

The Kroger Co.

Reiterate Buy following strong F4Q & F25 guide; Raise PO to \$70

Reiterate Rating: BUY | PO: 70.00 USD | Price: 55.48 USD

Raise PO to \$70 following strong F4Q

Post [KR's strong F4Q earnings \(see note\)](#), we reiterate our Buy rating. We raise our PO to \$70 (was \$65) as we roll forward our ~15x P/E valuation to our F26E adj. EPS of \$4.55 (was 15x our F25E est.). We see support for KR's outlook both near and long-term given growing contributions from alternative profit streams (\$1.3bn in F24 led by KR Precision Marketing) and KR's increased focus on pharmacy (with significant opportunity to convert existing customers that do not currently utilize KR's pharmacies).

Maintain F25E EPS, see improving ID sales thru the year

We maintain our F25E adj. EPS of \$4.45 in line with KR's initiated guidance for \$4.30-4.50. We are modeling 1.0% full-year ID sales (ex-fuel) that should be softest in F1Q (we forecast flat y/y) given headwinds from the cycling of SNAP and Express Scripts as well as lower inflation (with ~1% inflation expected for the full year, starting lower in F1Q and increasing as the year progresses). Both FIFO gross margin and OG&A (adj. & ex-fuel) are expected to be ~flat y/y in F25, which incorporates KR's plans for continued investments in prices, wages, and customer experience/digital. KR also plans to open ~15 new stores in F25 in addition to 15 planned expansions and remodels.

See KR well-positioned into 2024; Reaffirm Buy

We reaffirm our Buy and see KR well-positioned into 2024 as we think shoppers will continue to favor value and variety (incl. in price points and higher-margin private label items) as consumers are still adjusting to grocery prices that are up +25% vs. pre-pandemic (see our latest [Tracking Food at Home Inflation update](#)). We see further support for KR's market share trends from strong digital execution as well as its fuel rewards/loyalty program. Moreover, we see margin support for KR from likely continued growth in alternative profit streams, improving digital profitability and strong cost savings execution.

Estimates (Jan) (US\$)	2023A	2024A	2025E	2026E	2027E
EPS	4.23	4.77	4.45	4.55	4.78
GAAP EPS	3.06	3.30	4.45	4.59	4.82
EPS Change (YoY)	14.6%	12.8%	-6.7%	2.2%	5.1%
Consensus EPS (Bloomberg)			4.28	4.34	NA
DPS	0.94	1.10	1.15	1.20	1.26
Valuation (Jan)					
P/E	13.1x	11.6x	12.5x	12.2x	11.6x
GAAP P/E	18.1x	16.8x	12.5x	12.1x	11.5x
Dividend Yield	1.7%	2.0%	2.1%	2.2%	2.3%
EV / EBITDA*	7.9x	7.3x	7.5x	7.4x	7.2x
Free Cash Flow Yield*	4.6%	8.0%	6.6%	6.7%	7.0%

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

07 March 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	65.00	70.00
2025E Rev (m)	147,682.4	148,575.0
2026E Rev (m)	150,193.0	151,100.8
2027E Rev (m)	153,196.9	154,122.8
2027E EPS	4.75	4.78

Robert F. Ohmes, CFA
Research Analyst
BofAS
+1 646 855 0078
robert.ohmes@bofa.com

Kendall Toscano
Research Analyst
BofAS
+1 646 855 1704
kendall.toscano@bofa.com

Stock Data

Price	55.48 USD
Price Objective	70.00 USD
Date Established	7-Mar-2024
Investment Opinion	B-1-7
52-Week Range	42.10 USD - 55.54 USD
Mkt Val (mn) / Shares Out (mn)	40,126 USD / 723.3
Free Float	92.3%
Average Daily Value (mn)	279.58 USD
BofA Ticker / Exchange	KR / NYS
Bloomberg / Reuters	KR US / KR.N
ROE (2025E)	25.2%
Net Dbt to Eqty (Jan-2024A)	89.2%
ESGMeter™	High

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

Key terms:

