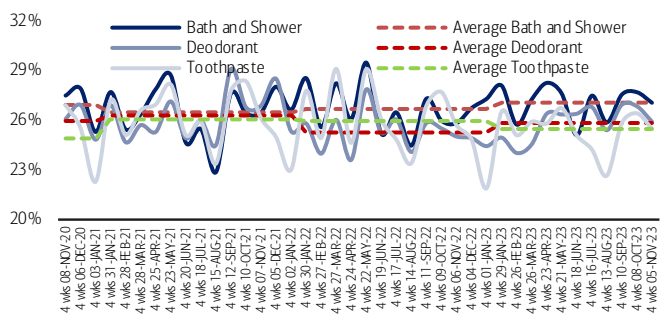


Source: NielsenIQ, BofA Global Research

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Exhibit 22: EU Personal Care promotion % of sales stable since 2020 across categories

Personal Care Categories EUR value promotional activity %



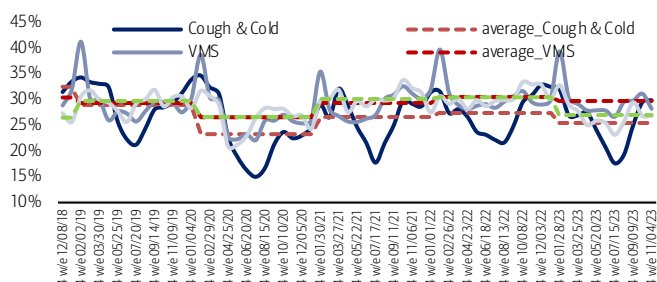
Source: NielsenIQ, BofA Global Research

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Data also suggests stable promo activities in Health and Food categories in the US with average level going down slightly compared to 2022.

Exhibit 23: Consumer Health categories relevant to our coverage broadly stable promotion activity

Consumer Health Categories \$ value promotional activity %

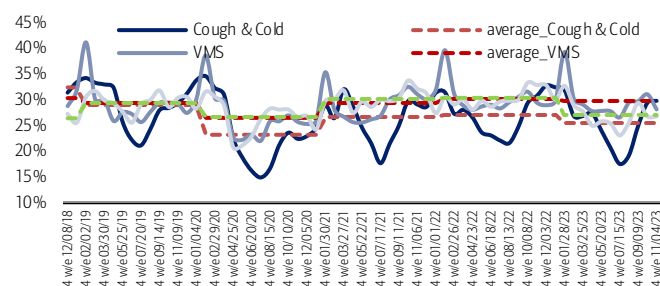


Source: NielsenIQ, BofA Global Research

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Exhibit 24: Food US promotional activity is category specific, elevated in Ice cream and Mayonnaise, which is negative for Unilever

Food Categories \$ value promotional activity %

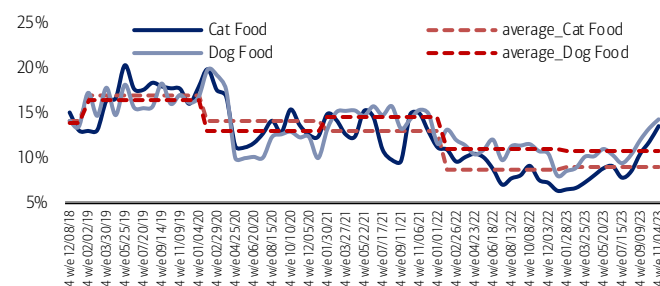


Source: NielsenIQ, BofA Global Research

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Exhibit 25: Petfood US promotional activity has peaked up recently, but still below pre-covid level

Pet Food Categories \$ value promotional activity %



Source: NielsenIQ, BofA Global Research

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Private Labels: Price pressure source for DM

One of the immediate consequences of shrinking consumer income has been an uptick in private label market share gains across all categories, representing a direct price pressure risk.

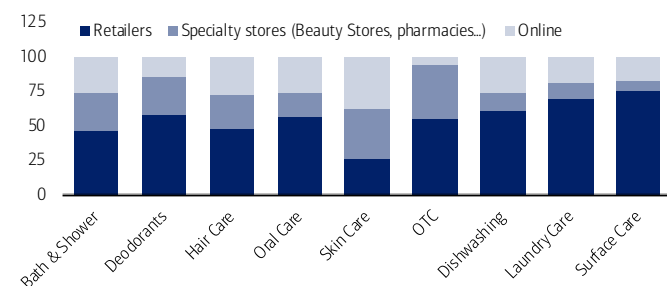
In our view, private label exposure is a function of two factors:

- Exposure to B&M retail (and pharmacies in the US and UK).
- Commoditization of a product category (i.e. how simple it is to find co-manufacturer that can do it for retailers).

We can see that both on the North American market as well as in Europe, the categories in Home Care show greater exposure to B&M retail.

Exhibit 26: Skin care has the highest exposure to online, while HPC is more exposed to retailers

HPC category sales by channel [US], 2022

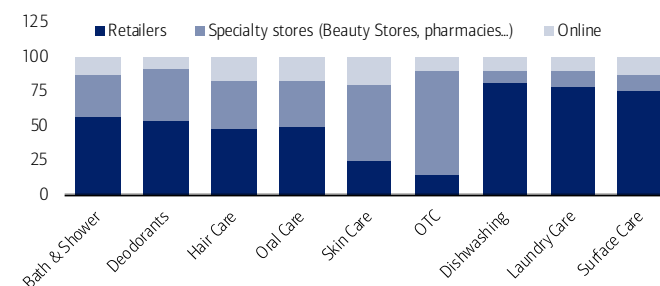


Source: Euromonitor, BofA Global Research

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Exhibit 27: OTC and Skin Care are mostly exposed to specialty stores in Western Europe

HPC category sales by channel [Western Europe], 2022



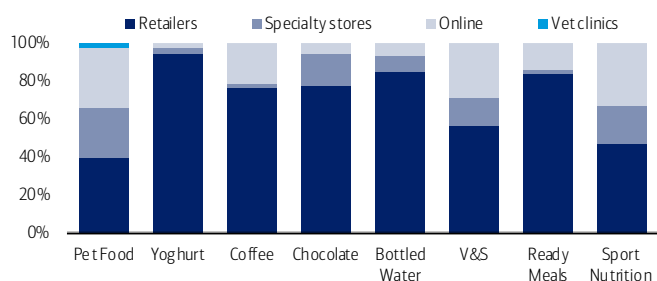
Source: Euromonitor, BofA Global Research

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For categories in Food online channels are more common for special categories such as Pet Food, Sport Nutrition and V&S, suggesting less pressure in these categories for Nestle, Unilever, Haleon and Reckitt.

Exhibit 28: Pet Food and V&S have the highest exposure to Online and Specialty Stores

Food category sales by channel [US], 2022

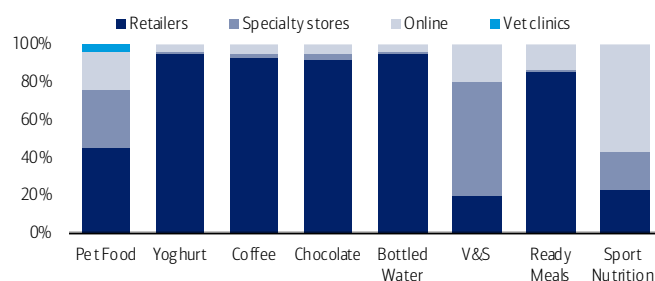


Source: Euromonitor, BofA Global Research

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Exhibit 29: Pet Food and V&S have the highest exposure to online and Specialty Stores

Food category Sales by Channel [Western Europe], 2022



Source: Euromonitor, BofA Global Research

BofA GLOBAL RESEARCH

The share of private label products is different for the markets in North America and in Europe.

In NA this share is relatively high in very commoditized categories such as Milk (some exposure in our coverage for Danone, which is in the process of organic milk business disposal) or bottled water.

Exhibit 30: Private label \$ _value market share in Food is mostly back to pre-covid level in North America

Categories relevant to our food categories private label market share, USD value, %

	Private Labels penetration (%)												4 w/e	4 w/e
	FY19	FY20	FY21	FY22	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23*	11/04/23	12/02/23
Baby Nutrition	5.9%	5.6%	5.2%	5.9%	6.8%	6.6%	5.3%	5.0%	4.4%	4.3%	4.7%	5.0%	5.0%	5.1%
Baby - Formula	6.1%	5.7%	5.2%	6.4%	7.6%	7.5%	5.6%	5.2%	4.3%	4.1%	4.7%	4.8%	4.8%	4.9%
Baby - Food	5.6%	5.4%	5.4%	4.9%	5.2%	4.8%	4.9%	4.6%	4.5%	4.6%	4.8%	5.5%	5.5%	5.5%
Cheese	40.7%	41.1%	40.2%	41.0%	40.5%	40.6%	41.4%	41.6%	42.1%	41.6%	40.9%	41.5%	41.9%	41.0%
Coffee	15.2%	14.8%	14.0%	14.7%	14.2%	14.8%	15.4%	14.5%	15.2%	15.3%	15.3%	14.8%	15.1%	14.3%
Coffee creamers	13.4%	12.1%	11.3%	12.1%	11.3%	11.7%	12.9%	12.5%	12.8%	12.9%	12.6%	12.3%	12.3%	12.3%
Confectionery	1.8%	2.1%	2.3%	2.5%	2.2%	2.5%	2.7%	2.4%	2.4%	2.6%	2.8%	2.6%	1.8%	3.4%
Frozen and chilled meals	15.0%	14.1%	14.6%	15.3%	14.5%	15.9%	15.5%	15.2%	15.1%	16.2%	15.9%	15.6%	15.7%	15.8%
Milk (cow)	55.2%	56.3%	58.0%	60.3%	60.3%	60.6%	60.0%	60.4%	60.6%	59.9%	59.5%	60.0%	59.9%	60.6%
Performance Nutrition	0.7%	0.5%	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.4%	0.3%
Pet Food	11.7%	11.2%	10.7%	10.5%	10.3%	10.4%	10.4%	10.8%	11.3%	11.3%	11.5%	11.6%	11.7%	11.6%
Plant-based dairy	16.6%	15.8%	14.7%	14.1%	14.1%	13.5%	14.2%	14.7%	15.2%	14.9%	15.0%	14.9%	15.0%	14.9%
Powdered/Ambient milk	21.6%	19.6%	18.2%	20.1%	18.3%	19.9%	20.6%	21.5%	19.8%	20.9%	21.3%	21.5%	21.0%	22.1%
V&S/Health Nutrition	21.4%	20.3%	18.2%	18.0%	17.6%	17.9%	18.3%	18.2%	17.9%	18.3%	18.1%	18.5%	18.6%	18.6%
Water	31.3%	31.6%	31.6%	34.6%	33.6%	34.0%	35.0%	35.7%	36.0%	35.4%	35.8%	36.3%	36.5%	36.1%
Yoghurt	8.4%	8.7%	8.2%	8.1%	7.5%	8.4%	8.4%	8.0%	8.3%	8.7%	8.8%	8.4%	8.4%	8.4%

Source: NielsenIQ, BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 31: Private label \$ _value market share is mostly below to pre-covid level in North America

Categories relevant to our HPC coverage categories private label market share, USD value, %

Private Label \$ _value marketshare	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23*
Deodorants	0.3%	0.3%	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.3%	0.2%	0.2%	0.3%	0.2%	0.1%	0.1%	0.2%
Body Wash	5.7%	5.9%	5.8%	5.6%	4.9%	4.5%	4.5%	4.4%	4.1%	4.1%	3.8%	3.9%	3.7%	3.5%	3.6%	3.7%	3.9%	3.9%	3.7%
Hair Shampoo	2.7%	2.7%	2.8%	3.0%	3.0%	2.7%	2.9%	3.8%	3.7%	3.5%	3.5%	3.6%	3.5%	3.4%	3.4%	3.5%	3.4%	3.3%	3.4%
Hair Conditioner	0.9%	1.0%	1.0%	1.4%	1.4%	1.4%	1.6%	3.1%	3.0%	2.8%	2.5%	2.8%	2.8%	2.8%	2.7%	2.7%	2.5%	2.5%	2.3%
Hair Styling products	0.9%	0.9%	1.0%	1.1%	0.8%	0.9%	1.0%	2.8%	2.4%	2.4%	2.5%	2.3%	2.3%	2.5%	2.7%	2.5%	2.3%	2.3%	2.4%
Hand & Body Lotions	6.4%	6.6%	6.1%	6.1%	6.8%	6.1%	5.3%	5.1%	5.6%	5.7%	5.0%	5.0%	5.2%	5.2%	5.2%	5.0%	5.4%	5.6%	5.5%
Face Cleansers	9.7%	10.0%	9.8%	9.3%	8.8%	8.3%	8.5%	7.8%	8.1%	8.3%	7.9%	8.2%	8.1%	7.9%	7.4%	7.4%	7.6%	7.6%	7.9%
Vitamins & Supplements	23.6%	23.8%	23.5%	22.5%	22.6%	21.9%	22.2%	21.3%	20.2%	19.5%	19.6%	19.5%	19.8%	20.3%	20.0%	19.9%	20.1%	19.8%	20.2%
Laundry Detergents Liquid	2.8%	2.8%	2.8%	3.0%	2.7%	2.6%	2.6%	2.5%	2.5%	2.6%	2.7%	2.7%	2.9%	3.3%	3.0%	3.2%	3.4%	3.4%	3.4%
Dish Soap Automatic	10.6%	10.7%	10.0%	9.8%	9.9%	9.6%	8.6%	8.2%	7.9%	7.9%	7.9%	8.1%	8.6%	9.3%	9.4%	10.2%	10.6%	10.9%	10.5%
Air Fresheners	11.6%	11.0%	13.6%	12.2%	13.0%	12.1%	13.8%	13.6%	11.5%	11.3%	12.9%	11.8%	10.8%	10.0%	11.6%	10.9%	10.3%	10.5%	11.2%
Cough & Cold	28.9%	30.1%	27.0%	26.0%	29.7%	29.7%	27.4%	27.5%	27.8%	27.0%	24.9%	25.3%	27.1%	27.1%	23.1%	24.3%	26.6%	26.8%	24.1%
Hand Soap	22.1%	21.0%	20.2%	19.8%	18.5%	16.2%	14.2%	14.8%	14.6%	15.2%	15.1%	16.2%	14.3%	12.5%	13.7%	15.9%	17.8%	17.8%	18.0%
Fabric softeners	4.3%	4.4%	4.0%	4.1%	4.1%	4.2%	4.1%	3.7%	4.0%	3.9%	3.6%	3.5%	3.6%	4.3%	3.7%	3.6%	3.6%	4.3%	4.0%
Toothpaste	0.8%	0.8%	0.8%	0.8%	0.7%	0.7%	0.8%	0.8%	0.8%	0.8%	0.8%	0.9%	1.0%	0.9%	0.9%	1.0%	1.1%	1.1%	1.1%
Topical analgesics	9.2%	9.8%	11.0%	11.5%	10.2%	9.8%	12.2%	13.4%	14.0%	14.1%	15.8%	15.9%	15.4%	15.6%	15.8%	16.2%	16.4%	16.6%	17.2%
Ice cream Bulk	19.1%	19.7%	19.8%	19.3%	18.7%	18.6%	18.9%	18.7%	17.5%	17.8%	18.2%	18.9%	19.1%	18.9%	19.3%	20.0%	19.9%	19.6%	19.1%
Mayonnaise	10.2%	10.4%	10.6%	10.4%	9.3%	8.9%	9.3%	9.1%	8.6%	9.0%	9.0%	9.2%	8.6%	8.9%	10.0%	10.6%	10.6%	10.8%	10.9%
Soup Dry	2.6%	2.5%	2.8%	2.7%	2.3%	2.0%	2.1%	1.9%	1.7%	1.8%	1.9%	1.8%	1.5%	1.5%	1.7%	1.5%	1.3%	1.4%	1.8%

*4Q23 data stops on 02/12/2023

Source: NielsenIQ, BofA Global Research

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In the Western Europe, most categories started from a higher private label market share base, and it have been moving above pre-covid level.

