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Globesity – the global fight against obesity

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Bank of America Merrill Lynch

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Obesity, a global sustainability mega-trend

Following on from our work on water and energy efficiency, we turn our attention to another global sustainability mega-trend – obesity. We believe that this epidemic may be the most pressing health challenge facing the world today because of both its direct impacts and ripple effects on chronic diseases, such as diabetes. Obesity rates have doubled over the past 30 years, and globally 1.4bn people are overweight and 500 million obese, according to WHO. By 2030, 50-60% of the population in many countries are on target to be classified as obese.

Unaffordable and potentially overwhelming costs

Obesity is the fifth-highest global risk for death, accounting for at least 2.8mn adult deaths a year. This means that a large proportion of health care spending is a direct or indirect consequence of obesity, with total health care costs more than 40% higher for obese patients than normal-weight patients. The annual cost of obesity-related illness in the US alone is estimated at US$190bn, or nearly 21% of the country's annual medical spending. The future health, social and economic costs could be overwhelming, especially given high levels of global childhood obesity and growing obesity in emerging markets.

Bold and widespread action needed

As was the case with smoking and second-hand smoke, we believe that the growing cost burden of obesity – on governments, corporates, and both the obese and non-obese – will spur collective action to fight obesity, including greater regulation. This will require a 25-50 year "systems perspective", in our view, targeting multiple stakeholders and environments, going beyond health to include the food & beverage industry, schools, work environments, insurers, tackling sedentary lifestyles, and encouraging increasing physical activity.

Four major entry points for investors

We have mapped the global fight against obesity across a number of sector value chains to highlight the diverse range of entry points for investors wishing to play the global fight against obesity theme: 1) Pharmaceuticals & Health Care; 2) Food; 3) Commercial Weight Loss, Diet Management & Nutrition; and 4) Sports Apparel & Equipment. We examine these areas more fully in standalone sections of this report.

BofAML Global Fighting Obesity Exposure stock list

Together with our sector analysts, we have created a list of over 50 global stocks covered by BofAML, based on our estimates of their current exposure to fighting obesity-related themes and solutions and the role that these could play in driving long-term growth. Our aim is to provide investors with information to identify company and sub-sector specific opportunities and risks inherent in the theme.

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Refer to important disclosures on page 138 to 141. Analyst Certification on Page 126. Price Objective Basis/Risk on page 112. Link to Definitions on page 126.
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The fight against 'globesity'

We believe that the global obesity epidemic may be the most pressing health challenge facing the world today because of both its direct impacts and ripple effects on chronic diseases, such as diabetes:

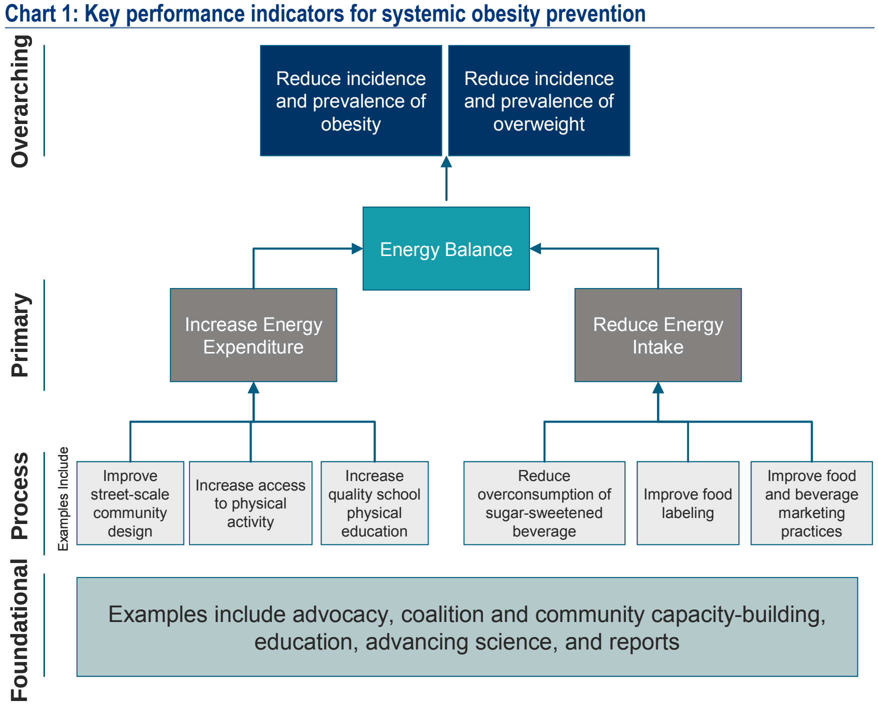
- **500mn obese and 1.4bn overweight** Obesity rates have doubled over the past 30 years, and globally 1.4bn people are overweight and 500 million obese, according to WHO. By 2030, 50-60% of the population in many countries are on target to be classified as obese.
- **Obesity is the fifth-highest global risk for death**, accounting for at least 2.8mn adult deaths a year. The future health, social and economic costs could be overwhelming, especially given high levels of global childhood obesity and growing obesity in emerging markets.
- **The growing cost burden of obesity will spur collective action to fight obesity, including greater regulation**. This will require a 25-50 year "systems perspective", in our view, targeting multiple stakeholders and environments, and should go beyond health to include the food & beverage industry, schools, work environments, insurers, tackling sedentary lifestyles, and encouraging increasing physical activity.

BofAML Global Fighting Obesity Exposure stock list is not a recommended list either individually or as a group of stocks. Investors should consider the fundamentals of the companies and their own individual circumstances / objectives before making any investment decisions

BofAML Global Fighting Obesity Exposure stock list

Together with our sector analysts, we have created a list of over 50 global stocks covered by BofAML, based on our estimates of their current exposure to fighting obesity-related themes and solutions, and the role that these could play in driving long-term growth. Our aim is to provide investors with information to identify company and sub-sector specific opportunities and risks

Chart 1: Key performance indicators for systemic obesity prevention



Source: Institute of Medicine of The National Academies, BofA Merrill Lynch Global Research

BofAML Global Fighting Obesity Exposure stock list

We have mapped fighting obesity opportunities across four major themes: 1) Pharmaceuticals & Health Care; 2) Food; 3) Commercial Weight Loss, Diet Management & Nutrition; and 4) Sports Apparel & Equipment

For each theme, together with our BofAML Global Research sector analysts, we have estimated the level and materiality of companies' exposure to fighting obesity themes, and the role of fighting obesity as a long-term growth driver. We have characterised each company's exposure as follows:

- **Low** – Fighting obesity products, services, and solutions are not material to global revenues and/or growth but are one factor, among others, for the business model, strategy and R&D of the company.
- **Medium** – Fighting obesity products, services, and solutions are an important factor for the business model, strategy and R&D of the company; material to sales and/or growth.
- **High** – Fighting obesity products, services, and solutions are core to the business model, strategy and R&D of the company; material sales and/or growth driver; pure play (i.e., 100% of sales from products, services or solutions which help to fight obesity).

Although it is difficult to accurately gauge the link between such exposure and share price performance (as many factors outside the scope of this analysis are likely to play a role in short- and long-term price development), we still consider fighting obesity exposure an important and positive point to track given that obesity is a sustainability megatrend with a 25-50 year lifespan.

The aim of our Global Fighting Obesity Exposure stock list and its four underlying themes is to provide investors with information to identify company and sub-sector specific risks and opportunities that are inherent in the fighting obesity theme.

Pharmaceuticals & Health Care: a big market opportunity

Obesity as a medically treated disease is a controversial topic, but it is a condition affecting more than 100mn people in the US and 500mn worldwide. This has created a significant market opportunity for new weight-loss drugs and other approaches to dealing with obesity and related co-morbidities from a health care perspective.

Our Biotech (The Skinny on Obesity, 16 February 2012) and Pharma (Super Size Me, 02 April 2012 et al.) teams have identified 2012 as an important year for the future of obesity treatments, with the US FDA's aversion to new weight-loss drugs appearing to wane as obesity and related co-morbidities rise to account for 10%-21% of US health care costs (c.US$150bn pa) (Source: CMS, IOM). The FDA has historically had little risk tolerance for weight-loss drugs, but it has recently shown increased support for their development. The multiple advisory panels and approval decisions in the coming months could lead to more transparency on the path to approval for obesity drugs. Upcoming obesity newsflow includes: 1) Lorqess PDUFA 27 June; 2) Qnexa PDUFA 17 July; 3) Qnexa approval in the EU September; and 4) Victoza Phase III data early 2013 from the SCALE studies.

Table 1: BofAML Fighting Obesity (FO) – Pharma, &Healthcare Stock List

Company	FO exposure
ARENA PHARMA.	High
NOVO NORDISK	High
OREXIGEN THERAP.	High
STRYKER CORP	High
VIVUS INC	High
ZIMMER	High
COLOPLAST A/S	Medium
DAVITA INC	Medium
FRESENIUS MEDICAL	Medium
GETINGE AB	Medium
MEDTRONIC INC	Medium
ST JUDE MEDICAL INC	Medium
SMITH & NEPHEW	Medium
ALLERGAN INC	Low

Source: BofA Merrill Lynch Global Research. . * FO exposure = BofAML estimates of current sales derived from fighting obesity-related products, services, technologies and solutions

We believe that a number of stocks are well placed to benefit from the theme of pharma and health care as a means of fighting global obesity through their involvement in areas such as: bariatric transport, cardiac care/cardiovascular devices, diabetes drugs, dialysis services, emergency medical equipment, gastric bands/balloons, obesity drugs, orthopaedic devices (joint implants), ostomy, patient-handling equipment, specialist bathing systems, and wound care, among others.

Food: part of the problem and part of the solution

Food, nutrition and eating habits play a key role

Many stakeholders and obesity specialists have been vocal in identifying the food industry – manufacturers, retailers and fast food – as one of the key causes of the obesity problem. There is growing focus on factors such as the increased supply of cheap, palatable, energy-dense foods; improved availability and distribution systems to make food much more accessible and convenient; more persuasive and pervasive food marketing; and more sedentary lifestyles. They argue that these factors lead to passive over-consumption (Source: Swinburn et al, *The Lancet* 2011), and higher incidence of obesity and thus related morbidities.

Table 2: BofAML Fighting Obesity (FO) - Food Stock List

Company	FO exposure
DANONE	High
DOLE FOODS	High
SENECA FOODS CORP.	High
CAMPBELL SOUP CO	Medium
CONAGRA FOODS INC	Medium
GENERAL MILLS INC	Medium
HEINZ (H.J.) CO	Medium
KELLOGG CO	Medium
KERRY GROUP	Medium
KRAFT FOODS INC	Medium
NESTLE	Medium
PEPSICO INC	Medium
THE FRESH MARKET	Medium
UNILEVER	Medium
UNITED NATURAL FOOD.	Medium
WHOLE FOODS MARKET	Medium
CHIPOTLE MEXICAN GRI.	Low
DARDEN RESTAURANTS	Low
DOLLAR GENERAL	Low
PANERA BREAD COMP.	Low

Source: BofA Merrill Lynch Global Research. * FO exposure = BofAML estimates of current sales derived from fighting obesity-related products and solutions.

Industry responding to the challenge

The industry is becoming increasingly influenced by growing consumer awareness of the links between diet and health, including obesity. This has meant a greater push on health and wellness (H&W) via healthy product options, acquiring brands, innovating and reformulating existing products, and promoting consistent H&W messages. Many companies are realising that it is wiser to invest now than potentially be forced to do so via future regulation (as with the anti-smoking drive). They have also identified a huge opportunity: growth, volumes and margins in the global H&W food market are estimated at US$663bn in 2012 (Source: Euromonitor) and fresh produce at US$675bn (Source: Dole), with these segments growing faster than GDP.

We believe that a number of stocks are well placed to benefit from the theme of healthier food as a means of fighting global obesity through their involvement and positioning in areas such as: H&W-centred product portfolios (e.g., naturally healthy, fortified/functional, better for you, organic, fresh produce, fresh juices, etc) and reformulating the nutritional profile of portfolios (i.e., less fat, sugar and sodium, fewer calories and artificial ingredients, and more beneficial ingredients).

Commercial weight loss, diet management & nutrition

Surveys/reports suggest 42-54% of US adult population is dieting

This corresponds to up to c.108mn people in 2012 (Source: Gallup, Calorie Control Council, Marketdata). These figures are up significantly from an estimated 33% in 2004 (Source: Calorie Control Council). Of these dieters, a large proportion (c.60%) are attempting to lose weight, while the remainder are attempting to maintain their weight. The typical American dieter now makes four weight-loss attempts per year – the highest number in 15 years (Source: Marketdata).

Table 3: BofAML Fighting Obesity (FO) via commercial weight loss, diet management & nutrition

Company	FO exposure
HERBALIFE	High
WEIGHT WATCHERS INT.	High
NESTLE	Medium
DSM	Low
VITAMIN SHOPPE INC	Low

Source: BofA Merrill Lynch Global Research. . * FO exposure = BofAML estimates of current sales derived from fighting obesity-related products, services, technologies and solutions

Dieters increasingly looking to commercial weight-loss centres

Such centres combine products and services such as targeted nutrition (e.g., lower-calorie food replacements) and behavioural change (e.g., via classes and clubs) to promote new eating habits and H&W lifestyle choices and change. The US market alone is estimated to be worth more than US$4bn in 2012 – with long-term drivers including online usage, emerging market demand, adoption by governments, B2B and the health care sector, and men. The US$30bn vitamin, minerals and supplement (VMS) industry is also an indirect beneficiary of consumer H&W demand.

Many stocks exposed to this theme

Many stocks have exposure to weight loss, diet management and nutrition as a means of fighting global obesity through their involvement in areas such as: commercial weight loss centre chains, dietary and weight management supplements, meal replacement products, multi-level marketers that sell weight management products, nutrition, and the VMS industry, among others.

Sports apparel & equipment

WHO: physical inactivity fourth-leading risk factor for global mortality

Physical inactivity is said to be responsible for an estimated 6% of global deaths (3.2mn) annually. It is also the main cause of 21-25% of breast and colon cancers, 27% of diabetes and approximately 30% of ischaemic heart disease burden, as well as their risk factors such as high blood pressure, raised blood sugar and overweight. The nature of the problem is global with 31% of adults considered to be insufficiently physically active; women are at highest risk and EMs at growing risk.

Table 4: BofAML Fighting Obesity (FO) via Physical Activity stock list

Company	FO exposure
361 DEGREES INTL.	Low
ADIDAS GROUP	Low
ANTA SPORTS PROD.	Low
ASICS CORPORATION	Low
CHINA DONGXIANG	Low
COLUMBIA SPORTS.	Low
DICKS SPORTING GOO.	Low
FINISH LINE	Low
FOOT LOCKER	Low
GILDAN ACTVEWEAR	Low
HOSA INTERNATIONAL	Low
LI NING CO LTD	Low
LULULEMON ATHLETICA	Low
NIKE	Low
POU SHENG INTL.	Low
SPORTS DIRTECT INTL.	Low
UNDER ARMOUR INC	Low
YUE YUEN INTL.	Low

Source: BofA Merrill Lynch Global Research. . * FO exposure = BofAML estimates of current sales derived from fighting obesity-related products, services, technologies and solutions

Increasing physical activity a central plank of fight against obesity

Physical activity contributes to weight loss and weight maintenance over the long term, as well as improving metabolic, respiratory and cardiovascular function and reducing the risk of obesity-related co-morbidities and falling and fractures. Governments are thus setting targets to tackle physical inactivity and increasing funding to promote physical fitness and improve built infrastructure to encourage physical activity. Other growth drivers include the rising global popularity of sports and leisure activity, with growing adoption by women, older demographics and EMs. This is likely to result in rising numbers engaging in sports and demand for affordable equipment and apparel to engage in physical activity or sports – with the US$340bn global athletic industry a key beneficiary.

We believe that a number of stocks are well placed to benefit from the theme of physical activity as a means of fighting global obesity through their involvement in areas such as: fitness, footwear, gyms, leisure, manufacturers and retailers of sports apparel, recreational sports and activities, specialty sports, sports apparel, sports clothing, sports lifestyle products, sports retailers and sports venues.

BofAML Global Fight Against Obesity Exposure stock list

The BofAML Global Fight Against Obesity Exposure stock list is not a recommended list either individually or as a group of stocks. Investors should consider the fundamentals of the companies and their own individual circumstances / objectives before making any investment decisions

We have created a BofA Merrill Lynch Global Research list of stocks which have exposure to fighting obesity-related themes and that we consider should benefit long-term from the global fight against obesity.

The aim of this stock list is to provide investors with information to understand company and sub-sector specific risks and opportunities inherent in the fight against obesity theme. We have also provided factual overviews of other companies, outside our research coverage, that are exposed to fighting obesity (see relevant sections of the report).

BofAML Global Fighting Obesity (FO) Exposure stock list

Ticker	Name	Country	MCap (US$ mn)	BofAML Ticker	BofAML Rating	FO sub-sector	FO exposure
ARNA US	ARENA PHARMACEUTICALS	United States	1,492.9	ARNA	UNDERPERFORM	Pharmaceuticals & Health Care	High
NOVOBDC	NOVO NORDISK	Denmark	73,259.2	NONOF	BUY	Pharmaceuticals & Health Care	High
OREX US	OREXIGEN THERAPEUTICS INC	United States	255.2	OREX	BUY	Pharmaceuticals & Health Care	High
SYK US	STRYKER CORP	United States	19,499.3	SYK	BUY	Pharmaceuticals & Health Care	High
VVUS US	VIVUS INC	United States	2,462.7	VVUS	BUY	Pharmaceuticals & Health Care	High
ZMH US	ZIMMER	United States	11,316.0	ZMH	BUY	Pharmaceuticals & Health Care	High
COLOB DC	COLPOLAT A/S	Denmark	7,300.4	CLPBF	NEUTRAL	Pharmaceuticals & Health Care	Medium
DVA US	DAVITA INC	United States	8,121.9	DVA	BUY	Pharmaceuticals & Health Care	Medium
FME GR	FRESENIUS MEDICAL CARE	Germany	20,159.6	FMCQF	BUY	Pharmaceuticals & Health Care	Medium
GETIB SS	GETINGE AB	Sweden	6,060.8	GNGBF	BUY	Pharmaceuticals & Health Care	Medium
MDT US	MEDTRONIC INC	United States	38,050.9	MDT	BUY	Pharmaceuticals & Health Care	Medium
STJ US	ST JUDE MEDICAL INC	United States	11,439.0	STJ	BUY	Pharmaceuticals & Health Care	Medium
SN/ LN	SMITH & NEPHEW	UK	8,486.0	SNNUF	NEUTRAL	Pharmaceuticals & Health Care	Medium
AGN US	ALLERGAN INC	United States	28,136.2	AGN	BUY	Pharmaceuticals & Health Care	Low
BN FP	DANONE	France	39,029.3	GPDNF	BUY	Food	High
DOLE US	DOLE FOODS	United States	826.1	DOLE	UNDERPERFORM	Food	High
SENEA US	SENECA FOODS CORPORATION	United States	263.7	SENEA	UNDERPERFORM	Food	High
CPB US	CAMPBELL SOUP CO	United States	10,048.0	CPB	NEUTRAL	Food	Medium
CAG US	CONAGRA FOODS INC	United States	10,388.4	CAG	BUY	Food	Medium
GIS US	GENERAL MILLS INC	United States	25,366.0	GIS	BUY	Food	Medium
HNZ US	HEINZ (H.J.) CO	United States	17,345.7	HNZ	NEUTRAL	Food	Medium
K US	KELLOGG CO	United States	17,416.8	K	BUY	Food	Medium
KYG ID	KERRY GROUP	Ireland	7,822.9	KRYAF	BUY	Food	Medium
KFT US	KRAFT FOODS INC	United States	68,538.5	KFT	BUY	Food	Medium
NESN VX	NESTLE	Switzerland	187,222.3	NSRGF	NEUTRAL	Food	Medium
PEP US	PEPSICO INC	United States	108,583.2	PEP	BUY	Food	Medium
TFM US	THE FRESH MARKET	United States	2,445.0	TFM	BUY	Food	Medium
UNA NA	UNILEVER	Netherlands	90,518.3	UNLNF	UNDERPERFORM	Food	Medium
UNFI US	UNITED NATURAL FOODS	United States	2,449.5	UNFI	BUY	Food	Medium
WFM US	WHOLE FOODS MARKET	United States	16,526.5	WFM	BUY	Food	Medium
CMG US	CHIPOTLE MEXICAN GRILL	United States	12,515.6	CMG	NEUTRAL	Food	Low
DRI US	DARDEN RESTAURANTS	United States	6,544.4	DRI	BUY	Food	Low
DG US	DOLLAR GENERAL CORP.	United States	16,860.5	DG	BUY	Food	Low
PNRA US	PANERA BREAD COMPANY	United States	4,077.1	PNRA	NEUTRAL	Food	Low
HLF US	HERBALIFE	United States	5,340.4	HLF	BUY	Cmcl. weight mgt, diet & nutrition	High
WTW US	WEIGHT WATCHERS INTL;	United States	3,168.9	WTW	BUY	Cmcl. weight mgt, diet & nutrition	High
NESN VX	NESTLE	Switzerland	187,222.3	NSRGF	NEUTRAL	Cmcl. weight mgt, diet & nutrition	Medium
DSM NA	DSM	Netherlands	8,055.1	KDSKF	NEUTRAL	Cmcl. weight mgt, diet & nutrition	Low
VSI US	VITAMIN SHOPPE INC	United States	1,476.9	VSI	NEUTRAL	Cmcl. weight mgt, diet & nutrition	Low
1361 HK	361 DEGREES INTERNATIONAL	Hong Kong	517.0	TSIOF	NEUTRAL	Sports apparel & equipment	Low
ADS GR	ADIDAS GROUP	Germany	15,137.0	ADDDF	BUY	Sports apparel & equipment	Low
2020 HK	ANTA SPORTS PRODUCTS LIMITED	Hong Kong	1,877.3	ANPDF	BUY	Sports apparel & equipment	Low

BofAML Global Fighting Obesity (FO) Exposure stock list

Ticker	Name	Country	MCap (US$ mn)	BofAML Ticker	BofAML Rating	FO sub-sector	FO exposure
7936 JP	ASICS CORPORATION	Japan	2,136.8	ASCCF	BUY	Sports apparel & equipment	Low
3818 HK	CHINA DONGXIANG	Hong Kong	601.6	CDGXF	UNDERPERFORM	Sports apparel & equipment	Low
COLM US	COLUMBIA SPORTSWEAR	United States	1,682.4	COLM	BUY	Sports apparel & equipment	Low
DKS US	DICKS SPORTING GOODS, INC	United States	5,725.5	DKS	BUY	Sports apparel & equipment	Low
FINL US	FINISH LINE	United States	976.1	FINL	BUY	Sports apparel & equipment	Low
FL US	FOOT LOCKER	United States	4,590.4	FL	BUY	Sports apparel & equipment	Low
GIL CN	GILDAN ACTVEWEAR	Canada	3,304.5	YGIL	BUY	Sports apparel & equipment	Low
2200 HK	HOSA INTERNATIONAL	Hong Kong	412.5	XSIHF	BUY	Sports apparel & equipment	Low
2331 HK	LI NING CO LTD	Hong Kong	672.2	LNNGF	UNDERPERFORM	Sports apparel & equipment	Low
LULU US	LULULEMON ATHLETICA INC	United States	8,864.7	LULU	UNDERPERFORM	Sports apparel & equipment	Low
NKE US	NIKE	United States	47,951.4	NKE	BUY	Sports apparel & equipment	Low
3813 HK	POU SHENG INTERNATIONAL	Hong Kong	367.1	PSHGF	UNDERPERFORM	Sports apparel & equipment	Low
SPD LN	SPORTS DIRTECT INTERNATIONAL	UK	2,711.6	SDIPF	BUY	Sports apparel & equipment	Low
UA US	UNDER ARMOUR INC	United States	5,366.9	UA	BUY	Sports apparel & equipment	Low
551 HK	YUE YUEN INTERNATIONAL	Hong Kong	4,927.0	YUEIF	BUY	Sports apparel & equipment	Low

Source: BofA Merrill Lynch Global Research, Bloomberg. *FO exposure = BofAML estimates of current sales derived from fighting obesity-related products, services, technologies and solutions.

'Globesity': sizing the global problem

WHO estimates that almost 500 million adults worldwide are obese

WHO estimates more than 500mn people globally are obese

The prevalence of overweight and obese individuals is highest in the Americas (62% overweight in both sexes, and 26% obese) and lowest in South-East Asia (14% overweight in both sexes and 3% obese). In Europe, the Eastern Mediterranean and Americas, over 50% of women are overweight. In all three regions, approximately half of these overweight women are obese (23%, 24% and 29%, respectively). The US and Mexico have two of the highest obesity rates, while Japan and Korea have two of the lowest.

The causes of increasing obesity and overweight include changing eating patterns (i.e., more processed and fast food, less healthy food) and less opportunity to engage in physical activity

Things are getting worse – prevalence has more than doubled since 1980

Between 1980 and 2008, the worldwide prevalence of obesity nearly doubled. By 2008, 10% of men and 14% of women globally were obese (vs. 5% and 8%, respectively, in 1980) (Source: WHO). Many highlight the US as the epicentre of obesity, but the disease is on the rise throughout the world. The Organization for Economic Co-operation and Development (OECD) reports that 50% or more of its member countries' populations are overweight or obese. Obesity rates are also increasing rapidly in EMs such as Brazil, China and India. Demographic changes are also playing a role, with the ageing of the population in many countries tending to nudge many overweight adults into the obese category – and to push many of those who are already obese into "severely obese" territory.

Obesity is fifth-highest global risk for death

Obesity accounts for at least 2.8mn adult deaths each year. Obesity and obesity-related costs are on the rise globally, and health care costs are as high as US$190bn, or 21% of medical spending, in the US (Source: Institute of Medicine (IOM) of The National Academies). A large proportion of the global costs are borne by strained public health care systems. In addition to medical costs, disability costs and unemployment costs, there are effects on the workplace in terms of lost productivity and increased absenteeism, as well as the costs of adapting to an increasingly obese population (see later section on Costs).

The obesity epidemic: facts

Defining overweight and obesity

Body Mass Index, or BMI, is calculated as:

- mass (kg) ÷ height (m)²
- mass (lb) ÷ height (in)² x703
- mass (lb) ÷ height (ft)² x4.88

Overweight is broadly defined as having a body mass index (BMI) – a ratio of weight in kg to the square of height in metres – of 25.5-29.9. Adults with a BMI of 30 or greater are considered obese. Among those that are obese, the increasing health risks that come with higher levels of weight are sometimes further classified into grades of severity – grade 1 (BMI of 30-34.9), grade 2 (BMI of 35.5-39.9) and grade 3 (BMI of 40+). Further granularity can be provided for children and adolescents, with the US Centers for Disease Control and Prevention (CDC), for instance, defining cut-offs on age- and sex-specific curves, with overweight defined as BMI $\geq 85^{th}$ percentile and obesity $\geq 95^{th}$ percentile.

BMI can be misleading

BMI can be a flawed measure, depending on ethnicity and muscle mass; as a result, waist circumference and body fat percentage are alternate obesity metrics.