KR = Kroger

IDs = identical store sales

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Timestamp: 07 March 2024 07:18PM EST

iQprofileSM The Kroger Co.

iQmethodSM – Bus Performance*

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Return on Capital Employed	10.2%	10.9%	9.8%	9.3%	9.0%
Return on Equity	31.6%	31.9%	25.2%	21.6%	19.3%
Operating Margin	3.0%	3.3%	3.1%	3.1%	3.2%
Free Cash Flow	1,833	3,212	2,629	2,697	2,827

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Cash Realization Ratio	1.6x	2.1x	2.0x	2.0x	2.0x
Asset Replacement Ratio	1.0x	1.3x	1.2x	1.2x	1.2x
Tax Rate	21.7%	22.2%	23.0%	23.0%	23.0%
Net Debt-to-Equity Ratio	123.5%	89.2%	61.1%	41.1%	25.7%
Interest Cover	9.0x	11.9x	11.3x	11.8x	12.8x

Income Statement Data (Jan)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Sales	148,259	150,039	148,575	151,101	154,123
% Change	7.5%	1.2%	-1.0%	1.7%	2.0%
Gross Profit	31,778	33,364	33,110	33,747	34,446
% Change	4.7%	5.0%	-0.8%	1.9%	2.1%
EBITDA	7,426	8,011	7,849	7,976	8,185
% Change	6.9%	7.9%	-2.0%	1.6%	2.6%
Net Interest & Other Income	(496)	(411)	(411)	(401)	(381)
Net Income (Adjusted)	3,073	3,450	3,236	3,295	3,424
% Change	10.7%	12.3%	-6.2%	1.8%	3.9%

Free Cash Flow Data (Jan)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Net Income from Cont Operations (GAAP)	3,100	3,480	3,270	3,328	3,454
Depreciation & Amortization	2,965	3,123	3,184	3,247	3,312
Change in Working Capital	(1,154)	513	79	92	111
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	0	0	0	0	0
Capital Expenditure	(3,078)	(3,904)	(3,904)	(3,970)	(4,050)
Free Cash Flow	1,833	3,212	2,629	2,697	2,827
% Change	-61.8%	75.2%	-18.2%	2.6%	4.8%
Share / Issue Repurchase	(1,833)	(1,097)	0	0	0
Cost of Dividends Paid	(682)	(796)	(834)	(872)	(905)
Change in Debt	14	(1,152)	0	0	0

Balance Sheet Data (Jan)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Cash & Equivalents	1,015	1,883	3,647	5,442	7,335
Trade Receivables	2,234	2,136	2,115	2,151	2,194
Other Current Assets	9,421	8,948	9,155	9,290	9,451
Property, Plant & Equipment	24,726	25,230	25,950	26,673	27,411
Other Non-Current Assets	12,227	12,326	12,376	12,426	12,476
Total Assets	49,623	50,523	53,244	55,983	58,867
Short-Term Debt	1,310	198	198	198	198
Other Current Liabilities	15,266	15,208	15,473	15,736	16,051
Long-Term Debt	12,068	12,028	12,028	12,028	12,028
Other Non-Current Liabilities	10,965	11,488	11,507	11,527	11,549
Total Liabilities	39,609	38,922	39,206	39,490	39,825
Total Equity	10,014	11,601	14,037	16,493	19,042
Total Equity & Liabilities	49,623	50,523	53,244	55,983	58,867

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

Company Sector

Supermarkets/Food Retailers

Company Description

Kroger is the second-largest food supermarket retailer in the US and generates roughly \$150 billion in annual sales. Kroger operates roughly 2,700 supermarkets throughout 35 states and under two dozen banners. Kroger also sells fuel at its 1,600+ supermarket fuel centers and operates 2,200+ pharmacies and 140+ jewelry stores.

Investment Rationale

We assign KR a Buy rating as we see support from KR's scale/price leadership, strong execution, digital outlook, & developing ecosystem that unlocks monetization/higher-margin alternative profit stream opportunities.