Exhibit 32: Private label EUR value market share is mostly above to pre-covid level in Western Europe

Categories relevant to our food categories private label market share, EUR value, %

	Private Labels penetration (%)											4 wks 05-	4 wks 03-
	FY20	FY21	FY22	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	NOV-23	DEC-23
Baby Nutrition	9.4%	10.3%	11.5%	11.0%	11.6%	11.7%	11.8%	12.6%	13.5%	13.5%	13.1%	13.3%	12.9%
Baby - Formula	4.2%	4.3%	4.8%	4.7%	4.5%	4.8%	5.2%	5.5%	5.5%	5.4%	5.4%	5.5%	5.3%
Baby - Food	15.6%	17.0%	19.1%	18.3%	19.4%	19.2%	19.4%	20.4%	22.0%	22.4%	22.0%	22.4%	21.6%
Coffee	19.7%	20.1%	21.6%	21.2%	21.5%	22.0%	21.4%	22.5%	22.3%	22.3%	21.8%	22.0%	21.6%
Confectionery	14.9%	15.8%	16.6%	16.3%	16.9%	16.6%	16.5%	17.3%	17.8%	18.2%	17.7%	18.6%	16.8%
Pet Food	34.8%	34.0%	35.1%	33.8%	34.4%	35.5%	36.4%	36.2%	36.2%	36.0%	36.1%	36.1%	36.1%
Plant-based Milk	34.6%	36.0%	38.7%	37.4%	38.3%	38.8%	40.1%	40.9%	42.1%	42.6%	42.4%	43.0%	41.9%
Water	24.7%	24.4%	25.6%	24.8%	25.4%	25.5%	26.5%	26.7%	26.5%	26.3%	27.2%	27.1%	27.3%
Yoghurt	33.8%	33.8%	36.6%	34.1%	35.9%	37.4%	38.9%	38.3%	39.3%	39.3%	39.3%	39.3%	39.4%
Yoghurt - Spoon	35.9%	35.7%	38.7%	36.2%	37.9%	39.3%	41.1%	40.7%	41.5%	41.5%	41.7%	41.6%	41.8%
Yoghurt - Drink	25.7%	26.3%	29.0%	26.3%	28.4%	30.4%	30.3%	29.1%	30.3%	31.1%	29.9%	30.1%	29.6%

Source: NielsenIQ, BofA Global Research

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Exhibit 33: Private label EUR value market share is mostly above to pre-covid level in Western Europe

Categories relevant to our HPC coverage categories private label market share, EUR value, %

	FY19	FY20	FY21	FY22	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	05-Nov-23	03-Dec-23
ADW Detergent	23.2%	21.7%	20.7%	21.5%	20.2%	21.1%	22.0%	22.9%	22.5%	23.4%	22.9%	23.0%	23.0%	23.1%
Air Fresheners	30.6%	30.9%	31.2%	32.7%	33.0%	31.1%	31.6%	35.2%	34.3%	31.7%	32.0%	34.5%	34.5%	36.8%
Bath & Shower	14.8%	14.7%	14.5%	15.1%	15.0%	15.1%	15.4%	15.0%	15.9%	16.4%	16.8%	16.4%	16.4%	15.1%
Cosmetics	12.2%	12.1%	11.0%	10.5%	10.2%	10.5%	11.0%	10.2%	10.0%	10.2%	10.7%	10.0%	10.0%	9.9%
Deodorants	7.3%	7.2%	7.1%	7.2%	7.2%	7.1%	7.3%	7.0%	7.6%	7.9%	8.1%	8.4%	8.4%	8.0%
Fabric Softeners	19.1%	18.4%	17.3%	18.6%	17.6%	18.7%	19.1%	19.2%	20.0%	20.7%	20.0%	20.3%	20.3%	20.7%
Hair Coloration	5.6%	5.8%	6.2%	6.7%	6.6%	6.6%	6.7%	6.8%	6.8%	6.6%	6.7%	6.8%	6.8%	7.0%
Hair Shampoo	8.1%	8.1%	7.9%	8.4%	8.0%	8.2%	8.6%	8.7%	8.8%	9.0%	9.4%	9.4%	9.4%	9.4%
HDW Detergent	30.6%	28.0%	27.6%	29.7%	28.2%	30.0%	30.8%	30.1%	31.1%	32.7%	32.7%	32.5%	32.5%	32.8%
Household Cleaners	27.6%	25.7%	26.5%	28.1%	27.5%	27.8%	28.5%	28.6%	29.7%	30.2%	29.7%	30.2%	30.2%	29.6%
Ice Cream	36.4%	35.3%	34.0%	35.5%	33.5%	34.6%	37.0%	36.9%	37.9%	38.4%	40.6%	40.1%	40.1%	39.8%
Laundry Detergent	17.9%	17.2%	16.9%	18.3%	17.1%	18.3%	18.7%	19.1%	19.7%	20.5%	20.1%	20.1%	20.1%	20.4%
Skin Care	15.1%	15.0%	14.8%	14.5%	14.2%	14.7%	15.1%	14.2%	14.5%	15.0%	15.7%	14.7%	14.7%	13.8%
Skin Cleansing & Treatment	35.7%	35.9%	35.8%	36.7%	36.7%	37.2%	37.1%	36.0%	36.6%	37.1%	37.1%	36.5%	36.5%	35.5%
Sun Care	19.4%	18.0%	17.5%	18.4%	16.3%	21.0%	20.9%	15.4%	17.2%	22.8%	21.3%	18.2%	18.2%	15.9%
Toothpaste	3.8%	3.6%	3.4%	3.5%	3.6%	3.5%	3.6%	3.4%	3.4%	3.5%	3.6%	3.6%	3.6%	3.7%

Source: NielsenIQ, BofA Global Research

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Regional exposure: favour US

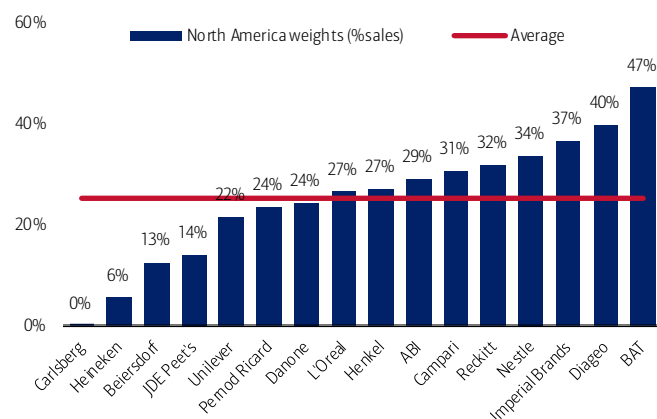
More exposure to certain region can play a role in pricing potential:

- In Europe, where price increase rounds started with a lag of 1-2Q vs the US and the EM, the carryover price effect will still play a positive role in 1H24. On the negative side, exposure to Europe suggests a greater market share of private labels, i.e more substation price pressure in Home Care, but also in Personal Care categories
- In US despite the lack of tailwind from carryover pricing, we see consumer disposable income less damaged and therefore more price increase potential in medium term
- In EM see some pricing tailwind coming from FX dynamics through potential weakening of USD and EUR as rates hiking rounds are over. On the flip side, pricing pressure and deflationary potential in EM remains high given competitive pressure.

In the DM we generally favour US exposure, where in our view ultimately market share value is less at risk. For EM our biggest exposure is Unilever, which can both benefit from FX trends, but would also be subject to highly competitive environment locally.

Exhibit 34: Nestle is the most exposed to North America in Food & HPC, while BAT is the most exposed within Tobacco

BofA forecasts on large cap exposure to North America, 2022.

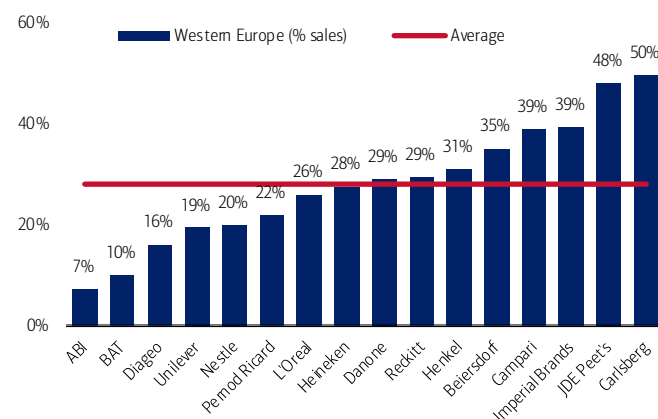


Source: Company data, BofA Global Research estimates

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Exhibit 35: Beiersdorf is the most exposed to Western Europe in Food & HPC, while Imperial brands is the most exposed within Tobacco

BofA forecasts on large cap exposure to Western Europe, 2022.



Source: Company data, BofA Global Research estimates

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Pricing below consensus

In the table below, we summarize, how in our view the factors described above can influence 24e pricing growth component for the companies in our coverage

Exhibit 36: Haleon have most factors positively influencing higher pricing in 2024e

Key factors influencing 2024e pricing for companies in our coverage

	Unilever	Nestle	Danone	Haleon	Henkel	Reckitt
Categories	-	+/-	-	+	-	+/-
Private Labels	-	-	+/-	+	-	-
Regions	-	+	-	+/-	+	+/-

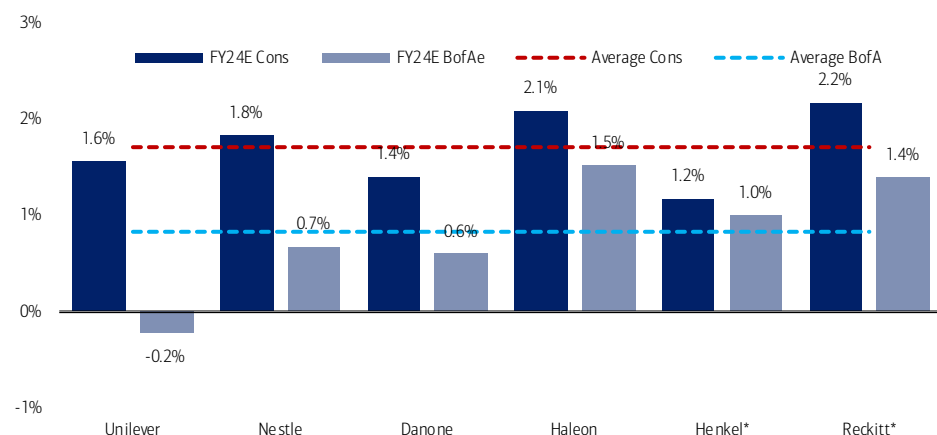
Source: BofA Global Research estimates

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While we see some positive momentum in the pricing and see a deflation potential only in case of Unilever, we are quite cautious on the pricing in 2024e with most of the factors in our analysis playing either negative or neutral role. We are therefore placing our price growth forecast below the consensus for 2024e for most of our coverage.

Exhibit 37: We are below Consensus on FY24E pricing across our coverage

BofA vs Visible Alpha consensus pricing expectations for FY24E



*For Henkel and Reckitt mix is included in price measure

Source: BofA Global Research estimates, Visible Alpha

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Volume/mix: Easy comps amid weak demand

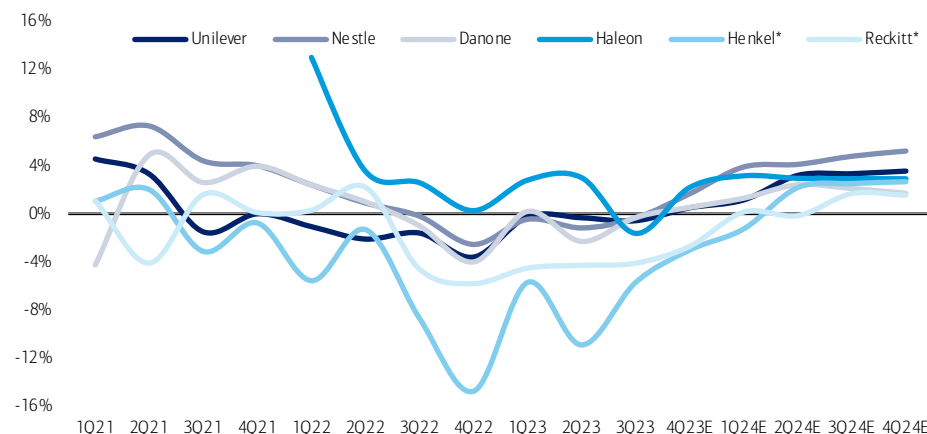
While inflation cycle has been driving the top line growth since the beginning of FY22, the volumes have been shrinking across the categories. Similar to the trends we have



seen during previous commodity cycles, we are expecting the volumes to rebound in FY24e on the back of relatively easy comps, as price inflations fades out. Still, we are expecting the volume and mix growth to remain in the LSD area (c 2%-3%) with one notable exception of Nestle.

Exhibit 38: Cumulatively, Henkel had so far put the lowest volume while Haleon had the most elevated one albeit helped by Covid comps

Volume/mix growth across our Staples coverage since 1Q21 and BofAe forecasts from 4Q23E onward



*For Henkel and Reckitt mix is included in price measure, so data is only volume %

Source: Company data, BofA Global Research estimates

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In our view, the factors determining specific volume growth pattern will be 1) demand elasticity of categories the companies are exposed to and 2) a trend to downtrading in particular sectors and geographies.

Elasticity: key to category growth

Price elasticity is the dependency of volume increase on the price decrease. Should the demand be elastic enough, a price increase would cause a negative OG of a particular category, as a percentage drop in volume would be greater than the price increase. As we expect price growth to be close to flat in 2024e, a higher price elasticity can generate a stronger volume momentum.

In the tables below, we track the retail performance of Food and HPC categories in US and Europe based on NielsenIQ data. One should note that Nielsen data is focused on retail sales and does not capture online traffic, D2C sales or specialized channels, which might play a role in many subcategories. We therefore focus more on the trend and incremental changes, rather than absolute values.

Rather not surprisingly, the Food category data shows relatively low elasticity, i.e. lower growth in prices won't necessarily cause a strong pick up in volumes for most categories.

A deeper look at the data suggests, that demand for some less discretionary categories such as V&S, Health Nutrition, Pet food and Confectionary do enjoy a higher degree of elasticity and may benefit more in terms of volumes as the price inflation fades.

Exhibit 39: \$ Value growth levelling off in food as pricing fading and volume growth remains mostly negative

US Nielsen tracked channel sales (value & EQ volume) growth for various Food categories.

	FY19	FY20	FY21	FY22	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23*	4 w/e 11/04/23	4 w/e 12/02/24
Period \$ value (% YoY growth)														
Baby Nutrition	8%	-7%	5%	6%	10%	15%	0%	4%	6%	1%	12%	6%	5%	6%
Baby - Formula	8%	-7%	5%	3%	8%	13%	-5%	1%	4%	-1%	17%	9%	7%	10%
Baby - Food	11%	-5%	6%	14%	14%	19%	12%	12%	10%	5%	2%	-1%	-1%	-2%
Cheese	11%	10%	-2%	8%	1%	6%	11%	13%	9%	6%	2%	1%	0%	1%

Exhibit 39: \$ Value growth levelling off in food as pricing fading and volume growth remains mostly negative

US Nielsen tracked channel sales (value & EQ volume) growth for various Food categories.

Coffee	8%	2%	0%	9%	5%	8%	10%	13%	6%	4%	-1%	-3%	-3%	-3%
Coffee - Ground & Bean	5%	1%	-4%	10%	3%	9%	13%	16%	9%	5%	-1%	-4%	-4%	-4%
Coffee - Instant	7%	3%	0%	7%	5%	8%	5%	11%	6%	3%	4%	3%	3%	2%
Coffee - Pod	11%	2%	4%	8%	7%	7%	9%	10%	4%	3%	-2%	-3%	-3%	-3%
Coffee creamers	17%	7%	5%	16%	10%	13%	18%	20%	15%	11%	4%	1%	1%	0%
Confectionery	13%	-5%	9%	10%	6%	12%	10%	11%	11%	7%	4%	2%	4%	-1%
Frozen and chilled meals	10%	7%	5%	10%	11%	10%	10%	11%	7%	6%	0%	-2%	-2%	-2%
Milk (cow)	8%	0%	-2%	11%	7%	14%	12%	9%	1%	-6%	-9%	-5%	-5%	-6%
Pet Food	15%	-4%	7%	16%	12%	15%	18%	18%	16%	15%	9%	6%	6%	6%
Plant-based dairy	17%	15%	6%	8%	5%	7%	10%	10%	6%	2%	-3%	-5%	-4%	-5%
Powdered/Ambient milk	14%	11%	-7%	15%	0%	11%	19%	25%	18%	15%	7%	2%	2%	2%
Vitamins & Supplements	24%	10%	9%	0%	5%	2%	-4%	-1%	1%	3%	4%	1%	1%	0%
Health Nutrition	20%	7%	19%	17%	20%	16%	15%	19%	17%	13%	14%	9%	9%	8%
Water	11%	1%	9%	13%	12%	13%	13%	13%	11%	5%	3%	3%	3%	3%
Yoghurt	5%	-2%	5%	12%	8%	9%	14%	15%	15%	12%	7%	6%	6%	7%
	FY19	FY20	FY21	FY22	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23*	4 w/e 11/04/23	4 w/e 12/02/23
Period EQ volume (% YoY growth)														
Baby Nutrition	8%	-9%	0%	3%	4%	11%	0%	-2%	-4%	-13%	-6%	-6%	-7%	-6%
Baby - Formula	5%	-10%	6%	6%	9%	22%	-1%	-2%	1%	-16%	-2%	-6%	-7%	-5%
Baby - Food	11%	-9%	-4%	0%	1%	3%	1%	-3%	-8%	-11%	-9%	-6%	-6%	-7%
Cheese	8%	2%	0%	-1%	-2%	-1%	0%	0%	1%	1%	0%	2%	2%	3%
Coffee	11%	0%	0%	-5%	-2%	-5%	-7%	-5%	-7%	-5%	-2%	-2%	-3%	-2%
Coffee - Ground & Bean	7%	-3%	-7%	-9%	-7%	-8%	-10%	-8%	-9%	-7%	-4%	-4%	-4%	-4%
Coffee - Instant	6%	3%	15%	-7%	8%	-1%	-18%	-14%	-19%	-16%	0%	1%	1%	1%
Coffee - Pod	16%	2%	4%	-1%	1%	-1%	-3%	0%	-3%	0%	-1%	-1%	-1%	-2%
Coffee creamers	70%	0%	9%	-4%	0%	-7%	-5%	-4%	-5%	0%	-3%	-5%	-5%	-4%
Confectionery	11%	-10%	4%	-2%	-4%	2%	-4%	-2%	-1%	-5%	-8%	-3%	-2%	-4%
Frozen and chilled meals	5%	4%	-2%	-5%	-3%	-6%	-7%	-4%	-6%	-3%	-3%	-4%	-4%	-4%
Milk (cow)	6%	-6%	-8%	-3%	-4%	-3%	-3%	-3%	-5%	-4%	-3%	-2%	-2%	-2%
Pet Food	10%	-10%	0%	1%	1%	2%	0%	0%	-1%	-1%	-1%	-1%	-1%	-1%
Plant-based dairy	15%	13%	4%	-3%	-1%	-3%	-3%	-5%	-7%	-7%	-8%	-6%	-7%	-6%
Powdered/Ambient milk	12%	8%	-8%	-2%	-6%	-3%	-2%	0%	-5%	-1%	-1%	-1%	-3%	0%
Vitamins & Supplements	24%	7%	3%	-8%	-3%	-5%	-12%	-10%	-8%	-5%	-4%	-5%	-6%	-5%
Health Nutrition	31%	9%	13%	8%	15%	9%	3%	6%	4%	-1%	5%	1%	1%	0%
Water	10%	0%	5%	1%	4%	1%	0%	-1%	-2%	-2%	0%	2%	2%	2%
Yoghurt	10%	-3%	-1%	-2%	-3%	-3%	-2%	-1%	2%	4%	4%	5%	4%	5%

Source: NielsenIQ data, BofA Global Research

BofA GLOBAL RESEARCH

We notice a difference between the US and the EU data, explained by the difference in inflation cycle. Nevertheless, the overall trend of a low price elasticity is to our understanding the same for both markets.

Exhibit 40: Volume growth remains negative as pricing benefit is fading in Europe

EU Nielsen tracked channel sales (value and EQ volume) growth for various Food categories.

Categories	EUR value % growth	FY21	FY22	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23*	4 wks 05-NOV-23	4 wks 03-DEC-23
Baby Nutrition		0%	9%	13%	10%	7%	7%	3%	6%	4%	2%	2%	1%
Baby - Formula		-1%	9%	14%	10%	7%	6%	1%	5%	3%	2%	3%	1%
Baby - Food		2%	9%	12%	9%	7%	9%	5%	8%	5%	1%	2%	1%
Coffee		3%	7%	1%	5%	10%	11%	6%	7%	4%	3%	3%	3%
Coffee - Fresh (incl Single serve, R&G, Bean...)		4%	7%	1%	6%	10%	11%	5%	6%	4%	2%	2%	2%
Coffee - Instant		-2%	4%	-1%	2%	5%	9%	8%	11%	8%	8%	6%	9%
Confectionery		5%	-1%	-10%	8%	-4%	2%	12%	12%	15%	6%	8%	5%
Pet Food		7%	13%	8%	11%	14%	17%	17%	18%	13%	8%	9%	8%
Plant-based Milk		7%	4%	2%	-1%	6%	8%	6%	10%	8%	6%	6%	5%

Exhibit 40: Volume growth remains negative as pricing benefit is fading in Europe

EU Nielsen tracked channel sales (value and EQ volume) growth for various Food categories.

