Broadlines, Hardlines & Food Retailers

Republican win: Broadlines, Hardlines & Food Retailers implications

Industry Overview

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Equity
United States
Broadlines, Hardlines & Food Retailers

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Policy likely focused on trade, immigration, deregulation

In light of press reports of Trump Presidential election win, Senate called in favor of the Republicans, and Congress too close to call, we assess potential impacts of policy changes to our Broadlines, Hardlines, and Food Retailers coverage universe.

Tariff increase could affect most retailers

Potentially higher China tariffs (60% on China and 10% on other countries) could be the most negative for companies in our coverage with the highest exposure to direct imports from China, including FND, TGT, DLTR (especially the Dollar Tree Banner), and WSM, though we believe that overall China exposure is generally lower relative to 2018 (see Exhibit 1). Most companies have plans to at least partially mitigate margin risk through a combination of further diversification of sourcing away from China and pass-through of potential tariffs into end pricing to US consumers. For example, while BBY is not the importer of record for most of the products it sells, electronics prices to the end consumer could go up with a potential rise in tariffs. We see food retailers KR, ACI, SFM, and GO as relatively insulated from a potential tariff increase given that their store footprints are entirely within the US and ~90%+ grocery sales mix (typically sourced domestically).

Tighter immigration/migration could drive wage pressure

Tighter immigration/migration policy under the Trump administration could pressure wage rates for retailers at the lowest level, with DLTR and DG potentially more exposed than retailers such as COST (average hourly wage of $31/hour) and WMT (~$18/hour), which tend to pay above-average hourly wages, in our view. However, we note that wage pressure during Trump's first term (January 2017-January 2021) was significantly less pronounced overall than during the Biden administration/post-Covid recovery period (from mid-2021 on) – Exhibit 4

A cut in corporate tax rate could drive earnings growth

Trump's proposal to further cut the corporate income tax rate to 15% could drive earnings growth for companies in our coverage universe given that either all or the majority of their sales and profits are in the U.S. (see Exhibit 5). A Republican sweep could lead to more leniency from an antitrust standpoint and could support an increase in M&A activity in the space.

Housing policy focused on demand and reducing regulation

BofA Global Research's Homebuilders & Building Products team hosted a US Housing Policy expert call in September (see its US Housing policy call takeaways report) to discuss housing policies for potential Harris and Trump administrations. Republican policy proposals have focused more on the demand side and on reducing regulation. Potential solutions for the demand side include the deportation of 5-11mn illegal immigrants, prohibiting mortgage lending to undocumented immigrants, and lowering interest rates. On the supply side, the Trump administration has proposed utilizing federal land for new construction and limiting federal regulations to reduce the cost of homebuilding. Housing policy that drives an increase in existing home sales would likely be most favorable for HD, LOW, and FND and potentially WSM and ARHS (Exhibit 6 – Exhibit 8). We believe that an acceleration in new home sales would be favorable for WMT, TGT, COST, and BJ as well as WSM and ARHS.

Broadlines Retailers
WMT = Walmart
TGT = Target
COST = Costco
BJ = BJ's Wholesale
DG = Dollar General
DLTR = Dollar Tree

Food Retailers
KR = Kroger
ACI = Albertsons
GO = Grocery Outlet
SFM = Sprouts Farmers Market

Hardlines Retailers
HD = Home Depot
LOW = Lowe's
FND = Floor and Décor
WSM = Williams-Sonoma
ARHS = Arhaus
BBY = Best Buy
DKS = Dick's Sporting Goods
ASO = Academy Sports

Auto Parts & Services
AAP = Advance Auto Parts
AZO = AutoZone
ORLY = O'Reilly Auto Parts
DRVN = Driven Brands

Exhibit 1: Estimated % of US Sales/COGS sourced from China/Asia

We believe FND has the most exposure for a tariff hike given that FND directly sources all of its flooring and approximately 29% of its products sold in 2022 were produced in China; we expect KR to be impacted the least

	Est. % sourced from Asia
FND	50-80% (~25% China)
TGT	30-35%
ORLY	30%
DLTR	25-30%
WSM	25%
WMT	20-25%
ASO	22%
COST	10-20%
AAP	10-20%
DKS	13%
AZO	10%+
DG	9%
HD	8%
BJ	4%
KR	NM

Source: Company reports; BofA Global Research estimates. COGS = cost of goods sold. NM = Not meaningful.