Stock Data

Average Daily Volume

5,039,284

Quarterly Earnings Estimates

	2024	2025
Q1	1.51A	1.34E
Q2	0.96A	0.96E
Q3	0.95A	1.05E
Q4	1.34A	1.11E

Exhibit 1: KR quarterly earnings analysis (\$mn, except per share data)

Post KR's F4Q24 earnings, we maintain our F25E adj. EPS of \$4.45

	Sales	Merch. Costs ⁽¹⁾	OG&A	Rent	Depr.	Op Profit	Int. & Other Exp.	Pretax Inc	Inc Tax	Non- Control. Int.	Net Inc bef. Extra	Gain (Loss)	Net Inc.	Op. EPS	Rep. EPS	Shs. Out (MM)
May-Q1	\$44,600.0	\$34,952.0	\$6,990.0	\$256.0	\$890.0	\$1,512.0	\$161.0	\$1,351.0	\$275.0	\$2.0	\$1,074.0	(\$410.0)	\$664.0	\$1.45	\$0.90	733
Aug-Q2	\$34,638.0	\$27,392.0	\$5,409.0	\$191.0	\$684.0	\$962.0	\$116.0	\$846.0	\$186.0	\$1.0	\$659.0	\$72.0	\$731.0	\$0.90	\$1.00	725
Nov-Q3	\$34,198.0	\$26,890.0	\$5,483.0	\$195.0	\$685.0	\$945.0	\$108.0	\$837.0	\$192.0	\$2.0	\$643.0	(\$245.0)	\$398.0	\$0.88	\$0.55	724
Jan-Q4	<u>\$34,823.0</u>	<u>\$27,247.0</u>	<u>\$5,631.0</u>	<u>\$197.0</u>	<u>\$706.0</u>	<u>\$1,042.0</u>	<u>\$111.0</u>	<u>\$931.0</u>	<u>\$206.0</u>	<u>\$1.0</u>	<u>\$724.0</u>	<u>(\$274.0)</u>	<u>\$450.0</u>	<u>\$0.99</u>	<u>\$0.62</u>	<u>724</u>
F2023	\$148,259.0	\$116,481.0	\$23,513.0	\$839.0	\$2,965.0	\$4,461.0	\$496.0	\$3,965.0	\$859.0	\$6.0	\$3,100.0	(\$857.0)	\$2,243.0	\$4.23	\$3.06	727
May-Q1	\$45,165.0	\$35,080.0	\$7,291.0	\$265.0	\$957.0	\$1,572.0	\$144.0	\$1,428.0	\$324.0	\$0.0	\$1,104.0	(\$142.0)	\$962.0	\$1.51	\$1.32	724
Aug-Q2	\$33,853.0	\$26,475.0	\$5,468.0	\$206.0	\$716.0	\$988.0	\$85.0	\$903.0	\$203.0	\$1.0	\$699.0	(\$879.0)	(\$180.0)	\$0.96	(\$0.25)	719
Nov-Q3	\$33,957.0	\$26,477.0	\$5,562.0	\$201.0	\$721.0	\$996.0	\$88.0	\$908.0	\$209.0	\$1.0	\$698.0	(\$52.0)	\$646.0	\$0.95	\$0.88	725
Jan-Q4	<u>\$37,064.0</u>	<u>\$28,643.0</u>	<u>\$6,140.0</u>	<u>\$220.0</u>	<u>\$729.0</u>	<u>\$1,332.0</u>	<u>\$94.0</u>	<u>\$1,238.0</u>	<u>\$256.0</u>	<u>\$3.0</u>	<u>\$979.0</u>	<u>\$0.0</u>	<u>\$736.0</u>	<u>\$1.34</u>	<u>\$1.01</u>	<u>725</u>
F2024	\$150,039.0	\$116,675.0	\$24,461.0	\$892.0	\$3,123.0	\$4,888.0	\$411.0	\$4,477.0	\$992.0	\$5.0	\$3,480.0	(\$1,073.0)	\$2,407.0	\$4.77	\$3.30	723
May-Q1E	\$44,848.8	\$34,831.9	\$7,349.3	\$270.0	\$982.0	\$1,415.7	\$144.0	\$1,271.7	\$292.5	\$0.0	\$979.2	\$0.0	\$979.2	\$1.34	\$1.34	726
Aug-Q2E	\$34,191.5	\$26,744.6	\$5,509.0	\$208.0	\$728.0	\$1,001.9	\$85.0	\$916.9	\$210.9	\$1.0	\$705.0	\$0.0	\$705.0	\$0.96	\$0.96	727
Nov-Q3E	\$34,483.3	\$26,836.3	\$5,617.6	\$203.0	\$733.0	\$1,093.4	\$88.0	\$1,005.4	\$231.2	\$1.0	\$773.2	\$0.0	\$773.2	\$1.05	\$1.05	728
Jan-Q4E	<u>\$35,051.3</u>	<u>\$27,052.6</u>	<u>\$5,882.1</u>	<u>\$222.0</u>	<u>\$741.0</u>	<u>\$1,153.6</u>	<u>\$94.0</u>	<u>\$1,059.6</u>	<u>\$243.7</u>	<u>\$3.0</u>	<u>\$812.9</u>	<u>\$0.0</u>	<u>\$812.9</u>	<u>\$1.11</u>	<u>\$1.11</u>	<u>728</u>
F2025E	\$148,575.0	\$115,465.4	\$24,358.1	\$903.0	\$3,184.0	\$4,664.6	\$411.0	\$4,253.6	\$978.3	\$5.0	\$3,270.2	\$0.0	\$3,270.2	\$4.45	\$4.45	727
F2026E	\$151,100.8	\$117,353.9	\$24,850.1	\$920.5	\$3,247.0	\$4,729.2	\$401.0	\$4,328.2	\$995.5	\$5.0	\$3,327.7	\$0.0	\$3,327.7	\$4.55	\$4.55	724