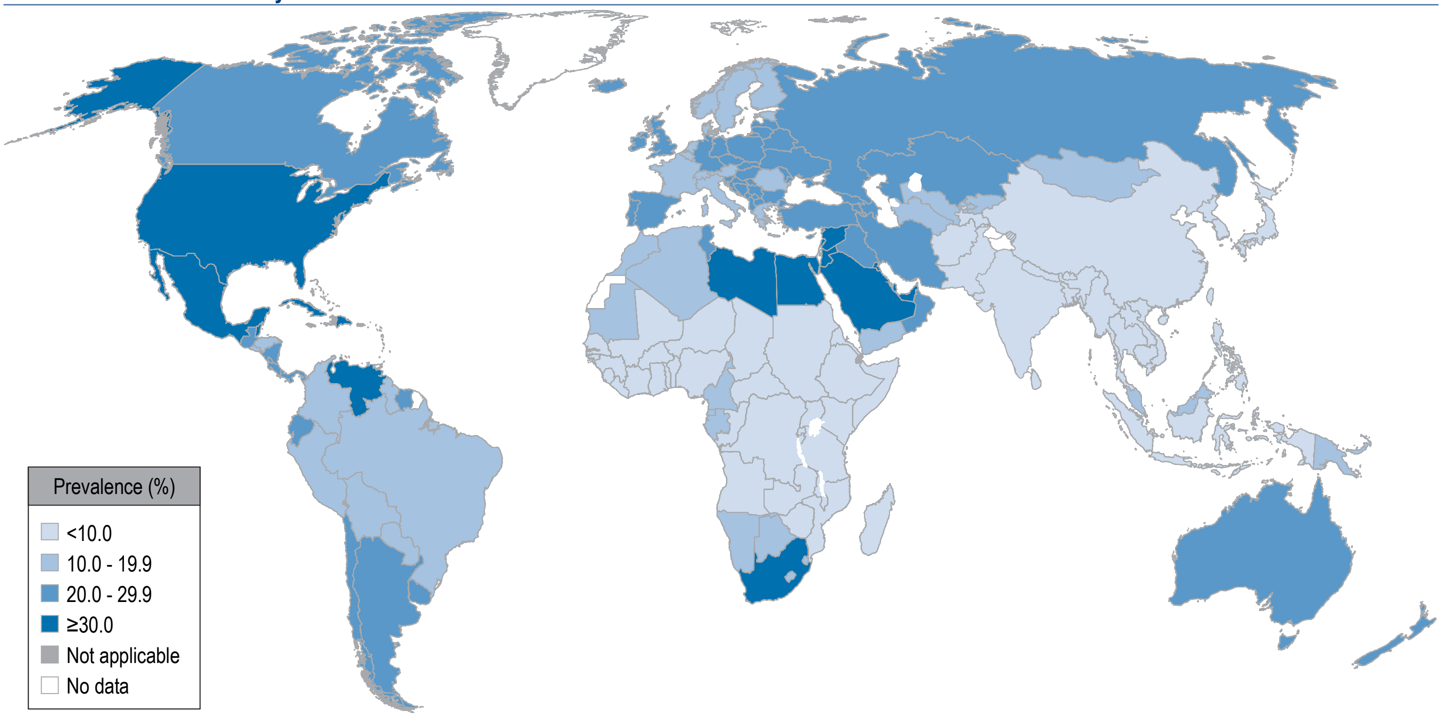
Worldwide prevalence has doubled over past 30Y

According to the WHO's "World Health Statistics 2012" report, between 1980 and 2008 the worldwide prevalence of obesity (body mass index ≥30 kg/m²) nearly doubled. By 2008, 10% of men and 14% of women in the world were obese (vs. 5% and 8%, respectively, in 1980).

500mn obese adults at last count

By 2008, c.500mn people over the age of 20 were obese. The prevalence of overweight and obese individuals was highest in the Americas (62% overweight in both sexes, and 26% obese) and lowest in South-East Asia (14% overweight in both sexes and 3% obese). In Europe, the Eastern Mediterranean and Americas, over 50% of women were overweight. In all three regions, approximately half of these overweight women were obese (23%, 24% and 29%, respectively).

Chart 2: Prevalence of obesity world-wide



Source: BofA Merrill Lynch Global Research, WHO

Table 5: Adults per tonne biomass and energy used to maintain overweight and obesity

Heaviest 10	Lightest 10
United States	North Korea
Kuwait	Cambodia
Croatia	Burundi
Qatar	Nepal
Egypt	DR Congo
UAE	Bangladesh
Trinidad & Tobago	Sri Lanka
Argentina	Ethiopia
Greece	Vietnam
Bahrain	Eritrea

Source: Walpole et. al., BMC Public Health 2012

The growing weight of the world

Recent research estimates that the human population now weighs in at 287 million tonnes or 632bn lb (Source: Walpole et. al., BMC Public Health 2012). The researchers, from the London School of Hygiene and Tropical Medicine, found that

- Overweight people carry a total of 15mn tonnes of extra weight, the equivalent of 242mn normal-weight people
- Obese people were found to carry 3.5mn tonnes of extra weight, the equivalent of 56mn normal-weight people
- The average body mass, globally, was 62kg or 136lb. North America had the highest average body mass of any continent (80.7 kg or 178lb) while Asia has the lowest (57.7kg or 127 lb).

Worryingly, the research found that if all countries had the same average BMI as the U.S., the total human biomass would increase by 58mn tonnes, equivalent to the weight of 1bn people and the energy requirements of 473 million adults. This could pose significant challenges in terms of the sustainability of global resource use including with regard to food and energy.

Table 6: Possible scenarios for adults per tonne biomass and energy used to maintain overweight and obesity

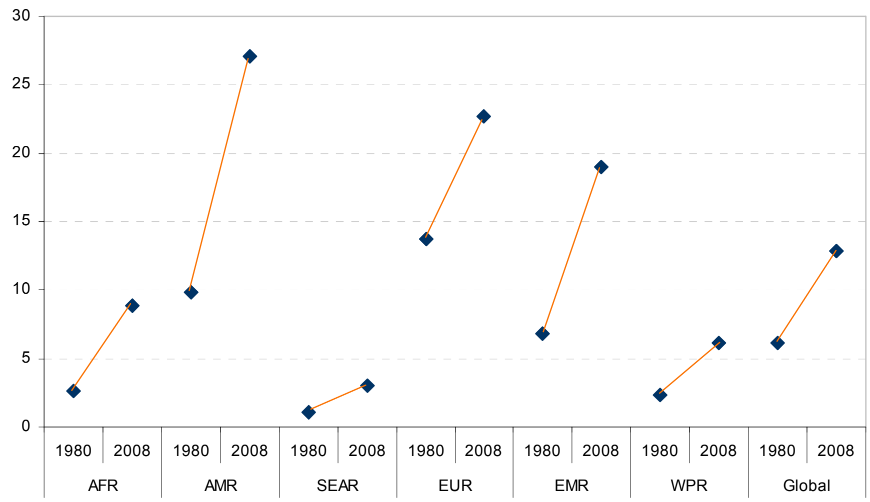
Scenario	Adults per tonne	Average tTEE Kcal/day/adult	Average energy used to maintain biomass die to BMI>25 in kcal/day/adult	Thousands of adults of average mass that could be maintained by energy required to maintain: BMI>25	BMI>30
World (2005)	16.1	2,549	61	111,346	23,533
BMI in Japan for all countries	17.0	2,490 (-2.4%)	22	40,519 (-64%)	1,726 (-93%)
BMI in U.S. for all countries	13.4	2,810 (+10.4%)	224	406,255 (+265%)	136,721 (+481%)

Source: Walpole et. al., BMC Public Health 2012. tTEE = theoretical Total Energy Expenditure calculated from FAO tables for adults, assuming that Physical Activity Levels (PAL) for each age-sex group in all countries were the same as those reported for USA in the same document

Things are getting worse

Trends indicate a rapid rise in obesity even in countries with low current rates. Researchers estimate that by 2030 there will be 65mn more obese adults in the US and 11mn more in the UK (Wang et al, *The Lancet*).

Chart 3: Prevalence (%) of obesity among adults aged 20+ by region: 1980 vs. 2008



Source: WHO 2012, BofA Merrill Lynch Global Research. Data show age-standardised prevalence and obesity is defined as BMI >30kg/m²

Vivus estimates that 95% of obese patients are already being treated in the primary care setting for hypertension, hyperlipidemia, or diabetes

Obesity results in significant co-morbidities

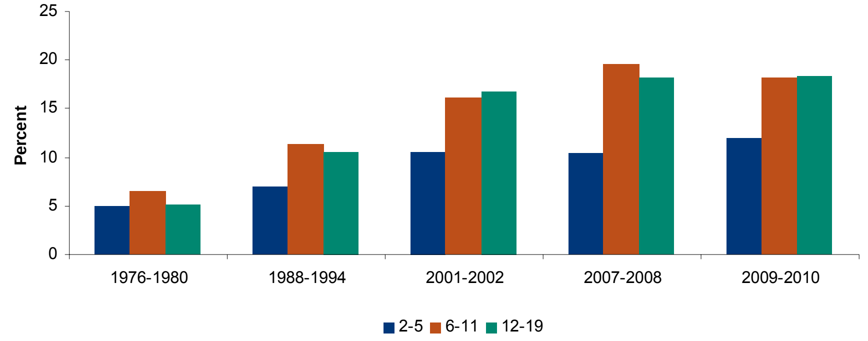
WHO estimates that the diagnoses of 44% of diabetes, 23% of ischemic heart disease and 7-41% of certain cancers are attributable to patients being overweight and obese. Additional co-morbidities include high cholesterol, hypertension, respiratory problems, arthritis, and other cardiovascular (CV) diseases. Furthermore, obesity has a psychological impact, and doctors in the US have estimated that 63% of their obese patients are depressed or show signs of untreated depression.

The International Association for the Study of Obesity estimates that 20% of children aged 5-17 are overweight

Obese children more likely to become obese adults

A significant number of children are becoming obese, which can lead to longer-term problems including shortened life, various disabilities, breathing difficulties, cardiovascular diseases, insulin resistance, and psychological factors such as social problems and mental health issues. In many EMs, children are increasingly consuming lower-cost diets with poor nutritional value, thus contributing to the growth in obesity rates. OECD studies show that even if this excess weight is lost, obese children are more likely to suffer from CV problems in later life. Furthermore, this population is at greater risk of regaining weight after loss. Obesity rates in children are rapidly rising, reaching double digits in most OECD countries. Long-term, this could lead to a generation with shorter life spans.

Chart 4: Prevalence of childhood obesity in the US



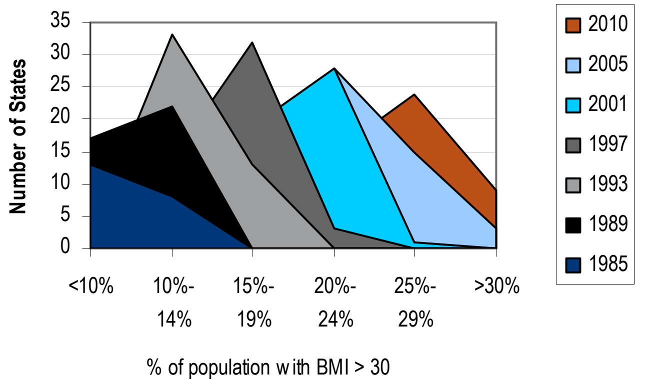
Source: BofA Merrill Lynch Global Research based on data obtained from CDC/NCHS

In the US, children and adolescents aged 12-19 had an 18.4% prevalence of obesity in 2009-10 (Chart 2). The prevalence of obesity among children in the age groups of 6-11 and 2-5 was 18% and 12.1%, respectively. Total obesity prevalence for all three age cohorts was 16.9%, flat compared with 2007-08 but 10% higher than in 2001-02.

US: obesity epidemic

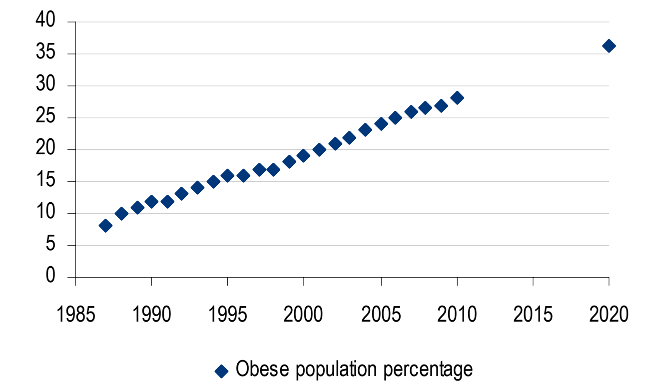
The prevalence of obesity in the US has increased dramatically over the past few decades (see Charts 3 and 4). Recent CDC studies indicate that almost 70% of Americans are overweight and nearly one-third are obese. Other studies estimate that up to 51% of the US population will be obese by 2030 (Wang et al, *The Lancet*, Finkelstein et al).

Chart 5: Obesity in the US has increased …



Source: Data obtained from CDC/NCHS

Chart 6: … at a roughly linear pace

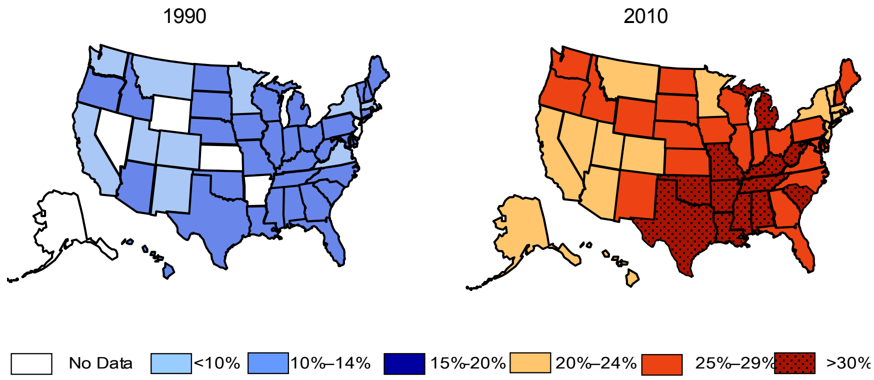


Source: Data obtained from CDC/NCHS

All states now have at least a 20% prevalence of obesity

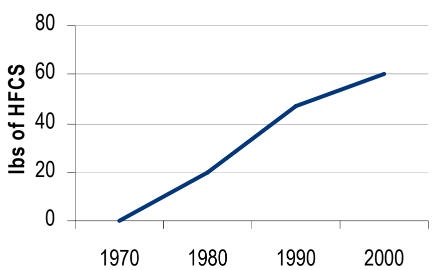
In 1990, 10 states that participated in the CDC's Behavioral Risk Factor Surveillance System (BRFSS) had an obesity prevalence of less than 10% and no state had prevalence equal to or greater than 15%. By 2010, no state had a prevalence of obesity less than 20% and 12 states (up from nine in 2009) had an obesity prevalence equal to or greater than 30%. The highest prevalence of obesity in the US is in the south. Mississippi, the most obese state (34%) for the sixth consecutive year, is also one of the poorest and suffers from low insurance coverage, a weak education system and high unemployment.

Chart 7: Comparison of obesity trends (in percent) in the US in 1990 and 2010



Source: Data obtained from CDC

Chart 8: High fructose corn syrup intake
(per capita, annually)



Source: data obtained from USDA

Fast food nation

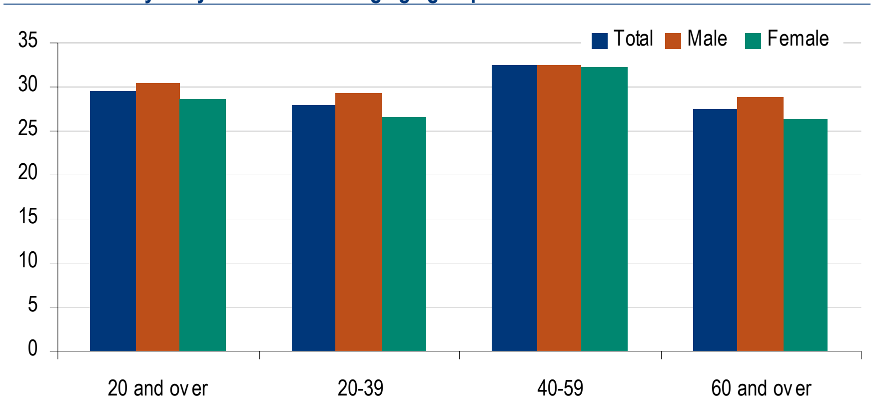
A gradual shift to high-calorie fast-food diets combined with a lack of physical activity is a major driver of the obesity trend. A key component of soft drinks is high-fructose corn syrup, the intake of which has increased significantly over the past four decades. Fast food sales increased 54% from c.US$107bn in 2000 to c.US$165bn in 2010. Annual consumption of cheese, a food that can be very high in fat, increased 287% from the 1950s, while milk consumption decreased 38%.

- Rats fed fructose developed leptin resistance, whereas starch-fed rats did not, even with no difference in weight gain. When these rats were then fed high-fat diets – similar to a Western high-sugar, high-fat diet – the leptin-resistant rats gained much more weight than the starch-fed rats (Shapiro et al., 2008).
- High-fructose diets in humans have led to increased plasma triglyceride levels within four weeks (Reiser et al., 1989).
- Fructose stimulates triglyceride synthesis and fat deposition in the liver (Stanhope and Havel, 2008).

Obesity affects all age groups

When comparing adults aged 20 and over by age group and sex, preliminary 2011 data show that obesity is slightly more prevalent in the 40-59 age cohort: 32.4% total, 32.6% male, 32.2% female (see Chart 7).

Chart 9: Obesity fairly consistent among age groups



Source: CDC/NCHS, National Health Interview Survey, January-March 2011, Sample Adult Core Component

Unclear whether growth has slowed because of public policy initiatives and greater societal awareness of health risks, or because the US has hit the maximum level of overweight/obesity that a population can sustain

Some evidence obesity levels may have peaked

Recent evidence from the 2009-10 National Health and Nutrition Examination Survey (about 10,000 adults and children are surveyed every two years) suggests that the US obesity epidemic may have plateaued. The survey shows that the proportion of obese adults has held steady at 35% for the second straight time and that there have been no significant changes in obesity across age groups since 2003-4. The National Center for Health Statistics researchers did not explore why obesity has levelled off, but we suggest it may be evidence that the multi-stakeholder fight against obesity – including behavioural strategies, economic incentives, education, and food labelling – is starting to have an impact.

Socioeconomic disparities, poor hit hardest

But before we get ahead of ourselves, we need to be realistic – obesity levels remain at a record high, meaning that the US is still facing a wave of obesity-related co-morbidities. Moreover, academic research suggests that less affluent children are faring worse when it comes to obesity. A study published in the May 2012 issue of *Pediatrics*, which included a diverse group of nearly 37,000 Massachusetts children under age six, found that between 2004 and 2008 the obesity rate fell by 1.6 and 2.6 percentage points among boys and girls, respectively. However, the falloff was more pronounced among children with non-Medicaid health insurance than among those on Medicaid, the government-funded health plan for low-income families.

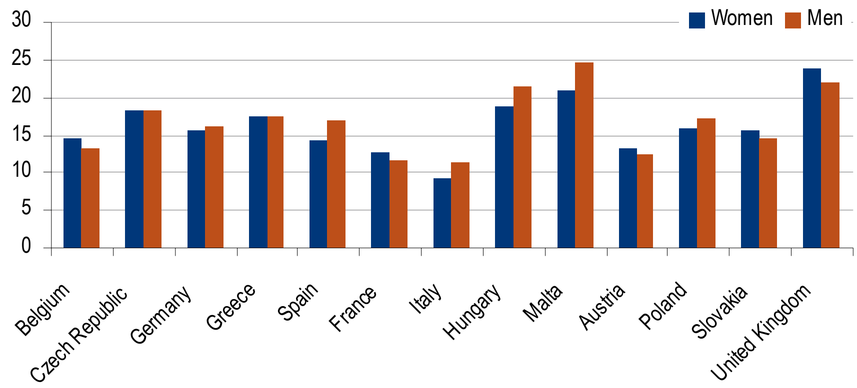
Europe: up to 60% obesity by 2050

Well over 200mn adults are overweight in Europe and obesity has tripled over the past two decades, according to WHO. The proportion of obese people in the 19 EU countries for which data is available varied between 8.0% and 23.9% for women and between 7.6% and 24.7% for men in 2008/9 (Source: Eurostat, EHIS):

- **Lowest shares of obesity** were observed in Romania (8.0% for women and 7.6% for men), Italy (9.3% and 11.3%), Bulgaria (11.3% and 11.6%) and France (12.7% and 11.7%).
- **The highest proportions of obese** women were recorded in the UK (23.9%), Malta (21.1%), Latvia (20.9%) and Estonia (20.5% in 2006/7), and of men in Malta (24.7%), the UK (22.1%), Hungary (21.4%) and the Czech Republic (18.4%).
- **No systematic difference in obesity between women and men**: the proportion of obesity was higher for women in eight EU countries, higher for men in 10, and equal in one.
- **Share of obese persons increases with age**. For women there is a clear pattern across the EU that the older the age group, the higher the share of obese persons. For men, in 12 out of 19 countries, the highest share of obesity was for the 65-74 age group, while in the remaining seven, the highest share was registered for the age group 45-64. For the two youngest age groups, the percentage of obese women in the UK is particularly notable.
- **Share of obese persons falls with educational levels**, especially for women (all EU countries). For men, in 11 countries, the highest share of obesity was observed for those with a low educational level.

Throughout Europe, obesity is responsible for 2-8% of health costs and 10-13% of deaths (Source: WHO).

Chart 10: In 2008-09, the UK and Malta had the highest prevalence of obesity in Europe

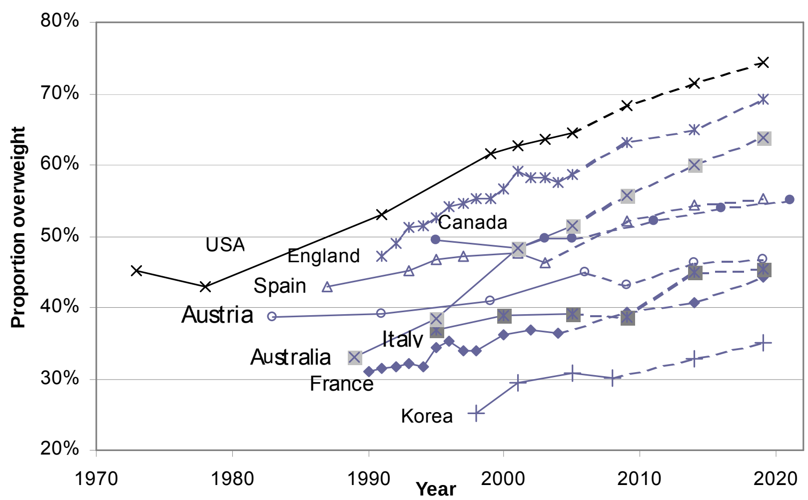


Source: Eurostat, European Health Interview Survey (EHIS)

Up to 60% obesity by 2050

Overweight and obesity are thought to be among the most widespread threats to health and wellbeing in the region. For instance, in the UK, the Government-commissioned Foresight report predicted that if no action was taken, 60% of men, 50% of women and 25% of children would be obese by 2050 – with direct obesity-related costs expected to double over that period.

Chart 11: Projected rates of overweight population including obesity in OECD countries



Source: OECD, BofA Merrill Lynch Global Research

EMs: expanding incomes & waistlines

One of the most worrying developments in obesity trends is that emerging markets are making what the UN's Food and Agriculture Organization (FAO) calls the "nutrition transition". As these markets become more prosperous they – and particularly their youth – adopt the diet, physical activity, health and nutrition benefits and problems of developed markets, including obesity.

- **Traditional diets giving way to DM diets** with grains and vegetables increasingly displaced by meals high(er) in fat and sugar, including imported, processed food from developed markets.

- **Food and food retail companies targeting EMs** with DM-style food.

- **Increased availability of food at lower prices for the poor** means that they have access to richer diets. Being overweight used to be a sign of wealth in many countries, but the wealthier segments are now adopting healthier lifestyles and the poor eating less healthily.
- **Urbanisation increasing obesity** as cities offer a greater range of low(er)-cost food choices, notably fast food. This is compounded by factors such as urban work often involving less physical exertion and an increasing proportion of women in the workforce.
- **Growing disease burden** – EMs are set to bear the lion's share of the costs of obesity-related diseases. Diabetes is one of the most worrying examples, with EMs projected to account for three-quarters of the growth in the number of people with obesity-related diabetes between 1998 and 2025

BRICs

Brazil: close to half the population overweight

The percentage of overweight people increased from 42.7% in 2006 to 48.5% in 2011, while the obesity rate increased from 11.4% to 15.8% over the same period, according to an April 2012 report by the Ministry of Health based on 54,000 interviews with adults across Brazil from January to December 2011. The highest rates for overweight were found among men aged 35 to 45 (63%) and women aged 45 to 54 (55.9%), while for 18-to-24-year olds, 30% of men and 25% of women were overweight. It is estimated that Brazilians consume either high-fat foods or sugary soft drinks at least five times a week. At current trends, Brazil is on track to be as obese as the US by the early 2020s.

China: figures to double over next 20Y

Over the past 15 years, overweight rates have doubled and obesity rates tripled. Now, 1 in 3 men and 1 in 4 women are overweight – or over 325mn Chinese. While overall rates of obesity are below 5%, they are over 20% in a number of cities where rising incomes have seen food intake increase (including a boom in processed foods and fast food) and physical activity decline (Source: WHO). While the problem is acute for those aged 35-59 in cities, where over half are overweight, it is also growing among children, with 8% of 10-to-12-year-olds in cities considered obese and an additional 15% overweight, according to the Chinese Ministry of Education. At current rates, these figures could double over the next two decades.

India: 37-40% in some states & cities

Between 1998 and 2005, overweight rates increased by 20%. Currently, almost 1 in 5 men and over 1 in 6 women are overweight, with obesity standing at 12% for men and 15% for women and morbid obesity affecting 5% of the population. However, in some states and urban areas, the National Family Health Survey showed rates of as high as 37-40%. India is following the same trends as other EMs with increasing consumption of processed food, fast food and less healthy food as the country becomes more integrated in the global food market.

Russia: 10% obese

Currently, half of the population is overweight; 1 in 4 women and one in 10 men are obese.

Costs – potentially overwhelming

Obesity is fifth-highest global risk for death

Obesity accounts for at least 2.8mn adult deaths each year (Source: WHO). This means that a large proportion of health care spending is a consequence – direct and indirect – of obesity. Direct health care costs include diagnostics, treatment and preventive services, while indirect costs relate to morbidity and mortality. Total health care costs are more than 40% higher for obese patients than normal weight patients (see Finkelstein et al., *Health Affairs*) and work-comp claims are seven times as high (Ostbye et al., *Arch Intern Med*).

While public health care systems bear the brunt of obesity-related costs, employers are being hit increasingly hard – such costs could outweigh those associated with smoking

Obesity and obesity-related costs on the rise globally

The annual cost of obesity-related illness in the US is estimated at US$190.2bn, or nearly 21% of the country's annual medical spending (Source: IOM). A large proportion of the global costs are borne by already strained public healthcare systems, posing challenges to public health, economies and even national security. In addition, there are significant effects on the workplace (lost productivity and increased absenteeism); pressure on insurers to reduce medical costs; higher food and fuel/energy costs and CO2 emissions; and growing realisation of the societal costs of adapting to an increasingly obese population.