Water		1%	10%	5%	8%	17%	10%	7%	6%	6%	8%	7%	8%	
Yoghurt		0%	8%	1%	2%	12%	15%	15%	17%	12%	9%	9%	9%	
Yoghurt - Spoon		-1%	7%	-1%	1%	12%	16%	16%	18%	13%	9%	9%	9%	
Yoghurt - Drink		4%	8%	5%	4%	12%	10%	11%	11%	9%	8%	8%	9%	
Categories	EQ volume	% growth	FY21	FY22	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23*	4 wks 05-NOV-23	4 wks 03-DEC-23
Baby Nutrition			-2%	1%	8%	2%	-1%	-3%	-8%	-6%	-7%	-8%	-8%	-8%
Baby - Formula			-4%	1%	8%	1%	0%	-4%	-9%	-5%	-6%	-5%	-4%	-5%
Baby - Food			-1%	1%	7%	2%	-1%	-2%	-8%	-6%	-7%	-9%	-9%	-9%
Coffee			3%	-1%	-2%	-3%	0%	-2%	-6%	-1%	0%	0%	0%	0%
Coffee - Fresh (incl Single serve, R&G, Bean...)			3%	-1%	-1%	-2%	1%	-1%	-6%	0%	0%	0%	0%	0%
Coffee - Instant			1%	-6%	-5%	-6%	-7%	-5%	-4%	-2%	0%	2%	0%	4%
Confectionery			1%	-4%	-9%	5%	-7%	-4%	0%	-2%	2%	-4%	-4%	-5%
Pet Food			1%	-1%	2%	-1%	-2%	-2%	-4%	-2%	-3%	-2%	-2%	-2%
Plant-based Milk			9%	2%	3%	-2%	3%	2%	-1%	5%	3%	6%	6%	5%
Water			-1%	2%	1%	1%	7%	0%	-5%	-3%	0%	3%	2%	3%
Yoghurt			-2%	-2%	-3%	-4%	0%	-1%	-3%	-1%	2%	3%	3%	4%
Yoghurt - Spoon			-4%	-3%	-5%	-5%	0%	-1%	-2%	1%	3%	4%	4%	4%
Yoghurt - Drink			2%	0%	2%	-1%	2%	-4%	-6%	-5%	0%	2%	1%	3%

Source: NielsenIQ, BofA Global Research

BofA GLOBAL RESEARCH

While the general trend for HPC data shows low elasticity (below 1, as for the Food category). A deeper look at the category data suggests a different picture for the US and European markets.

Particularly US data suggests relatively high elasticity for products in Health category, therefore provides higher chances for volume growth as prices go down. Also, Personal Care categories are rather responsive to the price movements, whereas Home Care data suggests lower elasticity.

Exhibit 41: Volume growth remain mostly negative, as the pricing levels off

US NielsenIQ tracked channel sales (\$ value & EQ volume) growth for various categories relevant to our HPC coverage

Period	\$ value	(% YoY growth)	FY20	FY21	FY22	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23*	4 W/E 11/04/23	4 W/E 12/02/23
Acid Relief			2%	2%	-1%	1%	-1%	-1%	-1%	0%	1%	1%	-1%	-1%	0%
Cough & Cold Remedies			-6%	7%	23%	49%	22%	6%	26%	8%	-2%	-4%	-9%	-4%	-12%
Internal Analgesic			4%	3%	5%	8%	0%	1%	11%	4%	1%	-1%	-6%	-3%	-8%
Nasal			-4%	11%	13%	29%	11%	2%	14%	7%	4%	1%	-1%	1%	-3%
Tobacco Alternatives Non Vapor			-4%	0%	-2%	-3%	-4%	-2%	-1%	1%	0%	-1%	-2%	-2%	-2%
Vitamins And Supplements			18%	9%	0%	5%	2%	-4%	-1%	1%	3%	5%	2%	2%	1%
Soap-Bar			6%	-9%	12%	5%	10%	12%	20%	17%	12%	12%	4%	3%	6%
Hair Spray			-20%	9%	12%	16%	12%	9%	12%	18%	14%	10%	8%	5%	11%
Deodorant			-4%	7%	15%	10%	14%	16%	20%	20%	13%	12%	7%	5%	8%
Sunscreen			-11%	28%	7%	32%	0%	9%	18%	15%	4%	10%	16%	14%	19%
Facial Cleanser			-4%	-1%	3%	0%	1%	3%	6%	11%	8%	7%	4%	3%	6%
Body Wash			12%	6%	7%	7%	5%	7%	9%	12%	14%	13%	12%	10%	15%
Hand & Body Lotions			4%	6%	6%	2%	1%	9%	11%	3%	11%	11%	5%	5%	6%
Shampoo			1%	3%	4%	3%	3%	5%	6%	8%	9%	7%	7%	5%	9%
Creme Rinses & Conditioners			6%	2%	-1%	-2%	-3%	0%	3%	5%	7%	6%	3%	1%	5%
Aerosol Disinfectants			165%	4%	-35%	-32%	-42%	-40%	-25%	-39%	-18%	-17%	-12%	-8%	-16%
Air Fresheners			13%	4%	-4%	-5%	-5%	-4%	-3%	6%	2%	4%	3%	2%	4%
Contraceptives			7%	13%	2%	8%	1%	2%	0%	3%	1%	1%	2%	2%	2%
Detergent-Dish-Automatic			24%	-6%	7%	5%	7%	6%	12%	8%	9%	10%	6%	6%	6%
Dishwasher Rinsing Aids			19%	-3%	-1%	-2%	-3%	-2%	3%	1%	-2%	0%	-1%	-1%	-1%
Laundry Detergent-Liquid Hd			5%	1%	6%	8%	8%	4%	5%	4%	2%	4%	2%	1%	2%
Laundry Detergent-Total			6%	3%	7%	8%	8%	5%	6%	6%	3%	6%	3%	2%	4%
Pre-Moistened Cleaning Wipes			112%	-18%	-29%	-45%	-30%	-23%	-11%	-11%	-6%	-8%	-7%	-8%	-6%
Toilet Bowl Cleaners			23%	-5%	8%	3%	3%	11%	12%	15%	14%	5%	4%	-1%	9%
Soup-Dry			21%	1%	24%	20%	26%	26%	26%	20%	17%	10%	4%	6%	2%
Dry Dinners-Pasta			24%	-3%	14%	10%	15%	15%	15%	5%	3%	0%	-2%	-3%	-2%

Exhibit 41: Volume growth remain mostly negative, as the pricing levels off

US NielsenIQ tracked channel sales (\$ value & EQ volume) growth for various categories relevant to our HPC coverage

Period \$ value (% YoY growth)	FY20	FY21	FY22	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23*	4 W/E 11/04/23	4 W/E 12/02/23
Ice Cream-Bulk	18%	-6%	5%	-1%	2%	8%	11%	9%	7%	4%	2%	1%	3%
Frozen Novelties	21%	6%	12%	10%	8%	15%	12%	9%	7%	5%	1%	1%	2%
Infant Formula & Childrens Nutritional Beverages	1%	6%	3%	8%	12%	-5%	0%	4%	-1%	15%	8%	6%	9%
Rice Mixes	24%	-10%	12%	5%	12%	16%	15%	10%	7%	2%	-1%	-1%	-2%
Mayonnaise	18%	-3%	20%	9%	19%	23%	26%	23%	17%	13%	5%	6%	5%
Topical Analgesics	12%	17%	-1%	0%	-2%	-3%	0%	5%	2%	3%	2%	1%	2%
Denture Care	-6%	-3%	3%	2%	0%	4%	5%	7%	6%	5%	4%	4%	4%
Toothpaste	3%	3%	4%	6%	4%	3%	4%	8%	9%	9%	9%	8%	9%
Period EQ volume (% YoY growth)	FY20	FY21	FY22	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23*	4 W/E 11/04/23	4 W/E 12/02/23
Acid Relief	-3%	-1%	-5%	-4%	-5%	-7%	-5%	-4%	-5%	-4%	-4%	-5%	-4%
Cough & Cold Remedies	-12%	3%	18%	48%	20%	0%	15%	-2%	-9%	-10%	-14%	-10%	-17%
Internal Analgesic	-1%	-1%	-2%	2%	-5%	-6%	2%	-4%	-6%	-5%	-11%	-8%	-13%
Nasal	-6%	9%	9%	25%	9%	-2%	9%	0%	-4%	-5%	-8%	-6%	-10%
Tobacco Alternatives Non Vapor	-9%	-3%	-5%	-4%	-5%	-6%	-6%	-2%	-3%	-2%	-2%	-2%	-2%
Vitamins And Supplements	15%	3%	-8%	-2%	-5%	-13%	-10%	-8%	-4%	-4%	-5%	-5%	-5%
Soap-Bar	4%	-12%	-8%	-8%	-5%	-10%	-7%	-3%	-6%	-4%	-5%	-7%	-4%
Hair Spray	-21%	1%	-4%	0%	-2%	-6%	-4%	2%	-3%	-4%	-6%	-7%	-4%
Deodorant	-6%	-1%	0%	-5%	0%	1%	3%	6%	1%	2%	-1%	-2%	1%
Sunscreen	-11%	17%	2%	26%	-3%	5%	2%	3%	-9%	-2%	14%	15%	13%
Facial Cleanser	-13%	-6%	-5%	-5%	-5%	-7%	-4%	0%	-4%	-3%	-5%	-5%	-4%
Body Wash	8%	0%	-3%	-3%	-5%	-3%	-3%	-1%	2%	1%	2%	-1%	4%
Hand & Body Lotions	0%	-1%	-4%	-4%	-6%	-4%	-1%	-8%	-2%	0%	-3%	-5%	-2%
Shampoo	-2%	-6%	-8%	-5%	-7%	-9%	-8%	-7%	-5%	-3%	-3%	-4%	-1%
Crete Rinses & Conditioners	0%	-7%	-10%	-8%	-10%	-11%	-10%	-8%	-6%	-4%	-4%	-6%	-2%
Aerosol Disinfectants	133%	7%	-42%	-36%	-48%	-48%	-31%	-43%	-25%	-20%	-17%	-13%	-20%
Air Fresheners	7%	-3%	-12%	-12%	-12%	-13%	-11%	-8%	-12%	-10%	-10%	-10%	-9%
Contraceptives	-5%	4%	-1%	2%	-2%	-2%	-4%	-1%	-1%	-2%	-2%	-2%	-2%
Detergent-Dish-Automatic	14%	-11%	-3%	-4%	-3%	-4%	-1%	-3%	-2%	-1%	-1%	-1%	-1%
Dishwasher Rinsing Aids	17%	-4%	-9%	-7%	-8%	-11%	-8%	-8%	-9%	-4%	-3%	-3%	-3%
Laundry Detergent-Liquid Hd	0%	-4%	-6%	-2%	-5%	-8%	-7%	-7%	-7%	-6%	-6%	-7%	-6%
Laundry Detergent-Total	-3%	-5%	-4%	-3%	-4%	-6%	-4%	-3%	0%	1%	0%	1%	-1%
Pre-Moistened Cleaning Wipes	114%	-15%	-37%	-48%	-38%	-32%	-23%	-23%	-15%	-14%	-10%	-12%	-8%
Toilet Bowl Cleaners	14%	-10%	-4%	3%	-2%	-8%	-9%	-7%	-3%	-2%	1%	-3%	5%
Soup-Dry	11%	-7%	10%	9%	14%	9%	7%	2%	1%	0%	3%	4%	1%
Dry Dinners-Pasta	19%	-6%	-1%	-1%	0%	-2%	-2%	-5%	-2%	-3%	-4%	-5%	-3%
Ice Cream-Bulk	10%	-10%	-3%	-5%	-4%	-2%	-2%	-2%	-1%	0%	-1%	-2%	1%
Frozen Novelties	16%	1%	0%	1%	-3%	1%	-1%	-4%	-2%	1%	-3%	-3%	-3%
Infant Formula & Childrens Nutritional Beverages	1%	9%	1%	6%	12%	-6%	-4%	1%	-13%	-4%	-8%	-9%	-7%
Rice Mixes	19%	-11%	1%	3%	2%	0%	-2%	-3%	-1%	-1%	-1%	-1%	-2%
Mayonnaise	10%	-8%	-2%	-5%	-3%	0%	-1%	-2%	-1%	0%	1%	1%	1%
Topical Analgesics	5%	10%	-7%	-3%	-7%	-9%	-6%	-1%	-3%	-1%	-2%	-3%	-2%
Denture Care	-11%	-5%	-5%	-3%	-6%	-5%	-4%	-1%	-4%	-3%	-3%	-3%	-3%
Toothpaste	-2%	-2%	-3%	-1%	-3%	-5%	-4%	-2%	-2%	-2%	0%	-2%	1%

Source: NielsenIQ, BofA Global Research

BofA GLOBAL RESEARCH

A deeper look at the categories in Europe suggests that unlike in the US, elasticity of Home Care is higher compared to Personal Care. This in turn means that one can expect more vocal upward volume trend in the European Home Care category as the pricing will turn to be close to zero or negative.

Exhibit 42: Market growth remains positive with volumes falling

EU NielsenIQ tracked channel sales (EUR value & EQ volume) growth for various categories relevant to our HPC coverage

Period \$ value (% YoY growth)	FY20	FY21	FY22	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23*	05-Nov-23	03-Dec-23
Adult Incont	2%	4%	10%	7%	9%	8%	14%	16%	18%	15%	11%	12%	11%
Adw Detergent	16%	2%	0%	-1%	-4%	1%	3%	4%	10%	11%	11%	9%	13%
Air Fresheners	8%	10%	-1%	-4%	-4%	-1%	4%	5%	11%	10%	3%	5%	1%
Baby Diapers	-3%	5%	9%	14%	10%	7%	8%	5%	10%	7%	5%	5%	4%
Bath/Shower	1%	0%	2%	0%	1%	3%	3%	3%	6%	7%	4%	6%	2%
Batteries	13%	-4%	-5%	-10%	-12%	1%	-2%	-7%	-3%	-7%	-4%	1%	-7%



Exhibit 42: Market growth remains positive with volumes falling

EU NielsenIQ tracked channel sales (EUR value & EQ volume) growth for various categories relevant to our HPC coverage

Cosmetics	-22%	11%	17%	15%	20%	14%	20%	24%	14%	11%	6%	6%	5%
Deodorants	-7%	1%	12%	8%	11%	12%	14%	16%	17%	16%	9%	10%	9%
Fabric Soft	1%	3%	4%	7%	4%	3%	5%	5%	7%	11%	7%	5%	8%
Facial Tissue	1%	-7%	26%	18%	25%	23%	38%	40%	20%	6%	5%	7%	3%
Hair Coloration	15%	-8%	-3%	-13%	-3%	1%	4%	2%	6%	6%	3%	3%	3%
Hair Shampoo	-2%	1%	5%	6%	5%	4%	6%	6%	9%	8%	3%	4%	3%
Hand Dishwash	11%	-7%	7%	-2%	0%	10%	18%	15%	21%	17%	11%	12%	9%
HH Cleaners	30%	-10%	-2%	-5%	-4%	1%	1%	-1%	5%	3%	2%	2%	2%
Ice Cream	13%	0%	10%	-5%	2%	21%	5%	0%	9%	11%	13%	17%	7%
Laundry Det	-1%	-2%	6%	6%	7%	4%	6%	6%	10%	12%	11%	12%	10%
Razors And Blades	-8%	0%	5%	4%	7%	5%	3%	2%	3%	3%	4%	6%	2%
Sanit Protect	-3%	-2%	5%	7%	4%	3%	6%	4%	8%	5%	2%	2%	2%
Skin Care	-2%	5%	4%	0%	1%	8%	6%	10%	12%	9%	10%	11%	9%
Skin Cleansing And Treatment	-2%	3%	7%	6%	7%	7%	9%	8%	8%	7%	5%	5%	4%
Sun Care	-23%	21%	28%	79%	21%	29%	27%	18%	12%	7%	16%	18%	14%
Toilet Paper	8%	-3%	15%	9%	10%	17%	24%	20%	19%	7%	-1%	0%	-3%
Toothpaste	1%	0%	5%	5%	5%	5%	6%	5%	11%	12%	11%	12%	10%
Period EQ volume (% YoY growth)	FY20	FY21	FY22	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23*	05-Nov-23	03-Dec-23
Adult Incont	0%	5%	6%	9%	9%	3%	5%	6%	6%	7%	6%	6%	7%
Adw Detergent	11%	1%	-8%	-5%	-9%	-8%	-9%	-10%	-5%	3%	5%	2%	9%
Air Fresheners			-8%	-10%	-9%	-8%	-4%	-6%	0%	0%	0%	7%	-6%
Baby Diapers	-4%	4%	4%	14%	4%	-1%	-1%	-6%	-3%	-2%	-3%	-3%	-3%
Bath/Shower	2%	-1%	-2%	-1%	-2%	-1%	-4%	-6%	-3%	-1%	-1%	1%	-2%
Batteries	15%	1%	-2%	-2%	-9%	7%	-5%	-19%	-18%	-24%	-10%	-7%	-12%
Cosmetics	-18%	7%	12%	9%	15%	11%	15%	17%	8%	4%	4%	4%	3%
Deodorants	-7%	2%	5%	7%	7%	4%	5%	3%	4%	7%	1%	2%	-1%
Fabric Soft	-1%	-2%	-4%	0%	-3%	-6%	-6%	-7%	-6%	-2%	-3%	-5%	-2%
Facial Tissue	-5%	-10%	11%	17%	16%	6%	7%	12%	3%	-6%	4%	3%	4%
Hair Coloration	31%	5%	-3%	-10%	-2%	0%	1%	-3%	0%	1%	0%	-1%	0%
Hair Shampoo	-1%	-2%	0%	1%	1%	0%	-2%	-5%	-2%	-2%	-2%	-2%	-2%
Hand Dishwash	8%	-5%	-5%	-4%	-8%	-5%	-3%	-5%	2%	4%	3%	3%	2%
HH Cleaners		-7%	-6%	-5%	-8%	-5%	-5%	-10%	-3%	-3%	-2%	-3%	-2%
Ice Cream	9%	-3%	2%	-8%	-3%	11%	-6%	-9%	-5%	-1%	2%	6%	-2%
Laundry Det	-1%	-4%	0%	2%	1%	-1%	-2%	-2%	1%	3%	4%	3%	5%
Razors And Blades	-7%	-2%	2%	3%	4%	2%	0%	-4%	-3%	-3%	-1%	-1%	-1%
Sanit Protect	-3%	-2%	2%	7%	2%	0%	0%	-3%	0%	0%	-1%	0%	-1%
Skin Care	7%	13%	9%	2%	8%	14%	12%	17%	18%	11%	9%	11%	8%
Skin Cleansing And Treatment	7%	-9%	3%	7%	3%	2%	1%	-1%	1%	0%	-1%	-1%	-2%
Sun Care	-24%	15%	21%	45%	16%	22%	17%	17%	4%	-2%	-3%	2%	-8%
Toilet Paper	7%	-3%	-1%	4%	-3%	-2%	-4%	-6%	-1%	-2%	-1%	-1%	-1%
Toothpaste	0%	-2%	0%	4%	0%	-1%	-2%	-6%	0%	0%	2%	2%	2%