PERCENTAGE CHANGE								MARGIN ANALYSIS (% OF NET SALES)							
ID Sales								OG&A	D&A						
X-Gas	Sales	OG&A	Rent	Depr.	Op Profit	Op EPS		FIFO Exp	% of Sales	Op. Margin	Tax Rate	Pretax Margin	Net Margin	# of Stores	
GM ⁽²⁾								Ratio							
May-Q1	4.1%	8.0%	1.4%	-1.9%	3.4%	13.0%	21.7%	21.84%	15.67%	2.00%	3.39%	20.4%	3.0%	2.4%	2723
Aug-Q2	5.8%	9.3%	7.6%	0.0%	5.7%	6.3%	12.3%	21.35%	15.62%	1.97%	2.78%	22.0%	2.4%	1.9%	2721
Nov-Q3	6.9%	7.3%	6.2%	-1.0%	3.9%	7.3%	13.4%	21.81%	16.03%	2.00%	2.76%	22.9%	2.4%	1.9%	2720
Jan-Q4	<u>6.2%</u>	<u>5.4%</u>	<u>2.8%</u>	<u>0.0%</u>	<u>7.5%</u>	<u>4.4%</u>	<u>8.3%</u>	<u>22.43%</u>	<u>16.17%</u>	<u>2.03%</u>	<u>2.99%</u>	<u>22.1%</u>	<u>2.7%</u>	<u>2.1%</u>	<u>2719</u>
F2023	5.6%	7.5%	4.2%	-0.8%	5.0%	8.2%	14.6%	21.86%	15.86%	2.00%	3.01%	21.7%	2.7%	2.1%	2719
May-Q1	3.5%	1.3%	4.3%	3.5%	7.5%	4.0%	4.1%	22.55%	16.14%	2.12%	3.48%	22.7%	3.2%	2.4%	2719
Aug-Q2	1.0%	-2.3%	1.1%	7.9%	4.7%	2.7%	6.9%	21.81%	16.15%	2.12%	2.92%	22.5%	2.7%	2.1%	2719
Nov-Q3	-0.6%	-0.7%	1.4%	3.1%	5.3%	5.4%	8.3%	22.11%	16.38%	2.12%	2.93%	23.0%	2.7%	2.1%	2720
Jan-Q4	<u>-0.8%</u>	<u>6.4%</u>	<u>9.0%</u>	<u>11.7%</u>	<u>3.3%</u>	<u>27.8%</u>	<u>35.0%</u>	<u>22.77%</u>	<u>16.57%</u>	<u>1.97%</u>	<u>3.59%</u>	<u>20.7%</u>	<u>3.3%</u>	<u>2.6%</u>	<u>2722</u>
F2024	0.9%	1.2%	4.0%	6.3%	5.3%	9.6%	12.8%	22.34%	16.30%	2.08%	3.26%	22.2%	3.0%	2.3%	2722
May-Q1E	0.0%	-0.7%	0.8%	1.9%	2.6%	-9.9%	-11.5%	22.36%	16.39%	2.19%	3.16%	23.0%	2.8%	2.2%	2726
Aug-Q2E	1.0%	1.0%	0.8%	1.0%	1.7%	1.4%	-0.2%	21.85%	16.11%	2.13%	2.93%	23.0%	2.7%	2.1%	2730
Nov-Q3E	1.5%	1.6%	1.0%	1.0%	1.7%	9.8%	10.3%	22.28%	16.29%	2.13%	3.17%	23.0%	2.9%	2.2%	2734
Jan-Q4E	<u>1.8%</u>	<u>-5.4%</u>	<u>-4.2%</u>	<u>0.9%</u>	<u>1.6%</u>	<u>-13.4%</u>	<u>-17.3%</u>	<u>22.96%</u>	<u>16.78%</u>	<u>2.11%</u>	<u>3.29%</u>	<u>23.0%</u>	<u>3.0%</u>	<u>2.3%</u>	<u>2737</u>
F2025E	1.0%	-1.0%	-0.4%	1.2%	2.0%	-4.6%	-6.5%	22.37%	16.39%	2.14%	3.14%	23.0%	2.9%	2.2%	2737
F2026E	1.5%	1.7%	2.0%	1.9%	2.0%	1.4%	2.2%	22.42%	16.45%	2.15%	3.13%	23.0%	2.9%	2.2%	2752