If obesity were to remain at 2010 levels, the combined savings in medical expenditure over the next two decades in the US would be US$549.5bn (Source: Finkeletsein et al, *American Journal of Preventive Medicine*)

Cost burden set to increase significantly worldwide in the long term

US government estimates suggest that obesity-related costs will grow by 3.6% pa to 2027. The global cost burden is set to grow, with high levels of childhood obesity and rising obesity in EMs set to increase the range of costs from type 2 diabetes to cancer. The strain on public and corporate budgets will only grow – including disability, unemployment, lost productivity, and absenteeism – alongside intangible factors such as discrimination, quality of life and costs for families. As was the case with smoking and second-hand smoke, we believe that the growing cost burden of obesity – on governments, corporates, and both the obese and non-obese – will spur greater collective action to fight obesity.

Table 7: Lifetime consequences and costs of obesity

Physical health	Psychosocial	Functional
• Cardiovascular disease • Cancer • Glucose intolerance and insulin resistance • Type 2 diabetes • Hypertension • Dyslipidemia • Hepatic steatosis • Choleslitasis • Sleep apnea • Reduction of cerebral blood flow • Menstrual abnormalities • Orthopaedic problems • Gallbladder disease • Hyperuricemia and gout	• Stigma • Negative stereotyping • Discrimination • Teasing and bullying • Social marginalization • Low self-esteem • Negative body image • Depression	• Unemployment • Mobility limitations • Disability • Low physical fitness • Absenteeism from school or work • Disqualification from military and fire/police services • Reduced productivity • Reduced academic performance

Source: IOM, BofA Merrill Lynch Global Research

Obesity leads to higher health care costs

The growing epidemic and lack of effective treatment options mean total US health care costs from obesity-related diseases in 2010 were estimated at US$147bn, or almost 10% of all medical spending (US$158bn in the EU). In economic terms, the estimated annual cost of obesity-related illness based on data from the Medical Expenditure Panel Survey for 2000-05 is US$190.2bn (in

Expenses of an average normal weight person on Medicare: US$3,400/year

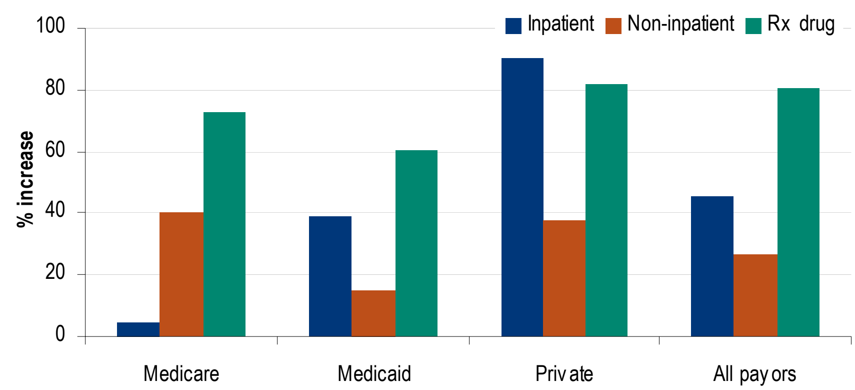
Expenses of an obese person on Medicare: US$4,870/year

2005 dollars), or nearly 21% of annual medical spending in the US (Source: IOM). Total health care costs are more than 40% higher for obese patients than normal-weight patients (see Finkelstein et al., *Health Affairs*) and work-comp claims are seven times as high (Ostbye et al., *Arch Intern Med*).

Higher costs across all payers

Across all payers, higher levels of obesity in the US population are associated with increases in all services, including inpatient, non-patient and Rx drug The higher costs result both from the broader trend of rising health costs and the burden on the health system linked to patients suffering from more ailments due to their obesity.

Chart 12: Increase in costs due to obesity affects all payers (for US)



Source: Finkelstein, Eric et al, *Health Affairs* 28, no. 5 (2009): w822-w831, Medical Expenditure Panel Survey

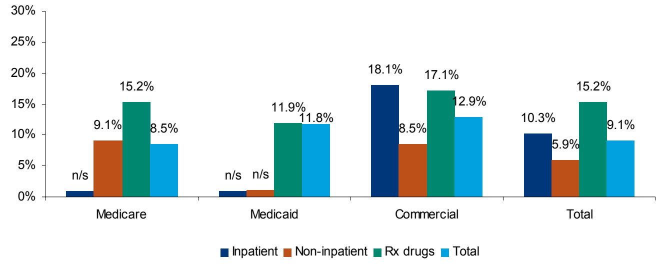
Rising obesity levels have been accompanied by rising health care spending. Of the US$147bn estimated yearly cost of obesity on health care, 23% (US$32.8bn) is paid by Medicare and 19% (US$27.17bn) by Medicaid (Trogdon et al, *Obesity*). It is estimated that 30% of Medicare's coverage population is obese, and the costs for obese people on Medicare, for prescription drugs alone, are 72% greater.

CDC estimates that one out of every three Americans will be diabetic by 2050 (half a trillion dollars of spending)

Co-morbidities increase health care spending

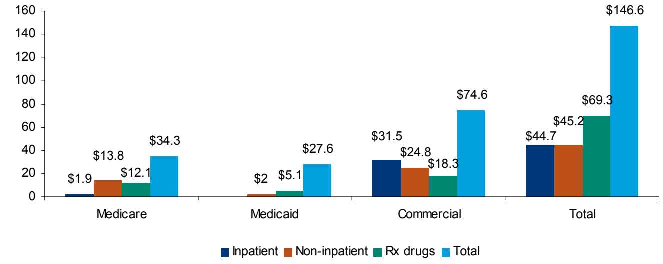
A recent article puts global adult diabetes prevalence at nearly 10%, having risen steadily over the past three decades (Danaei et al., *The Lancet*), in line with obesity trends (CDC). In another study, each BMI unit increase above 25 was associated with a 12% increased risk of diabetes and 4% increase in total health care costs (Wang et al. *The Lancet*). A major risk factor for diabetes, an estimated US$180bn/year condition, is being overweight or obese. The Diabetes Prevention Program (DPP) has shown that modest weight loss and dietary changes can delay or even prevent the onset of diabetes.

Chart 13: Increased spending associated with being obese: percentage increase by payer and service (2008$)



Source: BofA Merrill Lynch Global Research, Campaign to End Obesity based on Eric A. Finkelstein, Justin G. Trogdon, Joel W. Cohen, and William Dietz, "Annual Medical Spending Attributable to Obesity: Payer and Service Specific Estimates. n/s = No statistically significant difference in spending attributable to obesity.

Chart 14: Increased spending associated with being obese: dollar increase by payer and service (2008$)

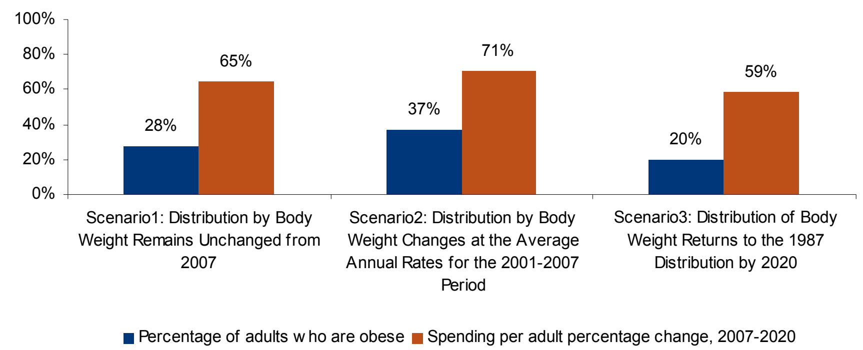


Source: BofA Merrill Lynch Global Research, Campaign to End Obesity based on Eric A. Finkelstein, Justin G. Trogdon, Joel W. Cohen, and William Dietz, "Annual Medical Spending Attributable to Obesity: Payer and Service Specific Estimates. n/s = No statistically significant difference in spending attributable to obesity.

Future cost scenarios – a looming crisis

Under the US Congressional Budget Office's (CBO) most optimistic cost modelling scenario, per-person obesity-related medical spending is set to grow by 59% to 2027 from 2007 levels, or an average of 3.6% a year. If body weight were to continue to rise at 2007 levels, spending per adult would increase from US$4,550 in 2007 to US$7,500 in 2020 (also reflecting a general trend of rising per capita healthcare spending). A 2012 report by the US Centers for Disease Control and Prevention estimated that obesity rates could rise to 42% of the US population by 2030. If obesity were to remain at 2010 levels, the combined savings in medical expenditure over the next two decades would be US$549.5bn (Source: Finkeletsein et al, *American Journal of Preventive Medicine*).

Chart 15: Future US cost scenarios



Source: Campaign to End Obesity based on Duchovny, N. and Baker, C., "How Does Obesity in Adults Affect Spending on Health Care?" Economic and Budget Issue Brief, Congressional Budget Office, September 8, 2010, pg. 9. The scenarios also reflect a general trend of health care expenditures per capita increasing, reflecting a continuing increase in underlying health care spending.

Even these optimistic figures would pose significant cost challenges to the long-term financial viability of public and private health insurance programmes, as spending growth outstrips revenue growth.

Table 8: US Congressional Budget Office (CBO) – future obesity-related health care cost scenarios

	Scenario	Overview	Cost impact
1	Distribution by body weight remains unchanged from 2007	Individuals within each demographic category – grouped by age, sex, and race – do not become heavier over time, but body weight continues to rise slightly because of population ageing and other shifts among demographic categories. Under those assumptions, the share of obese adults would remain at about 28 percent in 2020	Spending per adult would rise from $4,550 in 2007 to $7,500 in 2020

Table 8: US Congressional Budget Office (CBO) – future obesity-related health care cost scenarios

	Scenario	Overview	Cost impact
2	Distribution by body weight changes at the average annual rates for the 2001–2007 period	Assumes that recent trends in adults' body weight continue – and by 2020, the share of obese adults would reach 37%	Projected spending per capita would be $7,760 – about 3% higher than in the first scenario
3	Distribution by body weight returns to the 1987 distribution by 2027	Represents a reversal of the sharp rise in the percentage of the adult population with above-normal weight that has occurred since 1987. That steep decline would result in 20% of adults being obese in 2020	Projected spending per capita would be $7,230 or 4% lower than Scenario 1 and 7% lower than Scenario 2.

Source: Campaign to End Obesity based on Duchovny, N. and Baker, C., "How Does Obesity in Adults Affect Spending on Health Care?" Economic and Budget Issue Brief, Congressional Budget Office, September 8, 2010, pg. 9. The scenarios also reflect a general trend of health care expenditures per capita increasing, reflecting a continuing increase in underlying health care spending.

Long-term costs may be significantly underestimated

An increasing number of academics and stakeholders are arguing that governments are underestimating the long-term costs of the obesity epidemic. For instance, "Assessing the Economics of Obesity and Obesity Interventions", a recent report by the Campaign to End Obesity, argues that:

- **Obesity-related health care costs could be double government estimates** in the US and closer to US$300bn when lost productivity and absenteeism from obesity-related problems are factored in; and
- **Government windows for calculating costs are too short** with the US Congressional Budget Office making estimates in a 10-year budget window, whereas it could take 25Y for the obesity challenges and economic value of preventing obesity-related diseases to become apparent.

Demographics mean that the impact will be long-term

It has traditionally been assumed – as is the case with smoking – that higher obesity-related medical costs could be offset by a higher probability of the obese dying younger, meaning lower lifetime costs. However, academic research has yet to show a definitive link between obesity and dying younger. Rather:

- Today's growing number of obese and overweight children and adolescents could become tomorrow's adult obese and overweight;
- The ageing of the population in many countries is tending to nudge many overweight adults into the obese category, and push many of those who are already obese into "severely obese" territory; and
- With an increasing focus on medical treatment(s) for obesity, there is a real possibility that we could be looking at an impending demographic wave of older, obese patients and even higher medical costs.

Costs for employers may outweigh smoking costs

Many employers are expressing concern over the health-related costs of obese employees, with billions of dollars' worth of impact owing to increased and higher health insurance costs and lost productivity. A March 2012 paper by researchers at the Mayo Clinic said that while smoking could add about 20% a year to medical costs, morbid obesity increased the bill by 50% pa. As we discuss later in this report, the effects on the bottom line are pushing many employers to make real investments in workplace wellness programmes.

Academic research shows employer shouldering the burden

A growing body of research shows that employers are being hit hard by obesity-related costs. In the US, obesity has the greatest impact on costs in the private or commercial health insurance sector. For instance, inpatient spending was 18.1% higher – or US$35bn – for commercial insurers due to the rise in US obesity, which was much higher than for public insurance programmes (Source: Finkelstein et al., *Health Affairs*).

Company research also shows the tangible effects, with a recent Mayo Clinic study of 30,000 of its employees and retirees from 2001 to 2007 illustrating that obese employees cost their employer almost US$600 pa more than employees with other unhealthy habits, such as smoking (US$1,850 vs US$1,275). Employees who were termed morbidly obese (i.e. 100lb+ overweight) cost their employer, on average, US$5,500 more than their non-obese peers (Source: Moriiarty et al in *Journal of Occupational and Environmental Medicine* (March 2012).

Greater absenteeism, US$6bn in costs for US

Obesity raises the risk of a host of co-morbidities, meaning the obese are absent from work more often than people of healthy weight. According to research by Finkelstein et al from Duke University, in the US the most obese men take 5.9 more sick days a year, and the most obese women 9.4 more days. They calculated that obesity-related absenteeism costs US employers alone as much as US$6.4bn a year (Finkelstein et al – Obesity, Diet, Exercise and Health).

Productivity impairments, US$30bn in costs for US

The Duke researchers also found that besides absenteeism, obesity hit workers' ability to work at 100% productivity levels (for example owing to pain or shortness of breath). This tendency – which the researchers referred to as "presenteeism" – resulted in annual costs of US$30bn for the US (based on an estimate of the very obese losing one month of productive work per year, costing employers an average of US$3,792 per very obese male worker and US$3,037 per female).

Smaller pay cheques & greater discrimination

Decreased productivity means reduced wages as employers penalise less productive workers. It also has an indirect impact, with academic research showing that the obese are less likely to be hired. Women bear the greatest brunt of anti-obese prejudice:

- **Obese women earn about 11% less than women of healthy weight**. At the average weekly US wage of US$669 (2010), this means US$76/week according to research by Cornell's John Crawley.

- **Obese women are more likely to be discriminated against when applying for jobs and receive lower starting salaries than their non-overweight colleagues**. Using résumés that had small photos of the job applicants attached, they found that strong obesity discrimination was displayed across all job selection criteria, such as starting salary, leadership potential, and likelihood of selecting an obese candidate for the job (Source: University of Manchester and Monash University (O'Brien et al in *International Journal of Obesity* (2012)).

Employers forced to invest in obesity prevention

Growing health care costs are forcing employers to invest in health and wellness programmes for employees as a long-term means of reducing obesity-related costs. Among some of the commonly adopted programmes and potential options on the table are combining nutrition and physical activity interventions and incentives:

- Subsidising weight loss programmes (Weight Watchers, Jenny Craig) – a 10% subsidy can break even if employees lose 3-5% of their weight (Source: Tasai and Wadden)
- Prescription anti-obesity drugs – some of the annual costs could be recouped in lower medical and absenteeism costs
- Workplace re-design (i.e. exercise facilities, walking trails, changes to the cafeteria).

Table 9: Total reductions in annual costs (medical and absenteeism) for person by % of body weight lost

Avg. weight loss (%)	25-29.9 BMI	30-34.9 BMI	35.5-39.9 BMI	>40 BMI	All overweight & obese
5%	$60	$100	$110	$160	$90
10%	$160	$200	$250	$320	$190
15%	$240	$300	$370	$480	$290
20%	$320	$400	$500	$640	$390
25%	$400	$510	$620	$790	$490

Source: RTI International. All figures in 2007 dollars

Insurers need to reduce medical costs

With over 80% of US citizens having health insurance coverage, there is a clear incentive for insurers to promote obesity diagnosis, screening, treatment and prevention to reduce medical claims and costs. That said, insurers do not consistently pay for obesity prevention and treatment unless there are co-morbidities. Given the nature of the problem, obesity prevention should arguably be considered a core service similar to cancer prevention and counselling (Source: IOM). Evidence suggests that when employers and insurers provide incentives for weight loss and health maintenance, participants are more likely to engage in H&W-friendly behaviour and to lose weight (Source: Archer et al 2011, Arterbum et al 2008, Simpson and Cooper 2009).

Employers provide 2/3 of private insurance

Two-thirds of private insurance is provided by self-insured employers, meaning that companies can adjust benefits within health plans. As discussed above, this is manifesting itself in a growing number of company health plans taking on worker and workplace H&W programmes with the goal of reducing medical costs.

Healthcare insurers need to put greater focus on obesity

Healthcare insurers also need to place greater focus on obesity, notably by giving employers health plan options that include strategies for encouraging policyholders and their families to maintain a healthy weight, increase physical activity and improve the quality of their diet – including diet and nutrition counselling, preconception counselling, and routine BMI screening (Source: IOM).

Table 10: Recommendations for expanding the role of healthcare providers, insurers, and employers in obesity prevention

Strategy	Overview
Provide standardized care and advocate healthy community environments	Health care providers should adopt standards of practice (evidence based or consensus guidelines) for prevention, screening, diagnosis, and treatment of overweight and obesity to help children, adolescents, and adults achieve and maintain a healthy weight, avoid obesity-related complications, and reduce the psychosocial consequences of obesity. Healthcare providers also should advocate, on behalf of their patients, improved physical activity and diet opportunities in their patients' communities
Ensure coverage of, access to, and incentives for routine obesity prevention, screening, diagnosis, and treatment	Insurers (both public and private) should ensure that health insurance coverage and access provisions address obesity prevention, screening, diagnosis, and treatment
Encourage active living and healthy eating at work	Worksites should create, or expand, healthy environments by establishing, implementing, and monitoring

Table 10: Recommendations for expanding the role of healthcare providers, insurers, and employers in obesity prevention

Strategy	Overview
	policy initiatives that support wellness
Encourage healthy weight gain during pregnancy and breastfeeding, and promote breastfeeding-friendly environments	Health service providers and employers should adopt, implement, and monitor policies that support healthy weight gain during pregnancy and the initiation and continuation of breastfeeding. Population disparities in breastfeeding should be specifically addressed at all government levels to remove barriers and promote targeted increases in breastfeeding initiation and continuation.

Source: Institute of Medicine of the National Academies

Energy & emissions, higher food & fuel costs

Increasing obesity means greater food and fuel use, costs, and GHG emissions. This is the result of multiple factors including increasing dependence on emissions-intensive technologies which reduce physical activity (i.e. cars, computers, labour-saving machines), growing consumption of energy-dense foods (i.e. fertilizers for cereals, processed food, meat and dairy, food miles), and basic physics (i.e. it takes more energy to move 300 pounds than 150 pounds).

Up to 1bn extra tonnes of GHG emissions

High rates of obesity in developed markets could mean an additional 0.4 to 1bn extra tonnes of GHG emissions p.a., according to a study in the *International Journal of Epidemiology*. The mathematical modelling-based study from academics at the London School of Hygiene and Tropical Medicine compared an overweight population where 40% were obese (average BMI of 29) against one with a "normal", leaner mix of body types (average BMI of 24.5). They found that fatter populations needed 19% more food energy for their energy requirements, with CO2 emissions increasing on the back of greater food production as well as increased car use and lower fuel efficiency from transporting heavier passengers. Food production currently accounts for c.20% of global GHG emissions.

Airlines: weighing on fuel surcharges

A former chief economist for Qantas has calculated that the average weight of adult passengers on the company's planes has increased 2kg since 2000. For a plane like the Airbus 1380, this means an extra US$472 of fuel on a Sydney to London flight. Assuming three flights a day, this means an additional US$1mn in fuel costs per year, or c.13% of the airline's profit from operating the route. Such cost burdens are leading to a call for additional fuel cost surcharges for passengers exceeding a standard weight.

Auto: efficiency gains being offset by weight gains

As automakers make significant efforts to improve fuel economy (cf. *Less is More: Global Energy Efficiency*), there is growing evidence that their efforts are being counterbalanced by rising obesity, with greater weight in cars meaning increased gasoline consumption. Various studies have shown that up to 1.1bn gallons of gasoline p.a. – or c.US$4bn – can be attributed to passenger weight gains in non-commercial vehicles in the US alone (vs. 1960). This translates into 0.7-0.8% of the total fuel used by passenger vehicles in the US. It is also estimated that for every pound gained in average passenger weight, over 39mn gallons of gasoline is used p.a. (Source: Jacobsen, University of Illinois). Increasing obesity also means a propensity towards larger, less fuel-efficient vehicles.

Researchers have found a linear relationship between the amount of obesity and seatbelt use: the more obese the driver, the less likely they are to wear a seatbelt

Safety concerns

Obesity also leads to potential safety concerns. For example, heavier passengers in vehicles could pose a safety threat, as too much weight behind the rear axle could mean that a car/bus loses steering. Extra pounds could also increase momentum and thus require more force to stop, placing greater demands on brakes. In addition, there are personal safety issues, as obese drivers may be less likely to wear seatbelts than drivers of normal weight, placing them at greater risk of severe injury or death during motor vehicle crashes. A 2012 University of Buffalo study by Jehle et al found that normal weight drivers are 67% more likely to wear a seatbelt than morbidly obese drivers (35-40 BMI). This finding comes from the same researchers who in 2010 identified obesity as a risk factor for death in a study of 155,584 drivers in severe auto crashes in the US. In that study, they found that morbidly obese individuals are 56% more likely to die in a crash than individuals of normal weight. Further research is also being done on the impact of heavier riders on steering and braking.

Obesity adaptation, the emerging costs

Adaptation is often discussed in connection with climate change, with the idea being that even if emissions are stabilised, climate change and its effects will last many years and adaptation will be necessary to reduce the vulnerability of natural and human systems to climate change effects. A similar concept is emerging around obesity, implying new yet-to-be-determined costs associated with changes to the built environment to accommodate larger citizens with public transport, stadiums and other facilities retrofitting doors, brakes, seats, and toilets to accommodate expanding waistlines. Some examples include:

- **Airlines** – EADS' Airbus has started offering airlines buying its A320 passenger jet extra-wide seats (2x50cm (19.6 inches) on either side of the single aisle instead of 3x45cm (17.7 inches) for obese passengers. Several airlines (e.g. AirTran, Southwest) are reported to have policies requiring overweight passengers to purchase an extra seat if they cannot fit in their assigned seat.

- **Buses and trains** are ordering wider seats and doors, and considering new cars with seats that can hold up to 400 pounds

- **Crematoriums** are having to deal with possible risks posed by the combustion of the higher fat content of the obese dead and are considering weight limits specific to each furnace / facility.

- **Hospitals** are widening doors, replacing wall-mounted toilets with floor models able to hold 250lb+ patients, and buying costlier plus-size stretchers, wheelchairs, patient lifts and ambulances to accommodate weights of up to 1,000lb (see later section on *Pharma & Health care*)

- **Organ transplant** – morbid obesity is a barrier to living kidney donation, researchers reported at the National Kidney Foundation 2012 Spring Clinical Meetings.

- **Sports facilities** such as the new Yankee Stadium and Citi Field have seats wider than their predecessors by 1 to 2 inches.

Table 11: Key costs identified from research on the economic impact of obesity in the US

Cost	Category	Key results, and range of estimates	Relative costs	Total costs	Total non-$ amounts
Direct medical spending		Relative medical costs for overweight (vs. normal weight)	10-20% higher-a,b		
		Relative medical costs for obese (vs. normal weight)	36-100% higher-a-d		
		Annual direct costs of childhood obesity		$14.3bn-e,f	
		US-wide annual cost of “excess” medical spending attributable to overweight/obesity		$86-147bn (total)-c $640bn (women 40-65 only)-g	
Productivity costs		Excess days of work lost due to obesity			1.02-4.72 days-h-j
	Absenteeism	Relative risk ratio of having “high absenteeism”	1.24-1.53x higher-j,k	$3.38-6.38bn, or $79-132 per obese person-j,l	
		National costs of annual absenteeism from obesity		$57,000 per employee-l (1998 USD)	
	Presenteeism	National annual costs of presenteeism obesity		$8bn-m (2002 USD)	
		Relative productivity loss due to obesity	1.5% higher-j		
	Disability	Relative risk ratio of receiving disability income support	5.64-6.92 percentage points higher		
	Premature mortality	Years of life lost due to obesity			1-13 years per obese person-o
		QALYs lost due to obesity			2.93 million QALYs total in US in 2004-p
	Total	National annual indirect costs of obesity		$5 (1994 USD)-$66bn-m,q	350mn gallons-r
Transportation costs	Fuel	Annual excess jet fuel use attributable to obesity		$742mn (2010 USD)	938mn-1bn gallons-t
		Annual excess fuel use by non-commercial passenger highway vehicles		$2.53-2.7bn (2010 USD)	39 million gallons-t
		Additional fuel required in non-commercial passenger highway sector per/lb of average passenger weight increase		$105mn per lb (2010 USD)	10 million tons-u
	Environment	OECD-wide CO2 emissions from transportation per 5 kg average weight per person			
Human capital accumulation costs		Highest grade completed	0.1-0.3 fewer grades completed-v,w		
		Days absent from school	1.2-2.1 more days absent from school-x		

Source: IOM, BofA Merrill Lynch Global Research. NOTES: OECD = Organisation for Economic Co-operation and Development; QALY = quality-adjusted life-years. aThompson et al., 1999; bThompson et al., 2001; cFinkelstein et al., 2009; dThorpe et al., 2004; eCawley, 2010; fTrasande and Chatterjee, 2009; gGorsky et al., 1996; hPronk et al., 1999; iTsai et al., 2008; jTrogdon et al., 2008; kSerxner et al., 2001; lDurden et al., 2008; mRicci and Chee, 2005; nBurkhauser and Cawley, 2004; oFontaine et al., 2003; pGroessl et al., 2004; qThompson et al., 1998; rDannenberg et al., 2004; s Jacobson and King, 2009; tJacobson and McLay, 2006; uMichaelowa and Dransfield, 2008; vGortmaker et al., 1993; wKaestner et al., 2009; xGeier et al., 2007.

Pharma & health care

Obesity a big market opportunity

Obesity as a medically treated disease is a controversial topic, but the condition affects more than 100mn people in the US and 500mn worldwide. This creates a significant market opportunity for new weight loss drugs and other approaches to dealing with obesity and related co-morbidities from a health care perspective.

Our Biotech (The Skinny on Obesity, 16 February 2012) and Pharma (Super Size Me, 02 April 2012 et al.) teams have identified 2012 as an important year for the future of obesity treatments, with the US FDA's aversion to new weight-loss drugs appearing to wane as obesity and related co-morbidities have risen to account for 10% of US health care costs (~US$150bn/yr) (Source: CMS). The FDA has historically had little risk tolerance for weight loss drugs, but it has recently shown increased support for their development. The multiple advisory panels and approval decisions in coming months could lead to more transparency on the path to approval for obesity drugs. Upcoming obesity newsflow includes: 1) Lorqess PDUFA 27 June; 2) Qnexa PDUFA 17 July; 3) Qnexa approval in the EU September; 4) Victoza Phase III data early 2013 from the SCALE studies.