Source: NielsenIQ, BofA Global Research

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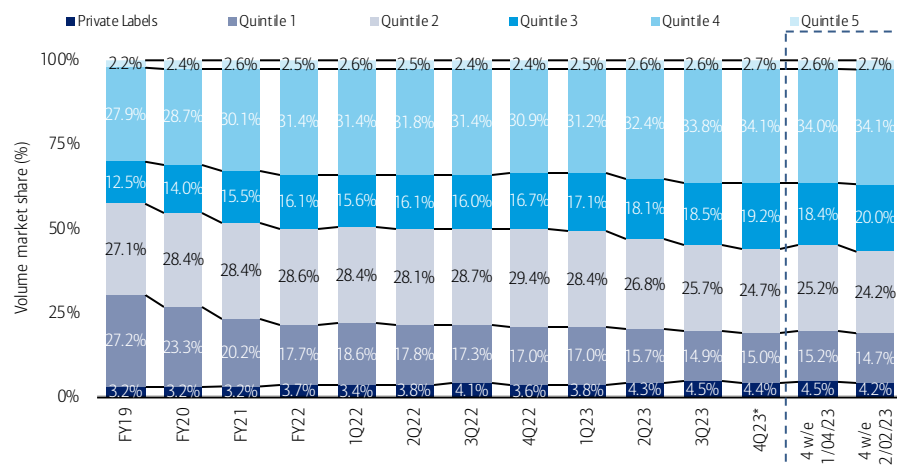
Downtrading

While elasticity effect would positively influence volume growth in FY24e, the effect of downtrading, when a share of lower price products in a particular category is growing on the back of a shrinking high price products share, would have a mixed effect on the companies in our coverage.

For instance looking at the data for Laundry Detergents in US, one can see that the share of more expansive products has been growing over time, implying a possible positive volume/mix effect in FY24e (major exposure for Henkel).

Exhibit 43: US Laundry Detergent category has continued to premiumize with top quintiles gaining shares

Evolution of price Quintiles and Private Labels volume market share (1 = least expensive / 5 most expensive). In EQ volume market share term (not Value)



Source: NielsenIQ, BofA Global Research

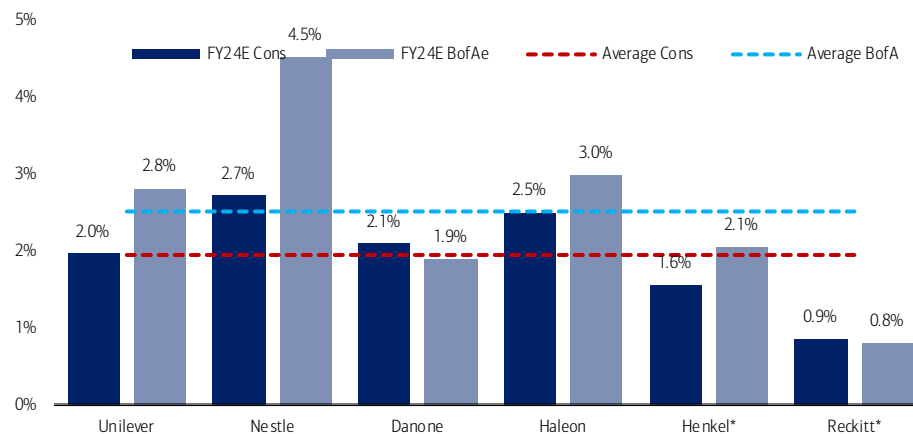
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Volume/mix expectations in line with consensus

We clearly expect the volume growth to be positive in 2024e on the back of easy 2023 comps, low pricing pressure as well as the mixed downtrading effect for the companies in the coverage. We are placing volume growth a tick higher, but broadly in line with consensus in 2024e.

Exhibit 44: We are broadly in line with consensus on FY24E volume/mix across our coverage except for Nestle where we see most upside risk

BofA vs Visible Alpha consensus volume/mix expectations for FY24E



*For Henkel and Reckitt mix is included in price measure

Source: BofA Global Research estimates, Visible Alpha

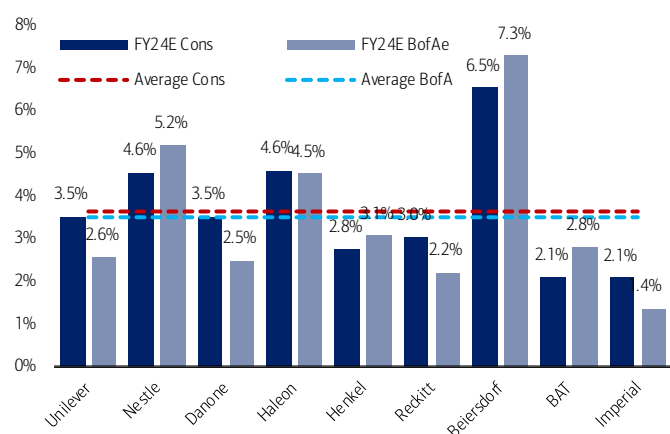
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All in all.... Topline expected below LT average in line with the consensus

Resulting topline OG expectations for FY24e are broadly in line with the consensus view, whereas, we are more optimistic about growth potential of Beiersdorf and Nestle, where we see more volume is coming next year, and we are more pessimistic about OG of Unilever, Danone and Reckitt, which will be in our view driven by a weaker than expected pricing momentum.

Exhibit 45: We are above FY24E OG consensus on Nestle and Beiersdorf but below on Unilever, Danone and Reckitt

FY24E OG BofAe vs Visible Alpha consensus

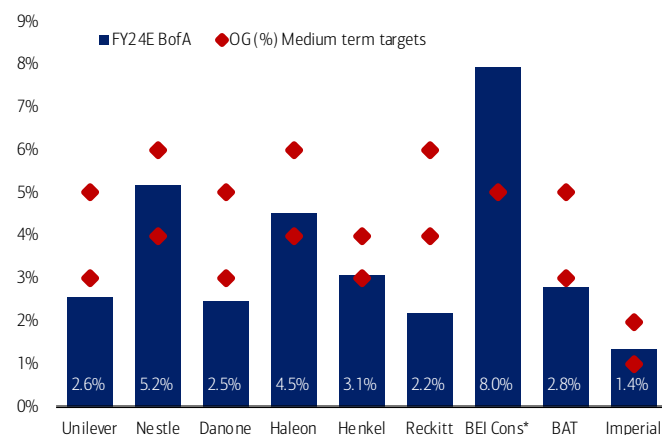


Source: BofA Global Research estimates, Visible Alpha

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Exhibit 46: We expect Unilever, Danone and Reckitt to grow below their medium-term guidance in FY24e. While the rest will grow in line

FY24E OG BofAe vs each company medium term targets. Beiersdorf Consumer is soft comment



*Beiersdorf Consumer mid term guidance is to grow above markets. BofAe consider Beiersdorf's category weighted growth to be 5% in next 3Y

Source: Company data, BofA Global Research estimates

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Idea 2: Margin improvement: Result of transformation or uncontrolled COGS deflation?

We expect c200 bps higher '24E gross margins vs. '22 given 22-23 transformation efforts, led by new management teams and favourable cost environment (input prices down, except for some food ingredients and labour). While we expect A&P/brand investments, R&D to increase, we forecast an average positive effect of c. 100bps on operating margins level and EPS in '24E vs '22, which are returning to long term historical levels with large scale companies with clear market share growth potential to benefit.

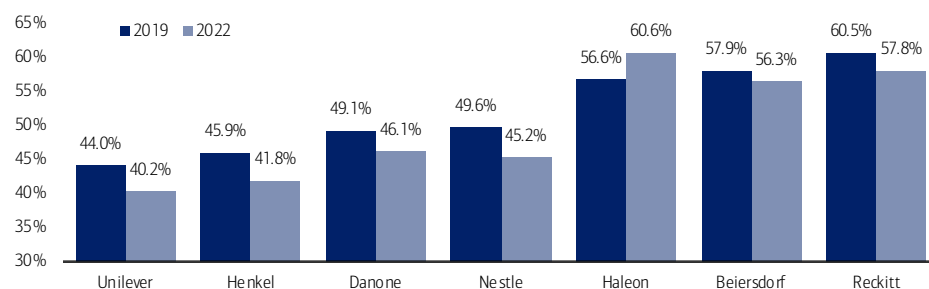
COGS deflation to provide margin tailwind

Depending on the ability of each company to retain the pricing they have put through to the consumer during the last 8 quarters, as cost deflation start to feed through in transport, packaging, energy and selective raw materials, it could imply significant gross margins improvements, especially for the lower gross margin's companies.

GM of most companies in our coverage have been hit during the pandemic and inflation cycle in 2020-22. If we assume 2019 to be a steady state, one can expect the return of GM to pre-Covid levels, as the input prices decrease.

Exhibit 47: On a normalized basis (2019) Unilever has the lowest gross margin, implying to some extent a higher raw material exposure

Gross margins for our Coverage on a normalized level (2019) vs trough (2022)



Source: Company data, BofA Global Research

* Unilever includes distribution in COGS instead of SG&A

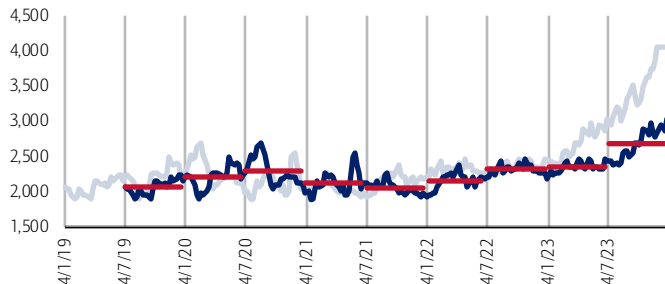
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Raw materials: blurry picture

We see that price dynamics for raw materials in HPC categories supports GM improvement. At the same time, the raw materials momentum in Food categories is less unequivocal. With the costs of raw materials such as coco, coffee and sugar, there is more price pressure for companies with respectful exposure, relating mostly to Unilever, Danone and Nestle.

Exhibit 48: Cocoa prices have continued to shoot up over recent months

Cocoa prices (EUR/MT) in light blue, price with 6M lag (EUR/MT) in dark blue and 6M average in red line.

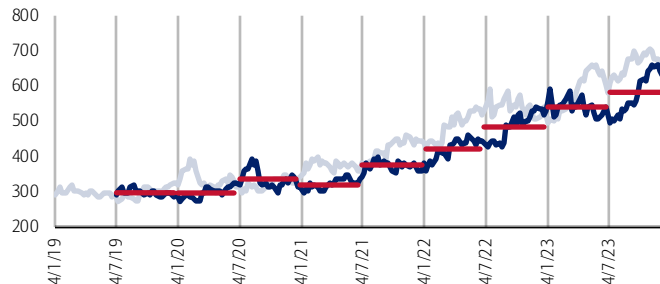


Source: Bloomberg, BofA Global Research

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Exhibit 49: Sugar prices have continued to shoot up over recent months

Sugar prices (EUR/MT) in light blue, price with 6M lag (EUR/MT) in dark blue and 6M average in red line.

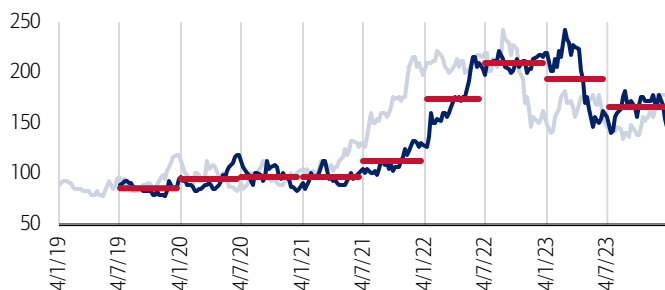


Source: Bloomberg, BofA Global Research

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Exhibit 50: Arabica Coffee prices have continued to shoot up over recent months

Arabica Coffee prices (EUR cents/lb) in light blue, price with 6M lag (EUR cent/lb) in dark blue and 6M average in red line.



Source: Bloomberg, BofA Global Research

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Exhibit 51: Robusta Coffee prices have continued to shoot up over recent months

Robusta Coffee prices (EUR/MT) in light blue, price with 6M lag (EUR/MT) in dark blue and 6M average in red line.



Source: Bloomberg, BofA Global Research

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The raw materials prices, indicating input prices for most HPS categories on the other hand are now clearly below their highs, although remaining higher than historical levels.

Exhibit 52: Despite coming down from its highs, the crude oil price remains elevated

Crude oil prices (EUR/bbl) in light blue, price with 6M lag (EUR/bbl) in dark blue and 6M average in red line.

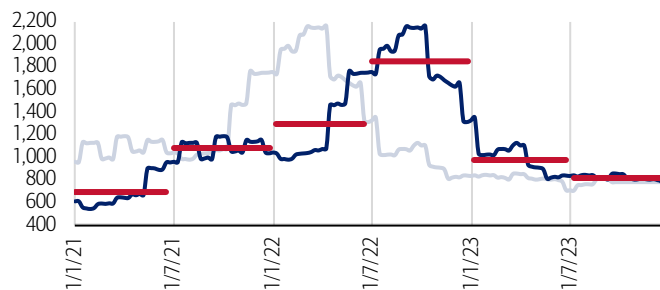


Source: Bloomberg, BofA Global Research

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Exhibit 53: Palm oil price has come down significantly in FY23

Palm oil prices (EUR/MT) in light blue, price with 6M lag (EUR/MT) in dark blue and 6M average in red line

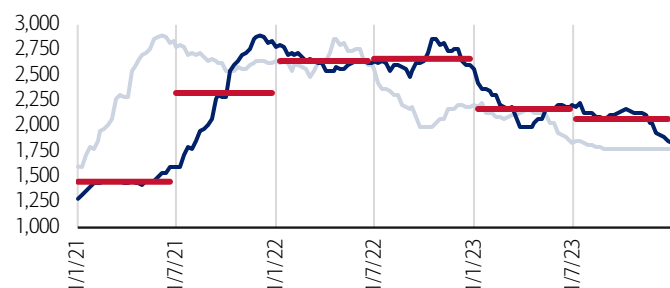


Source: Bloomberg, BofA Global Research

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Exhibit 54: Despite coming down from its highs, the polyethylene price remains elevated vs 2021

Polyethylene prices (EUR/MT) in light blue, price with 6M lag (EUR/MT) in dark blue and 6M average in red line.

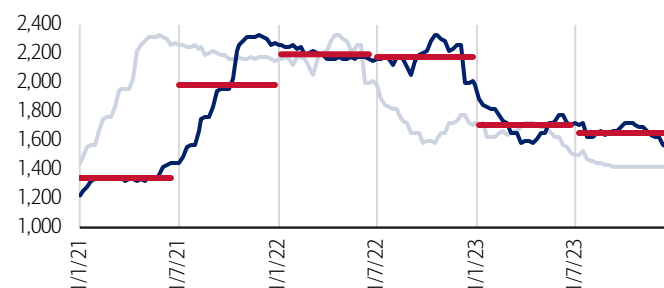


Source: Bloomberg, BofA Global Research

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Exhibit 55: Despite coming down from its highs, the polypropylene price remains elevated

Polypropylene prices (EUR/MT) in light blue, price with 6M lag (EUR/MT) in dark blue and 6M average in red line.



Source: Bloomberg, BofA Global Research

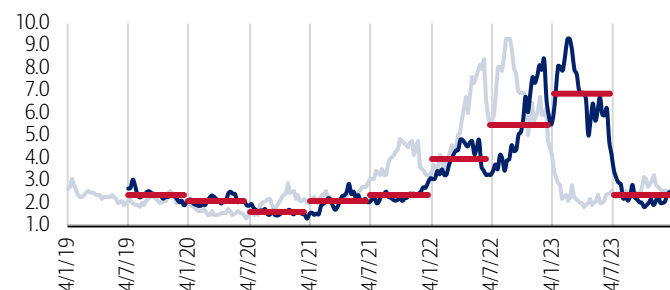
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Energy

We expect that energy costs will continue to ease pressure on GM, having positive effect for most companies within our coverage.

Exhibit 56: Natural Gas has normalized to 2021 level

Natural Gas prices (EUR/MMBtu) in light blue, price with 6M lag (EUR/MT) in dark blue and 6M average in red line.

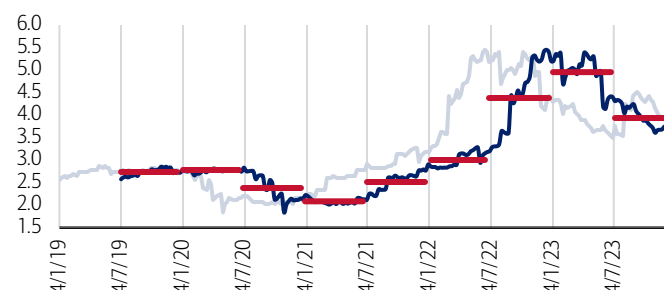


Source: Bloomberg, BofA Global Research

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Exhibit 57: Diesel prices have come down from peak but remain elevated

Diesel prices (EUR/gal) in light blue, price with 6M lag (EUR/MT) in dark blue and 6M average in red line.