Source: Company filings, BofA Global Research estimates

BofA GLOBAL RESEARCH



Price objective basis & risk

The Kroger Co. (KR)

Our PO of \$70 is based on roughly 15x our F2026E EPS of \$4.55, a premium to conventional supermarket peers given our outlook for continued momentum from fresh, Our Brands, personalization & seamless initiatives, but a discount to the Food Retailers & Discount Stores group avg. (18-20x) given KR's lack of general merchandise offering that we think supports a higher multiple for key digital competitors.

We see upside to KR's valuation from strategic initiatives (including fresh, Our Brands & digital), alternative profit streams & continued cost savings execution.

Downside risks to our PO are greater-than-expected headwinds from pharmacy, fuel, the build-out of the Ocado network, and employee wage/healthcare benefits as well as potential for deflation or accelerating industry promotions.

Analyst Certification

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

US - Broadlines, Hardlines, Food Retailers & Leisure Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Academy Sports + Outdoors	ASO	ASO US	Robert F. Ohmes, CFA
	Arhaus, Inc	ARHS	ARHS US	Robert F. Ohmes, CFA
	BJ's Wholesale Club Holdings	BJ	BJ US	Robert F. Ohmes, CFA
	Costco Wholesale Corporation	COST	COST US	Robert F. Ohmes, CFA
	Grocery Outlet Holding Corp.	GO	GO US	Robert F. Ohmes, CFA
	Harley-Davidson	HOG	HOG US	Alexander Perry
	Life Time	LTH	LTH US	Alexander Perry
	Mattel	MAT	MAT US	Alexander Perry
	Mister Car Wash	MCW	MCW US	Robert F. Ohmes, CFA
	O'Reilly Automotive, Inc.	ORLY	ORLY US	Robert F. Ohmes, CFA
	Planet Fitness, Inc.	PLNT	PLNT US	Alexander Perry
	Sprouts Farmers Market, Inc.	SFM	SFM US	Robert F. Ohmes, CFA
	Sysco Corporation	SY	SY US	Kendall Toscano
	Target Corp.	TGT	TGT US	Robert F. Ohmes, CFA