Table 12: BofAML Fighting Obesity (FO) – Pharma & Health Care stock list

Company	FO exposure
ALLERGAN INC	Low
ARENA PHARMA.	High
COLOPLAST A/S	Medium
DAVITA INC	Medium
FRESENIUS MEDICAL	Medium
GETINGE AB	Medium
MEDTRONIC INC	Medium
NOVO NORDISK	High
OREXIGEN THERAP.	High
ST JUDE MEDICAL INC	Medium
SMITH & NEPHEW	Medium
STRYKER CORP	High
VIVUS INC	High
ZIMMER	High

Source: BofA Merrill Lynch Global Research. . * FO exposure = BofAML estimates of current sales derived from fighting obesity-related products, services, technologies and solutions

We believe that a number of stocks are well placed to benefit from the theme of pharma and health care as a means of fighting global obesity through their involvement in areas such as: bariatric transport, cardiac care/cardiovascular devices, diabetes drugs, dialysis services, emergency medical equipment, gastric bands/balloons, obesity drugs, orthopaedic devices (joint implants), ostomy, patient handling equipment, specialist bathing systems, and wound care, among others.

The following (until p.33) is an extract from our US biotech team's obesity primer, which provides a detailed review of obesity epidemiology and the associated costs

Biotechnology, 16 February 2012

Health care costs are driving action

According to WHO, obesity is the fifth-highest global risk for death, accounting for at least 2.8mn adult deaths each year. The organisation estimates that the diagnoses of 44% of diabetes, 23% of ischemic heart disease and 7-41% of certain cancers are attributable to patients being overweight and obese. Additional co-morbidities include high cholesterol, hypertension, respiratory problems, arthritis, and other CV diseases. Furthermore, obesity has psychological consequences, and doctors in the US have estimated that 63% of their obese patients are depressed or show signs of untreated depression. It is therefore a great unmet medical need and a key target for medical intervention.

Co-morbidities increase health care spending

The growing epidemic and lack of effective treatment options was estimated to have pushed total health care costs from obesity-related diseases in 2010 up to US$147bn in the US and US$158bn in the EU. Total health care costs are more than 40% higher for obese patients than normal weight patients. The combination of rising obesity prevalence and increased spending on obese people has been estimated to account for 27% of the growth in US healthcare expenditure between 1987 and 2001. Total healthcare costs attributable to obesity and overweight are projected to double every decade to account for 16-18% of total US healthcare expenditure by 2030.

History of failed weight loss drugs

Until 2012, the FDA had not approved a weight loss drug for more than 10 years (Orlistat in 1999), and in October 2010 the FDA removed the weight loss drug Meridia from the market. Over the last decade several new drugs have been in

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clinical development. We expect the FDA to maintain low tolerance for safety issues due to a tainted history of oral obesity therapies that developed serious concerns post commercialization – including Fen-phen (fenfluramine, phentermine, Wyeth), Zimulti (rimonabant, Sanofi), and Meridia (sibutramine, Abbott). One issue that has traditionally arisen is psychiatric adverse events, which are commonly associated with weight loss drugs.

Current therapies = limited efficacy & safety issues

The current weight loss industry consists of three prescription drugs, an FDA-approved OTC drug, weight loss and lifestyle counseling, dietary supplements and meal replacement products. Many physicians see the first line of defence as diet and exercise, followed by prescription drugs, and ultimately bariatric surgery.

Current oral treatment options for obesity are limited and show only modest efficacy (approximately 5% with each, although reported numbers vary) with a variety of adverse effects, as shown in the table below.

Table 13: Summary of currently available obesity therapies

Drug	Drug Class	Label Recommended Time of Use	Common Adverse Events	Status
Phentermine	adrenergic reuptake inhibitor	3 months	elevated blood pressure, increased heart rate	Generic/Rx
Xenical (Orlistat)	lipase inhibitor	up to one year	GI side effects	Generic/OTC
Topiramate	carbonic anhydrase inhibitor	used off label in obesity	cognitive impairment	Generic/Rx

Source: BofAML Global Research

Existing obesity prescription market limited

Given the lack of effective therapies outlined above, the existing prescription market is limited, as shown in the table below, with EU and US sales of only c.US$500m.

Table 14: Obesity prescription market

2009	US	EU
Market Sales	$131mn	$370mn
Market Rx's	6.6mn	7.6mn
Avg cost per day	$1-4	$2-4

Source: Vivus slides

OTC weight loss industry substantial

There are several other products, weight loss supplements and weight management products (not FDA approved) that can be ordered online, or from the TV, vitamin shops, drug stores, and other retailers. Many of these products are advertised with slogans such as "lose up to 2 pounds per day," like HCG (human chronic gonadotropin).

According to the *Nutrition Business Journal*, Americans spent about US$1.7bn on weight loss pills in 2007

Products containing bitter orange, an ingredient similar to Ephedra (an adrenaline-like stimulant removed from the market in 2004, known to have CV effects and increased BP), had estimated sales of US$20mn in 2009. There are many other weight loss supplements that can be purchased, but these can also contain certain risks. Many have contained traces of bumetanide and sibutramine.

According to the CDC, 15% of US adults reported use of weight-loss supplements in 2007

Americans spent an estimated US$28.1bn on dietary supplements in 2010 (including non-weight loss products). Furthermore, they spend around US$40bn/year on weight loss programmes and products; people are spending money to lose weight and most likely trying several options. According to IASO, sales of weight-loss OTC products in Western Europe reached US$1.4bn in 2009. While such drugs are usually not covered by payors (with few exceptions), people are willing to pay out of their own pockets for weight loss.

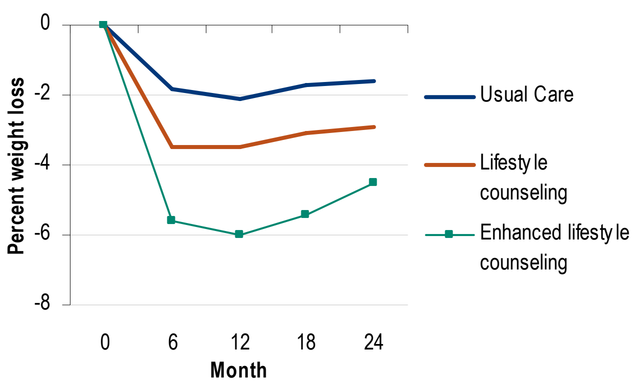
Non-drug weight loss programmes

A recently published NEJM study demonstrated that several peripheral hormones that encourage weight gain are altered significantly in response to aggressive weight loss and do not revert to pre-weight loss levels after more than one year. These compensatory mechanisms likely encourage weight regain, which is widely observed in weight loss patients. The authors conclude that effectively countering this hormonal response may require a combination of weight loss drugs.

Coaching studies have limited effectiveness

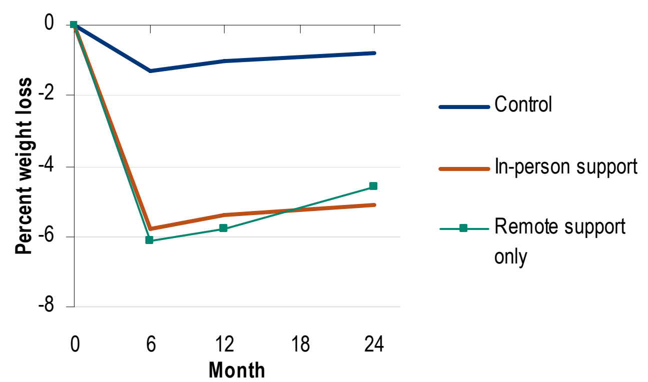
Two NEJM articles published recently discussed several methods of behavioral weight loss intervention, which had limited effectiveness. Wadden et al examined three weight loss methods for obese patients (avg. BMI of 38.5): usual care, brief lifestyle counseling, and enhanced brief lifestyle counseling. Patients in the enhanced study received Sibutramine, Orlistat, or meal replacements to increase weight loss. Weight loss in this latter group was significantly improved from the control treatment, but peaked near 5% (see Chart 16). Appel et al examined the effects of remote vs. in-person support, as well as a self-directed control group for obese patients (avg. BMI of 36.6) with at least one CV risk factor. The two types of support mechanisms were roughly equivalent in weight loss, peaking near 5% (see Chart 17). Neither study observed significant changes in cardiovascular parameters.

Chart 16: Medication or meal replacement enhances results



Source: Data obtained from NEJM 10.1056/NEJMoa1109220)

Chart 17: Minimal difference in weight loss by support type



Source: Data obtained from NEJM (10.1056/NEJMoa1108660)

Bariatric surgery

Achieving significant weight loss (greater than 15%) in morbidly obese patients using non-surgical methods (e.g. diet, exercise, drugs) is challenging. For these patients, surgery is the only treatment demonstrated to achieve and maintain significant weight loss. There are three basic types of surgical procedure used for the treatment of morbid obesity: (1) restrictive procedures, which reduce the size of the stomach, leading to a feeling of fullness after eating small amounts of food, (2) malabsorptive procedures, which bypass areas of the gastrointestinal tract, leading to lower absorption of digested food, and (3) combination procedures, which involve both restrictive and malabsorptive elements.

The most common bariatric procedure in the US is gastric banding, which involves laparoscopically placing an adjustable silicone band around the upper part of the stomach, reducing the pathway for food (restrictive). Following gastric banding, patients generally lose less excess weight (40-50%) over a longer period of time (2 years) relative to gastric bypass, but the procedure is simpler than gastric bypass, reversible, and has a lower rate of mortality and complications. Two companies currently market gastric bands in the US, Allergan (Lap-Band) and J&J (Realize band).

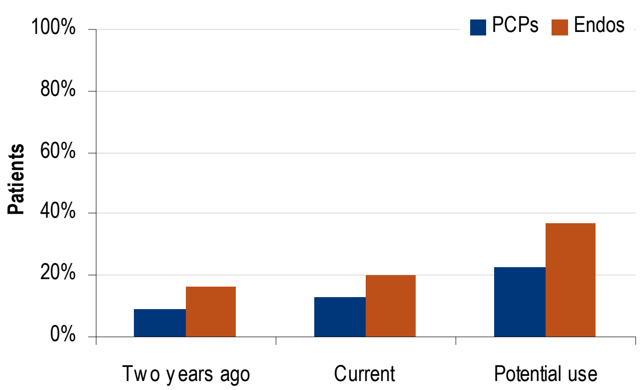
Previously the most common bariatric procedure (before banding gained in popularity), gastric bypass involves reducing the size of the stomach (restrictive) and re-routing the small intestine to reduce digestion (malabsorptive). Gastric bypass can lead to significant excess weight loss (60-70%) in a relatively short period of time (1-2 years), which can be sustainable for many years. However, the invasive nature of the procedure and generally poor health of patients mean there are high rates of morbidity and mortality. Another procedure that has been gaining popularity in the US is sleeve gastrectomy, which involves significantly reducing the size of the stomach (restrictive) while leaving the small intestine intact. While sleeve gastrectomy can lead to less excess weight loss relative to gastric bypass, the procedure helps patients avoid complications associated with re-routing the small intestine.

Physicians eager for new therapies

Our survey screening criteria included a requirement that at least 10% of physician patients had to be treated for weight loss (likely well above the national average)

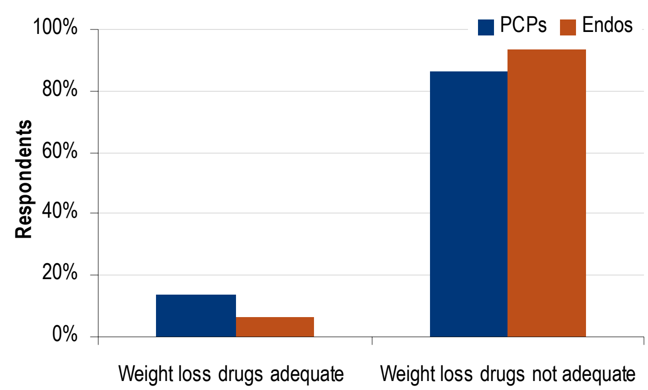
Our survey of 75 physicians conducted in October 2011 indicated that 23% of PCPs and 37% of Endos believed that their patients not currently on weight loss drugs would benefit from weight loss therapy (Chart 18). Compared to a year earlier, doctors have increased the number of weight loss scripts, and see an even greater potential in the future, while also expressing the need for new drug treatment options.

Chart 18: Physicians plan to increase number of weight loss scripts…



Source: BofAML Global Research

Chart 19: …but are looking for a better drug

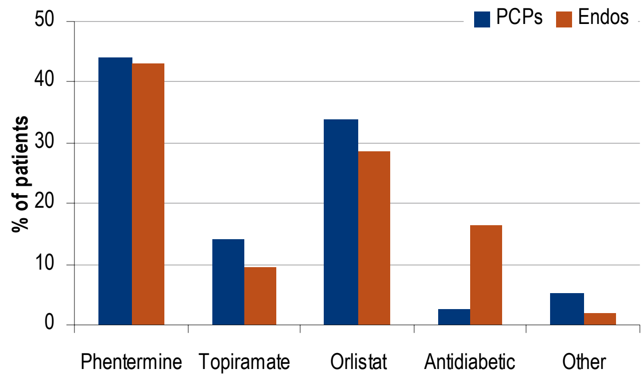


Source: BofAML Global Research

Limited options, short time period

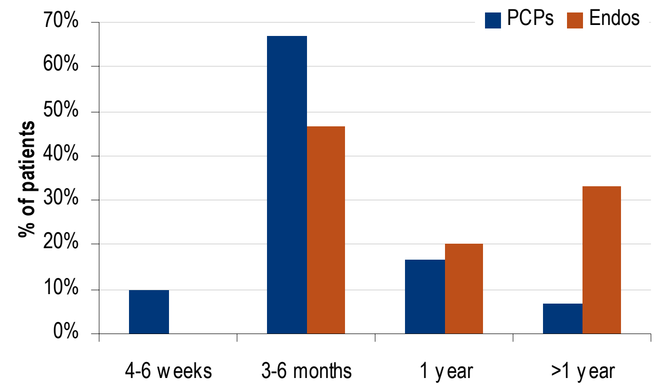
The highest percentage of both PCPs (44%) and Endos (43%) prescribed phentermine as their weight loss therapy of choice, followed by 34% of PCPs and 29% of Endos prescribing Orlistat (see Chart 20). Most patients stayed on these medications for 3-6 months (see Chart 21).

Chart 20: Current weight loss scripts



Source: BofAML Global Research

Chart 21: Current time period on drugs



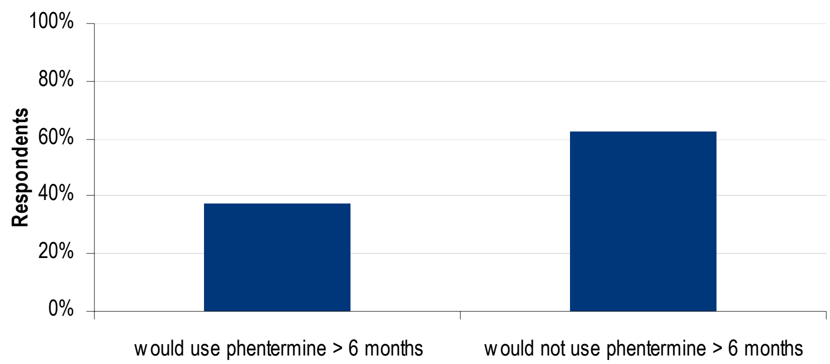
Source: BofAML Global Research

According to our survey, 61% of patients pay for obesity therapy out of pocket

There is need for medications that can be used long-term

While doctors plan to continue prescribing phentermine, they would be less inclined to prescribe this drug for longer than a 6-month period (Chart 22). The average length of time that patients were prescribed phentermine was 18 weeks.

Chart 22: 63% of doctors surveyed would not prescribe phentermine long term



Source: BofAML Global Research

Payor perspectives

Lack of insurance coverage

According to a recent NEJM editorial, less than 50% of PCPs report providing diet and weight-control advice to overweight and obese patients and less than 25% report following up with patients on weight management or referring them for outside help. On July 15, 2004, the Center for Medicare and Medicaid services (CMS) removed the restriction that stated obesity was not a disease. This was subsequently followed by adding coverage of bariatric surgery, but did not affect weight loss drugs. According to National Coverage Determinations (NCD) 40.4 on the treatment of obesity, surgery is only covered if a patient has a co-morbid condition: “Treatments for obesity alone remain non-covered.” Most insurance policies have focused on bariatric surgery, while weight loss drug coverage remains more uncertain.

Medicare

In 2005 Medicare began coverage of weight loss surgery for patients with a BMI ≥ 35, a co-morbidity, documented evidence of repeated failure to lose weight, the fact that the patient had been ruled out of all other medical treatments, and a psych evaluation. As of 2011, Medicare implemented coverage of up to three hours of weight loss counseling in the first year and two hours each year after that. Coverage after one year is contingent upon weight loss of at least 6.6lb weight in six months. Yet, according to a STOP Obesity Alliance survey, 72% of PCPs do not have training in weight management. In terms of weight loss medications, Part D plan sponsors can include weight loss drugs as part of supplemental benefits.

Medicaid

In 2008, 10 states covered weight-loss drugs under Medicaid (only two without restrictions or pre-authorization)

Medicaid weight loss surgery and other obesity coverage vary state by state (see Tables 4 and 5). According to the data, 10 states covered drug therapy, eight stated that they did not and 33 were not explicit on the subject. In terms of covering bariatric surgery, 45 states mentioned that they did, three stated that they did not, and three did not mention the topic.

Regarding childhood obesity, four states discuss treatment standards, nine provide details on how to screen for childhood obesity, and 10 provide for reimbursement of nutritional behavioral counseling.

Private payors

Private payors can offer coverage for weight loss drugs if the employer chooses to do so. The drugs would fall under the 3rd tier (non-preferred brand-name drugs; most expensive) and would require prior approval (PA). According to a recent Vivus presentation, Boeing, Pitney Bowes, and the United Auto Workers all offer coverage options.

According to a 2008 Conference board report, employers investing in wellness and health programs can generate an ROI of 500%.

In a state-wide private insurance survey conducted by George Washington University's Department of Health Policy, less than half of the states mentioned any coverage of obesity-related treatments. Of the 21 that did, two (Utah and Illinois) mentioned that they allow plans to *not* cover obesity-related procedures (Illinois does allow plans to provide discounts for wellness programs to small groups). Of the 19 remaining states that offer coverage, most state that the plans *may* provide coverage; in most cases this coverage entails financial incentives for participation in health promotion programs. Only five states require any sort of obesity coverage (all five in both Small Group and Individual):

Table 15: States that require coverage of obesity related treatment

State	Coverage
Indiana	Requires surgical treatment of morbid obesity (if persisted for at least 5 years & unresponsive to other treatment)
Maryland	Must cover surgical treatments of morbid obesity, may provide up to 20% cost of coverage health incentives for wellness programs
New Hampshire	Requires coverage of obesity treatment (incl. surgery) and treatments of diseases caused by obesity
New Jersey	Requires coverage of health wellness exams and counseling
Virginia	Requires availability of coverage for treatment of morbid obesity through gastric bypass surgery and other methods

Source: data obtained from GWU Department of Health Policy

None of the states mentioned drugs, yet New Hampshire covers obesity treatment, which could potentially include drug therapy.

Regulatory perspectives

In 1994, the Institute of Medicine released a study stating that obesity is a chronic condition and should be treated the same way doctors treat other diseases; with medication and/or surgery. The United Nations met in September to discuss NCDs and ideas on controlling disease, with a focus on obesity and diabetes and plans to enact new policies (taxes, price measures, marketing of fatty foods, promotion of healthy diet, etc). Chris Viehbacker, the CEO of Sanofi and Chairman of PhRMA, recently spoke out about the lack of guidelines on the development of obesity drugs. The group pointed out that there needs to be more clarity on drug approval for obesity drugs, so companies can determine whether it would be a suitable investment.

Recent US actions

We view Medicare's adoption of obesity counseling onto coverage as a significant step in recognizing obesity as a legitimate health concern. There have also been proposals on how the government can aid in the fight against obesity including levying taxes on unhealthy food and drink, educational programs and incentives to maintain a healthy weight. Because of the difficulty adults have losing weight once obese, preventative measures have been overwhelmingly aimed at children, including Michelle Obama's LetsMove! campaign, Georgia's Strong4Life campaign, and infants, including recommendations to breastfeed.

Proposed legislation at the state level

- MI: Obesity registry track BMI for children under 18
- AZ: US$50 annual fee on obese Medicaid beneficiaries (who are not trying to improve health)
- 12 states: proposed 20 bills on taxation of food and/or beverages; seven failed, 13 pending
- 13 states: 26 bills on sugary beverages; 19 failed, seven pending

FDA: a new round of obesity ad coms

Senate Appropriations Committee: "the lack of obesity medications is a significant unmet medical need"

The Senate Appropriations committee stated in their September 2011 report that the "lack of obesity medications is a significant unmet medical need," and therefore mandated that by March 30, 2012 the FDA must report back with "the steps it will take to support the development of new treatments for obesity, including the use of its Risk Evaluation and Mitigation Strategy and other post-marketing authorities, to mitigate risk and ensure rigorous post-market scrutiny while increasing access to novel medications."

Since then, the FDA's aversion toward new weight loss drugs appears to be waning with the organisation showing increased support for their development. The multiple advisory panels and approval decisions in coming weeks and months could lead to more transparency about the path to approval for obesity drugs. Upcoming obesity newsflow includes: 1) Lorqess PDUFA June 27th; 2) Qnexa PDUFA July 17th; 3) Qnexa approval in the EU September; 4) Victoza Phase III data early 2013 from the SCALE studies.

Table 16: FDA actions

Timeline	Overview
2010/11	Meridia removed from the market and CRLs issued for Qnexa, Contrave, and Lorqess
Late 2011	FDA/GWU collaboration begins on obesity treatment risk/benefit
Feb. 2012	VVUS ad com favorable (20-2 vote for approval)

Table 16: FDA actions

Timeline	Overview
March 2012	CV ad com inconclusive for pending drugs and future drugs
March 2012	FDA report to Congress on outlook for obesity drug development

Source: BofA Merrill Lynch Global Research

EU outlook

The EMA removed Meridia just prior to the FDA's actions and we believe a similar level of caution will be shown to obesity drug applications in the European Union. EMA has recently completed a review of liver toxicity cases in Orlistat whilst a decision on Vivus' Qnexa is expected in September 2012.

Addressable market opportunity for right drug

We do not believe the existing obesity market described above fully reflects the potential opportunity for obesity drugs in development. We argue that the substantial OTC/dietary supplement/weight loss programme market offers a better reflection of the significant interest in effective medication.

c.US$70bn on dietary & weight loss supplements in US

Americans spent an estimated US$28.1bn on dietary supplements in 2010 (including non-weight loss products). Furthermore, they spend around US$40bn pa on weight loss programmes and products; people are spending money to lose weight and most likely trying several options. According to IASO, sales of weight-loss OTC products in Western Europe reached US$1.4bn in 2009. While weight loss drugs are most often not covered by payors (with few exceptions), people are willing to pay out of pocket for weight loss.

Drugs in development

The table below highlights the key drugs in development, status and some of the key issues surrounding each. Each drug is discussed in further detail within our Biotech team's The Skinny on Obesity, 16 February 2012 as well as our Pharma Analysts' respective reports on the relevant companies.

Table 17: Key obesity drugs in development

Drug name	Company	Drug components	Status	Key issues
Qnexa	**Vivus**	Topiramate (epilepsy) + phentermine (amphetamine)	Feb 22nd adcom recommended approval. July 17th PDUFA and September CHMP decision expected.	Teratogenicity, minor heart rate issues
Lorqess	**Arena**	Lorcaserin (5HT2c agonist)	June 27th PDUFA.	Valvulopathy, mammary tumours
Contrave	**Orexigen**	Naltrexone (substance abuse) + Bupropion (anti-depressant)	Complete response letter Jan 11 Special Protocol Assessment ongoing, interim read end of 2013	Pre-approval CV study requested
Victoza	**Novo Nordisk**	liraglutide (GLP-1 analogue)	Phase III data early 13. Already approved in diabetes at a lower dose	Nausea, likely price if in line with diabetes as Novo have suggested, clarification of pre-approval CV study
Empatic	**Orexigen**	bupropion SR (antidepressant) + zonisamide (epilepsy)	Phase IIb.	Development currently on hold until Qnexa is approved without a pre-approval CVOT

Source: BofAML Global Research

Health care & medical devices

Could be biggest long-term beneficiaries

Beyond new drug-based approaches to obesity, health care and medical device companies could be some of the biggest beneficiaries of obesity prevalence. These companies are playing an increasingly important role in dealing with the impact of obesity-related co-morbidities, including heart disease and failure, type 2 diabetes, kidney failure, respiratory complications (e.g. obstructive sleep apnea), osteoarthritis and incontinence. They are also playing a role in obesity adaptation, such as changes in the health care system to accommodate bariatric patients (i.e. those weighing over 160kg and with a BMI of over 30) and reduce the risk of strain injury among carers.

We believe that obesity will be a long-term driver for areas such as orthopaedics, endoscopy, dialysis, and advanced wound management (AWM). While short-term headwinds may have an impact (i.e. high unemployment rates, reimbursement barriers, increasing co-pays as employers shift costs to their employees), the long-term drivers include obesity trends, EM growth (LatAm, Asia), demographics (growing and ageing population), and the rising rates of co-morbidities.

Cardiovascular devices

Cardiovascular devices such as heart valves, pacemakers, specialty catheters and stents are growing, with obesity prevalence as a key driver. According to studies published in the *Journal of the American College of Cardiology* (ACC), obesity has overtaken smoking as the leading cause of premature heart attacks. In a study of 110,000 patients (McCullough et al, 2008) obese patients were found to suffer their first heart attack 6.8 years earlier than normal weight patients and severely obese (BMI >40) 12 years earlier. Studies have also found that women who are obese have a c.47% chance of developing heart disease in their lifetime; for men this rises to c.67%. Furthermore, we note that for women who are obese and diabetic the probability of developing heart disease rises to c.80%, and for men c.90% (US National Heart Lung and Blood Institute, 2008).

Orthopaedic implants

Obesity is a leading cause of osteoarthritis (or degenerative arthritis / joint disease) as the excess weight puts additional pressure on the joints, making them wear out faster. It is thus a driver of joint replacement surgery, especially for hips and knees, but also for the spine, and related orthopaedic surgical products. Studies have shown that knee osteoarthritis is 4-5x more common in overweight people compared with people of normal body weight. Zimmer estimates that knee replacement is a US$6.7bn global market and hips a US$6.1bn market. We note, ironically, that more active lifestyles – an important FO solution – also have the effect of putting greater strain on joints.

Dialysis and kidney failure

Dialysis products and services for patients with kidney failure are expected to grow, with obesity as an important driver. Approximately 45% of all kidney disease cases (where high levels of blood sugar cause the kidneys to filter excessive amounts of blood) are the result of diabetes, which is the leading cause of end-stage renal disease (ESRD). In turn, obesity is the primary cause of diabetes, with excess body fat underlying c.64% of diabetes cases in men and c.77% in women. Given the lack of available kidneys for transplantation, approximately 70% of patients with ESRD receive dialysis treatment (with 37% of ESRD cases in the US attributable to diabetes, according to the CDC). We estimate that total global dialysis patient volumes can achieve a >6% CAGR

2011-20, supported by increasing demand in developed markets driven by the rising incidence of diabetes and high blood pressure and increasing penetration in emerging markets.