Source: Bloomberg, BofA Global Research

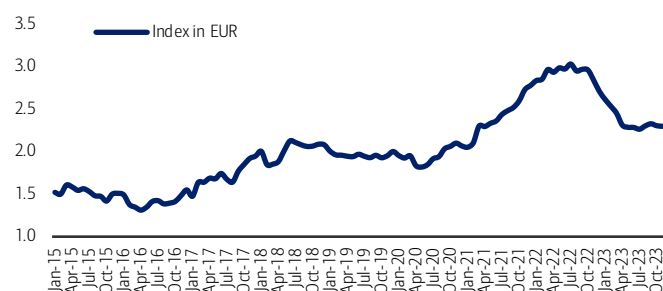
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Transport and packaging cost going down

We expect more positive momentum for GM to come from transport and packaging costs dynamics, which together can constitute up to 4% of COGS for staples

Exhibit 58: US Truck freight has been trending down recently

US Van & Reefer Spot rate, in EUR

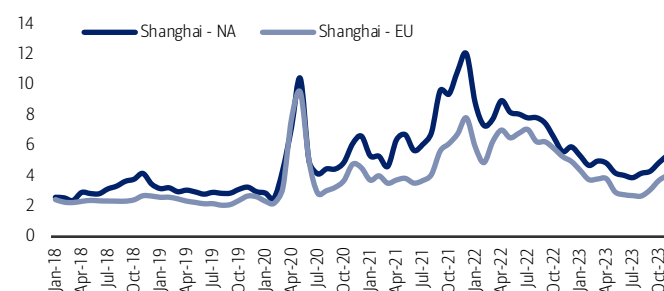


Source: dat.com, BofA Global Research estimates

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Exhibit 59: Air freight prices has starting to go up recently

Air freight Shanghai - US & Europe, in EUR

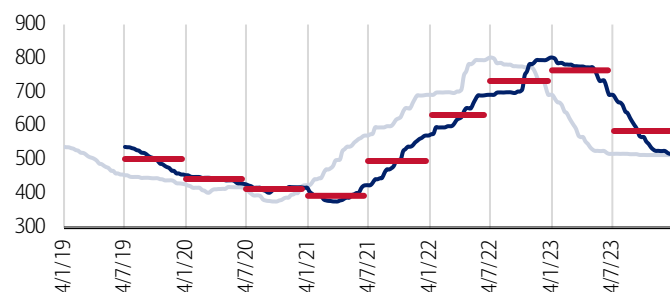


Source: Bloomberg, BofA Global Research estimates

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Exhibit 60: Testliner prices have been going down for the past 18 months, creating some tailwind into 2024

Testliner spot price, in EUR/tons

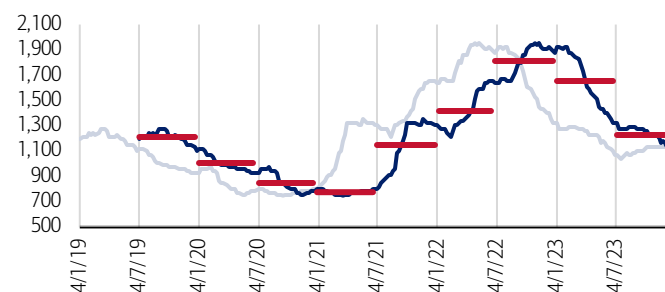


Source: RISI, BofA Global Research

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Exhibit 61: Similarly, PET has been declining allowing for attractive setup into 2024

Thermoplast PET bottle spot price, in EUR/MT



Source: Bloomberg, BofA Global Research

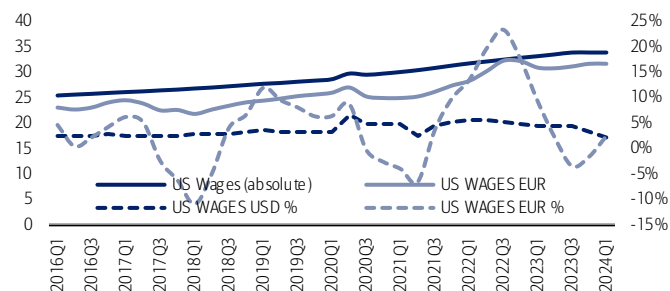
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Labour cost going up

We anticipate some headwind to GM as well as to operating margins to come from potential labour costs inflation across the markets. As the inflation is being passed through to the consumer, we can see stronger cost pressure in wages to compensate employees for the price increases in 2022-23. The wages effect however is expected to have less influence on COGS compared to other inputs as labour intensity is relatively low in the sector.

Exhibit 62: US cost has been going up significantly both in local currency and in EUR

US Average hourly earnings of all employees, in USD and EUR (left) and YoY growth rate (right)

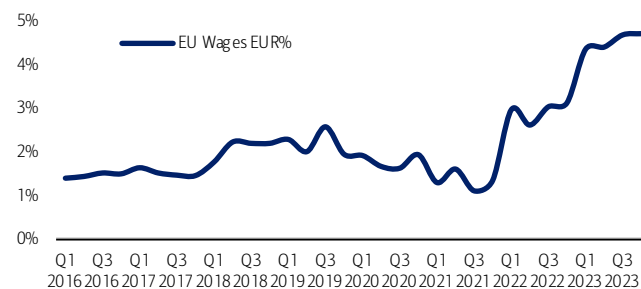


Source: US Bureau of Statistics, BofA Global Research

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Exhibit 63: Labour cost growth has meaningfully gone up in Europe since beginning of 2023.

Europe Indicator of negotiated wage rates YoY growth in EUR



Source: ECB, BofA Global Research

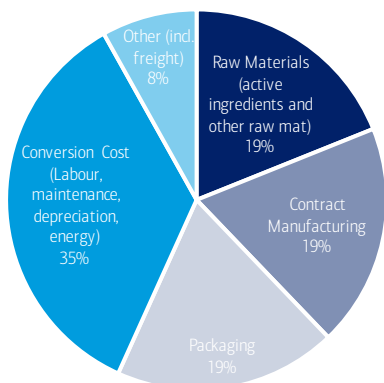
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Potential benefits from deflation

All in all we see that companies with higher raw materials, transport and package exposure might benefit in 2024e from potential GM increase. Others, especially with Food exposure, might take advantage of lower competitive price pressure, as market peers will not be in the position to go to deflationary pricing scenario.

Exhibit 64: Haleon has the lowest raw materials exposure in our coverage

BofA forecasts on Haleon COGS split, FY22.

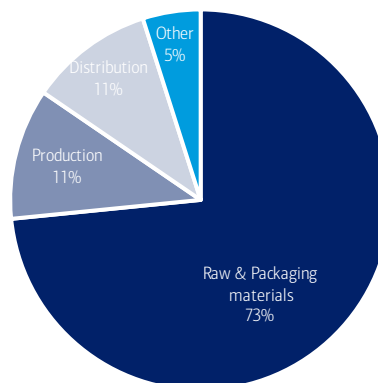


Source: Company data, BofA Global Research estimates

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Exhibit 65: Unilever has one of the higher raw material exposure in our coverage

BofA forecasts on Unilever COGS split, FY22. Other COGS = D&A, energy...



Source: Company data, BofA Global Research estimates

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Transformations take time, we are buyers of late stages

Each company in our coverage is in the middle of its own “transformation program”. New management teams in place are centralizing/de-centralizing, reducing SKUs, and restructuring low-margin businesses (organic creaming, disposals) to fight against the margin pressures implied by inflation over the last 24 months. However, we notice: 1) Each transformation program is not born equal, 2) Results might be inflated by COGS deflation.

Most internal transformation programs have been initiated by the new management and started usually in 2022-2023, targeting:

- Product portfolio (quality and innovation)
- Brand equity
- Manufacturing efficiency
- Operational efficiency

The resulting benefits of such programs should be a series of top line benefits and savings that are aimed at margins improvement. The fact that most of the programs are being implemented quite successfully (although the degree of such success might be hard to measure) gives us confidence in at least some tailwind on the operating margins and EPS level in 2024e. The table below summarizes ongoing transformation programs and interim results.

Exhibit 66: Most of staples companies have launched extensive productivity and cost savings initiatives to face cost inflation

Comparison of productivity plans for staples companies

Company	Current management start date	Plan Start date	Focus & Targets	Benefits	What done so far (at 3Q23) - comments
Unilever	Hein Schumacher (July 2023) - Graeme Pitkethly (2015) - Fernando Fernandez (Jan 2024)	3Q22 (CMD Dec 2022)	SKU reduction (~20%), step up efficiencies in supply chain, Consolidation (vendors, IT, manufacture vs outsourcing), integrate upstream (palm oil, ingredients & chemicals)	EUR 1.5bn gross productivity savings over 2023-25E, will be reinvested behind the brands	3Q23: rationalised SKUs by 20-21% year to date. Continued portfolio pruning with exit of Suave and process of exiting Dollar Shave Club
Nestle	Mark Schneider (Jan 2017) - Francois Xavier Roger (2015) - Anna MManz (2024)	3Q22 (CMD Dec 2022)	SKU reduction, reformulation and packaging design, New technology	Topline: net positive RIG impact of 20bps from 2023. P&L: CHF 1bn P&L benefits in 2022 and CHF 1bn additional in 2023. 30% from SKU rationalization and 70% from reformulation	2Q23 call: "SKU program and portfolio optimization overall is certainly delivering very well". Nestle delivered CHF 1bn of savings in 2022 and on track for the additional CHF 1bn in 2023. in 1H23: RIG was -0.8% of which 60bps coming from voluntary portfolio optimization efforts
Danone	Antoine de Saint-Affrique (Sept 2021) - Juergen Esser (nov 2020)	2Q22 (CMD in march 2022) + EDP Europe specific (4Q22)	Group: Step up COGS productivity + exiting underperforming asset. Portfolio rationalization (SKU reduction), Core ranges renovation, refocused A&P investment, execution step-up, shelf reinvention and expansion. Refocused innovations (less but larger)	Group: >5% productivities gains in FY22 and targets >5% in FY23 as well. Sustainable positive volume/mix growth in EDP Europe sometime in 2024.	3Q23: EDP Europe: rationalization of ca. 20% of least value created SKUs in dairy. Water China: renewed Mizone proposition with volume/mix driven growth and market share gains. Exited: Fresh dairy JV in China, Argentina Water, EDP Russia. In process of exiting Organic milk US
Henkel	Carstern Knobel (Jan 2020) & Marco Swoboda (Jan 2020)	3Q22 (CMD)	Consumer focus = Merger of Homecare and Beauty Business units, Streamline portfolio (exit Russia + disposal of underperforming assets worth up to EUR 1bn of sales), supply chain consolidation (co-manufacturing, warehouses, plants utilization rate, saleforce)	phase 1: EUR 250m savings full swing by 2024. phase 2: EUR 250m savings for FY24-26 // Adhesive: target 3% productivities	3Q23: Improved volume in Beauty & market share gains in Europe. Agreement reached on the restructuration people targeted. Portfolio measure completed on 60% of the EUR 1bn of revenue targeted. Consumer merger and phase 1 part ahead of plan with >80% of net savings achieved by end FY23 (100% in FY24)
Reckitt	Kris Licht (Oct 2023) - Jeff Carr (Apr 2020)	3Q23 (Strategic update)	Product superiority, market share gains, fixed cost optimization, increased distribution, COGS - trade spend - Marketing optimization.	Sustainable & value creative topline though market share gains and premium positioning. Reinvest part of the benefit from operating leverage and cost savings into brands	3Q23: >75% of markets covered by revenue growth management tools, and increased share of total distribution over the past 2 years by 140bps, Productivity program ongoing for Trade spend, COGS, Marketing and fixed costs
Beiersdorf	Vincent Warnery (May 2021) - Astrid Hermann (Jan 2021)	2Q22 (CMD June 2022)	Turnaround of US and Europe, relaunch of Nivea: Core portfolio focus (Heros SKUs), Focus on Skin care, Increase A&P (Consumer activation, cross category activation, broadening distribution)	topline growth rekindling. Operating leverage from volume/mix growth to be partially reinvested in A&P	3Q23: Strong gross across portfolio except in La Prairie where inventory are getting cleaned. New production facility in Leipzig. Internalizing some production to improve margins.

Source: Company data, BofA Global Research

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To estimate market feedback to the progress made so far in the framework of various transition programs and try to forecast the effect in 2024e, we have looked at the reaction in consensus EPS and share price, following key corporate events, which include announcement of new management appointment and new transformation strategy. Although, the charts below show some positive effect of corporate announcements on consensus EPS and share price especially in the post-covid environment, there could also be other factors influencing, such as potential COGS reduction, becoming evident in 2023.

Exhibit 67: Positive cons reaction to new management appointments at Unilever

Unilever share price, cons EPS, and corporate events



Source: Bloomberg, BofA Global Research

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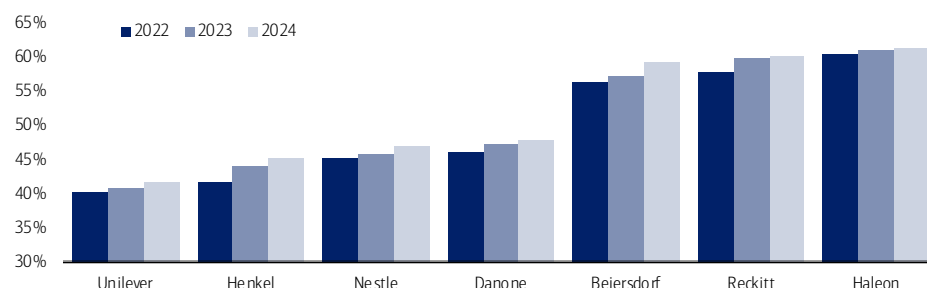
If topline LSD, and COGS deflation = natural margin leverage

The anticipated LSD top line OG in 2024e backed by the volume/mix improvement, is to some degree a result of transformation effort. Adding up COGS deflation (ex labour) and operational efficiency achievable in course of transformation programs, we are awaiting operating margins upside as it returns to historical levels.

We are forecasting GM increase in FY23-FY24e for all companies in the coverage. We expect the GM level to improve by c 200bps on average compared to the low point in 2022, but to remain below 2019 “normalized” level for most of the companies, ex. Beiersdorf and Haleon.

Exhibit 68: We expect gross margins tailwinds in FY23 and FY24e on the back of cost savings initiatives and COGS deflation

BofA gross margins forecasts for our coverage, 2022-2024E



Source: Company data, BofA Global Research estimates

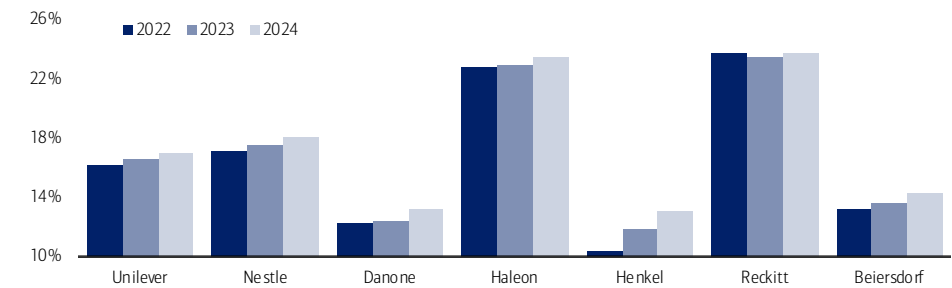
* Unilever includes distribution in COGS instead of SG&A

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GM margin expansion is being reinvested into marketing and brand equity creation, which for many companies in our coverage is an essential part of transformation program together with stronger R&D spendings. Nevertheless, we expect margin improvements also on Adj EBIT level, which is going to be ca 100 bps higher in 2024e, compared to 2022 level.

Exhibit 69: We expect Adj. EBIT margin tailwinds in FY23 and FY24se on the back of cost GM expansion but partially offset by SG&A reinvestment, mainly in A&P

BofA Adj. EBIT margins forecasts for our coverage, 2022-2024E



Source: Company data, BofA Global Research estimates

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Idea 3: Shareholder returns vs deleveraging

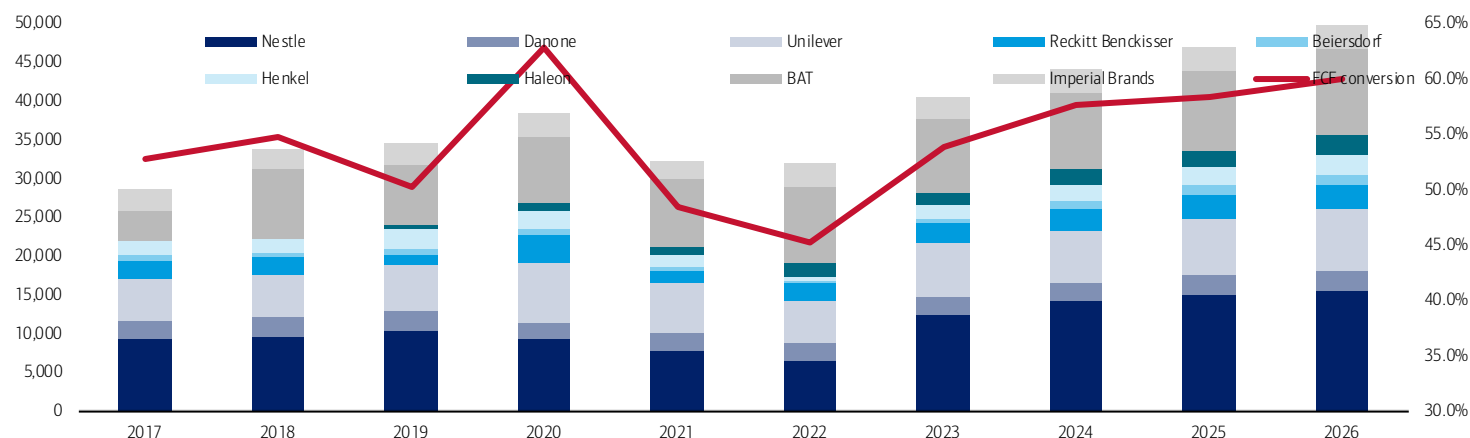
The interest rise over the past 24 months drove companies to refocus on deleveraging after having seen shareholder returns peak in FY22. We expect leverage to decline in FY23, and net debt thereafter. After shareholders return decrease in FY23e, we expect it to rebound in FY24e and thereafter. We also expect management teams to focus on deleveraging, following interest rise in 2022-23. After improving shareholder returns sequence, companies could turn to increased CAPEX or M&A to support continued growth. We expect superior 2024 shareholder returns from BAT and Nestle.

FCF generation returning to “normal”

As supply chains normalized in 2023, working capital for the overall staples sector also followed suit. We expect FCF conversion to return to average levels of 55% for the sector in 2023, and marginally rise thereafter supported by eventually lower interest expenses. Furthermore, companies with self-help equity stories such as Beiersdorf, Nestle and Henkel also support improvement in the sector's average.