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Exhibit 2: US Broadlines Retailers: Estimated % of Sales from Grocery

Excluding TGT, all retailers in our Broadlines coverage have over 50% of sales from grocery, which is 85-90% domestically sourced, according to the USDA

	Estimated % of Sales from Grocery
KR	~75% (~85% including Pharmacy)
DG	80%
BJ	67%
DLTR	60%
WMT	59% (70% incl. Health & Wellness)
COST	52%
TGT	~40-50%

Source: Company reports; BofA Global Research estimates

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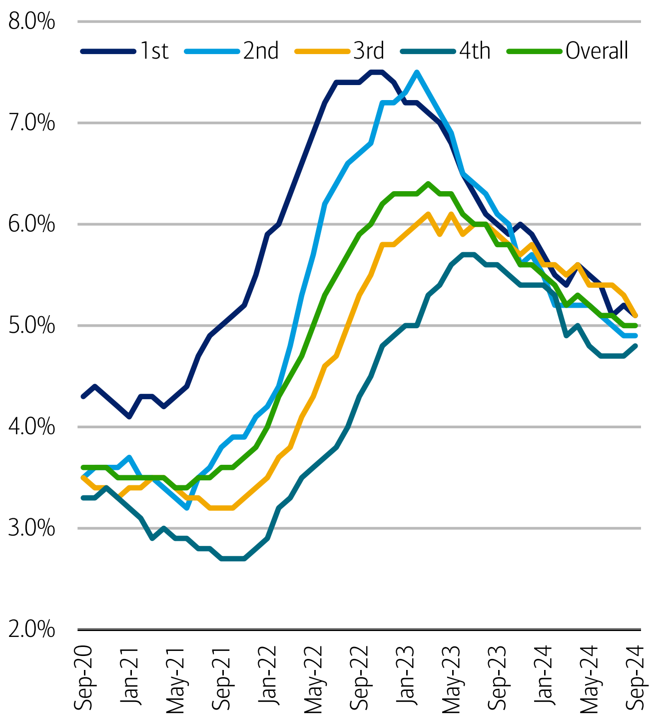
Exhibit 3: Wage gains of the lowest-income quartile currently outpace overall y/y wage increases

Atlanta Fed Wage Tracker by wage level (12-month moving average)



Source: Federal Reserve Bank of Atlanta, Current Population Survey, Bureau of Labor Statistics
Note: Those in the lowest 25% of average wages are in the 1st quartile and those in the highest 25% of wages are in the 4th quartile

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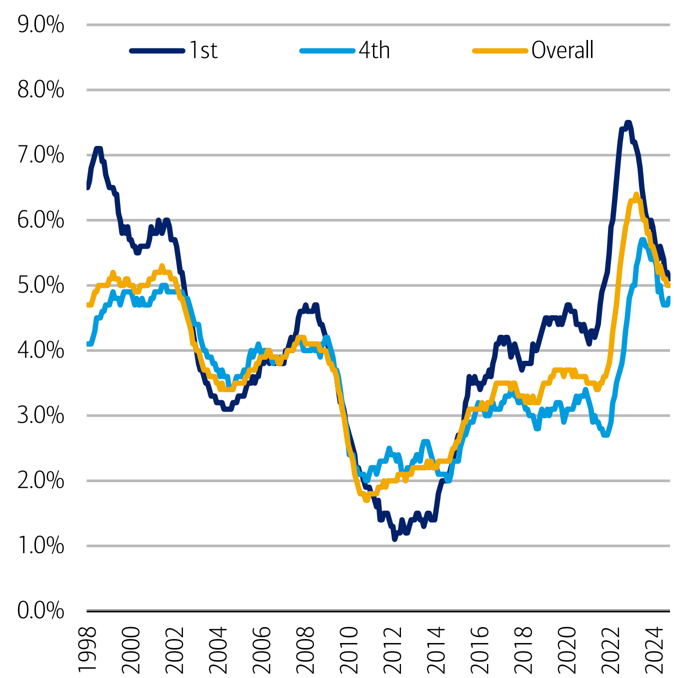
Exhibit 4: We note that 1st-quartile wage growth did move upwards during Trump's first term (2017-2021), but upward pressure was not as pronounced as during the post-Covid recovery period

Atlanta Fed Wage Tracker by wage level (12-month moving average)



Source: Federal Reserve Bank of Atlanta, Current Population Survey, Bureau of Labor Statistics
Note: Those in the lowest 25% of average wages are in the 1st quartile and those in the highest 25% of wages are in the 4th quartile

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Exhibit 5: Estimated % of sales in the U.S.