Ostomy and continence care

Ostomy and continence care equipment should benefit from higher obesity prevalence. Studies have shown that obese men have a 53% higher chance of developing colon cancer and c.80% of all colostomy surgery is the result of this cancer. The growth of continence care products is highly correlated to the prevalence of colorectal cancer, which is often developed by those who are overweight. Diabetes is the leading cause of polyuria and obesity can lead to spinal cord damage, which can also result in incontinence.

Advanced wound care

Wound care and healing solutions is emerging as an obesity-related market. The higher incidence of diabetes is leading to more diabetic foot ulcers, one of the most difficult wounds to heal. On our estimate, c.30% of the global advanced wound care market addresses patients with diabetic ulcers.

Gastric bands and balloons

See above Bariatric surgery

Bariatric equipment

A final beneficiary will be medical equipment and services. This area is set to play an increasingly important role in the sector's move to obesity adaptation, notably via equipment for bariatric patients – i.e. those weighing over 160kg with a BMI of 40 or more:

- Hospital beds and trolleys that are strong and wide enough to support larger patients (i.e. up to 500+kg, 48 inches (vs. standard 36 inches), special mattresses to reduce pressure sores (2-3 section plinths)
- Ambulances and equipment (i.e. specially equipped ambulances which can carry loads of up to 600kg, wider ramps, electronic winches for beds, stretchers, hoists, stairclimbers, lifting cushions, transfer boards)
- Hospital patient-handling equipment such as stretchers, gurneys, hoists and slings, patient lifts to accommodate patient weights of up to 500kg
- specialist bathing systems for those who are incapacitated
- deep vein thrombosis.

Pharma & health care co's fighting obesity

We have identified the following companies covered by BofA Merrill Lynch Global Research that have exposure to fighting obesity as a percentage of sales vis-à-vis their involvement in pharmaceuticals and healthcare. Although it is difficult to accurately gauge the link between such exposure and share price performance (as many factors outside the scope of this analysis play a role in short- and long-term price development), we still consider fighting obesity exposure an important positive point to track.

Table 18: List of companies covered by BofAML involved in fighting obesity via pharmaceuticals, healthcare & medtech

BBG Ticker	Company	Location	BofAML Ticker	Market Cap (US$mn)	FO sub-sector	FO Exposure
AGN US	ALLERGAN INC	United States	AGN	28,136.2	Pharma, Health Care, Medtech	Low
ARNA US	ARENA PHARMACEUTICALS	United States	ARNA	1,492.9	Pharma, Health Care, Medtech	High
COLOB DC	COLOPLAST A/S	Denmark	CLPBF	7,300.4	Pharma, Health Care, Medtech	Medium
DVA US	DAVITA INC	United States	DVA	8,121.9	Pharma, Health Care, Medtech	Medium
FME GR	FRESENIUS MEDICAL CARE	Germany	FMCQF	20,159.6	Pharma, Health Care, Medtech	Medium
GETIB SS	GETINGE AB	Sweden	GNGBF	6,060.8	Pharma, Health Care, Medtech	Medium
MDT US	MEDTRONIC INC	United States	MDT	38,050.9	Pharma, Health Care, Medtech	Medium
NOVOBDC	NOVO NORDISK	Denmark	NONOF	73,259.2	Pharma, Health Care, Medtech	High
OREX US	OREXIGEN THERAPEUTICS INC	United States	OREX	255.2	Pharma, Health Care, Medtech	High
STJ US	ST JUDE MEDICAL INC	United States	STJ	11,439.0	Pharma, Health Care, Medtech	Medium
SN/ LN	SMITH & NEPHEW	UK	SNNUF	8,486.0	Pharma, Health Care, Medtech	Medium
SYK US	STRYKER CORP	United States	SYK	19,499.3	Pharma, Health Care, Medtech	High
VVUS US	VIVUS INC	United States	VVUS	2,462.7	Pharma, Health Care, Medtech	High
ZMH US	ZIMMER	United States	ZMH	11,316.0	Pharma, Health Care, Medtech	High

Source: IQ. DataStream, BofA Merrill Lynch Global Research. * FO exposure = BofAML estimates of current sales derived from fighting obesity-related products, services, technologies and solutions

Allergan Inc: play on medical devices for weight loss

Allergan is a fully integrated specialty pharmaceutical company focused primarily on the ophthalmology, neurology, and cosmetic markets. The company's most significant products are Botox (movement disorders and cosmetic uses), Lumigan (glaucoma), Alphagan P (glaucoma), and Restasis (dry eye). Allergan licenses products and technologies to supplement its internal R&D efforts.

Allargan is an obesity play (low FO exposure) on medical devices to achieve and support weight loss (c.4% of 2011 sales). Its Lap-Band adjustable gastric banding system is an alternative to gastric bypass or sleeve gastrectomy and is the first minimally invasive surgical approach approved by the US FDA (including for BMI of 30+ and type-2 diabetes or hypertension). It has an 83% share of the band market. Outside the US, its portfolio includes the Orb era intragastric balloon system, a non-surgical alternative for the treatment of obesity.

Near-term, we believe that AGN is ideally positioned, with a fully integrated, global, specialty-focused model and strong management team. While competitive threats will emerge and revenue growth has slowed, we believe the diversified revenue base (multiple geographies and therapeutic areas, payor mix), product pipeline, and potential for SGA leverage can support continued strong and relatively predictable EPS growth over an extended period. Selective acquisitions may supplement organic growth.

Table 19: Allergan Inc. - Key data

Analyst's Name	Gilbert,Gregg		
Analyst's Email Id.	gregory.gilbert@baml.com		
Analyst's Phone No.	+1 646 855 1004		
	2011	2012E	2013E
Revenues	5,419	5,875	6,283
Operating Profit	1,636	1,875	2,162
Operating Margin	30.2%	31.9%	34.4%
Y-o-Y Growth	14.7%	14.7%	15.3%
Net Profit	935	1,199	1,460
Net Margin	17.2%	20.4%	23.2%
Y-o-Y Growth	155650.0%	28.4%	21.7%
EBIT	1,636	1,875	2,162
EBIT Margin	30.2%	31.9%	34.4%
EBITDA	1,785	2,028	2,312
EBITDA Margin	32.9%	34.5%	36.8%
Operating Cash Flow	1,081.9	1,338.0	1,480.2
Capex	118.6	173.1	180.0
Free Cash Flow	963.3	1,164.9	1,300.2
Net Debt/Equity	(15.1)	(20.0)	(28.1)

Source: BofA Merrill Lynch Global Research estimates

Arena Pharmaceuticals: obesity drug lorcaserin

Arena Pharmaceuticals is a biopharmaceutical company headquartered in San Diego, California with a focus on using G-protein-coupled receptors (GPCRs) to examine treatments in areas including cardiovascular, central nervous system, inflammatory and metabolic diseases. The lead product is lorcaserin, a first-in-class selective serotonin 2C receptor agonist, for treatment of obesity.

ARNA (high FO exposure) is a fighting obesity play via its obesity drug lorcaserin. Lorcaserin has serotonergic properties and acts as an anorectic (i.e. reduces appetite or food consumption). While the recent FDA advisory committee meeting on May 10 to review the efficacy and safety of ARNA's obesity drug Lorcaserin was favorable (18-4 for approval), we expect at a minimum that the FDA will extend the June 27 PDUFA to develop post-marketing safety studies and a REMS program. We view the risk that the company could receive a complete response letter to further evaluate the carcinogenicity risks as realistic. Upon approval, lorcaserin will be manufactured by Arena's subsidiary in Switzerland and sold to Eisai for c.31% of the selling price. Our risk-adjusted sales estimate for lorcaserin in 2017 is US$530mn, which is below our US$91bn and US$1.8bn respective risk-adjusted sales estimates for Orexigen's Contrave and Vivus's Qnexa, driven largely by relative efficacy differences.

Near-term, the stock is driven primarily by lorcaserin in obesity treatment. Lorcaserin has an acceptable efficacy profile with the best safety profile of all drugs currently seeking approval in obesity. However, with the FDA issuing a CRL to lorcaserin, we believe additional trials may be needed prior to approval. These trials could result in a significant delay to approval.

Table 20: Arena Pharmaceuticals - Key data

Analyst's Name	Byrne,Steve		
Analyst's Email Id.	steve.byrne@baml.com		
Analyst's Phone No.	+1 646 855 5746		
	2011	2012E	2013E
Revenues	13	12	61
Operating Profit	(83)	(71)	(25)
Operating Margin	-651.0%	-573.4%	-41.4%
Y-o-Y Growth	-14.1%	-13.9%	-64.5%
Net Profit	(109)	(96)	(33)
Net Margin	-858.7%	-774.2%	-54.5%
Y-o-Y Growth	-12.3%	-11.8%	-65.4%
EBIT	(83)	(71)	(25)
EBIT Margin	-651.0%	-573.4%	-41.4%
EBITDA	(73)	(59)	(13)
EBITDA Margin	-571.4%	-476.9%	-21.8%
Operating Cash Flow	(78.3)	(58.9)	5.1
Capex	0.6	2.0	2.0
Free Cash Flow	(78.9)	(60.9)	3.1
Net Debt/Equity	171.7	(61.5)	(62.9)

Source: BofA Merrill Lynch Global Research estimates

Coloplast A/S: ostomy, continence catheters, wound care

Coloplast (DK) is the leading manufacturer of ostomy and continence care products globally. It is also a leading manufacturer of advanced wound care, skincare, and surgical urology products.

Coloplast (medium FO exposure) is a fighting obesity play via ostomy, continence catheters and wound care. It the leading global supplier of ostomy and continence care equipment, with c.40% of the global ostomy market. The growth of continence care products is highly correlated to the prevalence of colorectal cancer which is often developed by those overweight. Studies have shown that obese men have a 53% higher chance of developing colon cancer and c.80% of all colostomy surgery is the result of colon cancer. It is also the leading provider of continence catheters globally with c.35% market share.

Diabetes is the leading cause of polyuria and obesity can lead to spinal cord damage, which can also result in incontinence. Coloplast should also benefit as a leading manufacturer of advanced wound-healing solutions. A higher incidence of diabetes is leading to more diabetic foot ulcers, one of the most difficult wounds to heal. On our estimate c.30% of the global advanced wound care market benefits from patients with diabetic ulcers. We note that Coloplast's health care business should also benefit from sustainability megatrends such as demographics and EMs.

Near-term, Coloplast is well positioned to make further market share gains on the back of new product launches, its successful manufacturing restructuring and ongoing operating efficiency programmes. However, we believe that an intensification of near-term risks from wound care and potential reimbursement cuts in key markets are likely to weigh on market sentiment until we have greater visibility on these risks.

Table 21: Coloplast A/S - Key data

Analyst's Name	Ridley-Day,Ed		
Analyst's Email Id.	ed.ridleyday@baml.com		
Analyst's Phone No.	+44 20 7995 4585		
	2011	2012E	2013E
Revenues	10,172	10,962	11,609
Operating Profit	2,581	3,070	3,246
Operating Margin	25.4%	28.0%	28.0%
Y-o-Y Growth	29.4%	19.0%	5.7%
Net Profit	1,819	2,197	2,360
Net Margin	17.9%	20.0%	20.3%
Y-o-Y Growth	46.3%	20.8%	7.4%
EBIT	2,581	3,070	3,246
EBIT Margin	25.4%	28.0%	28.0%
EBITDA	3,108	3,617	3,819
EBITDA Margin	30.6%	33.0%	32.9%
Operating Cash Flow	2,205.0	2,654.4	2,858.9
Capex	250.0	310.5	404.3
Free Cash Flow	1,955.0	2,343.9	2,454.7
Net Debt/Equity	12.0	(12.8)	(28.6)

Source: BofA Merrill Lynch Global Research estimates

DaVita Inc: provider of kidney dialysis facilities

DaVita, Inc. provides dialysis services in the US for patients suffering from chronic kidney failure, also known as end-stage renal disease (ESRD). The company operates kidney dialysis centers and provides related medical services primarily in dialysis centers and in contracted hospitals across the US.

DVA (medium FO exposure) is a fighting obesity play via kidney dialysis. It is solely focused on the provision of kidney dialysis facilities and is the #2 provider in the North American market behind Fresenius Medical Care. Approximately 45% of all kidney disease incidence is the result of diabetes. DVA's international strategy is still in its infancy, but represents a nice leg to the DVA story and obesity-related opportunities, in our view. We also believe that DVA's acquisition of HealthCare Partners (HCP) makes long term (integrated care) sense.

Our near-term view reflects that dialysis is a stable, recurring business with minimal exposure to the economy, which makes it the most defensive area within the health care facilities sector. Meanwhile, a solid balance sheet and strong free cash flow provide flexibility for acquisitions and share repurchase.

Table 22: Davita Inc. - Key data

Analyst's Name	Fischbeck,Kevin		
Analyst's Email Id.	kevin.fischbeck@baml.com		
Analyst's Phone No.	+1 646 855 5948		
	2011	2012E	2013E
Revenues	6,988	7,962	8,397
Operating Profit	1,039	1,207	1,235
Operating Margin	16.5%	16.5%	16.1%
Y-o-Y Growth	22.6%	16.1%	2.4%
Net Profit	478	577	599
Net Margin	6.8%	7.2%	7.1%
Y-o-Y Growth	17.8%	20.7%	3.8%
EBIT	1,039	1,207	1,235
EBIT Margin	14.9%	15.2%	14.7%
EBITDA	1,306	1,513	1,551
EBITDA Margin	18.7%	19.0%	18.5%
Operating Cash Flow	1,100.4	1,007.4	965.1
Capex	400.2	322.5	290.0
Free Cash Flow	700.2	684.9	675.1
Net Debt/Equity	149.7	109.7	79.1

Source: BofA Merrill Lynch Global Research estimates

Fresenius Medical Care: global leader in dialysis products

Fresenius Medical Care is the largest integrated player in the global dialysis product and services market, caring for over 200k patients (>10% of global patient share) and selling 45% of the world's dialyzers and 55% of new dialysis machines purchased in 2010. The company also sells certain ESRD-related drugs, other related dialysis products, and provides ancillary services to the dialysis population.

FME (medium FO exposure) is an obesity play on dialysis and kidney failure. It is the global leader in the provision of dialysis products and services for patients with kidney failure. Approximately 45% of all kidney disease cases are the result of diabetes and obesity is the primary cause of diabetes – excess body fat underlies c.64% of diabetes cases in men and c.77% in women. Strong defensive fundamentals including highly visible dialysis demand growth have justified the stock's re-rating in recent years. We estimate that global dialysis patient volumes can achieve a >6% CAGR 2011-20, supported by increasing demand in developed markets driven by the rising incidence of diabetes and high blood pressure and increasing penetration in emerging markets.

Near-term, as the largest integrated provider of dialysis products and services, FME is well positioned to benefit from improving reimbursement (as in the US) and to expand into fast-growing emerging markets as they increase investment in dialysis provision. Upside risks are: 1) an announcement from CMS of a large-scale integrated care pilot program in the US; 2) the potential for other advanced economy governments to implement efficiency incentives for dialysis clinics; 3) better than expected profitability from US medicare payment reforms.

Table 23: Fresenius Medical Care AG & Co. KGaA - Key data

Analyst's Name	Ridley-Day,Ed		
Analyst's Email Id.	ed.ridleyday@baml.com		
Analyst's Phone No.	+44 20 7995 4585		
	2011	2012E	2013E
Revenues	12,795	14,010	14,967
Operating Profit	2,075	2,366	2,572
Operating Margin	16.2%	16.9%	17.2%
Y-o-Y Growth	7.9%	14.0%	8.7%
Net Profit	1,071	1,174	1,292
Net Margin	8.4%	8.4%	8.6%
Y-o-Y Growth	9.5%	9.6%	10.1%
EBIT	2,075	2,366	2,572
EBIT Margin	16.2%	16.9%	17.2%
EBITDA	2,612	2,981	3,278
EBITDA Margin	20.4%	21.3%	21.9%
Operating Cash Flow	1,480.3	1,734.9	2,130.8
Capex	639.8	700.5	748.3
Free Cash Flow	840.5	1,034.4	1,382.4
Net Debt/Equity	73.6	77.5	61.4

Source: BofA Merrill Lynch Global Research estimates

Getinge: exposed via diversified hospital supply business

Getinge is a Sweden-based medical equipment and services company operating in a variety of product/service segments through its largely autonomous business areas of Medical Systems, Extended Care, and Infection Control. The company aims to be #1 or #2 in its addressed market areas, which it achieves through acquisitions and product innovation. Getinge is market leader in over 12 product/services areas including #1 in disinfection and sterilisation, IABPs, and patient lifts.

Getinge (medium FO exposure) is a fighting obesity play on diversified hospital supply businesses. In Cardiovascular (c.30% of group revenues) the company is the leading global provider of several products required for cardiac surgery including heart pumps, vascular grafts, and heart bypass instrumentation. It is also the leading global supplier of ventilators (c.10% of group revenues), patient handling equipment e.g. for large patients (c.11% of group revenues), specialist bathing systems for those who are incapacitated (c.4% sales) and for deep vein thrombosis (c.3% sales), for which obesity is also a leading cause.

Near-term, we estimate that Getinge can deliver a 14% 2011-14 EPS CAGR supported by margin expansion from restructuring programmes and an improving business mix. The company is also well positioned to benefit from accelerating emerging market demand and has the balance sheet to add to mid-term earnings through further acquisitions. Potential declines in EU hospital capital equipment spending present near-term risks to performance.

Table 24: Getinge AB - Key data

Analyst's Name	Ridley-Day,Ed		
Analyst's Email Id.	ed.ridleyday@baml.com		
Analyst's Phone No.	+44 20 7995 4585		
	2011	2012E	2013E
Revenues	21,854	24,459	26,033
Operating Profit	3,924	4,495	5,233
Operating Margin	18.0%	18.4%	20.1%
Y-o-Y Growth	6.4%	14.6%	16.4%
Net Profit	2,658	2,919	3,477
Net Margin	12.2%	11.9%	13.4%
Y-o-Y Growth	10.4%	9.8%	19.1%
EBIT	3,924	4,495	5,233
EBIT Margin	18.0%	18.4%	20.1%
EBITDA	5,376	6,175	7,074
EBITDA Margin	24.6%	25.2%	27.2%
Operating Cash Flow	3,496.0	4,723.4	5,040.9
Capex	688.0	880.5	885.1
Free Cash Flow	2,808.0	3,842.8	4,155.8
Net Debt/Equity	116.9	92.9	71.6

Source: BofA Merrill Lynch Global Research estimates

Medtronic: leading provider of cardiovascular devices

Medtronic is a medical device company that operates in six business segments: Cardiac Rhythm Disease Management (CDRM), Spinal, Cardiovascular, Neuromodulation, Diabetes, and Surgical Technologies.

Metronic (medium FO exposure) is a fighting obesity play on cardiovascular disease and damage to the spine. MDT is the leading provider of cardiovascular devices, including pacemakers, stents and defibrillators. Studies have found that women who are obese have a c.47% chance of developing heart disease in their lifetime and for men this rises to c.67%. Furthermore, we note that for women who are obese and diabetic the chance of developing heart disease rises to c.80% and for men to c.90% (US National Heart Lung and Blood Institute, 2008). More generally, we liked MDT's description of how they are leveraging their unique position in cardio and we agree that MDT has real advantages in this area. MDT spent a great deal of time on emerging markets and they certainly appear in an advantaged position to grow that business. MDT is also the leading global manufacturer of spinal implants with a c.40% share. Obesity is a leading cause of damage to the spine and of cardiovascular diseases.

Near-term, we believe MDT’s discount to the group will fade given: (1) our extremely bullish view on Ardian, (2) that MDT is one of the few medtech companies with little FX risk and a real dividend yield, and (3) our view that MDT's growth outlook is not materially different from the rest of large-cap medtech.

Table 25: Medtronic, Inc - Key data

Analyst's Name	Hopkins,Bob		
Analyst's Email Id.	robert.a.hopkins@baml.com		
Analyst's Phone No.	+1 646 855 3131		
	2012	2013E	2014E
Revenues	16,396	16,374	16,854
Operating Profit	5,213	5,318	5,478
Operating Margin	31.8%	32.5%	32.5%
Y-o-Y Growth	4.1%	2.0%	3.0%
Net Profit	3,652	3,747	3,835
Net Margin	22.3%	22.9%	22.8%
Y-o-Y Growth	0.2%	2.6%	2.4%
EBIT	5,213	5,318	5,478
EBIT Margin	31.8%	32.5%	32.5%
EBITDA	5,988	6,093	6,253
EBITDA Margin	36.5%	37.2%	37.1%
Operating Cash Flow	3,799.8	4,530.3	4,506.0
Capex	537.0	537.0	537.0
Free Cash Flow	3,262.8	3,993.3	3,969.0
Net Debt/Equity	45.4	30.7	18.6

Source: BofA Merrill Lynch Global Research estimates

Novo Nordisk: obesity drug Victoza

Novo Nordisk is a Denmark-based world leader in insulin and diabetes care and also manufactures and markets a variety of other pharmaceutical products. Key products include Insulin Analogues and Victoza (GLP-1 analogue, diabetes) and NovoSeven (haemophilia).

Novo (high FO exposure) is a fighting obesity player trialling Victoza (already approved in diabetes) in the obesity indication. Victoza has three key market opportunities in obesity: 1) obese diabetics; 2) obese pre-diabetes; and 3) obese with other co-morbidities. Victoza could also potentially compete with a number of agents in late stage development for obesity (Vivus's Qnexa, Arena's Lorqess, and Orexigen's Contrave).

Based on data to date, we view the clinical profile of Victoza as potentially unique. Victoza has similar weight loss to Qnexa, but better than both Lorqess and Contrave. However, Victoza has a substantial impact on diabetes & pre-diabetes, as well as a relatively benign safety profile. Although it is administered via injection, we do not expect this to be a major hurdle to adoption. The key unknown is whether the clinical profile will be sufficient to justify the likely price premium. Although pivotal Victoza Phase III data in obesity is not expected until early next year, we continue to believe supportive 2012 regulatory newsflow for competitors should ease investor concerns for Victoza's regulatory outlook (key questions include pre-approval CV safety study, and how efficacy will be balanced against pancreatitis and thyroid tumours).

We forecast US$1.1bn risk-adjusted peak sales for Victoza in obesity. Sales in obesity are incremental to our peak sales already forecast for diabetes. Most importantly, we believe additional obesity sales should be at a high incremental margin given leverage off the existing diabetes infrastructure.

Near-term, Novo remains the most attractive structural growth story in the EU pharma sector with its exposure to the emerging markets diabetes epidemic. We believe that our forecast 17% 2013-16E EPS CAGR justifies the stock trading at a significant valuation premium to the sector.

Table 26: Novo Nordisk - Key data

Analyst's Name	Jain,Sachin		
Analyst's Email Id.	s.jain@baml.com		
Analyst's Phone No.	+44 20 7995 9676		
	2011	2012E	2013E
Revenues	66,346	75,039	81,886
Operating Profit	22,370	26,163	28,423
Operating Margin	33.7%	34.9%	34.7%
Y-o-Y Growth	12.1%	17.0%	8.6%
Net Profit	17,097	19,533	21,801
Net Margin	25.8%	26.0%	26.6%
Y-o-Y Growth	18.7%	14.2%	11.6%
EBIT	22,370	26,163	28,423
EBIT Margin	33.7%	34.9%	34.7%
EBITDA	25,107	29,182	31,703
EBITDA Margin	37.8%	38.9%	38.7%
Operating Cash Flow	21,374.0	22,144.7	24,760.2
Capex	3,332.0	3,751.9	4,094.3
Free Cash Flow	18,042.0	18,392.8	20,665.9
Net Debt/Equity	(40.6)	(37.2)	(33.6)

Source: BofA Merrill Lynch Global Research estimates

Orexigen Therapeutics Inc: obesity drug Contrave

Orexigen is a biopharmaceutical company headquartered in La Jolla, California, with a focus on obesity treatment. The lead candidate is Contrave, a combination of naltrexone and bupropion. The company has another weight loss drug in phase 2 development, Empatic, which is a combination of zonisamide and bupropion.

Orexigen (high FO exposure) is a fighting obesity play via its obesity drug Contrave. On June 6, OREX announced the start of its CV outcomes trial for its obesity drug Contrave called the Light Study. Management remains focused on accelerating the enrollment rate for the Light Study, by working with several consortiums, healthcare systems, and constituency groups. OREX also announced a partnership with Sharecare to develop WeightMate, a nutrition and exercise program that all patients in the study will use to set goals, track progress, and access counselors. The 'Take Five to Live Light' initiative, partnered with the Obesity Action Coalition, provides the metabolic benefits of weight loss to members and helps enroll patients in the study. These efforts could pull forward the company's late-2013 guidance for interim results. We model a late-2014 launch for Contrave, with risk-adjusted peak sales of $1bn. Other unique product profile characteristics which could drive adoption above our forecasts include helping with depressive symptoms in the half of obese patients that suffer from depression, realizing mood improvement in non-depressed patients, and as an aid in smoking cessation.

We see limited near-term downside with potential for positive catalysts including newsflow. Risks are departures of key management personnel, the uncertainty of potential pipeline acquisitions and an unfavorable interim read of the CVOT.

Table 27: Orexigen Therapeutics Inc - Key data

Analyst's Name	Byrne,Steve		
Analyst's Email Id.	steve.byrne@baml.com		
Analyst's Phone No.	+1 646 855 5746		
	2011	2012E	2013E
Revenues	4	3	3
Operating Profit	(28)	(61)	(66)
Operating Margin	-633.8%	-1768.8%	-1929.4%
Y-o-Y Growth	-45.7%	117.2%	9.1%
Net Profit	(28)	(60)	(66)
Net Margin	-637.8%	-1765.1%	-1927.9%
Y-o-Y Growth	-46.0%	115.4%	9.2%
EBIT	(28)	(61)	(66)
EBIT Margin	-633.8%	-1768.8%	-1929.4%
EBITDA	(27)	(60)	(66)
EBITDA Margin	-623.8%	-1754.2%	-1929.4%
Operating Cash Flow	(29.2)	(54.3)	(58.0)
Capex	-	0.5	0.5
Free Cash Flow	(29.2)	(54.8)	(58.5)
Net Debt/Equity	(102.0)	(83.8)	(78.9)

Source: BofA Merrill Lynch Global Research estimates

St Jude Medical Inc: cardiovascular devices

St Jude is a medical device company focused on the cardiovascular markets including cardiac rhythm management, cardiac surgery, cardiology, atrial fibrillation (AF), and neurostimulation. Roughly 60% of the company's revenues come from cardiac rhythm management.

STJ (medium FO exposure) is a fighting obesity play via cardiovascular. It derives an overwhelming majority of its revenues from cardiovascular markets (e.g. heart valves, pacemakers, specialty catheters and stents), and offers direct exposure to a market for which obesity prevalence is a key driver. STJ is the leader in the US$2bn atrial fibrillation market, a leader in the US$11bn cardiac rhythm market and participates in a total of an over US$5bn Markey in the cardiovascular markets and US$2bn of the neuromodulation market (the use of neurostimulation to treat obesity continues to be investigated).