Exhibit 70: European HPC, Food & Tobacco FCF generation and FCF conversion

Sector FCF recovering post strong WC outflows in 2021-22



Source: BofA Global Research estimates, company data

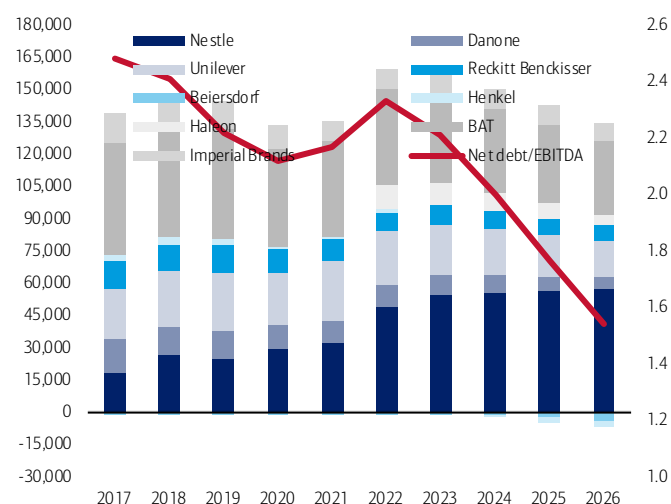
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Shareholder returns stepped down in 2023

In a rising interest rate environment, and low FCF generation (driven by net working capital reversal), the sector's net debt peaked in 2022. Management refocused capital allocation to a certain extent on deleveraging, seemingly at the expense of shareholder returns in BofA estimates. For instance, BAT has not announced a new share buyback for 2023 and 2024 and focuses its efforts on bringing its leverage to the middle of 2-3x net debt/EBITDA.

Exhibit 71: HPC, Food and Tobacco coverage net debt development (€m)

Net debt appears to have peaked in 2022....

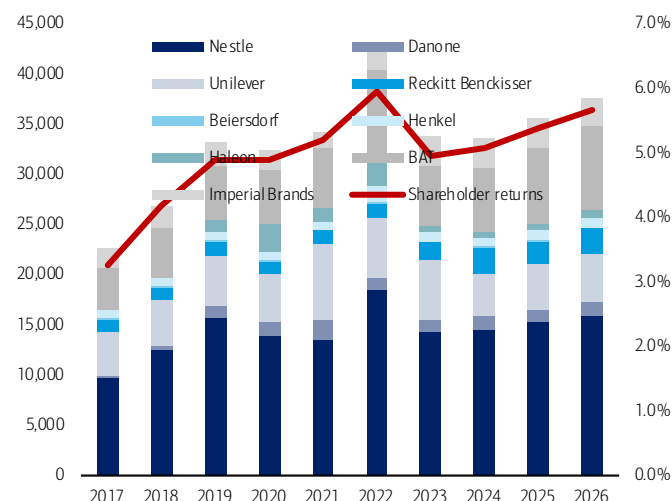


Source: Company data, BofA Global Research estimates

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Exhibit 72: HPC, Food and Tobacco coverage shareholder returns

.... Alongside shareholder returns



Source: Company data, BofA Global Research estimates

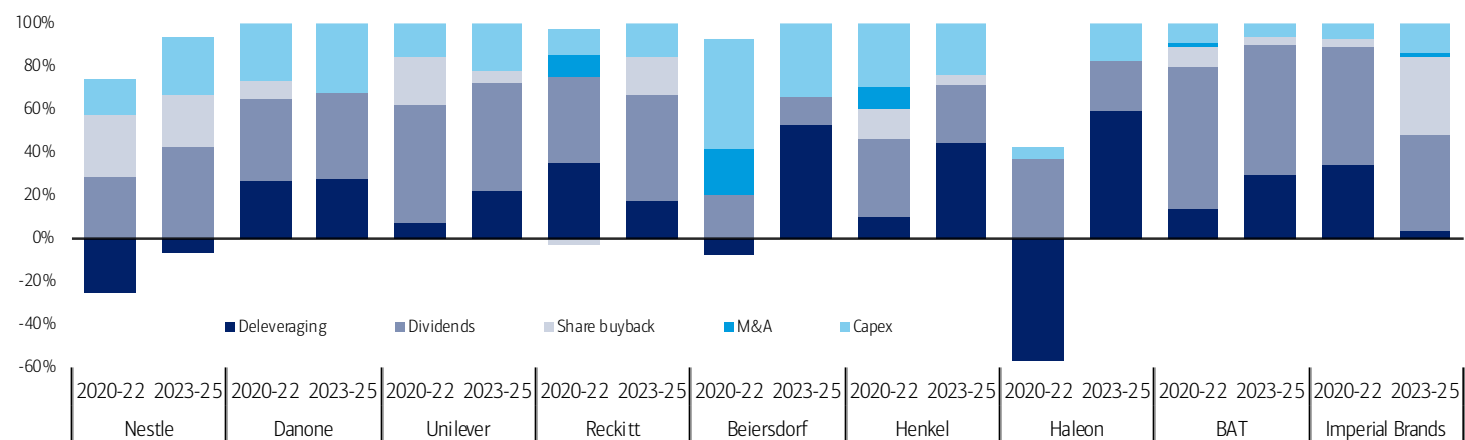
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Free cash flow improvements focused on deleveraging

While free cash flows are improving, as highlighted above, we expect management teams in an elevated rates environment to continue their deleveraging efforts in the near-term. Dividends should be maintained at current trends, with mild increases on a yearly basis. Share buybacks could re-appear at a wider scale once interest rates start dropping.

Exhibit 73: Historical capital allocation vs BofAe CY23-25 across consumer staples (% split)

Deleveraging is expected to increase as a share of capital allocation over the next 2 years



Source: Company data, BofA Global Research estimates

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Excess cash to accumulate to 5% of market cap

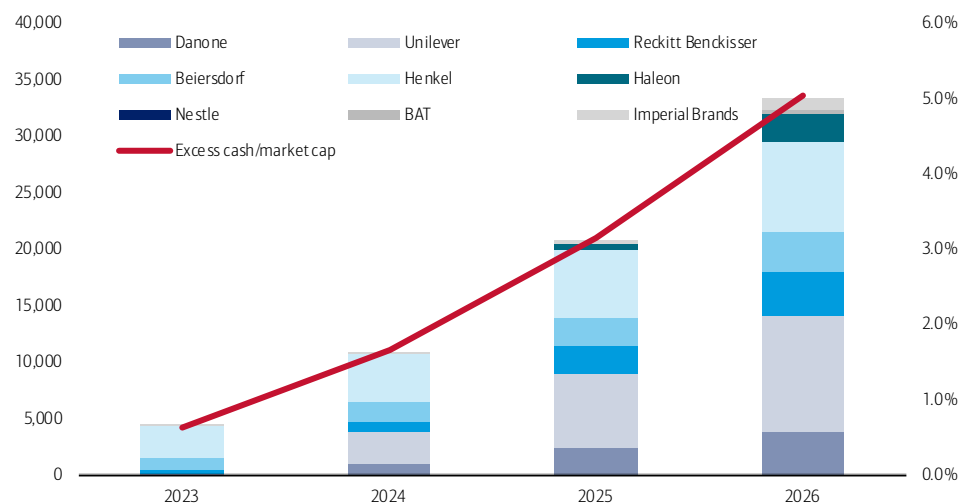
Our current estimates include some expectations of share buybacks in outer years, along with dividend increases. That said, considering our cautious approach and a higher focus on deleveraging, we expect companies to accumulate “excess cash” of 5% of the sector’s market cap by 2026, predominantly driven by Henkel and Beiersdorf, which are controlled by a majority shareholder.

Our methodology to calculate excess cash is based on an estimated “target net debt/EBITDA leverage” for each company ranging from 0 (for Beiersdorf) to 2x across the coverage.

Such excess cash in our view could be used to either: 1) Increase shareholder returns over the next 3 years, 2) Accelerate organic growth (capex) / M&A.

Exhibit 74: Excess cash will continue to accumulate across our coverage

Excess cash for our coverage in absolute term (in EURm) and in % of market cap, 2023-2026E



Source: BofA Global Research estimates

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Tight balance sheets limit M&A optionality

The European Staples sector went through a flurry of M&A deal over the 2016-2018 period, driven by synergistic approaches (cost opportunities and EPS accretion). It appears that M&A trends since have focused more on topline growth accretion, with smaller deals, and bolt-on operations at the margin.

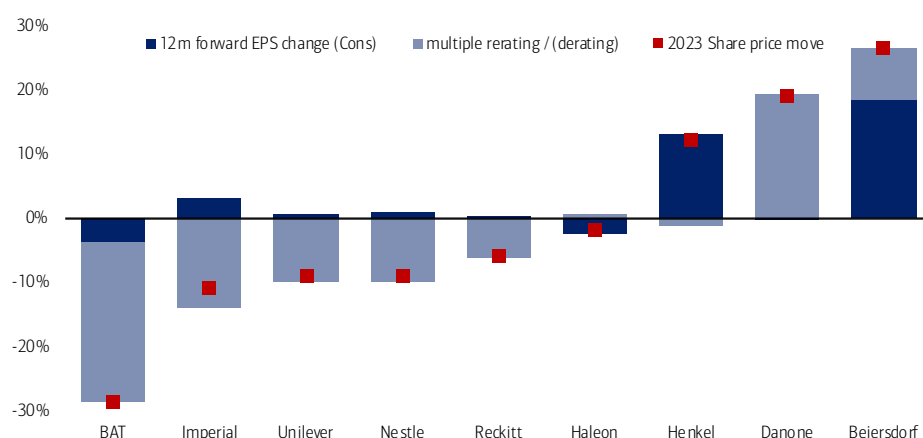
There were more deals in 2023 alone than the 2016-2018 “scale” period but they were more “bolt-on” than transformational deals. As represented above, companies across our coverage will accumulate c.€32bn in excess cash offering M&A fire power, albeit we continue to expect higher shareholder returns and focus on deleveraging in a high interest rate environment (compared to 2016-18 period).

Most of the sector’s “portfolio rotation” or in other words disposals is coming to an end as exemplified by Danone’s latest disposal of Horizon Organic and Wallaby in the traditional dairy category. With increased fire power, opportunities for M&A might emerge in 2024 dependent on valuations.

Sector Valuation

During 2023, European Food, HPC & Tobacco companies have derated as a whole excluding companies in turnaround process that are either showing green shoots of tangible evidence of success. Key concerns around interest rates environment considering the bond-proxy nature of the sector, coupled with weak consumer confidence & disposable income have weighted on broader sector valuation. European Staples (ex-tob) 12m forward PE is now at 17.5x and at a 40% premium vs the Stoxx 600 which is close to its 10Y average.

Exhibit 75: During 2023, Danone saw the largest rerating, while BAT derated the most
2023 share price move (in %), with the split between Consensus 12m forward EPS change and rerating/(derating) in 2023

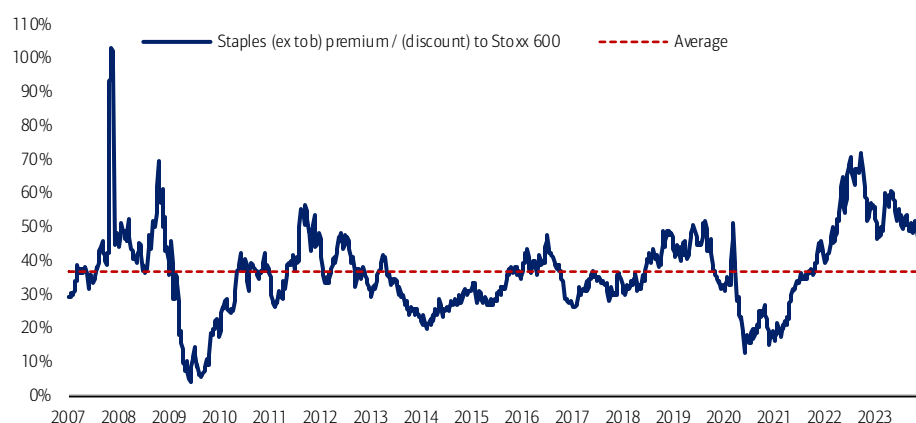


Source: Bloomberg, BofA Global Research

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Exhibit 76: European Staples (ex tob) currently trades at an 40% premium to Stoxx 600 vs 36% premium over the past 15 years average

European Staples (ex Tob) PE relative to Stoxx 600, 12-month forward consensus earnings

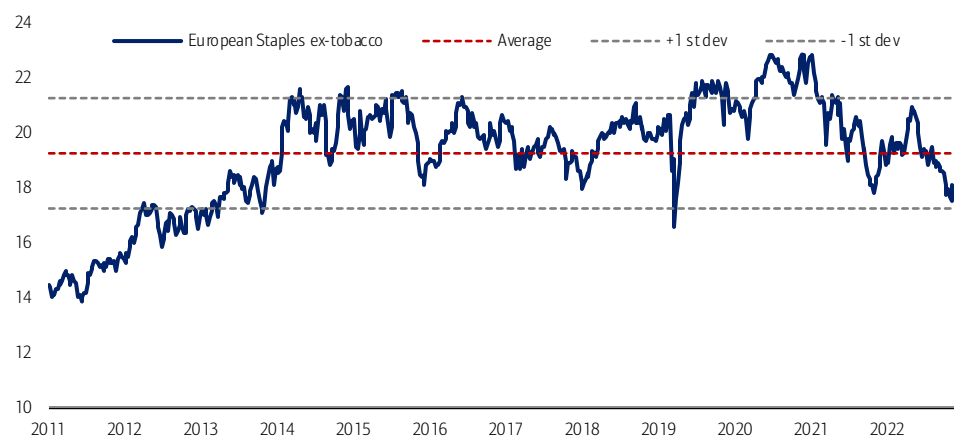


Source: BofA Global Research, Bloomberg

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Exhibit 77: European Large cap staples (ex-tobacco) currently trades at an 6% discount to its last 10 years average

European large cap Staples 12m forward PE consensus earnings.

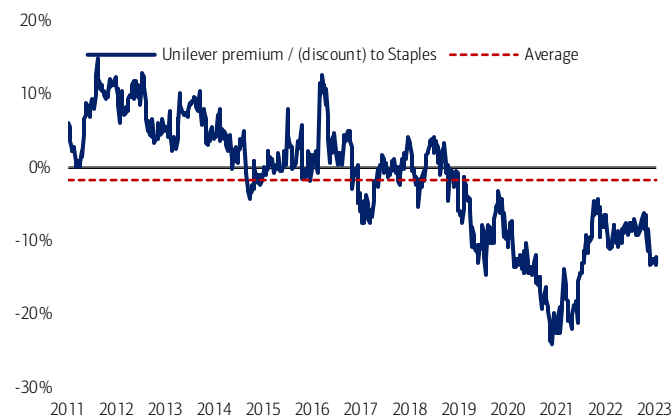


Source: BofA Global Research, Bloomberg

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Exhibit 78: Unilever currently trades at an 9% discount to European Staples (ex tobacco)

Unilever PE relative to European Staples (ex-tobacco), 12-month forward consensus earnings

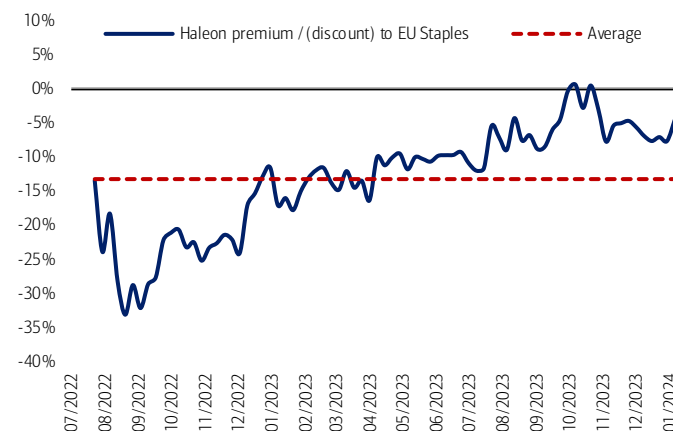


Source: BofA Global Research, Bloomberg

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Exhibit 79: Haleon currently trades at an 7% discount to European Staples (ex tobacco)

Haleon PE relative to European Staples (ex-tobacco), 12-month forward consensus earnings

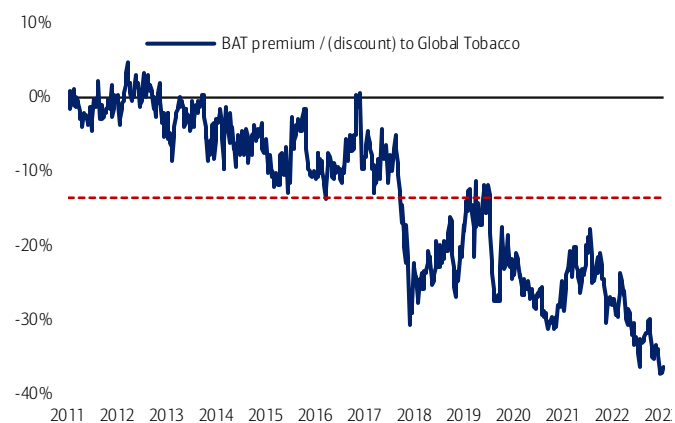


Source: BofA Global Research, Bloomberg

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**Exhibit 80: BAT currently trades at an 37% discount to Global Tobacco
vs 14% discount in the last 10 years average**

BAT PE relative to Global Tobacco, 12-month forward consensus earnings



Source: BofA Global Research, Bloomberg

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Top-down view: Consumer under pressure

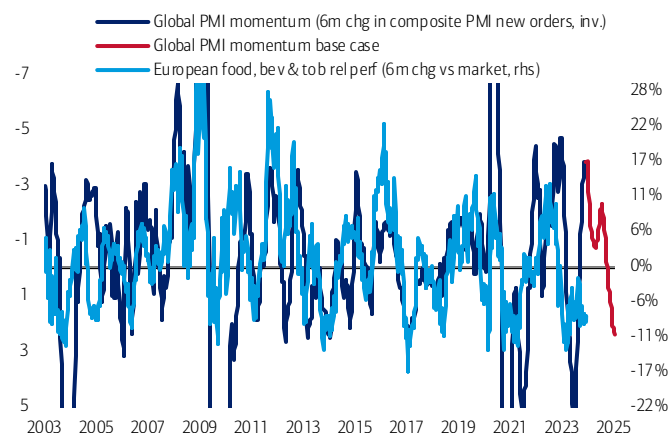
2024 is consensually expected to be the year of a US economy soft-landing, with rates expected to decline from the end of 1H24 onwards (BofAe: 25bps cut in June, terminal 3% rate in 2026). In this context, the consumer's disposable income should remain under pressure at least in 1H24, and more possibly for the entire year. Historically, the European Consumer Staples sector performance has had a strong correlation with the European risk premia.