A cut in corporate income tax rates could drive earnings growth given that most companies in our coverage have all or the majority of their sales in the U.S.

	Estimated % sales in the U.S.
LOW	100%
TGT	100%
KR	100%
TSCO	100%
DG	100%
DKS	100%
SFM	100%
FND	100%
BJ	100%
ASO	100%
GO	100%
ARHS	100%
DLTR	98%
ORLY	98%
AAP	98%
WSM	96%
HD	92%
BBY	92%
DRVN	91%
AZO	88%
WMT	82%
COST	72% net sales, 67% operating income

Source: Company reports; BofA Global Research estimates. * ORLY, AAP, DRVN estimate using international store count; we estimate DLTR operates ~200-300 Dollar Tree Canada stores but has noted its revenue and assets in Canada are not material.

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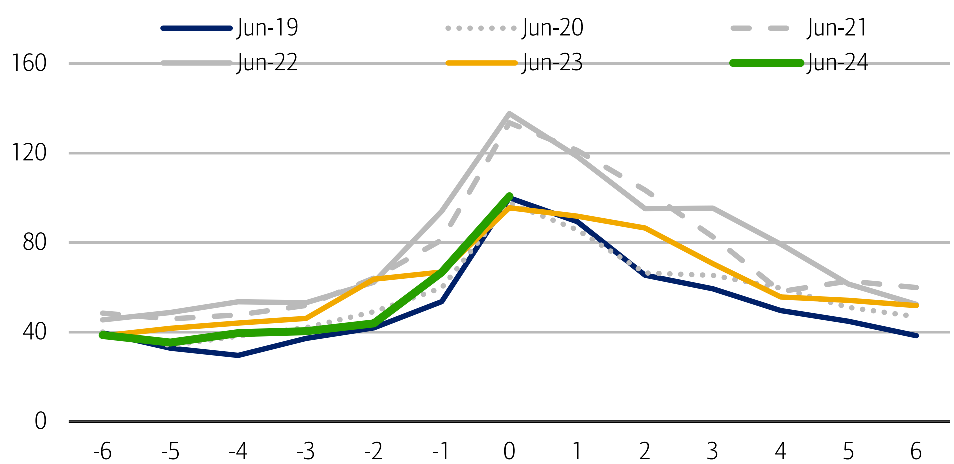
Exhibit 6: Households that moved in June 2024 spent >160% more on flooring in the month of the move compared to six months prior

Average household spending amount on flooring for movers for the 6 months leading up to a move, the month of the move, and the 6 months after (monthly, index June 2019 = 100)



Source: BAC internal data

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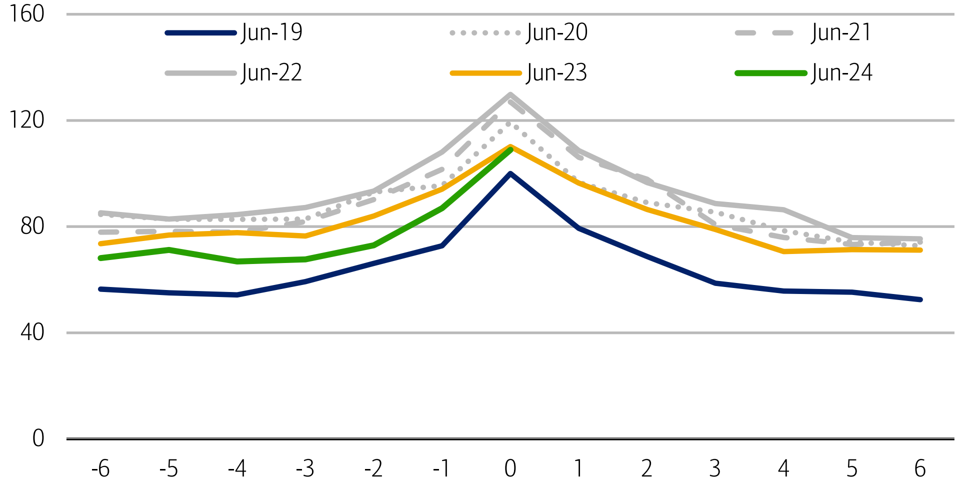
See the latest BofA on USA report for an explanation of the methodology, disclaimers, and limitations with BAC aggregated credit and debit card data.