Near-term, STJ trades at no meaningful premium to the group despite what we view as a solidly superior growth outlook on the top and bottom lines. Going forward, we believe STJ should maintain superior organic CC growth with significant opportunities for leverage even in a more difficult pricing environment. STJ remains one of our top ideas in large cap medtech.

Table 28: St Jude Medical Inc - Key data

Analyst's Name	Hopkins,Bob		
Analyst's Email Id.	robert.a.hopkins@baml.com		
Analyst's Phone No.	+1 646 855 3131		
	2011	2012E	2013E
Revenues	5,612	5,679	5,983
Operating Profit	1,472	1,484	1,561
Operating Margin	26.2%	26.1%	26.1%
Y-o-Y Growth	6.6%	0.8%	5.2%
Net Profit	1,075	1,096	1,166
Net Margin	19.2%	19.3%	19.5%
Y-o-Y Growth	8.1%	2.0%	6.4%
EBIT	1,472	1,484	1,561
EBIT Margin	26.2%	26.1%	26.1%
EBITDA	1,792	1,803	1,881
EBITDA Margin	31.9%	31.8%	31.4%
Operating Cash Flow	1,286.8	1,361.7	1,387.1
Capex	306.5	350.0	350.0
Free Cash Flow	980.3	1,011.7	1,037.1
Net Debt/Equity	40.5	31.6	23.8

Source: BofA Merrill Lynch Global Research estimates

Smith & Nephew: orthopaedic devices and wound healing

Smith & Nephew (UK) develops and markets advanced medical devices. The company is a leader in each of its three specialist markets: Orthopaedics, knee and hip implants and trauma devices; Endoscopy instruments for access to joints (arthroscopy), cameras to assist surgery and blades for resecting tissue; and Advanced Woundcare, advanced dressings and devices geared towards the treatment of chronic wounds such as leg ulcers and pressure sores.

Smith & Nephew (medium FO exposure) is a fighting obesity play on orthopaedic devices (joint implants) and wound healing solutions. It is the fourth-largest manufacturer of joint implants globally. Obesity is a leading cause of osteoarthritis and thus joint replacement with studies showing, for instance, that knee osteoarthritis is 4-5x more common in overweight people than people of normal body weight. Over the medium term, orthopaedic trauma and clinical therapies market sales should rise owing to a growing and ageing population and climbing rates of co-morbidities such as obesity and diabetes.

A move to more active lifestyles as part of the fight against obesity should also benefit SNN long-term as this can also increase wear and tear on joints. SNN should also benefit as a leading manufacturer of advanced wound healing solutions. A higher incidence of diabetes is leading to more diabetic foot ulcers, one of the most difficult wounds to heal and a key market for SNN's wound management business. On our estimate, c.30% of the global advanced wound care market benefits from patients with diabetic ulcers.

Near-term, SNN's knee business is growing well following recent launches and the Woundcare business has returned to above-market growth. However, the orthopaedic and wound markets face increasing pricing and competitive pressure which will continue into 2012. Despite the announced restructuring programme, margins may also come under pressure in 2012 and 2013 on reimbursement pressure and the need for SNN to invest in additional R&D to grow the top line.

Table 29: Smith & Nephew - Key data

Analyst's Name	Ridley-Day,Ed		
Analyst's Email Id.	ed.ridleyday@baml.com		
Analyst's Phone No.	+44 20 7995 4585		
	2010	2011E	2012E
Revenues	3,962	4,265	4,388
Operating Profit	920	901	882
Operating Margin	23.2%	21.1%	20.1%
Y-o-Y Growth	27.2%	-2.0%	-2.1%
Net Profit	615	617	582
Net Margin	15.5%	14.5%	13.3%
Y-o-Y Growth	30.3%	0.3%	-5.7%
EBIT	920	901	882
EBIT Margin	23.2%	21.1%	20.1%
EBITDA	1,208	1,225	1,237
EBITDA Margin	30.5%	28.7%	28.2%
Operating Cash Flow	859.0	862.3	868.3
Capex	290.0	323.7	341.6
Free Cash Flow	569.0	538.7	526.7
Net Debt/Equity	17.7	3.3	(6.8)

Source: BofA Merrill Lynch Global Research estimates

Stryker Corp: orthopaedic implants

Stryker is a medical technology company that operates in two business segments. Its orthopedic implants business produces implants used in joint replacement, trauma, spine and craniomaxillofacial procedures. Stryker's MedSurg segment produces surgical equipment (other than orthopaedic hardware), as well as patient handling and emergency medical equipment.

SYK (high FO exposure) is a fighting obesity play via orthopaedics (used to treat osteoarthritis, a degenerative joint disease that causes the cartilage in your joints to break down) and patient handling and emergency medical equipment. It is a top-5 US orthopaedic device manufacturer (c.44% of sales) and should benefit from the fact that increased weight / obesity puts significantly more pressure on joints, making them wear out faster. As such, it is a leading cause of osteoarthritis, with studies showing that knee osteoarthritis, for instance, is 4-5x more common in overweight people than people of normal body weight. This should drive up demand for SYK's joint replacement. A move to more active lifestyles as part of the fight against obesity should also benefit SYK long-term, as this can also increase wear and tear on joints. Moreover, SYK should benefit from FO on the back of obesity "adaptation" and the health care industry's desire to reduce clinician injuries from transporting overweight/obese patients (health care professionals, nurses, EMS). Its solutions include bariatric transport gurneys, which can accommodate up to 1,600lb, powered ambulance cots and stair chairs,

Table 30: Stryker Corp - Key data

Analyst's Name	Hopkins,Bob		
Analyst's Email Id.	robert.a.hopkins@baml.com		
Analyst's Phone No.	+1 646 855 3131		
	2011	2012E	2013E
Revenues	8,307	8,714	9,103
Operating Profit	1,948	2,111	2,257
Operating Margin	23.5%	24.2%	24.8%
Y-o-Y Growth	3.9%	8.3%	6.9%
Net Profit	1,359	1,554	1,681
Net Margin	16.4%	17.8%	18.5%
Y-o-Y Growth	0.7%	14.3%	8.2%
EBIT	1,948	2,111	2,257
EBIT Margin	23.5%	24.2%	24.8%
EBITDA	2,429	2,566	2,712
EBITDA Margin	29.2%	29.4%	29.8%
Operating Cash Flow	1,434.0	2,004.3	1,740.6
Capex	159.0	237.6	285.1
Free Cash Flow	1,275.0	1,766.7	1,455.5
Net Debt/Equity	(21.5)	(36.4)	(41.7)

Source: BofA Merrill Lynch Global Research estimates

and patient-handling equipment (zoom motorised drives, integrated scale, powered built-in lift capacity, positioning capabilities, loft-assist backrest on stretchers and large capacity seating options).

Near-term, we assume that SYK's premium to S&P will increase back up to the region of 20% as investors grow more comfortable with SYK's ability to maintain and increase margins despite a tough environment and as they gain confidence that the weak economy is not on the verge of driving another downtick in top-line growth.

Vivus Inc: obesity drug Qnexa

Table 31: Vivus, Inc. - Key data

Analyst's Name	Byrne,Steve		
Analyst's Email Id.	steve.byrne@baml.com		
Analyst's Phone No.	+1 646 855 5746		
	2011	2012E	2013E
Revenues	-	8	133
Operating Profit	(47)	(104)	(1)
Operating Margin	NA	-1380.0%	-0.8%
Y-o-Y Growth	-28.8%	121.0%	-98.9%
Net Profit	(46)	(104)	(1)
Net Margin	NA	-1380.2%	-0.8%
Y-o-Y Growth	-30.2%	124.3%	-98.9%
EBIT	(47)	(104)	(1)
EBIT Margin	NA	-1380.0%	-0.8%
EBITDA	(47)	(102)	0
EBITDA Margin	NA	-1364.0%	0.1%
Operating Cash Flow	(40.0)	(98.1)	4.3
Capex	0.2	0.5	0.5
Free Cash Flow	(40.2)	(98.6)	3.8
Net Debt/Equity	(28.0)	(51.7)	(54.4)

Source: BofA Merrill Lynch Global Research estimates

Vivus is a biopharmaceutical company that is developing therapies in multiple indications. Its most advanced product is Qnexa for obesity with a PDUFA decision date on July 17, 2012. Vivus also developed avanafil, a PDE5 inhibitor, for erectile dysfunction, which received FDA approval on April 27, 2012.

Vivus (high FO exposure) is a fighting obesity play via its obesity drug Qnexa. Clinical trials with Qnexa (a combination of the drugs phentermine and topiramate) have shown weight loss under treatment and in February 2012 FDA advisors recommended that the FDA adopt it as an obesity treatment. VVUS's Qnexa pre-commercialisation developments are well underway with the company targeting 25k physicians (high prescribers of current obesity and cardiometabolic disease medications). VVUS is working with the FDA on the potential label, as well as building product inventory and forming pharmacy network contracts.

On 5 June 2012, VVUS announced that it had requested and received a three-month extension for an oral hearing on the obesity drug Qnexa at CHMP, the advisory committee equivalent of the European Medicines Agency, previously expected in June. In our view, this postponement supports VVUS's confidence in a favorable FDA decision by the July 17 PDUFA, which, if realized, would strengthen VVUS's position when meeting with the CHMP, particularly regarding risk mitigation. We also see the decision as an indication of ongoing dialogue with the FDA regarding the development of risk mitigation procedures (REMS), which could continue through the PDUFA decision date. We (and VVUS) expect Qnexa to be primarily an out-of-pocket expense for patients, but we see significant upside potential from reimbursement coverage from private payors and self-insured employers. We model US$1.8bn in Qnexa peak risk-adjusted sales by 2017.

Near-term, we are positive on VVUS driven primarily by our view on its pipeline product Qnexa (positive ad com in Feb 2012). We believe Qnexa could be approved in its initial indication in 2012 without the need for a CV outcomes trial. Downside risks include a longer-than-expected delay for Qnexa and competition from other new entrants to the obesity space. Upside could come from an earlier-than-expected launch, steeper-than-expected uptake and better insurance coverage than expected.

Table 32: Zimmer Holdings, Inc. - Key data

Analyst's Name	Hopkins,Bob		
Analyst's Email Id.	robert.a.hopkins@baml.com		
Analyst's Phone No.	+1 646 855 3131		
	2010	2011E	2012E
Revenues	4,220	4,452	4,498
Operating Profit	1,230	1,268	1,314
Operating Margin	29.2%	28.5%	29.2%
Y-o-Y Growth	4.0%	3.1%	3.6%
Net Profit	871	904	916
Net Margin	20.6%	20.3%	20.4%
Y-o-Y Growth	2.4%	3.9%	1.3%
EBIT	1,230	1,268	1,314
EBIT Margin	29.2%	28.5%	29.2%
EBITDA	1,570	1,643	1,589
EBITDA Margin	37.2%	36.9%	35.3%
Operating Cash Flow	1,194.0	1,176.9	1,233.2
Capex	79.2	113.8	125.2
Free Cash Flow	1,114.8	1,063.1	1,108.0
Net Debt/Equity	3.6	6.4	9.4

Source: BofA Merrill Lynch Global Research estimates

Zimmer Holdings, Inc: orthopaedic implants

Zimmer Holdings designs, develops, manufactures and markets orthopedic implants (hips, knees, spine, trauma and dental) as well as related orthopedic surgical products.

Zimmer (high FO exposure) is a fighting obesity play via orthopaedics (to treat osteoarthritis, a degenerative joint disease that causes the cartilage in your joints to break down). ZMH is the #2 global orthopaedic device manufacturer and 100% of earnings are from orthopaedic and related markets; as such, it offers the purest exposure to the global orthopaedic market. Increased weight / obesity puts significantly more pressure on joints, making them wear out faster. As such, it is a leading cause of osteoarthritis, with studies showing that knee osteoarthritis, for instance, is 4-5x more common in overweight people than people of normal body weight. This should drive up demand for ZMH's joint replacement (knees and hips are c.70% of sales). A move to more active lifestyles as part of the fight against obesity should also benefit ZMH long-term, as this can also increase wear and tear on joints.

Near-term, ZMH's core hip and knee business has clearly stabilized, its hip/knee pipeline is full, and its trauma business is poised for a sustained reacceleration – all signs of a stable franchise. However, there is still some uncertainty over where ortho pricing and mix will settle in the new world of health care reform and pressure on hospitals, as well as the recession (a worker has to give up several weeks of work to rehab when having a hip/knee replaced), and we will continue to monitor these trends closely.

Food

Part of the problem & part of the solution

Food, nutrition & eating habits key to obesity and related morbidities

Many stakeholders and obesity specialists have been vocal in identifying the food industry – manufacturers, retailers and fast food – as one of the key causes of the obesity problem. There is growing focus on factors such as the increased supply of cheap, palatable, energy-dense foods; improved availability and distribution systems to make food much more accessible and convenient; more persuasive and pervasive food marketing; and more sedentary lifestyles. They argue that these factors lead to passive over-consumption (Source: Swinburn et al, *The Lancet* 2011) and higher incidence of obesity and thus related morbidities.

Table 33: BofAML Fighting Obesity (FO) - Food stock list

Company	FO exposure
CAMPBELL SOUP CO	Medium
CHIPOTLE MEXICAN GRI.	Low
CONAGRA FOODS INC	Medium
DANONE	High
DARDEN RESTAURANTS	Low
DOLE FOODS	High
DOLLAR GENERAL CORP	Low
GENERAL MILLS INC	Medium
HEINZ (H.J.) CO	Medium
KELLOGG CO	Medium
KERRY GROUP	Medium
KRAFT FOODS INC	Medium
NESTLE	Medium
PANERA BREAD COMP.	Low
PEPSICO INC	Medium
SENECA FOODS CORP.	High
THE FRESH MARKET	Medium
UNILEVER	Medium
UNITED NATURAL FOOD.	Medium
WHOLE FOODS MARKET	Medium

Source: BofA Merrill Lynch Global Research. . * FO exposure = BofAML estimates of current sales derived from fighting obesity-related products and solutions

Food industry responding to the challenge

The industry is becoming increasingly influenced by growing consumer awareness of the links between diet and health, including obesity. This has meant a growing push on health and wellness (H&W) via healthy product options, acquiring brands, innovating and reformulating existing products and promoting consistent H&W messages. Companies are realising that it is wiser to invest now than potentially be forced to do so via future regulation (as with the anti-smoking drive). They are also aware of the significant growth opportunity: volumes and margins in the global H&W food market are estimated at US$663bn in 2012 (Source: Euromonitor) and fresh produce at US$675bn (Source: Dole), with these segments growing faster than GDP.

A number of stocks are potential beneficiaries

We believe that a number of stocks are well placed to benefit from the theme of healthier food as a means of fighting global obesity through their involvement and positioning in areas such as: H&W-centred product portfolios (e.g. naturally healthy, fortified/functional, better for you, organic, fresh produce, fresh juices etc.) and reformulating the nutritional profile of portfolios (i.e. less fat, sugar and sodium, fewer calories and artificial ingredients, more beneficial ingredients).

Food, naturally, is part of the problem

Fast food nations

Research shows that for people who are overweight or obese, a 5% reduction in calories or c.100 calories per day could lead to savings of US$58bn/y in the US on medical expenditures due to a reduced prevalence of heart disease, diabetes, cancer and other health conditions (Source: *American Journal of Health Promotion*, 2009)

A gradual shift to high-calorie fast-food diets (which can have limited nutrients and high levels of added salt, sugar, refined flours, fat, and preservatives) combined with a lack of physical activity is a major driver of the obesity trend. Fast food has come to dominate the developed market landscape – with U.S. fast food sales increasing 54% from c.US$107bn in 2000 to c.US$165bn in 2010. Global figures would double that amount. It is also making huge inroads into EMs, which are increasingly treating food as a source of immediate gratification.

Higher density = higher obesity

Scientists at the University of Michigan studied 26 developed market nations and found that those with a high density of fast-food restaurants per capita had higher rates of obesity than those with a low density (Source: De Vogli et al. in *Critical Public Health* 21(4) 2011). The relationships remained consistent even when researchers controlled for variables such as income, income inequality, urban areas, motor vehicles and internet use per capita.

CB

Table 34: Fast food restaurants per 100,000 people and obesity rates

Country	Fast food restaurants/100,000	Men's obesity rate	Women's obesity rate
US	7.52	31.3%	33.2%
Canada	7.43	23.2%	22.9%
Norway	0.19	6.4%	5.9%
Japan	0.13	2.9%	3.3%

Source: De Vogli et al. in Critical Public Health 21(4) 2011. Researchers chose one fast food restaurant to use as a proxy measure for how many fast food restaurants were present per 100,000

Empty calories

Calories that lack nutritional value – such as those found in sugary drinks and fried foods – are called "empty calories". Empty calorie foods are quickly broken down, causing blood sugar levels to spike and leading to insulin secretion and hunger signals.

Added sugars & solid fats account for up to 1/3 of calorie consumption

Added sugars and solid fats account for c.35% of calories consumed by Americans – with the figures steady across sexes and age groups – significantly contributing to excess calorie intake and not contributing to nutrient adequacy (Source: IOM). Calories from such sources are more likely to contribute to weight gain and are well beyond recommended guidelines of 5-15% of calorie intake from added sugars and solid fats in a dietary regime that meets nutrient needs within calorie limits (Source: USDA/HHS) .

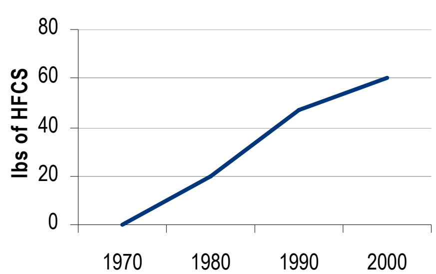
Sugary drinks, a low-hanging target

Such beverages can displace healthier nutrient-dense beverages like milk, 100% fruit juice and water

Sugary drinks, in particular, are coming under increasing pressure in the fight against obesity. Consumption of sugar-sweetened beverages is the single-largest contributor of calories and added sugar in the US diet (Source: HHS/USDA 2010, NCI 2010, Welsh et al 2011). An estimated 25% of Americans drink more than one sugar drink daily (200kcal/day), 20% consume 1-4 drinks and 5% drink 4+ (Source: NHANES, Ogden et al 2011). This makes them the largest contributor to added sugars in the diet and one of the largest contributors of empty calorie intake. Although the exact mechanisms of how such drinks contribute to obesity are not fully known, their link to obesity is stronger than any other food or beverage (Source: IOM, DGAC 2010):

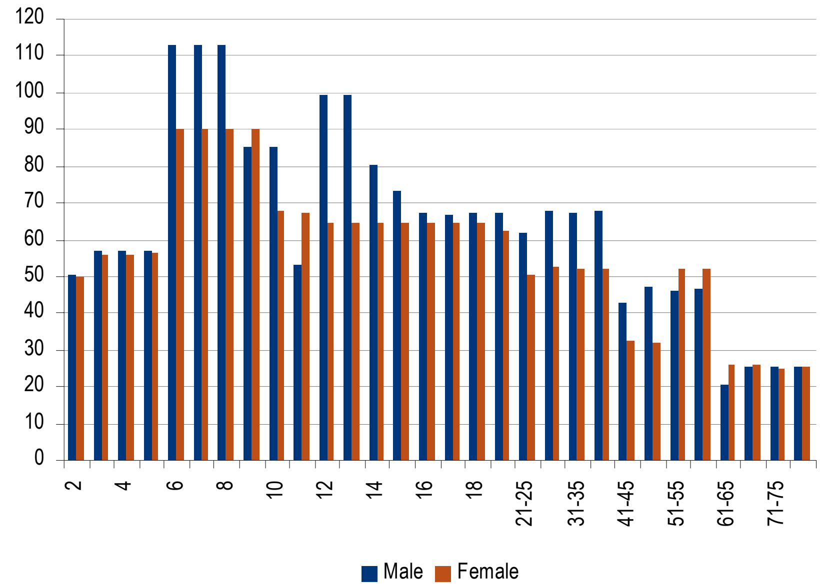
- Sweetened beverages account for at least 20% of the increase in weight in the US between 1977 and 2007 (Source: Woodward Lopez et al 2010)
- Liquid calories account for half of the 150-300 calories increase in daily energy intake over the last 30Y (Source: Johnson et al 2009)

Chart 23: High fructose corn syrup intake
(per capita, annually)



Source: data obtained from USDA

Chart 24: Percentage of daily caloric limit of solid fats and added sugars from sugared drink consumption for given ages, assuming moderate activity level (US)



Source: IOM, BofA Merrill Lynch Global Research

HFCS

One area of focus is high fructose corn syrup (HFCS) – a key component in soft drinks – the intake of which has increased significantly in the last four decades. A 20 ounce soda contains 227 calories, or more than 10% of the total recommended calories for a woman, for instance, to maintain a healthy weight (Source: USDA).

Increasing portion sizes

A Hershey bar in 1990 was 2oz and 297 calories, versus 7oz and triple the calories by 2011

Research into changes in portion size in the US has shown that they are increasing and exceeding the recommended size. This, together with more sedentary lifestyles, is resulting in weight gain. There is also evidence of this in the fast food industry, such as the move to "super size" portions. According to a 2007 paper published in the *Journal of Public Health Policy*, portion sizes offered by fast food chains are 2-5x larger than when first introduced. This is supported by research from the preliminary 2010 Dietary Guidelines for Americans, which shows that in 1954 an average hamburger was 3.9 ounces; the most recent USDA findings report that hamburgers ranged from 4.4 ounces to 12.6 ounces, up to a 223% increase (Source: Young and Nestle, Journal of Public Health Policy)

Table 35: Portion distortion over the last 20 years

	Coffee	Muffin	Pepperoni pizza	Chicken caesar salad	Popcorn	Chicken stir fry
20Y ago	8 ounce with while milk & sugar (45 cal)	1.5 ounce serving size (210 cal.)	2 slices (500 cal.)	1.5 cup serving size(390 cal)	5 cup serving size (270 cal.)	2 cup serving size (435 cal.)
Today	16 ounce with steamed milk & syrup (350 cal.)	4 ounce serving size (500 cal.)	2 slices (850 cal.)	3.5 cup serving size (790 cal.)	11 cup serving size (630 cal.)	4.5 cup serving size (865 cal)
Additional calories	+305	+290	+350	+400	+360	+430

Source: National Heart, Lung and Blood Institute Obesity Initiative

Processed food on the rise

The last 30-40 years have seen a shift in the food industry towards a processed food culture and recipes high(er) in sugar, salt, fat, hydrogenated oils, saturated fats and trans fats, as well as additives and preservatives replacing nutrients and fibre. Research suggests that these types of foods – which tend to be highly refined, processed, and starchy – may be a contributing factor to obesity, as they can increase caloric density and remove beneficial nutrients (Source: Ludwig 2011).

Potentially unintended consequences

Some speculative research has also suggested that processing food to increase palatability has the unintended consequence of bypassing some of the biological mechanisms that help people monitor and control consumption – potentially resulting in "addictive consumption", dependence and physiological withdrawal symptoms (Source: Blumenthal and Gold 2010, Garber and Lustig 2011, Gearhardt et al 2011, Ilfland et al 2009).

Poor nutritional labelling

Nutritional labelling is an important factor in influencing consumer shopping behaviour and the food industry has come under attack for inadequate or insufficient provision of "clear, evidence-based information on all food products, including alcoholic beverages, that would help consumers to make an easy, at-a-glance choice between healthier and less healthy products" (Source: WHO Second Action Plan on Nutrition). The focus of criticism has largely centred on communicating fat, salt and added sugar content – including via front-of-pack and back-of-pack labelling – in the context of increasingly H&W-conscious consumers who are devoting more time to reading labels and asking questions about what goes into food products and results from eating them.

Marketing unhealthy food, especially to children

Food marketing – including marketing aimed at children and adolescents – has increased dramatically in recent years, including via digital media. Marketing of high-calorie food and beverages to children has been identified as one of the major contributors to childhood obesity (Source: IOM). Both the IOM and WHO have said that the way in which products are marketed, promoted and made available to children has been shown to influence their food preferences and selections.

Focus on schools

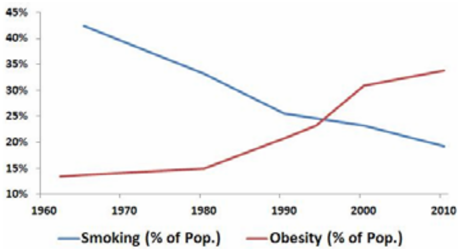
Many specialists and stakeholders have been particularly critical of the marketing of non-nutritious foods and beverages on school grounds. For instance, the OECD has found counter-productive effects from the preponderance of food companies that help to run health education and exercise initiatives, such as after-school health and wellness programmes for pupils, stating that "These initiatives likely contribute to brand loyalty and may even increase consumption of the products of the sponsoring firms by those who are exposed to them," (Source OECD: Obesity and the Economics of Prevention 2011).

Some question the role of industry as an agent for change

Some stakeholders question the sincerity of the food industry's commitment to health and wellness given that successfully fighting obesity must be partly focused on consuming fewer calories, which means eating less or different types of food. They argue that the industry's commitment to short(er)-term profit and margins may trump their commitment to health and wellness. Such stakeholders have also been critical of the role of the food industry in influencing government policy, arguing that it can lead to a focus on lower, voluntary or self-regulatory approaches or standards rather than taxes or mandatory restrictions.

Calls for tobacco-like scrutiny and regulation

Chart 25: US – 50Y smoking vs. obesity rates



Source: CDC, NHANES, BofA Merrill Lynch Global Research

Some stakeholders argue that the campaign against tobacco use – including steep taxes on cigarettes, coupled with government regulation of tobacco use and advertising – offers a model for the fight against obesity vis-à-vis the food industry. High taxation, in particular, is regarded by organisations like WHO as having been one of the most effective tools for decreasing the uptake of smoking among young people. However, one needs to be careful about drawing an analogy between tobacco and food, as the correlation between food products and obesity-related co-morbidities is not as precise; moreover, moderate food and drink consumption is necessary (i.e., abstinence is not an option).

Need to be careful about drawing lessons from smoking

Analysing efforts to reduce smoking shows a lengthy time lag between obtaining evidence from research for harmful effects, and action taken in terms of behavioural change or in terms of public acceptability and public health interventions. It has taken 50 years for policymakers to move from the basic provision of information and advice, through the facilitation of healthier options (e.g. the use of nicotine replacement), to active discouragement of the unhealthy behaviour (e.g. taxation, advertising restrictions) and finally to regulatory action (e.g. bans on smoking in public places). That said, increasing public awareness of the dangers of obesity could cause changes in government policy to be taken forward in a shorter timeframe.

Table 36: Public health actions taken following policy recommendations of the 1962 Royal College of Physicians (London) report on Smoking and Health

	Royal College of Physicians recommendation	Public health actions
1	More education of the public, especially school children, concerning the hazards of smoking	1962 – £50,000 for three-year campaign 1998 – Tobacco White Paper committed £50mn over three years for education
2	More effective restrictions on the sale of tobacco to children	1962 – Rejection of proposal to raise minimum age from 16 to either 17 or 18 2007 – Minimum purchase age made 16
3	Restriction of tobacco advertising	1962 – Voluntary measures by advertising media and tobacco industry while keeping threat of legislation in reserve 1997 – New Labour Government includes complete ban in manifesto 2012 – Tobacco displays banned for large stores 2015 – Tobacco displays to be banned for small shops
4	Smoking bans in public places	2007 – Introduction of smoking ban in public places in England

Source: UK Government Office for Science, BofA Merrill Lynch Global Research

Food and drink taxes – sugar and fat taxes

There is an increasing call from many obesity specialists and stakeholders for sugar or "fat taxes" such as those introduced by governments in Denmark, Finland, France and Hungary, and being considered in the UK and New York City. In practice, a fat tax is a tax or surcharge that is placed on fattening foods, beverages (or potentially individuals) with the aim of decreasing the consumption of foods that are linked to obesity and offsetting the costs of obesity.