	The Kroger Co.	KR	KR US	Robert F. Ohmes, CFA
	Topgolf Callaway Brands Corp	MODG	MODG US	Alexander Perry
	Upbound Group Inc.	UPBD	UPBD US	Vicky Liu
	Walmart Inc	WMT	WMT US	Robert F. Ohmes, CFA
NEUTRAL				
	Dick's Sporting Goods	DKS	DKS US	Robert F. Ohmes, CFA
	Fox Factory Holding Corp	FOXF	FOXF US	Alexander Perry
	Hasbro	HAS	HAS US	Alexander Perry
	Williams-Sonoma	WSM	WSM US	Robert F. Ohmes, CFA
	Xponential Fitness	XPOF	XPOF US	Alexander Perry
	YETI Holdings, Inc.	YETI	YETI US	Robert F. Ohmes, CFA
UNDERPERFORM				
	Advance Auto Parts, Inc.	AAP	AAP US	Robert F. Ohmes, CFA
	Canada Goose Holdings Inc	YGOS	GOOS CN	Alexander Perry
	Canada Goose Holdings Inc	GOOS	GOOS US	Alexander Perry
	Columbia Sportswear	COLM	COLM US	Alexander Perry
	Dollar General Corporation	DG	DG US	Robert F. Ohmes, CFA
	Dollar Tree, Inc.	DLTR	DLTR US	Robert F. Ohmes, CFA
	Hibbett Sports, Inc.	HIBB	HIBB US	Alexander Perry
	National Vision	EYE	EYE US	Robert F. Ohmes, CFA
	Tractor Supply Company	TSCO	TSCO US	Robert F. Ohmes, CFA

US - Broadlines, Hardlines, Food Retailers & Leisure Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

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

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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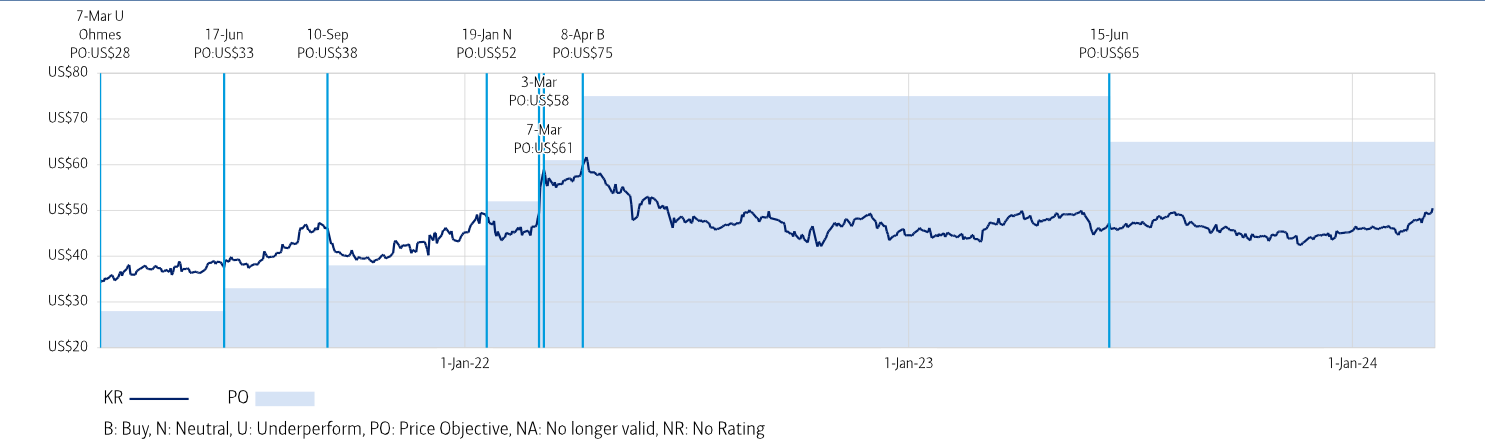
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The Kroger Co. (KR) Price Chart



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

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

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

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

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

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

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