Exhibit 7: Households that moved in June 2024 spent ~60% more on Building Materials in the month of the move compared to six months prior

Average household spending amount on building materials for movers for the 6 months leading up to a move, the month of the move, and the 6 months after (monthly, index June 2019 = 100)



Source: BAC internal data

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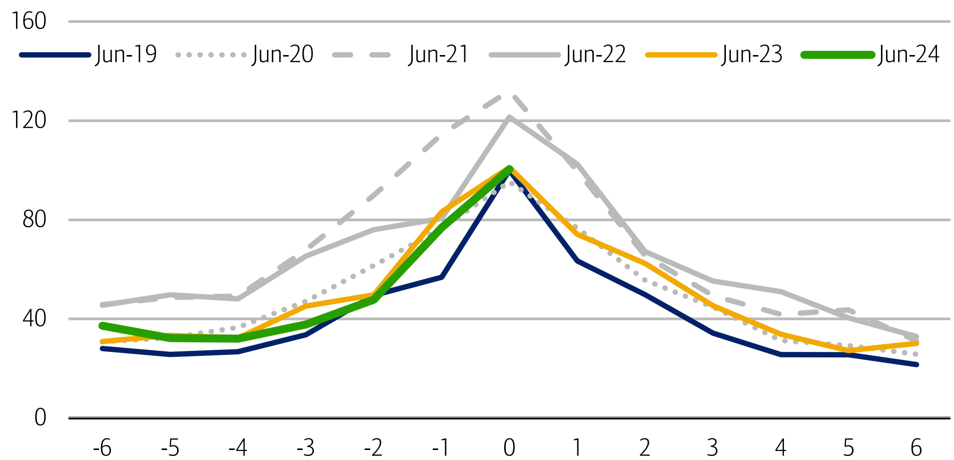
Exhibit 8: Households that moved in June 2024 spent ~170% more on Premium Furniture in the month of the move compared to six months prior

Average household spending amount on premium furniture for movers for the 6 months leading up to a move, the month of the move, and the 6 months after (monthly, index June 2019 = 100)



Source: BAC internal data

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Exhibit 9: Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating

Exhibit 9: Stocks mentioned
Prices and ratings for stocks mentioned in this report

ACI	ACI US	Albertsons	US$ 18.55	-6-
ARHS	ARHS US	Arhaus	US$ 8.98	C-1-9
BJ	BJ US	BJ's Wholesale	US$ 88.08	B-1-9
COST	COST US	Costco	US$ 890.17	B-1-7
DG	DG US	Dollar General	US$ 81.57	B-3-7
DLTR	DLTR US	Dollar Tree	US$ 66.77	B-3-9
FND	FND US	Floor and Decor	US$ 108.72	C-1-9
GO	GO US	Grocery Outlet	US$ 14.56	B-2-9
LOW	LOW US	Lowe's	US$ 269.18	B-1-7
SFM	SFM US	Sprouts Farmers Mkt	US$ 136.09	B-1-9
TGT	TGT US	Target Corp.	US$ 150.99	B-1-7
HD	HD US	The Home Depot	US$ 400.09	B-1-7
KR	KR US	The Kroger Co.	US$ 57.39	B-1-7
WSM	WSM US	Williams-Sonoma	US$ 134.83	C-2-7
ASO	ASO US	Academy	US$ 53.3	C-2-7
AAP	AAP US	Advance Auto	US$ 38.16	C-3-8
AZO	AZO US	AutoZone	US$ 3059.83	B-2-9
BBY	BBY US	Best Buy	US$ 92.84	B-3-7
DKS	DKS US	Dick's	US$ 198.1	C-1-7
DRVN	DRVN US	Driven Brands	US$ 15.23	C-1-9
MCW	MCW US	Mister Car Wash	US$ 7.97	C-1-9
EYE	EYE US	National Vision	US$ 12.2	C-3-9
ORLY	ORLY US	O'Reilly Auto	US$ 1162.33	B-1-9
TSCO	TSCO US	Tractor Supply	US$ 276.21	B-3-7
WMT	WMT US	Walmart	US$ 83.68	A-1-7

Source: BofA Global Research.