The arguments for and against

Proponents argue that such taxes will act as a long-term disincentive, limiting demand for unhealthy food. Obesity specialists in favour of such taxes argue that eating behaviour may be more responsive to price increases than to nutritional education (Source: Horgen et al in *Health Psychology*). Some have also argued in favour of removing taxes levied on healthy foods or conversely subsidising such food. The food industry largely argues that the taxes would be ineffective, unfair, and damage the industry, leading to job losses. And from a legislative point of view, it is still unclear how such taxes would be best introduced and enforced.

Challenging endeavour

The imposition of fat taxes poses a number of challenges which need to be addressed, including: targeting the right food and beverage products; avoiding unnecessarily taxing the poor, who spend a greater proportion of their income on food; avoiding perverse effects (i.e. evidence suggesting that taxing saturated fat could increase sodium intake); and the fact that neighbouring countries and trading partners may not have such taxes in place.

Calls for 20% taxes to improve population health

A May 2012 *British Medical Journal* study drawing on worldwide obesity research (modelling rather than random-controlled trials), focused on the health effects of food taxes, argues that taxes on unhealthy food and drinks would need to be at least 20% to have a significant effect on diet-related conditions such as obesity and heart disease (Source: Mytton et. al, BMJ). Ideally, they argue this should be combined with subsidies on healthy foods, such as fruit and vegetables.

Table 37: Overview of food and drink taxes and initiatives

Country	Status	Overview
Denmark	In place	Introduced a tax on foods containing more than 2.3% saturated fats (meat, cheese, butter, edible oils, margarine, spreads, snacks, etc.) in 2011. Consumers pay 16 kroner (€2.15) per kg of saturated fat on domestic and imported food, which is equivalent to up to 30% more for a pack of butter, 8% more for a bag of chips, and 7% more for a litre of olive oil. Tax revenues are expected to be over €200mn/y, and saturated fat consumption is expected to decrease by 4%. Denmark had also increased its excise taxes on chocolate, ice cream, sugary drinks and confectionery by 25% in 2010. Danes pay an additional 16 Danish kroner per kg of saturated fat.
Finland	In place	Introduced a tax on confectionery products, while biscuits, buns and pastries remained exempt. The tax, originally intended to be set at almost €1/kg of product, was subsequently dropped to €0.75/kg. The existing excise tax on soft drinks was raised from 4.5 cents to 7.5 cents per litre.
France	In place	Tax on soft drinks came into force in January 2012. The tax affects both drinks with added sugars and drinks with artificial sweeteners. It is set at €7.16/hectolitre (i.e. €0.072/litre or approximately €0.024 for a 33cl can) for both categories. It is payable by manufacturers established in France and importers. The tax is expected to generate revenues in the region of €280mn/y.
Hungary	In place	Introduced a tax on selected manufactured foods with high sugar, salt or caffeine content. Carbonated sugary drinks are among the products targeted by the new measures. Hungarians have to pay a 10 forint (€ 0.037) tax on foods with high fat, sugar and salt content, as well as increased tariffs on soda and alcohol. The expected annual proceeds of €70mn will go toward state health care costs, including those associated with addressing the country's 18.8% obesity rate (vs. EU average of 15.5%).
Poland	Under consideration	The Polish Government is weighing up the benefits of a FAT tax or VAT tax increase on unhealthy foods in Poland. Currently the VAT tax rate is 8% on food. The proposal is to raise the tax rate to 23% in order to discourage people from eating unhealthy food. Poland withdrew its subsidy on animal fat in the '90s and permitted imports of vegetable oil, which led to a major dip in cardiovascular mortality rates.
Romania	Under consideration	Romania also considered a "fat tax" early last year, expanding beyond sodas and candies and trans fats to tackle junk food more broadly. Romanian Health Minister Attila Cseke said the tax would "be a percentage of the sale of fast-food products" and that the revenue would be used "to increase the budgets of health programs and fund investments into the system's infrastructure." The idea was axed after the government considered its potential impact on consumers, particularly given rising food prices.
UK	Under consideration	David Cameron, the Prime Minister, said in October 2011 that the government would consider introducing a "fat tax" to tackle Britain's growing obesity levels.
USA	In place (state & city level)	Various states and cities have sales taxes on soft drinks, snack foods and sweets. However, none of these taxes is designed explicitly as a 'fat tax'.

Source: Government websites, BofA Merrill Lynch Global Research

The IOM recommends that beverages provide no more than 35% of calories from total sugars per packaged portion (ex-100% fruit and vegetable juices)

Sweetened drinks likely to be the short-term target

Many current proposals single out sugar-sweetened drinks as a target for taxation – as some academic studies have found a potential association between obesity and the consumption of sugar-sweetened drinks. The BMJ report referred to the above recommended a tax on sugary soft drinks (of 20%) as the best possible "fat tax" option – as it avoided untoward or unexpected effects – and even if people moved to diet drinks instead, it would still be beneficial for health. There could also be some popular support for such a tax with opinion polls from the US putting support for a tax on sugary drinks at between 37% and 72% (particularly when the health benefits of the tax are emphasised). Research is still in its early stages but there are a growing number of reports arguing in favour.

Table 38: Research on taxes on sweetened drinks

Tax	Potential impact	Source
A 1 cent/ounce tax on sugar-sweetened beverages	May reduce the consumption of those beverages by 25%	Brownell et al in New England Journal of Medicine
A 10% 'fat tax'	Would drive down sales of sugary drinks and encourage consumers to swap to healthier alternatives	British Journal of Nutrition 2011
35% tax on sugar sweetened drinks ($0.45 (£0.28; €0.34) per drink) in a canteen	Led to a 26% decline in sales	Block et al., American Journal of Public Health
A 10% tax on soda	Led to a 7% reduction in calories from soft drinks	Duffey et al in Archives of Internal Medicine

Source: BofA Merrill Lynch Global Research

However, there is also evidence that obese individuals are less responsive to changes in the price of food than normal-weight individuals (Source: Epstein et al in the *American Journal of Clinical Nutrition*). Moreover, obesity rates continue to rise in parts of the US despite localised efforts to tax unhealthy foods and sugary drinks in schools.

Agricultural subsidies

Some specialists and stakeholders argue that agricultural or farm subsidies are pumping billions of dollars into commodity crops rather than healthier fruit and vegetables. They argue that this means more higher-calorie, poor-quality food, and that farms do not produce enough fresh produce to meet recommended daily intake at a reasonable price. One of their main targets has been eliminating farm subsidies that make high-fructose corn syrup, partially hydrogenated vegetable oils and other obesity-promoting foods cheap(er).

No clear causal link with obesity

There is no clear evidence that subsidies contribute to obesity, according to the IOM. Recent economic research analysing the effects of price supports on consumer reactions to food prices (i.e. diet) shows that if all subsidies were erased, the typical US adult would consume 3,000-3,900 additional calories a year – with a cut-back in subsidised grains and meats being offset by greater sugar and dairy product consumption. The study also found that the effect of price supports on food prices had decreased over time, even as the obesity rate has risen (Source: "How Have Agricultural Policies Influenced Caloric Consumption in the United States?" Rickard et al, Health Economics).

Cracking down on marketing to children

There have been numerous attempts to pass laws on marketing to children on the basis that they are a vulnerable population. Some have succeeded while others have failed, on freedom of expression grounds, among other reasons. The bulk of the action has instead been voluntary undertakings by companies to restrict advertising unhealthy food and beverages to children. A recent evaluation has concluded that companies have made only limited progress in this regard – prompting stakeholders and obesity experts to reiterate their push for regulation (Source: Kraak et al. American Journal of Preventive Medicine).

Increasing investor scrutiny of "health footprints"

Although it is early days, we are seeing signs of stakeholders and investors pushing companies to report their "health footprints". For instance, in May 2012, investors and stakeholders – with endorsements from 2,500 paediatricians, cardiologists and other health care professionals – targeted McDonald's Corp for the second year in a row with a shareholder proposal that would have required the fast-food chain to assess its impact on diet-related diseases and other aspects of children's health, including obesity. Although defeated with only 6.4% in favour, the resolution could mark the start of the same sort of shareholder engagement and pressure that we have been seeing on other ESG issues, with companies being influenced to take many of the concerns on board voluntarily.

Industry argues for self-regulation

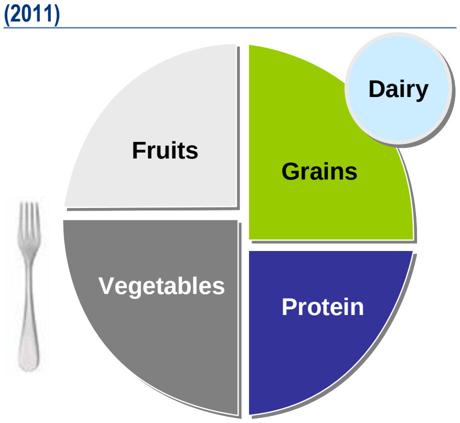
The food industry continues to argue that self-regulation is the best approach and that excessive regulatory intervention could hit business and jobs. For instance, FoodDrinkEurope, a federation representing the food and drink industry, has said that there is no evidence that taxes, in particular discriminatory taxes, are an effective approach to tackling complex diet and lifestyle-related problems. They also argue that a public health tax on food products hits low-income populations hardest and is regressive by nature, as lower socio-economic groups spend a larger share of their income on food than other income categories.

Food industry goes healthy(ier)

The food industry – food-makers, food retailers and fast food companies – are conscious of the increasing health and wellness concerns of consumers and the risks posed by greater stakeholder scrutiny and regulation. Contrary to the view of some stakeholders, their long-term business models are contingent upon customers coming back to them over the long term, rather than losing them to obesity-related illnesses. This has resulted in a concerted effort to move towards more health and wellness (H&W)-centred portfolios to aid the fight against obesity, including via:

- **Product portfolios**: Building out their health and wellness platforms including via high-growth product categories and higher-margin, value-added products (e.g. naturally healthy, fortified/functional, better for you, organic, fresh produce, fresh juices etc.)
- **Reformulation**: Improving the health and nutritional profile of portfolios by producing foods with less fat, sugar, calories and sodium; foods with fewer artificial ingredients; and foods with more beneficial ingredients.
- **Communication & labelling**: Providing consumers with easy access to key nutritional information that will encourage them to better understand how products fit within a healthy and balanced diet and to make informed decisions in that regard (i.e. front- and back-of-pack labelling).

Chart 26: USDofA MyPlate recommendations (2011)



Source: BofA Merrill Lynch Global Research, USDA

- **Marketing practices**: Striking a better balance between telling people about the benefits of their products and innovations and responsibly advertising and marketing their products, especially to children.

Healthy(ier) food, some basic objectives

While there is no universally accepted guide as to what constitutes healthy food, a number of international and national initiatives provide science-based recommendations on maintaining healthy weight, emphasising nutrient-dense foods and beverages, reducing the intake of excess calories (i.e. added sugars, saturated fats, trans fats, etc.). The guidelines usually identity specific foods to increase and others to reduce, for example:

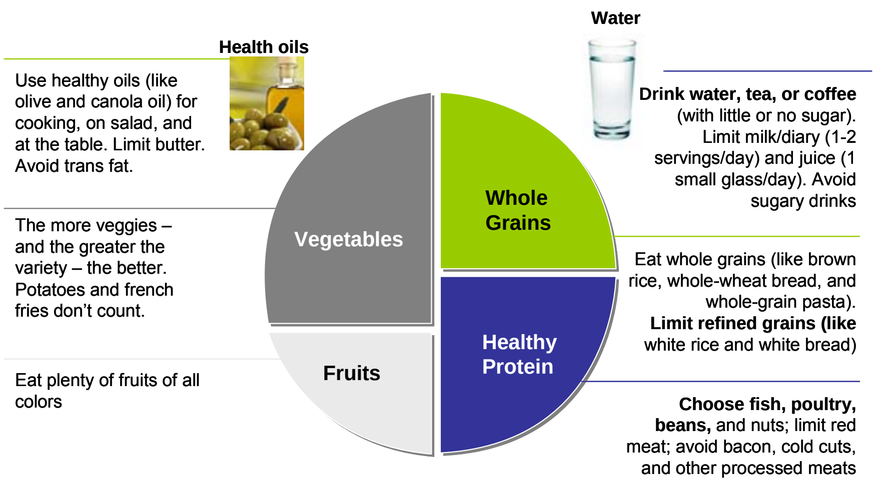
- **World Health Organization and Food and Agriculture Organization** published guidelines for preventing obesity, chronic diseases and dental cavities based on meta-analysis (see table on left).
- **Some 25 countries and organisations have also published pyramids**, the most well-known being the US DoA which issued new "MyPlate" recommendations in June 2011 – with fruits and vegetables taking up half the space, and grains and protein making up the other half. The vegetables and grains portions are the largest of the four.
- **Stakeholders** are also active with the Harvard School of Public Health proposing the "Healthy eating pyramid," which includes water, calcium and multi-vitamin supplements, as well as moderate amounts of alcohol, as an alternative to pyramids.

Table 39: 2002 Joint WHO/FAO Expert Consultation

Dietary factor	Recommendations
Total fat	15 – 30%
Saturated fatty acids	<10%
Polyunsaturated fatty acids	6–10%
n-6 PUFAs	5–8%
n-3 PUFAs	1–2%
Trans fatty acids	<1%
Monounsaturated fatty acids	By difference
Total carbohydrate	55–75%
Free sugars	<10%
Complex carbohydrate	No recommendation
Protein	10–15%
Cholesterol	<300 mg/da
Sodium chloride (Sodium)	<5 g/day (<2 g/day)
Fruits and vegetables	≥400g/day
Pulses, nuts and seeds	From foods
Total dietary fibre	From foods
NSP	From foods

Source: WHO-FAO

Chart 27: Healthy eating recommendations from Harvard School of Public Health



Source: BofA Merrill Lynch Global Research, Harvard School of Public Health

Table 40: H&W food market 2011-2015e

Segments	2011-15 CAGR
Organic Beverages	7%
Organic Packaged Food	6%
Better For You (BFY)	5%
Food Intolerance	10%
Fortified/Functional (FF)	6%
Naturally Healthy (NH)	6%
Weight Management	5%

Source: Euromonitor

Growing health & wellness food market

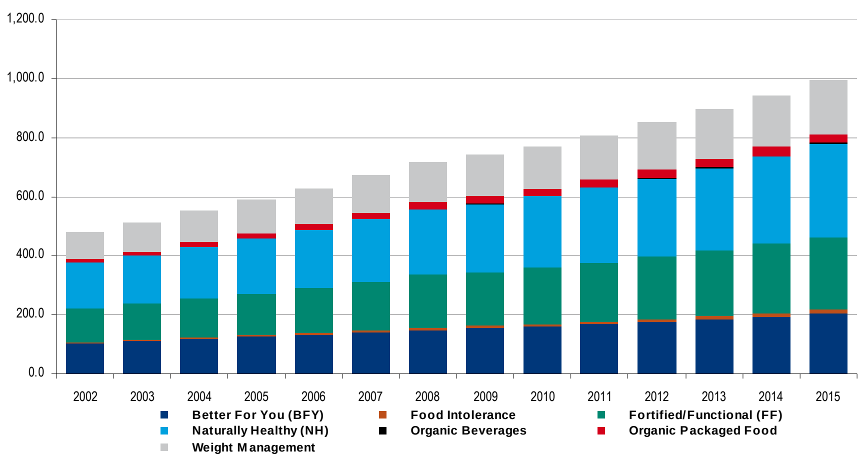
Food producers have been looking to increase profits by focusing on high-growth product categories and higher-margin, value-added products. Health and wellness (H&W) and fresh produce have been a key part of this approach, with companies looking to acquire H&W food brands, innovate and reformulate existing unhealthy food products, and launch completely new internally developed health product launches, among others things.

Key drivers of the growth in H&W products include growing public debate about health and nutrition and a focus on increasing fruit and vegetable consumption as part of government policy; greater consumer demand for healthy, fresh and convenient foods; and more emphasis on generally higher-margin produce and products as a differentiating factor in attracting customers.

Health & wellness, US$663bn & growing

The retail value of sales of health and wellness (H&W) food and beverages is estimated to reach US$663bn in 2012 (vs. US$524bn in 2007 and US$375bn in 2002) (Source: Euromonitor).

Chart 28: Health and wellness food and beverages market (retail sales, US $000mn)



Source: Euromonitor, BofA Merrill Lynch Global Research

North America is the largest region for H&W, estimated at US$187.2bn for 2012, followed by Western Europe (US$177.7bn), Asia-Pacific (US$152.4), Latin America (US$73.1bn), Eastern Europe (US$38.4bn), Australasia (US$17.4bn) and the Middle East and Africa (US$17.2bn) (Source: Euromonitor). The key product segments are:

- **Naturally healthy**: naturally contain a substance that improves H&W beyond the product's pure calorific value (e.g. olive oil, honey, soy-based food and beverages, green tea, 100% fruit/vegetable juice and naturally high-fibre food (i.e. bread, breakfast cereals, pasta).

- **Fortified/functional**: ingredients with purported health benefits have been added, which have a specific physiological function and/or are enhanced to the point where the level of added ingredients would not normally be found. The product has been actively fortified/enhanced during production and the purported health benefit forms part of the product positioning/marketing.

- **Better for you**: the amount of a substance considered to be less healthy – fat, sugar, salt, etc – has been actively reduced, removed or substituted during production. In turn, this forms part of the product's positioning/ marketing (e.g. low-fat, low-sugar, etc versions of 'standard' products (i.e, Diet Coke, 'light' product variants, etc).

- **Organic**: certified organic by an approved body, organic production is based on a system of farming that maintains and replenishes soil fertility without the use of toxic and persistent pesticides and fertilisers and where products are minimally processed without artificial ingredients, preservatives, irradiation, or genetically modified organisms

- **Food intolerance**: Products which are produced and positioned for consumers that suffer from a specific food intolerance/allergy (e.g. lactose intolerance, gluten intolerance/celiac and diabetes) (Source: Euromonitor).

Fresh produce, US$675bn & growing

Americans consumed 37 more pounds of fresh fruit and vegetables per capita in 2008 than they did in 1988 (Source: US Department of Agriculture)

The global market for fresh fruit and vegetables is worth approximately US$675bn according to Dole, with the industry enjoying consistent underlying demand and growing faster than the rate of population growth. Market drivers include: consumers' H&W focus, government initiatives to increase daily suggested consumption (e.g. the revised US Food Pyramid program recently doubled daily suggested fruit and veg servings), and the recession (which means consumers dine out less frequently).

H&W benefits

Fresh produce – along with grains – are nutrient-dense; rich in vitamins, minerals, enzymes, and fibre; and require more time to digest, so one feels satisfied for longer. Frozen and canned fruit and vegetables compare favourably with, and can even exceed, their fresh counterparts in nutritional value (as the canning/freezing process locks in nutrients at their peak of freshness and loses very little of that value over time).

Reformulating products

To remain at the forefront of the health and wellness debate and consumer demand, global food companies are using their technical expertise and R&D capabilities to invest in reviewing the nutritional quality of their food portfolios. They are both improving many products and developing their health and wellness platforms. This involves the fundamental and costly reformulation of products to reduce calories and improve health and wellness:

- Removing or reducing ingredients where nutritional concerns exist, e.g. sodium, saturated and trans fats and added sugar per serving across existing products and brands.

- Reducing the portion sizes of existing single-serve products.

- Formulating lower-calorie, low-fat, lower-sugar, low salt options and alternatives.

- Adding wholesome, healthy and natural ingredients, such as wholegrains, cereals, oats, pulses, nuts, fruits and vegetables and dairy.

- Fortifying foods with vitamins, antioxidants and other beneficial ingredients, including fibre, calcium, omega 3, essential fats, probiotics and prebiotics.

Table 41: Health and wellness concerns over fats and sugar

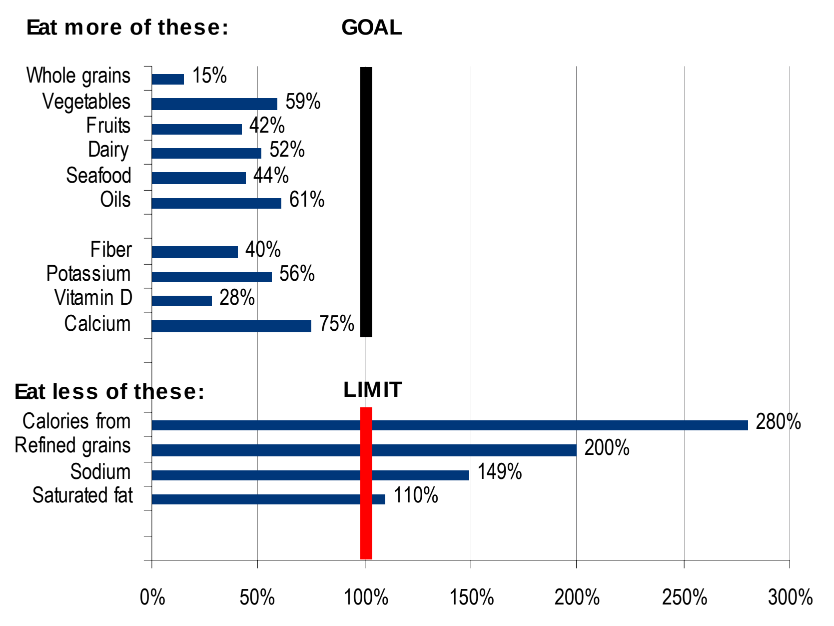
Concern	Overview	Health risks	Solutions	Challenges
Saturated fat	Eaten in larger amounts in the diet	Two-thirds of fat consumed should be unsaturated (vs. 1/3 saturated) to reduce the risk of heart disease	Reducing saturated fat content as much as possible and increasing the levels of essential fats (i.e. needed for biological processes and obtained via diet)	Makes products (e.g. spreads) firm, so it cannot be removed entirely
Trans fats	Small amounts occur naturally in butter, cheese and meat. Partial hydrogenation (converts vegetable oils into solid fats for greater functionality, stability and shelf life) also produces trans fats – e.g. in biscuits, cakes and fried foods.	Worse than saturated fats on a gram-for-gram basis in terms of their risk for heart disease. Intake should be reduced to as low a level as possible as they raise 'bad' (LDL) cholesterol and lower 'good' (HDL) cholesterol, and are linked to coronary heart disease	Reduction via product reformulations Lower-fat variants of cheese, milk and meat.	Ensuring that reformulation doesn't increase saturated fat levels
Sugar	Added sugars in drinks and food		Gradually reducing sugar content in all products, promoting varieties with less sugar; developing low-calorie varieties R&D into zero-calorie, all-natural sweeteners	Consumers like a certain sweetness in some products

Source: BofA Merrill Lynch Global Research

Balancing consumer taste preferences

Companies' efforts to improve the H&W attributes of their portfolios are challenged by strong consumer taste preferences for ingredients such as sugar and complex regulatory processes for alternatives. In practice, this means that reformulation will take place gradually, with the risk being that an abrupt reduction [in a particular ingredient(s)] could lead customers to switch to higher-sugar/fat etc. content products. It also underlines the need for the entire industry to work towards reformulation.

Chart 29: Comparison of typical American diet vs. Dietary Guidelines



Source: IOM, HHS/USDA, BofA Merrill Lynch Global Research, SoFAS = solid fats and added sugars

Communication & labelling

There is a need for further research on nutrition labelling to determine what motivates consumers to change their diet and improve their eating habits

Food companies have made major strides in providing consumers with easy access to nutritional information on product labels so that they can better understand how products fit within a healthy and balanced diet and make more informed decisions. Research shows that one clear system, used across all products, would make it easier for consumers to compare the nutritional information provided on the food they buy. However, the information varies widely worldwide owing to differing regulations and norms on nutrition labelling. There is also no consensus among food manufacturers as to what to describe and where to locate it on the packet. A number of practices are commonly used:

- **Front-of-pack labelling** covering energy per portion and % Guideline Daily Amount (GDA = the percentage of recommended intake) or % Daily Values (DV) on key nutrients (up to and including the "Big 8" of energy, protein, carbohydrates, sugars, fat, saturated fat, fibre and sodium)
- **Back-of-pack labelling** including detailed information and data on the "Big 8"
- **Traffic light system(s)** which, for instance, use red, amber and green labels to signify the food's nutritional value.

Table 42: UK Food Services Agency favours a traffic light system for food

	Green	Amber	Red
	Low (per 100g)	Medium (per 100g)	High (per 100g)
Fat	0-3g	Between 3g and 20g	20g and over
Saturated fat	0-1.5g	Between 1.5g and 5g	5g and over
Total sugars	0-5g	Between 5g and 15g	15g and over
Salt	0-0.3g	Between 0.3g and 1.5g	1.5g and over

Source: UK Food Standards Agency

Growing regulation

Internationally, there are some examples of legislation introduced to mandate menu labelling. For example, in New York City, regulations have been introduced requiring chain restaurants with 10-15+ outlets to display calorie counts on their menus. The NYC Health Department estimates that this regulation could reduce the number of people who suffer from obesity by 150,000 over the next five years and prevent over 30,000 cases of diabetes.

Marketing practices, focus on children

With tens of billions of dollars being spent on food and beverage advertising around the world, companies are under pressure to strike a balance between telling people about the benefits of their products and innovations and responsibly advertising and marketing their products, especially to children.

Self-regulatory mechanisms

The US Better Business Bureau and 16 major food companies, including Coca-Cola Co., Burger King Worldwide Holdings Inc., Mars Inc. and McDonald's Corp, have pledged to ensure that by 2014 ads aimed at children are devoted only to better-for-you foods

Companies have responded to stakeholder criticisms by strengthening self-regulatory mechanisms for goods and beverage advertising – as well as the representation of healthy lifestyles in advertising – particularly for young children. Stakeholders and obesity specialists argue that there is evidence that curbs on advertising fatty, sugary and salty foods to children can lead to a drop in their BMI, whereas in the case of self-regulation, "the effects of the intervention were assumed to be half of those produced by formal regulatory measures, because of possibly looser limitations self-imposed on advertising and a less than universal compliance to the voluntary arrangements" (Source: OECD).

Disney's rules - which will not take effect until 2015 – will apply to TV channels such as Disney XD, children's programming in the Saturday-morning block aired on Disney-owned ABC stations, Radio Disney and Disney-owned websites aimed at families with young children. The company's Disney Channel has sponsorships, but does not run ads

Disney's move could be a game-changer

In June 2012, The Walt Disney Co. became the first major media company to ban ads for junk food on its television channels, radio stations and websites. Disney said that it would consider its own nutritional guidelines and advertising companies' broader offerings when deciding whether to approve ads (i.e. reformulating meals and offering a range of healthy options). Disney said there are ads now running on Disney channels that would not meet the new standards, including two Kraft products that won't make the cut: Oscar Mayer Lunchables, some of which have 28% of the recommended daily sodium intake, and Capri Sun, which has just 60 calories per serving but has added sweeteners. Disney declined to name other companies' offerings, but said most sugary drinks, sugary cereals and high-sodium products would not be allowed. It did not disclose how much revenue it stands to lose from banning advertising of unhealthy food. CEO Bob Iger said there could be a short-term reduction in advertising revenue, but he hoped that advertisers would eventually adjust and create products that met the standards. The move was welcomed by children's health and wellness advocate, US First Lady Michelle Obama, who called it a "game changer" that is sure to send a message to the rest of the children's entertainment industry.