From the strategist: Risk premia is key for sector performance

In its 2024 Year Ahead (2024 sector outlook: defensives to shine as macro resilience fades), our European Equity strategy is overweight consumer Staples on expectations of weaker growth, higher risk premia and lower bond yields: food & beverages have underperformed the market by 13% in 2023, taking the sector's price relative to the lowest level since 2014. The surprising resilience in US growth this year has been a key stumbling block for the sector, as it led to a compression in risk premia (i.e., tightening high-yield credit spreads and a declining global equity risk premium), as well as a surge in US bond yields (due to sharp hawkish revisions in Fed expectations), with food & beverages typically among the sectors most vulnerable to both trends. Over the coming months, we expect US growth resilience to give way to a classical slowdown scenario, as the full impact of aggressive monetary tightening on the credit cycle makes itself felt, while the boost from this year's US fiscal support fades and large pandemic-era company order backlogs get depleted. If growth weakens in line with our expectations, this would imply scope for risk premia to widen from their current lows and bond yields to continue their recent pullback. Taken together, our macro assumptions imply 13% renewed upside for food & beverages and 8% for personal & household goods relative to the market, with a projected peak by mid-year, followed by a pullback into year-end.

Exhibit 81: Food & beverages tend to outperform when global PMI momentum is negative, as is currently the case, and we expect momentum to remain in negative territory over the coming months

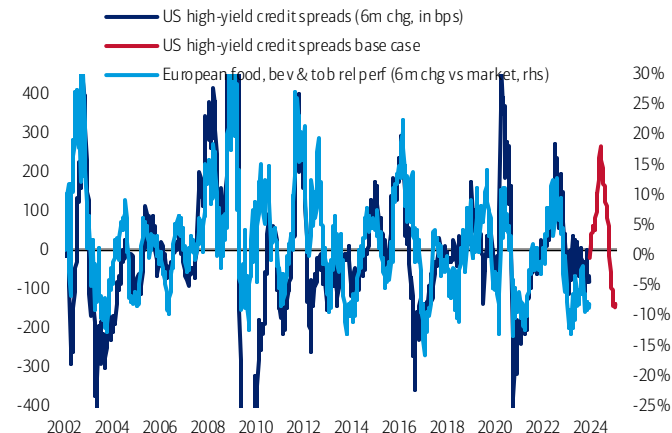
European food & beverages versus global PMIs



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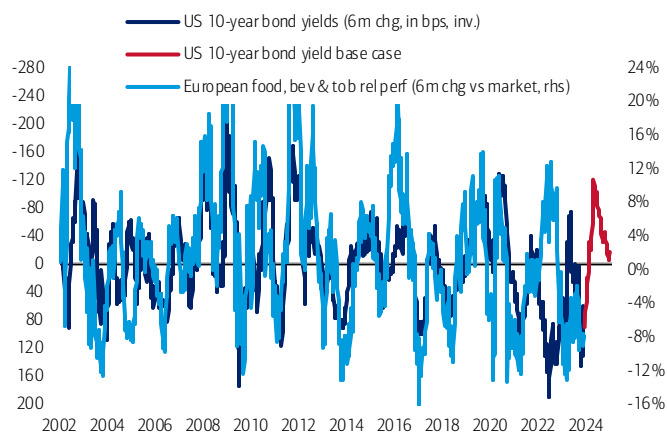
Exhibit 82: Widening US high-yield credit spreads are typically associated with outperformance of food & beverages, and we expect spreads to widen over the coming months as global growth slows

European food & beverages versus US high-yield credit spreads



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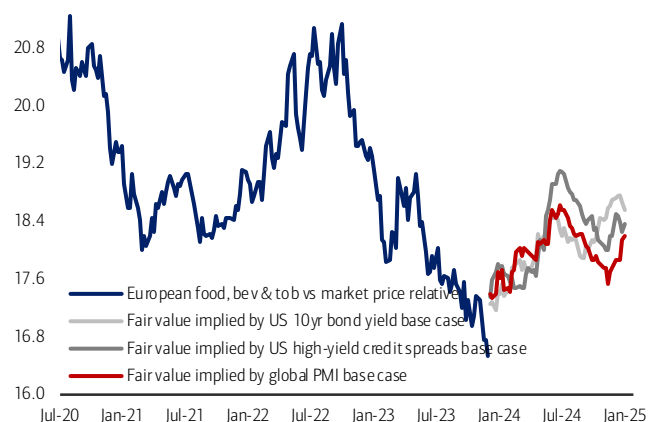
Exhibit 83: Food & beverages' price relative typically moves inversely to the US 10-year bond yield, outperforming when bond yields fall, as we expect them to in response to a more dovish Fed
European food & beverages versus US bond yields



Source: BofA Global Research estimates, Datastream, Haver

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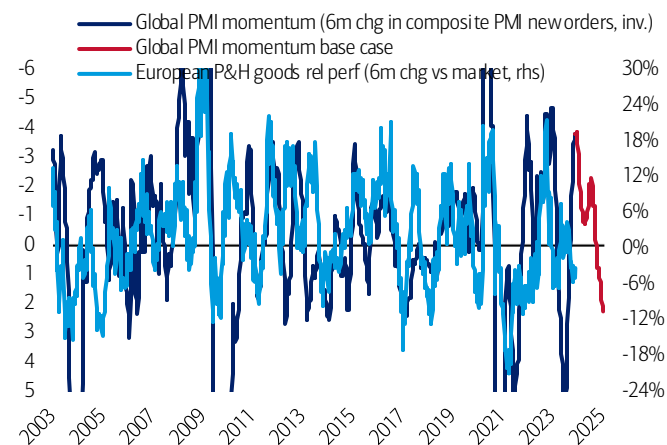
Exhibit 84: Our macro assumptions imply scope for 13% outperformance for food & beverages by mid-2024, followed by a pull-back into year-end
European food & beverages projections



Source: BofA Global Research estimates, Datastream

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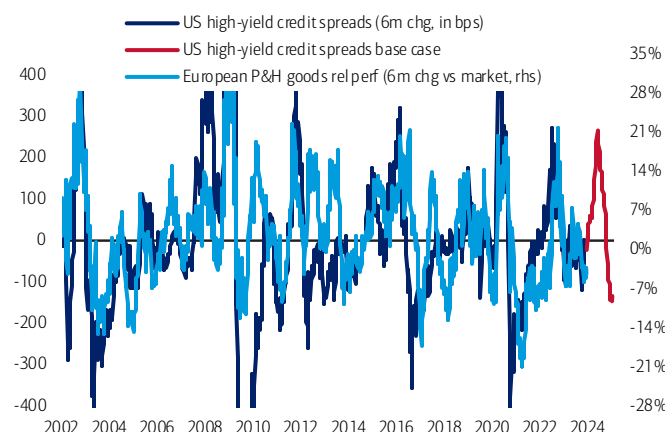
Exhibit 85: Personal & household goods tend to outperform when global PMI momentum is negative, as we expect it to be for most of next year
European personal & household goods versus global PMI



Source: BofA Global Research estimates, Datastream, Haver

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Exhibit 86: If credit spreads widen on the back of a slowing macro cycle, in line with our expectations, this would be supportive for personal & household goods' relative performance
European personal & household goods versus US high-yield credit spreads

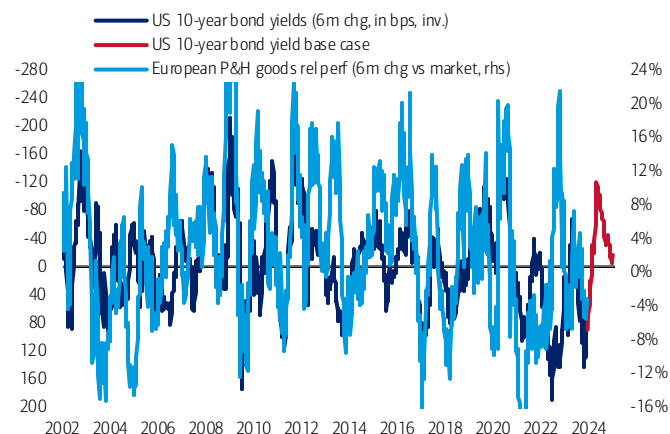


Source: BofA Global Research estimates, Datastream

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Exhibit 87: Personal & household goods' price relative to the market tends to move inversely to the US 10-year bond yield, which we expect to decline

European personal & household goods versus US 10y bond yields

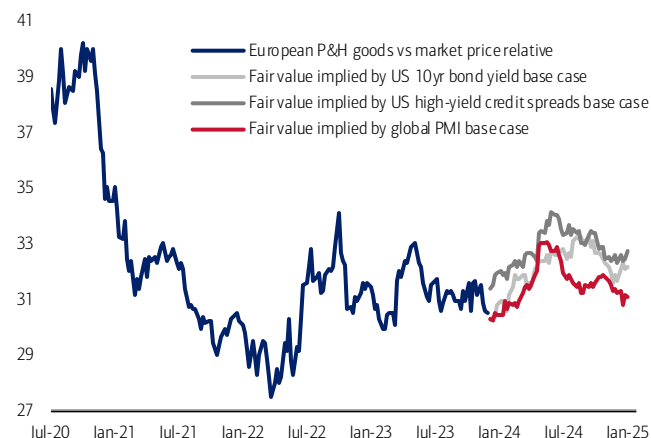


Source: BofA Global Research estimates, Datastream, Haver

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Exhibit 88: Following 8% underperformance since May, our macro projections imply 8% further upside for the sector's price relative by Q2 next year, before a fade into year-end

European personal & household goods projections



Source: BofA Global Research estimates, Datastream

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Consumer Staples outperforms during periods of lower yields & inflation

As we move into 2024, and the market backdrop is dominated by lower inflation and lower bond yields expectations, we look at history as a guide to the HPC & Food-bev-tob sectors performances during these periods.

Falling bond yield expectations

We have run an analysis on how European HPC (here: MSCI Europe personal & Household goods index) and Food-bev-tob sectors (here: the MSCI Europe Food beverage and Tobacco index) have fared in periods of higher US bond yields (defined by a 100 basis points rise or more) over the past 25 years. As below table shows, HPC has outperformed in 12 of the 14 periods considered, with an average annualized performance of -3%, albeit with an annualized underperformance of 16%. Similarly, Food Bev Tob has outperformed in 12 of the 14 periods considered, with an average annualized performance of -6%, albeit with an annualized underperformance of 13%

Exhibit 89: The Food-bev-tob sector has outperformed in 12 out of 14 periods of falling bond yields

European Food-bev-tob share price performance in periods of falling bond yields

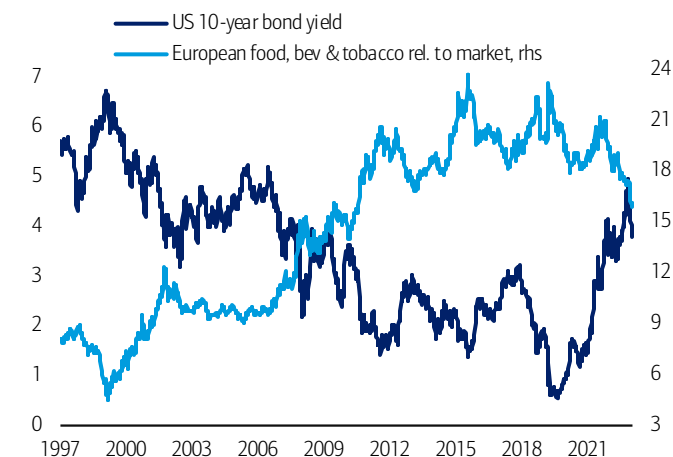
Periods of falling US 10yr bond yields			Europe food, bev & tob (annualized)	
From	To	rise in bps	sector perf	rel. to market
May-98	Oct-98	-141	-44%	5%
May-00	Nov-01	-227	8%	32%
Mar-02	Jun-03	-225	-16%	10%
Jun-04	Oct-04	-80	-19%	-21%
Jul-06	Nov-06	-72	30%	5%
Jun-07	Dec-08	-314	-13%	28%
Apr-10	Oct-10	-151	-1%	6%
Feb-11	Sep-11	-198	1%	45%
Mar-12	Jul-21	-100	8%	0%
Jan-14	Oct-15	-83	11%	11%
Dec-15	Jul-16	-89	11%	30%
Nov-18	Aug-19	-171	19%	19%
Jan-20	Apr-20	-120	-77%	58%
Oct-23	Jan-24	-101	-2%	-49%
Average annualized performance			-6%	13%
Hit rate of sector strength			54%	86%
Typical CAGR over past 25 years			5%	3%

Source: BofA Global Research estimates, DataStream

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Exhibit 90: The Food-bev-tob sector has an average annualized performance of -6%, however outperformed the market by 13% on an annualized basis periods of falling bond yields

European Food-bev-tob sector performance relative to US 10 year bond yields



Source: BofA Global Research estimates, DataStream

BofA GLOBAL RESEARCH

Exhibit 91: The HPC sector has outperformed in 12 out of 14 periods of falling bond yields

European HPC share price performance in periods of falling bond yields

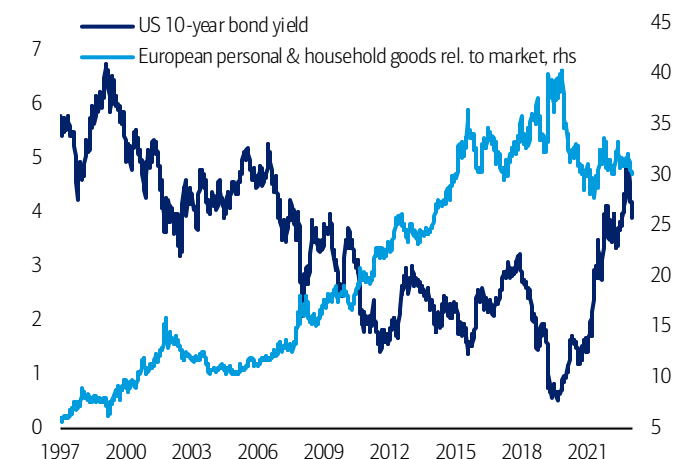
Periods of falling US 10yr bond yields			Europe P & HH goods (annualized)	
From	To	rise in bps	sector perf	rel. to market
May-98	Oct-98	-141	-16%	32%
May-00	Nov-01	-227	4%	29%
Mar-02	Jun-03	-225	-17%	9%
Jun-04	Oct-04	-80	-32%	-36%
Jul-06	Nov-06	-72	22%	4%
Jun-07	Dec-08	-314	-15%	23%
Apr-10	Oct-10	-151	0%	9%
Feb-11	Sep-11	-198	-15%	23%
Mar-12	Jul-21	-100	17%	7%
Jan-14	Oct-15	-83	14%	12%
Dec-15	Jul-16	-89	24%	43%
Nov-18	Aug-19	-171	12%	7%
Jan-20	Apr-20	-120	-39%	92%
Oct-23	Jan-24	-101	10%	-37%
Average annualized performance			-3%	16%
Hit rate of sector strength			46%	86%
Typical CAGR over past 25 years			9%	6%

Source: BofA Global Research estimates, DataStream

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Exhibit 92: The HPC sector has an average annualized performance of -3%, however outperformed the market by 16% on an annualized basis periods of falling bond yields

European HPC sector performance relative to US 10 year bond yields



Source: BofA Global Research estimates, DataStream

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Falling inflation expectation

We have replicated the same analysis as above for falling inflation expectations, taking into account all periods in which the US 10-year breakeven inflation rate has decreased by 50 basis points or more. HPC had an average annualized performance of -5% and an annualized outperformance of 50% in periods of falling inflation. Food Bev Tob had an average annualized performance of -14% and an annualized outperformance of 42% in periods of falling inflation.