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Price objective basis & risk

Albertsons Companies, Inc. (ACI)
We have removed the investment opinion on the company's stock. Investors should no longer rely on our previous opinion or price objective.

Arhaus, Inc (ARHS)
Our $15 PO is based on 21x 2026E P/E, which is below other high-growth retail concepts. We believe this is warranted given higher sales growth but lower scale, slightly lower margins and lower store growth.

Downside risks to our PO are: Tough comparisons for the home furnishings industry after significant growth in 2020/21 and the release of backlog in 2022, the discretionary nature of Arhaus' products, continued supply chain uncertainty, delays in system implementations, and key-man risk in Arhaus' CEO.

Upside risks to our PO are: Greater than expected home furnishings industry growth, higher than expected online sales growth, a reduction in supply chain costs and disruptions and better than expected productivity in new and existing markets as the brands grows.

BJ's Wholesale Club Holdings (BJ)
Our $90 price objective is based on 21x our $4.30 F26E adj. EPS, a discount to key warehouse club peer (30-40x) and more in line with the food and discount retail group average (17-18x). We think that a discount to warehouse peer is warranted given BJ's lower new store growth, lower same-store sales growth (low single digit versus peer's mid- to high single digit), and lower return on invested capital (ROIC, approximately 20%

versus peer's approximate 30%). We believe BJ will trade more in line with the food and discount retail group average given support from 1) BJ's membership fee structure, which provides increased visibility on earnings, 2) BJ's unique positioning as a grocery-focused warehouse club, and 3) our forecast for an approximate 4% EPS CAGR over the next three years (in line with the discount and food retail group average of roughly 4%).

Downside risks to our price objective: 1) Difficult stimulus-driven comparisons, 2) comp risk from continued pressure in general merchandise categories, 3) incremental supply chain pressures and other cost increases, 4) the unwinding of excess gas margin from 2021.

Costco Wholesale Corporation (COST)
Our price objective of $972 is based on 49x our F26E EPS of $19.60. Costco's long-term (20yr) average two-year forward PE is 24x, with a peak of 52x and a trough of 16x. We view a premium valuation as appropriate given 1) COST's healthy customer traffic growth and strong membership renewal rates, which should continue given our expectation for a further rise in the perceived value of shopping at warehouse clubs and COST's leading warehouse club position from a merchandising, store execution, and private label standpoint, 2) COST's strong same-store sales outlook given strong customer traffic growth, and 3) expected continued strength in COST's International segment, which is generating mid-single-digit %+ comps in local currencies and supports Costco's premium valuation.

Downside risks to our price objective are adverse macro shocks, tariffs, regional dependence on California, food inflation/deflation pressures, foreign exchange risk, challenging membership trends, increased competition, wage increases, gas profit comparisons and the potential for increased unionization of COST's employee base, which could pressure labor expenses.

Dollar General Corporation (DG)
Our $95 price objective is based on 13-14x our F2026E EPS estimate. Our PO assumes that DG stock trades at the middle of its historical 11x-18x P/E range. We believe this valuation is justified given potential benefits from strategic investments and initiatives offset by lower traffic vs. peers, and continued profitability pressures.

Upside risks to our PO are a consumer-led recession driving accelerated trade down to the dollar store space, food inflation driving higher-than-expected comparable sales, success of international expansion and accelerated store growth as a result.

Downside risks to our PO are increased price competition given the highly competitive food retail industry, pressures from a macroeconomic slowdown or lower consumer confidence, SNAP benefit cuts, and volatility in food product costs or gas prices.

Dollar Tree, Inc. (DLTR)
Our $70 PO is based on 12x our F26E/C25E EPS estimate. Our PO assumes that DLTR multiples could compress given unknown headwinds associated with its accelerated multi-price point rollout.

Downside risks to our PO are increased price competition given the highly competitive food retail industry, pressures from a macroeconomic slowdown or lower consumer confidence, SNAP benefit cuts, volatility in food product costs, and increased wage pressures.

Upside risks to our PO are a same-store sales acceleration, improved margins supported by discretionary category growth, accelerated store growth, and a rollback of tariffs.

Floor and Decor Holdings, Inc. (FND)

Our 12-month price objective of $135 is based on 52x our 2026E EPS estimate. We believe a multiple that is substantially above hardline retail peers (20x) is warranted given its superior store growth trajectory and above-average same-store sales growth. In 2024-2025 we expect annual earnings growth of almost 20%, illustrating the long-term compounding earnings growth opportunity of FND.

Downside risks to our price objective are a weakening of the housing market beyond our forecasts, execution risk given large store growth and supply chain diversification, increased competition, and higher labor costs. Upside risks are a stronger housing/flooring market than expected, or faster market share gains than modeled.

Grocery Outlet Holding Corp. (GO)

Our $17 price objective is based on roughly 16x our 2026E adj. EPS of $1.05, which is a discount to GO's 5-year average multiple of roughly 30x. We believe a lower multiple is warranted as uncertainty amidst GO's CEO transition and recent P&L headwinds could pressure the stock vs. historical levels despite GO's more positive long-term outlook supported by its: 1) unique and hard-to-replicate IO model that aligns incentives while reducing costs and risks, 2) opportunistic sourcing model that delivers deep value and consistent margins, and 3) long-term store growth opportunity (with potential to establish over 4,000 stores in the US).

Downside risks to our PO are: 1) GO operates in a highly competitive food and discount retail industry, 2) treasure hunt model makes grocery ecommerce difficult 3) any disruptions or inability to source products could adversely impact sales, 4) store growth opportunity depends on attracting and maintaining Independent Operators, 5) IO concept still unproven outside of five core West Coast states, 6) IO model results in reduced fixed cost leverage for GO relative to traditional retail model, 7) the build out of East Coast talent, systems, real-estate, and infrastructure could pressure expenses more than expected, and 8) a less favorable inflationary environment. Upside risks include: better than expected same-store sales and earnings trends.

Lowe's Companies, Inc. (LOW)

Our PO of $305 is based on around 23-24x our F26/C25 EPS estimate. We believe a multiple above the hardlines average (20x) is warranted given solid fundamentals and the relatively defensive nature of the home improvement industry, countered by near-term economic and sentiment risk. In addition, LOW has an opportunity to expand margins for several years through continued productivity improvements and product differentiation.

Upside risks to our PO are improving consumer sentiment and other macro metrics tied to renovation spending, better-than-expected margin expansion from sales growth coupled with cost-saving and productivity initiatives, and upside from favorable weather events. Downside risks to our PO are rising interest rates which may continue to dampen investor sentiment towards housing, a slower than expected improvement in comps, and slower than anticipated progress towards margin improvement goals.

Sprouts Farmers Market, Inc. (SFM)

Our price objective of $150 is based on 33x our 2026E EPS of $4.50. We view 34x as appropriate as it represents multiple expansion above SFM's 10-year average 2-year forward P/E of 18x, but below a high of 37x, supported by SFM's highly differentiated and evolving assortment of attribute-based (organic, grass-fed, vegan, keto) products that should continue to drive improved customer traffic and support a sustained reacceleration in annual store growth towards 8-10% (vs. 3-5% the last 3 years).

Downside risks to our PO are: 1) worse than expected same-store sales, 2) a less favorable inflationary environment, 3) worse than expected margins, 4) slower/delayed new store growth, and 5) weaker comp maturation curve for new stores.

Target Corp. (TGT)
Our $195 PO is based on 18-19x our F2026E adjusted EPS, which is near the high-end of TGT's ten-year historical P/E range of roughly 11x-20x but warranted in our view, given strong profitability improvements and improving sales & traffic trends.

Downside risks to our price objective are gross margin pressures from labor costs, investments, and the rapid growth of the lower-margin e-commerce channel as well as aggressive competition from competitors.

The Home Depot, Inc. (HD)
Our 12-month price objective of $425 is based on around 26-27x our 2025 EPS estimate. We believe a multiple above the hardline retail average (20x) and above HD's 10-year pre-COVID average of 18.5x is warranted given the relative resilience of the home improvement retailers in the current macro backdrop, likely market share gains, and consistent execution at the company.

Downside risks to our price objective are a weakening in the housing market/consumer backdrop beyond our forecasts, a significant increase in promotions by HD and/or competitors, unfavorable weather and poor execution in supply chain upgrades. Upside risks are a noticeable acceleration in the housing market or re-acceleration in same-store sales trends as HD continues to take market share.