Exhibit 93: The Food-bev-tob sector has outperformed in 10 out of 11 periods of falling inflation expectations

European Food-bev-tob share price performance in periods of falling inflation expectations

Periods of falling US 10yr inflation expectations			Europe food, bev & tob (annualized)	
From	To	rise in bps	sector perf	rel. to market
May-00	Dec-00	-109	40%	55%
May-01	Nov-01	-89	-14%	38%
May-02	Oct-02	-67	-43%	66%
Jul-08	Nov-08	-263	-13%	92%
Apr-10	Aug-10	-86	-4%	20%
Apr-11	Sep-11	-92	-5%	49%
Mar-13	Jun-13	-61	-15%	-10%
Jul-14	Jan-15	-70	13%	16%
Jul-15	Feb-16	-71	7%	39%
Jan-20	Mar-20	-125	-96%	77%
Apr-22	Sep-22	-85	-19%	15%
Average annualized performance			-14%	42%
Hit rate of sector strength			27%	91%
Typical CAGR over past 25 years			5%	3%

Source: BofA Global Research estimates, DataStream

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Exhibit 94: The Food-bev-tob sector has had a compound annual outperformance of 42% over the last 25 years in periods of falling inflation

European Food-bev-tob sector performance relative to US 10 year bond yields



Source: BofA Global Research estimates, DataStream

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Exhibit 95: The HPC sector has outperformed in 10 out of 11 periods of falling inflation expectations

European HPC share price performance in periods of falling inflation expectations

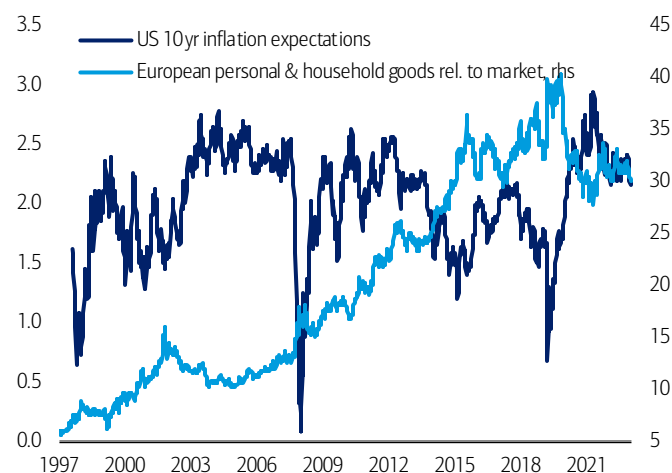
Periods of falling US 10yr inflation expectations			Europe P & HH goods (annualized)	
From	To	rise in bps	sector perf	rel. to market
May-00	Dec-00	-109	32%	45%
May-01	Nov-01	-89	-4%	56%
May-02	Oct-02	-67	-23%	97%
Jul-08	Nov-08	-263	-13%	80%
Apr-10	Aug-10	-86	-24%	-1%
Apr-11	Sep-11	-92	-8%	40%
Mar-13	Jun-13	-61	20%	25%
Jul-14	Jan-15	-70	16%	17%
Jul-15	Feb-16	-71	3%	34%
Jan-20	Mar-20	-125	-62%	105%
Apr-22	Sep-22	-85	11%	48%
Average annualized performance			-5%	50%
Hit rate of sector strength			45%	91%
Typical CAGR over past 25 years			9%	6%

Source: BofA Global Research estimates, DataStream

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Exhibit 96: The HPC sector has had a compound annual outperformance of 50% over the last 25 years in periods of falling inflation

European HPC sector performance relative to US 10 year bond yields



Source: BofA Global Research estimates, DataStream

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Global and European positioning

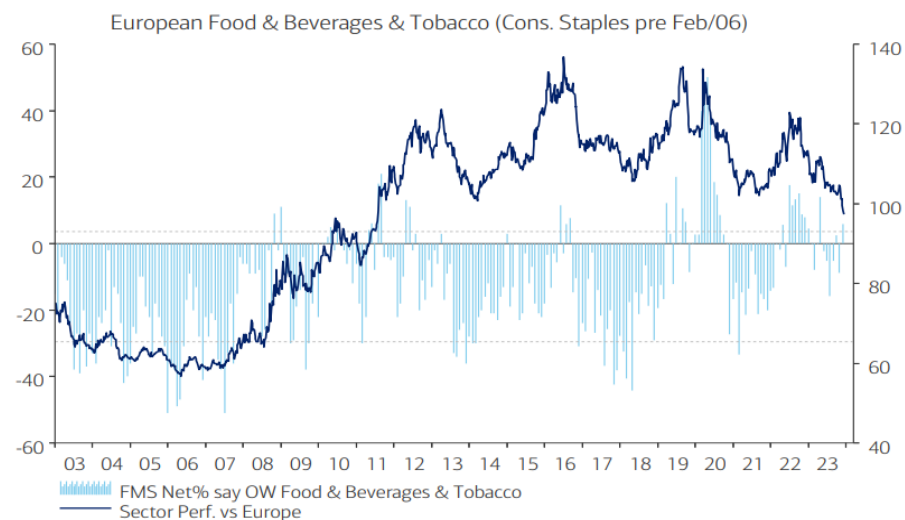
In our latest European Fund Managers Survey ([A strong rally cools investors' bullishness](#)), our strategy team (as usual) asked "Are you overweight or underweight" 1) Food & Beverages & Tobacco, 2) Consumer products & services. The latest readings are overweight (net 6%) and neutral underweight (net 3%) respectively.

In Food & Beverages & Tobacco, this follows a year of underweight positioning in the market (peaking at -20% over the summer), where concerns over inflation were followed by concerns around growth for our covered companies. As we step into 2024, investors are wary of pricing momentum in the wider space, as private label market share rose, and disposable income should remain under pressure at least in 1H24 in a context of high interest rates.



Exhibit 97: Net 6% of European participants say they are overweight the sector

European Food & beverages & tobacco BofA European Fund Manager Survey



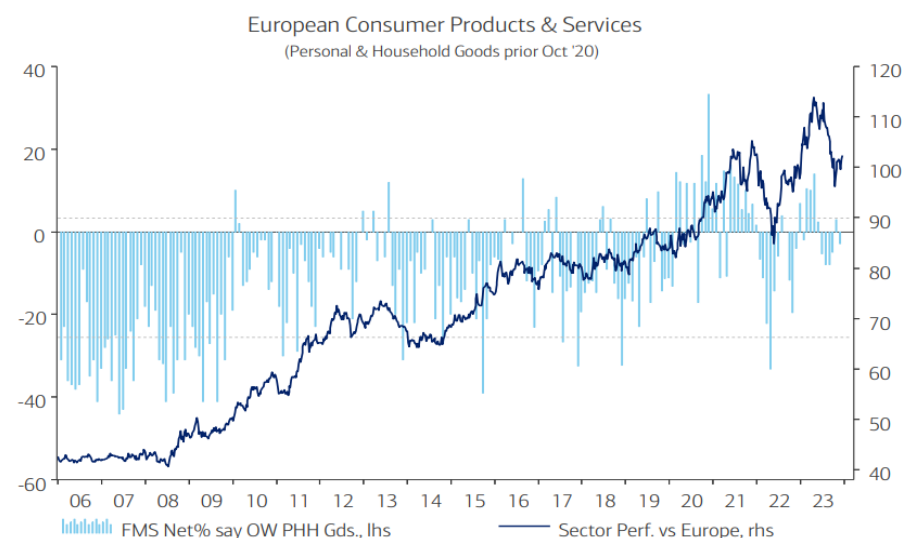
Source: BofA European Fund Manager Survey, Datastream

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Interestingly, in Consumer Products & Services (previously Personal & Household Goods), positioning has turned net 3% underweight in the latest December survey. Historical positioning was underweight until covid, where the sector became a safe-haven for fund managers. As we moved away from covid into an inflationary cycle, positioning had turned underweight in 2022. As we step into 2024, where we expect pricing to be limited, and where volumes could remain negative, the sector might nonetheless benefit from a cyclical-defensive rotation.

Exhibit 98: Net 3% of European participants say they are underweight the sector

European consumer products & services BofA European Fund Manager Survey

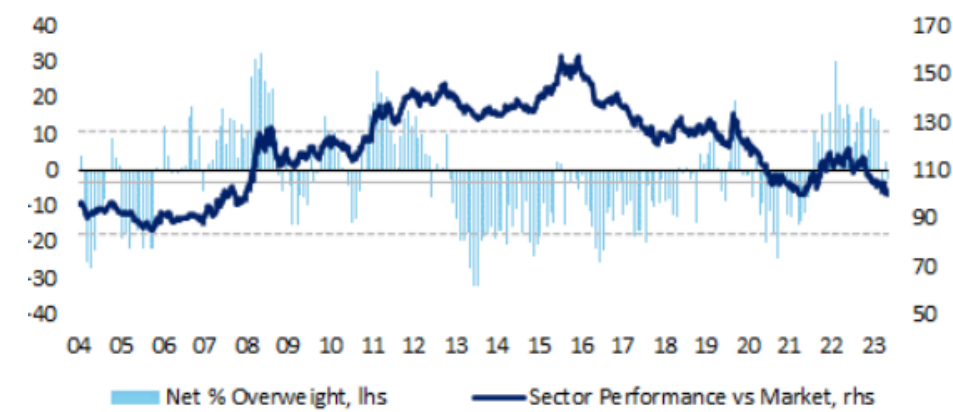


Source: BofA European Fund Manager Survey, Datastream

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In the Global Fund manager survey from December ([Contrarian Cs: Commodities, China & Cash](#)), positioning in Global Consumer staples turned back negative in the latest reading (net 3% claimed underweight), after a sharp decline in the prior readings. Overall, positioning appeared to be much stronger over the entire 2022-23, and more cautious as we now stepped into a weak consumer environment. The sharp drop in overweight comes in coordination with investors claiming they are now overweight global equities for the first time since April 22.

Exhibit 99: Net 3% of Global participants say they are underweight in Global Staples sector
Global Consumer Staples BofA Fund Manager Survey



Source: BofA Global Fund Manager Survey, Datastream

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Longer term themes

GLP-1 summer & autumn theme, here to stay?

While the GLP-1 market momentum has faded – we notice only a handful questions were asked across meetings at our BofA European Consumer & Retail conference mid-November – the topic could return by the end of 2024 as capacity increases from Novo and Lilly hit the market. At this stage, the key facts remain well known: 1) Expect US caloric intake reduction of -1/-3%, 2) More pronounced headwinds for intermittent eating occasions (e.g.: snacking), 3) Diet/wellness products could be hurt/cut as the need for elimination diets and reduced calorie products are minimized.

We discussed the topic in more details in: [US Biopharmaceuticals: GLP-1's in obesity: Evaluating the impact across several key consumer markets 06 October 2023](#)

Private Label penetration: More to come or pain on price?

Private label remains a source of price pressure, especially for the highly commoditized categories with limited barriers to entry (home care, traditional dairy...) in Developed Markets. Private label is one of few differentiators between retail chains and serves as an important traffic and loyalty contributor for them (=other things being equal, supermarkets would be better-off with higher share of private label). In 2023, private label penetration has been increasing to pre-pandemic levels and above, which resulted both from significant price increases putting pressure on consumer, but also by retailers using negotiations-related delisting of certain products/brands to increase private label exposure. In 2024, we might see more downtrading out of the branded products to PL which could limit so much awaited volume recovery across categories (we are cautious on Home Care in particular).

Consumer Health: The so much needed resilience

We expect consumer health to continue serving as a safe and resilient growth category. With the comps being easier for OTC (without any exceptional flu waves in the Northern hemisphere in Q4 23) and for VMS (after having a difficult year in '23), we expect these categories to show top line growth, supported both by volumes (on the back of easy comps) and by pricing (with higher entry barriers and more price increase potential). Medical nutrition is set to show DD top line growth, driven by megatrends, such as aging population, better diagnostics, and category-specific innovation trends.

Petcare & Pet food: Momentum vs long-term growth

As the demand spike is over and many pet parents are being out of their household a trading down momentum is underway, pushing out some of the demand from super premium treating and wet food, which is benefiting producers with extensive category and price architecture (i.e. Nestle). One of the key markets in question is US Petcare (the largest global market with DD growth during COVID and capacity constraints across many subcategories is now going through capacity expansion and DD yoy adoption rate decline, raising investor concerns). A long-term trend for humanization and calorific coverage as well as growing pet population globally will continue to support HSD growth and premiumization in pet care and petfood categories, in our view.

Tobacco: US cigarettes volumes under continued pressure

With an average US consumer under pressure and the emergence of licit and illicit next generation products, the average rate of decline of US cigarettes volumes has accelerated over the last 18 months to c.-7.5%, and we expect it to continue so in 2024. The additional regulatory pressures, particularly targeting menthol cigarettes, continue to weigh on sentiment and add downside risks to the category. Nonetheless, with consensus expectations on BAT and IMB of -3.2% / -4.5% volume decline in 2024, we see the risk as fairly priced in, with tentative upside from increasing disposable income / lower interest rates in the 2nd half of the year.

Tobacco: Rise of illicit flavoured vapour in the US

Next generation products growth is an important part of the equity stories of BAT and IMB, following multi-billion pounds investments in the categories. The US Vapour market has been flooded by illicit products. According to BAT and Altria, up to 70% of the market could be illicit at this stage. While the FDA continues to focus on the approvals and denials of pre-market tobacco applications within vapour (latest denial for BAT's Vuse menthol products), market participants expect to intervene after the backlog of PMTAs in the category is cleared. Considering the ongoing delays that the FDA is prone to, we only expect a recovery of the licit vapour market in 2025. By then, the adoption of vapour will have continued to grow and consumers of illicit products should have to turn to conventional solutions, including the market leader's, BAT.

M&A activity

Today's operating environment might challenge the current growth algorithms. Consumers are less predictable in the wake of inflation in developed markets and COVID induced changes in mobility and consumption patterns. Developing/Emerging markets are mixed; China is slowing, India is accelerating, and Latin America has been consistent, despite inflation, but remains to be seen how long this will continue to be the case. The operating landscape is evolving as the higher cost of doing business raises the bar for smaller brands to compete, while supply chains are now mostly stabilized from the COVID related bumps. As a result, management teams could lean towards M&A opportunities.

E-commerce: After the post-covid lull.

After gaining the ground during the pandemic and establishing as an important retail channel in the post-pandemic years, online retail is set to gain even greater market share in the product categories, where it already plays an important role, such as beauty products and certain food categories (such as sport nutrition, VMS or coffee). A bolder move to the e-commerce should secure more top line growth in the EM through faster growing channels and less exposure to downtrading competition with private labels in the mature markets.

Exhibit 100: Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
BTAF	BATS LN	BAT	2352.5p	A-1-7
BTI	BTI US	BAT	US\$ 30.01	B-1-7
XTALF	BTI SJ	BAT	ZAR 563.77	B-1-7
HLN	HLN US	Haleon	US\$ 8.67	B-1-7
HLNCF	HLN LN	Haleon	337.2p	A-1-7
UL	UL US	Unilever	US\$ 48.88	A-3-7
UNLVF	UNA NA	Unilever	EUR 44.75	A-3-7
UNLYF	ULVR LN	Unilever	3832p	A-3-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk**British American Tobacco (BTAF / BTI)**

Our PO of £29/ZAR690/\$37 is based on the Adjusted Present Value methodology (a variation of the DCF) whereby we discount the business' operating cash flows at the cost of equity (for BAT we use 12.8%, inclusive of 3.0% regulatory/litigation risk premium) and the tax shield at the cost of debt (4.5%). We assume a terminal growth rate of -1%.

Upside risks to our PO are a relaxation of the regulatory risk faced by the sector, a better than expected sales performance of Next Generation Products (both on sales and margins) and reversal of market share losses in the US .

Downside risks to our PO are an intensification of the regulatory risk (especially in the US), lower-than-expected sales performance in vaping and THP, market share losses, weaker than expected US combustibles market.

British American Tobacco (XTALF)

Our PO of £29/ZAR690/\$37 is based on the Adjusted Present Value methodology (a variation of the DCF) whereby we discount the business' operating cash flows at the cost of equity (for BAT we use 12.8%, inclusive of 3.0% regulatory/litigation risk premium) and the tax shield at the cost of debt (4.5%). We assume a terminal growth rate of -1%.

Upside risks to our PO are a relaxation of the regulatory risk faced by the sector, a better than expected sales performance of Next Generation Products (both on sales and margins) and reversal of market share losses in the US .

Downside risks to our PO are an intensification of the regulatory risk (especially in the US), lower-than-expected sales performance in vaping and THP, market share losses, weaker than expected US combustibles market.

Downside risks to our PO are an intensification of the regulatory risk (especially in the US), lower-than-expected sales performance in vaping and THP, accelerated negative brand mix from NGPs, market share losses, lower-than-expected cost efficiencies/synergies and acceleration in the rise of interest rates.

Haleon (HLNCF / HLN)

Our price objective (PO) for Haleon shares of 390GBp per share/\$9.9 per ADR is based on the Adjusted Present Value methodology (a variation of the DCF) whereby we discount the business' operating cash flows as the cost of equity (for Haleon we use 8.5%) and the tax shield at the cost of debt (2.8%). We assume a terminal growth of 2.5%.

Downside risks to PO: Litigation including potential indemnification to GSK/Pfizer (which may include US OTC Zantac liabilities), potential indemnification with regards to ongoing PPI litigation, slowdown of organic growth, increased competition from emerging challengers/global peers/private label players, change of consumer trends, insufficient investment on digitalisation, raw materials inflation, changing macro trends, unfavourable currency swings, and deterioration of brand image.

Upside risks to our PO: stronger than expected macroeconomic recovery, increase of consumer confidence, higher than expected margins/organic growth, raw materials deflation, favourable currency swing, and increase of shareholder returns.

Unilever (UNLVF)

Our price objective (PO) for Unilever plc shares is GBP 3,600 / EUR 42 / \$46 and is based on the Adjusted Present Value methodology (a variation of the DCF) whereby we discount the business' operating cash flows at the cost of equity (for Unilever we use 8.9%) and the tax shield at the cost of debt (2.4%). We assume a terminal growth rate of 2.5%

Downside risks to PO: slowdown of organic growth, increased competition from emerging challengers/global peers/private label players, change of consumer trends, insufficient investment on digitalisation, raw materials inflation, changing macro trends, unfavourable currency swings, and deterioration of brand image.

Upside risks to PO: stronger-than-expected macroeconomic recovery, increase of consumer confidence, higher-than-expected margins/organic growth, raw materials deflation, favourable currency swings, and increase of dividend.

Unilever (UNLYF / UL)

Our price objective (PO) for Unilever plc shares is GBP 3,600 / EUR 42 / \$46 and is based on the Adjusted Present Value methodology (a variation of the DCF) whereby we discount the business' operating cash flows at the cost of equity (for Unilever we use 8.9%) and the tax shield at the cost of debt (2.4%). We assume a terminal growth rate of 2.5%

Downside risks to PO: slowdown of organic growth, increased competition from emerging challengers/global peers/private label players, change of consumer trends, insufficient investment on digitalisation, raw materials inflation, changing macro trends, unfavourable currency swings, and deterioration of brand image.

Upside risks to PO: stronger-than-expected macroeconomic recovery, increase of consumer confidence, higher-than-expected margins/organic growth, raw materials deflation, favourable currency swings, and increase of dividend.

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We, Victoria Petrova and Joffrey Bellicha Meller, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

EMEA - HPC, Food & Tobacco Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Beiersdorf	BDRFF	BEI GY	Victoria Petrova
	Beiersdorf	BDRFY	BDRFY US	Victoria Petrova
	Haleon	HLNCF	HLN LN	Victoria Petrova
	Haleon	HLN	HLN US	Victoria Petrova
	Henkel	HENOF	HENOF US	Victoria Petrova
	Henkel	HENOF	HEN3 GY	Victoria Petrova
	Nestle	NSRGF	NESN SW	Victoria Petrova
	Nestle	NSRGY	NSRGY US	Victoria Petrova
NEUTRAL				
	Reckitt Benckiser	RBGPF	RKT LN	Victoria Petrova
	Reckitt Benckiser	RBGLY	RBGLY US	Victoria Petrova
UNDERPERFORM				
	Danone	DANOY	DANOY US	Victoria Petrova
	Danone	GPDNF	BN FP	Victoria Petrova
	Unilever	UL	UL US	Victoria Petrova
	Unilever	UNLYF	ULVR LN	Victoria Petrova
	Unilever	UNLVF	UNA NA	Victoria Petrova
RSTR				
	Essity	ETTYF	ESSITYB SS	Othmane Bricha
RVW				
	BIC	BICEF	BB FP	Othmane Bricha
	Ontex	ONXXF	ONTEX BB	Othmane Bricha

Disclosures

Important Disclosures

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

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

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	33	49.25%	Buy	16	48.48%
Hold	17	25.37%	Hold	10	58.82%
Sell	17	25.37%	Sell	8	47.06%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	3	60.00%	Buy	1	33.33%
Hold	1	20.00%	Hold	0	0.00%
Sell	1	20.00%	Sell	0	0.00%

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

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

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

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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