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 and Discount Stores group average (18-20x) given KR's lack of general merchandise offering, which we think supports a higher multiple for key digital competitors.

We see upside risk to KR's valuation from strategic initiatives (such as fresh, Our Brands, and digital), alternative profit streams, and 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.

Williams-Sonoma (WSM)
Our PO of $155 is based on 19x our F26E EPS estimate. Our target multiple is roughly in-line with other mature-growth hardline retailers.

Upside risks to our PO are: 1) A stronger-than-expected housing market drives outsized home furnishings spend, 2) WSM's B2B and international growth initiatives provide a greater-than-expected tailwind and 3) The industry holds pricing better-than-expected.

Downside risks are: 1) Industry demand cools, 2) WSM needs to reinvest more in price and promotions, 3) SG&A costs stick even as comps decelerate, and 4) Recapture rates from WSM's store closure plans are worse-than-expected.

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				
	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
	Dick's Sporting Goods	DKS	DKS US	Robert F. Ohmes, CFA
	Driven Brands	DRVN	DRVN US	Robert F. Ohmes, CFA
	Floor and Decor Holdings, Inc.	FND	FND US	Robert F. Ohmes, CFA
	Harley-Davidson	HOG	HOG US	Alexander Perry
	Hasbro	HAS	HAS US	Alexander Perry
	Life Time	LTH	LTH US	Alexander Perry
	Lowe's Companies, Inc.	LOW	LOW US	Robert F. Ohmes, CFA
	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
	SharkNinja	SN	SN US	Alexander Perry
	Sprouts Farmers Market, Inc.	SFM	SFM US	Robert F. Ohmes, CFA
	Sysco Corporation	SYY	SYY US	Kendall Toscano
	Target Corp.	TGT	TGT US	Robert F. Ohmes, CFA
	The Home Depot, Inc.	HD	HD US	Robert F. Ohmes, CFA
	The Kroger Co.	KR	KR US	Robert F. Ohmes, CFA
	Walmart Inc	WMT	WMT US	Robert F. Ohmes, CFA
NEUTRAL				
	Academy Sports + Outdoors	ASO	ASO US	Robert F. Ohmes, CFA
	AutoZone Inc.	AZO	AZO US	Robert F. Ohmes, CFA
	Fox Factory Holding Corp	FOXF	FOXF US	Alexander Perry
	Grocery Outlet Holding Corp.	GO	GO US	Robert F. Ohmes, CFA
	Polaris Inc.	PII	PII US	Alexander Perry
	Topgolf Callaway Brands Corp	MODG	MODG US	Alexander Perry
	Williams-Sonoma	WSM	WSM US	Robert F. Ohmes, CFA
	YETI Holdings, Inc.	YETI	YETI US	Alexander Perry
UNDERPERFORM				
	Advance Auto Parts, Inc.	AAP	AAP US	Robert F. Ohmes, CFA
	Best Buy Co., Inc.	BBY	BBY US	Robert F. Ohmes, CFA
	Canada Goose Holdings Inc	YGOOS	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
	National Vision	EYE	EYE US	Robert F. Ohmes, CFA
	Patrick Industries, Inc.	PATK	PATK US	Alexander Perry
	Petco	WOOF	WOOF US	Kendall Toscano
	Tractor Supply Company	TSCO	TSCO US	Robert F. Ohmes, CFA
RVW				
	Xponential Fitness	XPOF	XPOF US	Alexander Perry

Disclosures

Important Disclosures

Equity Investment Rating Distribution: Retailing Group (as of 30 Sep 2024)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	89	59.73%	Buy	37	41.57%
Hold	23	15.44%	Hold	16	69.57%
Sell	37	24.83%	Sell	17	45.95%

Equity Investment Rating Distribution: Technology Group (as of 30 Sep 2024)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	220	54.73%	Buy	111	50.45%
Hold	94	23.38%	Hold	47	50.00%
Sell	88	21.89%	Sell	27	30.68%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2024)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1863	54.91%	Buy	1079	57.92%
Hold	768	22.63%	Hold	447	58.20%
Sell	762	22.46%	Sell	349	45.80%

[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.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. VOLATILITY RISK RATINGS, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. INVESTMENT RATINGS reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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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