Industry-wide pledges on marketing to children have been made in Australia, Brazil, Canada, the EU, the Gulf States (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and UAE), India, Mexico, Russia, Thailand, South Africa, Switzerland, Thailand, Turkey and the US

Signing up to voluntary codes

There is increasing take-up of industry-wide self-regulatory codes on food marketing communications. The codes set out minimum standards, such as on the need for substantiation of claims or health benefits, not encouraging excess consumption, not representing snacks as meals, and not undermining healthy lifestyle messages or the role of parents. In addition to global codes such as the ICC's, a number of industry-wide, voluntary pledges on marketing to children have been made by companies. In the EU, major food companies have voluntarily committed to meet the following "EU Pledge" minimum standards by 2013:

- **No advertising of food and beverage products to children under 12** (i.e. TV, print, internet, online company marketing communications on company-owned websites), except for products which fulfil specific nutrition criteria based on accepted scientific evidence and/or applicable national and international dietary guidelines. For the purpose of this initiative, "advertising to children less than 12 years" means advertising to media audiences with a minimum of 35% of children under this age.
- **No communication related to products in primary schools**, except where specifically requested by, or agreed with, the school administration for educational purposes.

Table 43: Sample of companies which have made individual corporate marketing commitments within the framework of the EU Pledge programme

Burger King	General Mills	Nestlé
Coca-Cola	Kellogg's	PepsiCo
Danone	Kraft Foods	Unilever
European Snacks Association*	Mars	
Ferrero	McDonalds Europe	

Source: EU Pledge, BofA Merrill Lynch Global Research. * = Chips Group, Estrella Maarud, Intersnack, Lorenz Snack-World, Procter & Gamble, Unichips – San Carlo, Zweifel Pomy-Chip

In the US, under the new limits set by the Children's Food and Beverage Advertising Initiative (CFBAI), about one-third of the products currently advertised to children in the US would have to be reformulated, or they could no longer be advertised to this audience after 31 December 2013 (Source: General Mills).

A number of companies have gone further than industry standards in their individual commitments, with measures such as: prohibiting advertising to children under the age of six and using only healthy models/actors (i.e. BMI of 18.5-25) in advertising. Others – including members of the International Food and Beverage Alliance (IFBA) – have audited adherence to marketing principles.

Stakeholders looking for greater government control

Stakeholders are pushing for governments to take (greater) responsibility for code setting, implementation and compliance on food and beverage marketing to children. They are particularly concerned about companies' practices in emerging markets, where there has been evidence of questionable tactics for marketing to children.

Challenges & limits to voluntary actions

Despite the progress made in recent years, many stakeholders and obesity specialists continue to question whether voluntary actions go far enough. Concerns include companies' ability to overturn voluntary commitments at will; and the possibility that less healthy offerings will be sold and marketed in EMs, where regulations and scrutiny tend to be weaker.

Table 44: Recommendations for transforming messages about physical activity and nutrition

Strategy	Overview
Develop and support a sustained, targeted physical activity and nutrition social marketing program	Government policy makers and stakeholders should dedicate substantial funding and support to the development and implementation of a robust and sustained social marketing program on physical activity and nutrition. This program should encompass carefully targeted, culturally appropriate messages aimed at specific audiences (e.g., tweens, new parents, mothers); clear behaviour-change goals (e.g., take a daily walk, reduce consumption of sugar-sweetened beverages among adolescents, introduce infants to vegetables, make use of the new front-of-package nutrition labels); and related environmental change goals (e.g., improve physical environments, offer better food choices in public places, increase the availability of healthy food retailing).
Implement common standards for marketing foods and beverages to children and adolescents	The food, beverage, restaurant, and media industries should take broad, common, and urgent voluntary action to make substantial improvements in their marketing aimed directly at children and adolescents aged 2-17. All foods and beverages marketed to this age group should support a diet that accords with relevant dietary guidelines in order to prevent obesity and risk factors associated with chronic disease risk. Children and adolescents should be encouraged to avoid calories from foods that they generally overconsume (e.g., products high in sugar, fat, and sodium) and to replace them with foods they generally underconsume (e.g., fruits, vegetables, and whole grains). The standards set for foods and beverages marketed to children and adolescents should be widely publicized and easily available to parents and other consumers. They should cover foods and beverages marketed to children and adolescents aged 2-17 and should apply to a broad range of marketing and advertising practices, including digital marketing and the use of licensed characters and toy premiums. If such marketing standards have not been adopted within 2 years by a substantial majority of food, beverage, restaurant, and media companies that market foods and beverages to children and adolescents, policy makers at the local, state, and federal levels should consider setting mandatory nutritional standards for marketing to this age group to ensure that such standards are implemented.
Ensure consistent nutrition labelling for the front of packages, retail store shelves, and menus and menu boards that encourages healthier food choices	Government should implement a standard system of nutrition labelling for the front of packages and retail store shelves that is harmonious with the Nutrition Facts panel, and restaurants should provide calorie labelling on all menus and menu boards.
Adopt consistent nutrition education policies for federal programs with nutrition education components	Government should update policies for other programs with nutrition education components to explicitly encourage the provision of advice about types of foods to reduce in the diet, consistent with dietary guidelines

Source: Institute of Medicine of The National Academies

Cost is key

Healthy food costs up to 10x more

A number of studies show that it is cheaper to get calories from unhealthy food such as high-fat snacks. In contrast, healthy food both costs more in general and is lower in calories, meaning consumers need to buy more to meet their caloric intake (Source: *Journal of the American Dietetic Association* 2007). Some studies have shown a differential of as much as 10 times for 1,000 calories of junk food vs. 1,000 calories of nutritious foods, such as fruit and vegetables (Source: Drenowski et al CEnter for Public Health Nutrition)

Table 45: The cost of living healthily vs. unhealthily in the US

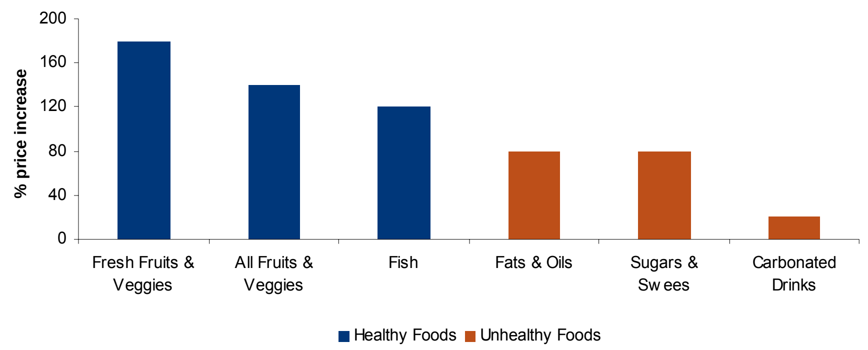
Recommended daily calorie intake	Estimated actual daily calorie intake	Cost of a 2,000 calorie junk food diet per day	Cost of a 2,000 calorie junk food diet per day	Daily average spend on diet	Average lifetime food cost – unhealthy person*	Average lifetime food cost – healthy person*
2,200 (men) 1,600 women	2,618 (men) 1,877 (women)	$3.52	$36.62	$7.00	$365,000	$400,000

Source: The Cost of Living: Healthy vs. Unhealthy, 2010. * Figures do not directly correlate to daily food cost numbers as daily diet varies for both healthy and unhealthy.

Healthy food costs 200% more than it did 30Y ago

The cost of healthy food, such as fruit and vegetables, has increased by almost 200% in the US since 1983, compared with only +65% for sugars and sweets and +30% for carbonated drinks (Source: XXX Psychological Science 2010). Even when indexed, data by the US Department of Commerce shows that the price of fresh fruit and vegetables has increased by 40% since 1980, whereas the indexed price of sodas has declined by about 30%.

Chart 30: Increased cost for various foods since 1983



Source: BofA Merrill Lynch Global Research, Finkelstein et al., as cited by Epstein et al.

Obesity divide fuelled by poverty

The percentage of food shoppers who are obese is as much as 10x higher at low-cost grocery stores compared with upscale markets (Source: Drenowski). This has led some to make an obesity low-cost socio-economic argument. For instance a 2011 University of Washington study of 2,001 shoppers in the Seattle area – a region with an average obesity rate of about 20% (vs. the US average of 34%) – showed that wealthy shoppers are thinner, with only about 4% of shoppers at Whole Foods Market stores obese, compared with nearly 40% of shoppers at lower-cost alternatives, such as Albertsons stores. The findings held true for the three highest-priced grocery stores in the Seattle region including Whole Foods, where an average basket of food costs US$370-420 and obesity rates went no higher than about 12%. In contrast, at the area's three lowest-priced stores, including Albertsons, the same basket of food cost US$225-280 and obesity rates went no lower than about 22%.

Food deserts

There is growing concern over "food deserts" – geographical areas where people experience physical and economic barriers to accessing healthy foods (Source: Reising and Hobb). The idea developed in the UK in the early 1990s but is now increasingly prevalent throughout the world – in both urban and rural areas and especially in areas characterised by low incomes and socio-economic development. It is also associated with disparities in the food retail environment, notably access to supermarkets. Advocates call for more supermarkets and better food quality in such areas.

Table 46: Food, poverty, obesity links

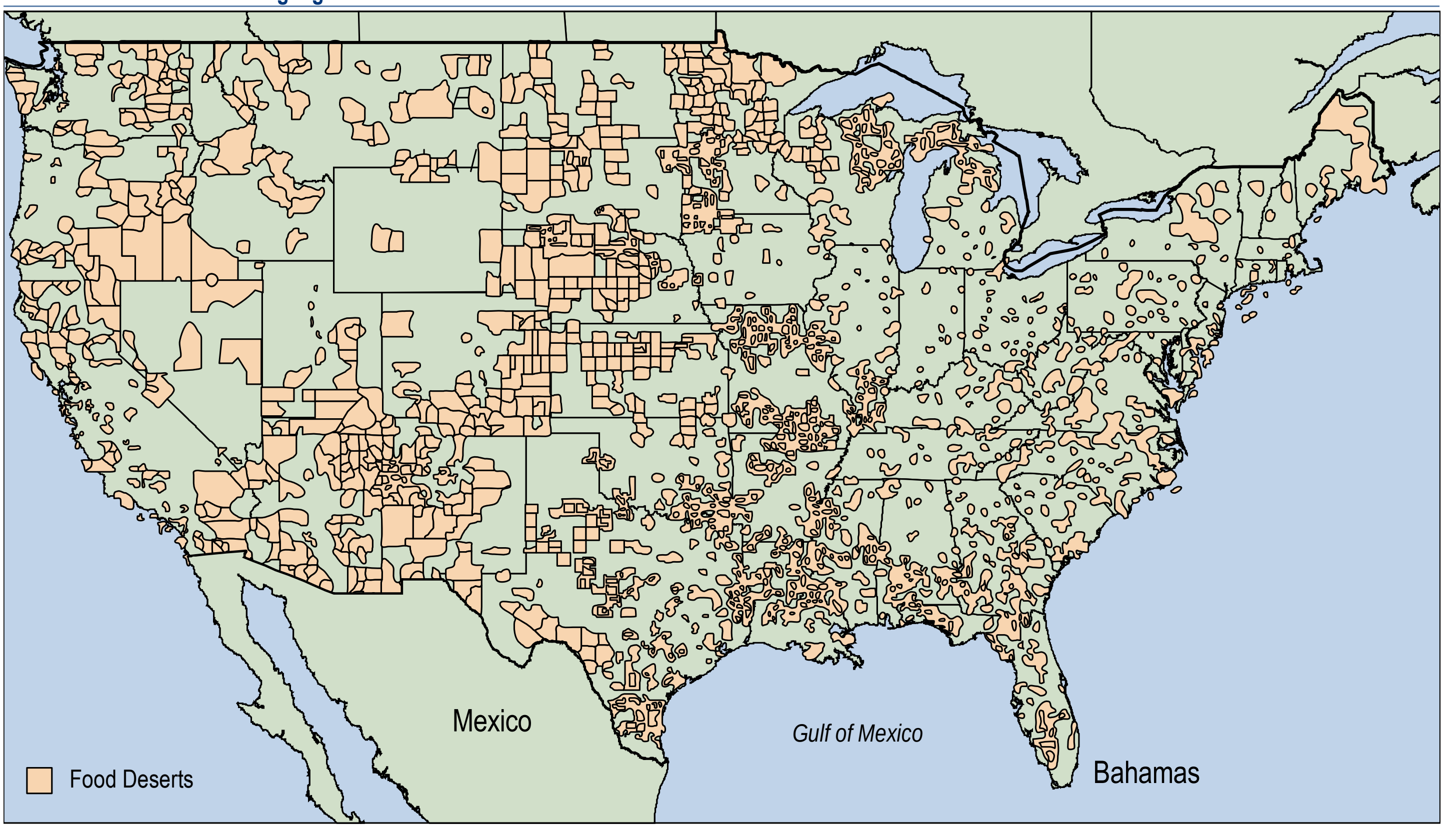
Issue	Overview
Access	healthier foods are less available
Cost	healthier foods cost more
Skills	healthier foods require preparation and cooking
Equipment	cooking healthier foods requires kitchen facilities, pots, and pans
Transportation	even if stores are available, they might be too far away to walk to
Quality	even if stores sell fruits and vegetables, they might not be fresh
Marketing	fast foods, snacks, and sodas are heavily marketed in low-income areas
Peer pressure	eating high-calorie foods is considered the norm

Source: World Public Health Association annual meeting, World Nutrition 2012

10% of the US is a food desert

Analysis by the US Department of Agriculture (USDA) shows that 10% of the country is now a "food desert" – which is defined as any census area where at least 20% of inhabitants are below the poverty line and 33% live more than a mile from a supermarket. The USDA links food deserts to the growing weight problem, childhood obesity levels and the increasing cost of treating obesity and is aiming to eliminate them by 2017 via such initiatives as the US$400mn Healthy Food Financing Initiative.

Chart 31: US census tracts highlighted as food deserts



Source: BofA Merrill Lynch Global Research, US Department of Agriculture

Need to be careful about mirages

Some argue that food deserts are a mirage and that they ignore the fact that there are many shops outside their census area and focus only on supermarkets rather than smaller retailers and alternative distributors. Moreover, they argue that there is no causal link between food deserts and health and wellbeing. Other studies show no relationship between the type of food sold in a neighbourhood and obesity among its children and adolescents (Source: Sturm et al).

Access alone is not sufficient

While obesity is certainly more common among the poor, improving access to healthy food does not, in and of itself, change consumer behaviour. Many consumers still opt for less healthy foods even when a full-service supermarket opens in a food desert.

Table 47: Recommendations for creating food & beverage environments that ensure that healthy food and beverage options are the routine, easy choice

Strategy	Overview
Adopt policies and implement practices to reduce overconsumption of sugar-sweetened beverages	• Decision-makers in the business community/private sector, in NGOs, and at all levels of government should adopt comprehensive strategies to reduce overconsumption of sugar-sweetened beverages
Increase the availability of lower-calorie and healthier food and beverage options for children in restaurants	• Chain and quick-service restaurants should substantially reduce the number of calories served to children and substantially expand the number of affordable and competitively priced healthier options available for parents to choose from in their facilities
Utilize strong nutritional standards for all foods and beverages sold or provided through the government, and ensure that these healthy options are available in all places frequented by the public	• Government agencies should ensure that all foods and beverages sold or provided through the government are aligned with the age-specific recommendations in dietary guidelines. The business community and the private sector operating venues frequented by the public should ensure that a variety of foods and beverages, including those recommended by such guidelines, are sold or served at all times
Broaden the examination and development of agriculture policy and research to include implications for diet	• Government agencies should examine the implications of agriculture policy for obesity, and should ensure that such policy includes understanding and implementing, as appropriate, an optimal mix of crops and farming methods for meeting dietary guidelines

Source: Institute of Medicine of The National Academies

Food companies & fighting obesity

We have identified the following companies covered by BofA Merrill Lynch Global Research that have exposure to fighting obesity as a percentage of sales vis-à-vis their involvement in food and food retail. Although it is difficult to accurately gauge the link between such exposure and share price performance (as many factors outside the scope of this analysis play a role in short- and long-term price development), we still consider fighting obesity exposure an important positive point to track.

Table 48: List of companies covered by BofAML involved in fighting obesity via food companies

BBG Ticker	Company	Location	BofAML Ticker	Market Cap (US$mn)	FO sub-sector	FO Exposure
CPB US	CAMPBELL SOUP CO	United States	CPB	10,048.0	Food	Medium
CMG US	CHIPOTLE MEXICAN GRILL	United States	CMG	12,515.6	Food	Low
CAG US	CONAGRA FOODS INC	United States	CAG	10,388.4	Food	Medium
BN FP	DANONE	France	GPDNF	39,029.3	Food	High
DRI US	DARDEN RESTAURANTS	United States	DRI	6,544.4	Food	Low
DOLE US	DOLE FOODS	United States	DOLE	826.1	Food	High
DG US	DOLLAR GENERAL CORP	United States	DG	16,860.5	Food	Low
GIS US	GENERAL MILLS INC	United States	GIS	25,366.0	Food	Medium
HNZ US	HEINZ (H.J.) CO	United States	HNZ	17,345.7	Food	Medium
K US	KELLOGG CO	United States	K	17,416.8	Food	Medium
KGY ID	KERRY GROUP	Ireland	KRYAF	7,822.9	Food	Medium
KFT US	KRAFT FOODS INC	United States	KFT	68,538.5	Food	Medium
NESN VX	NESTLE	Switzerland	NSRGF	187,222.3	Food	Medium
PNRA US	PANERA BREAD COMPANY	United States	PNRA	4,077.1	Food	Low
PEP US	PEPSICO INC	United States	PEP	108,583.2	Food	Medium
SENEA US	SENECA FOODS CORPORATION	United States	SENEA	263.7	Food	High
TFM US	THE FRESH MARKET	United States	TFM	2,445.0	Food	Medium
UNA NA	UNILEVER	Netherlands	UNLNF	90,518.3	Food	Medium
UNFI US	UNITED NATURAL FOODS	United States	UNFI	2,449.5	Food	Medium
WFM US	WHOLE FOODS MARKET	United States	WFM	16,526.5	Food	Medium

Source: IQ. DataStream, BofA Merrill Lynch Global Research. * FO exposure = BofAML estimates of current sales derived from fighting obesity-related products, services, technologies and solutions

1) Food companies

Campbell Soup Co.: four-fold health and wellness strategy

Campbell Soup is a leading global processor and marketer of soup, other simple meals, baked goods and healthy beverages. Its portfolio of well-known brands includes Campbell Soup, Pepperidge Farm, V8, Prego, and Arnotts. Outside of the US Campbell has established positions in developed markets such as France, Germany, Canada and Australia, and is currently investing to build businesses in Russia and China.

CPB (medium FO exposure) has a four-fold health and wellness strategy: **H&W product lines**: healthy and nutritious product portfolio sales of US$2.47bn in 2011 (vs. US$1.7bn in 2008) with the portfolio growing by 20% during that time. Key segments include fruit and vegetable nutrition via avenues such as healthy beverages (i.e. V8 with c.US$1bn in sales), energy drinks, juices and baked snacks. **Reformulating its product portfolio** on sodium – 8x the number of reduced-sodium products in its portfolio today vs. 2005, advanced sodium reduction in 90+ soups, and 200+ products in the US with reduced sodium; transfats – 200+ products low in fat and saturated fat, reducing or eliminating artificial trans-fats in almost all of its bakery products; and lowering calories: 150+ products that have 100 calories or less per serving, and more than 115 product SKUs that are certified by the American Heart Association. **Promoting positive nutrition** via whole grains, organic offerings, vegetables, and the Healthy Request Line (25 soups that each meet criteria established by the US FDA and USDA for healthy food). **Weight management**. And **Food Nutrition** via research support.

Inconsistent performance in US soup and uncertainty over the long-term sustainability keep us cautious, but Campbell recently unveiled a new strategy slated for FY13 to revive its lagging soups business. Driving growth in Healthy Beverages and Baked Snacks is one of the key elements of this strategy – expanding product platforms, for example, continually expanding beyond traditional tomato juice in V8 by extending into smoothies, energy, sparkling and kids, and expanding Goldfish, and wholesome natural lines in Pepperidge Farms. Other elements include stabilizing and profitably growing NA Soup and Simple Meals; and expanding its international presence. Upside risks include better-than-expected trends in the soup category, trading down, price competition, commodity costs, advertising and promotional spending, and macroeconomic factors.

Table 49: Campbell Soup - Key data

Analyst's Name	Spillane,Bryan		
Analyst's Email Id.	bryan.spillane@baml.com		
Analyst's Phone No.	+1 646 855 1979		
	2011	2012E	2013E
Revenues	7,719	7,710	7,820
Operating Profit	1,342	1,227	1,245
Operating Margin	17.4%	15.9%	15.9%
Y-o-Y Growth	-1.3%	-8.6%	1.5%
Net Profit	803	767	767
Net Margin	10.4%	9.9%	9.8%
Y-o-Y Growth	-6.1%	-4.5%	0.0%
EBIT	1,342	1,227	1,245
EBIT Margin	17.4%	15.9%	15.9%
EBITDA	1,610	1,419	1,401
EBITDA Margin	20.9%	18.4%	17.9%
Operating Cash Flow	1,144.0	1,314.2	1,348.3
Capex	263.0	333.5	339.0
Free Cash Flow	881.0	980.7	1,009.3
Net Debt/Equity	239.0	192.8	147.4

Source: BofA Merrill Lynch Global Research estimates

ConAgra: new & reformulated packaged food products

ConAgra (CAG), a broad-based food company, is a top packaged food and foodservice manufacturer in the US. Its two operating segments are Consumer Foods and Commercial Foods. Key brands include Healthy Choice, Banquet, Chef Boyardee, and Hunts.

CAG's (medium FO exposure) health and wellness strategy to fight obesity includes: **H&W product lines**: at end-FY11, 308 products offering portion and calorie control (single-serve meals and entrees with <450 cal., snacks <150 cal.), 430 products offering dietary variety (whole grains, beans, vegetables, nuts and seeds), 200 products with healthy heart attributes (based on US federal standards). In FY11, 80% of new product introductions strategically fit within these three focus areas. Many of the products are marketed under the Healthy Choice portfolio. **Reformulating its product portfolio**: CAG grew its total whole grains portfolio y-o-y by more than 13% in FY11 (i.e. whole grain flours for its own brands and for Consumer Foods). In 2009, the company announced a pledge to reduce salt across its Consumer Foods portfolio by 20% (i.e. 10mn lb.) by the end of 2015. Actions are also being taken on trans fats, saturated fats and sugars. **Marketing**: restrictions on advertising primarily directed to children under 6, restrictions on the use of celebrities and movie tie-ins for under 12s, ban on in-school advertising for pre-school and kindergarten, and support for the updated 2011 CFBAI nutrition criteria. A hundred percent of its children's advertising is focused on three products that meet its nutritional guidelines: canned pasta, frozen meals and peanut butter.

Near-term, a strong balance sheet, ample free cash flow and realistic growth objectives provide management with flexibility to enhance shareholder returns despite a difficult market.

Table 50: ConAgra Foods, Inc. - Key data

Analyst's Name	Spillane,Bryan		
Analyst's Email Id.	bryan.spillane@baml.com		
Analyst's Phone No.	+1 646 855 1979		
	2011	2012E	2013E
Revenues	12,303	13,281	13,841
Operating Profit	1,311	1,275	1,360
Operating Margin	10.7%	9.6%	9.8%
Y-o-Y Growth	0.8%	-2.8%	6.7%
Net Profit	817	736	796
Net Margin	6.6%	5.5%	5.7%
Y-o-Y Growth	12.6%	-9.9%	8.1%
EBIT	1,311	1,275	1,360
EBIT Margin	10.7%	9.6%	9.8%
EBITDA	1,679	1,653	1,748
EBITDA Margin	13.7%	12.4%	12.6%
Operating Cash Flow	1,352.3	1,029.4	1,233.5
Capex	466.2	290.3	491.4
Free Cash Flow	886.1	739.1	742.1
Net Debt/Equity	48.0	40.7	33.3

Source: BofA Merrill Lynch Global Research estimates

Danone: multi-pronged H&W strategy focused on nutrition

Danone is a leading global food company focused on nutrition. The group is the global leader in fresh dairy products, the global number two in infant nutrition and bottled water and a strong regional player in medical nutrition (Europe). Danone's brand portfolio includes internationally well-known names such as Danone, Dannon (US), Evian and Volvic, as well as strong regional brands.

Danone (medium FO exposure) has a multi-fold health and wellness strategy, including **H&W product lines**: a) products complying with regulatory nutritional standards or the Danone Nutrition Book (eg. yogurt, fermented milk, soft white cheese, mineral and bottled water, fruit-based products without added sugar, smoothies; b) products meeting special dietary and nutrition needs (e.g. baby nutrition, certain fresh dairy products, dietary supplements; c) products providing functional benefits for consumers with physiological and metabolic conditions such as high cholesterol, cow's milk allergies, Alzheimers; **Analysing the nutritional value of products** not subject to related regulatory requirements (83% of group sales, 79% of which were analysed via the Nutriprogress programme). The 2010 rate of compliance with internal nutritional standards reached 63% for dairy products and 93% for complementary foods for babies; **Labelling**: all Danone products provide nutrition information per 100 grams and/or per serving. In the EU, dairy products and beverages also provide the contribution per serving to the Guideline Daily Amounts (GDA) for calories and seven nutrients; **Responsible marketing practices**, includes complying with the ICC Code for Responsible Food and (non-alcoholic) Beverages Marketing and the self-regulation of advertising to children under 12 in the EU, US and Brazil.

Table 51: Danone (BSN) - Key data

Analyst's Name	Waldschmidt,Robert		
Analyst's Email Id.	robert.waldschmidt@baml.com		
Analyst's Phone No.	+44 20 7996 4412		
	2011	2012E	2013E
Revenues	19,318	21,088	22,460
Operating Profit	2,729	3,067	3,387
Operating Margin	14.1%	14.5%	15.1%
Y-o-Y Growth	9.3%	12.4%	10.4%
Net Profit	1,671	1,912	2,183
Net Margin	8.6%	9.1%	9.7%
Y-o-Y Growth	-10.7%	14.5%	14.1%
EBIT	2,729	3,067	3,387
EBIT Margin	14.1%	14.5%	15.1%
EBITDA	3,366	3,821	4,190
EBITDA Margin	17.4%	18.1%	18.7%
Operating Cash Flow	2,605.2	2,962.8	3,064.4
Capex	885.0	960.5	957.6
Free Cash Flow	1,720.2	2,002.3	2,106.8
Net Debt/Equity	65.6	52.5	39.5

Source: BofA Merrill Lynch Global Research estimates

Product information services and healthy eating educational programs (labelling, website, brochures, teaching kits, events, etc.) and promoting physical exercise in partnership with stakeholders. **R&D via Danone Institutes**, independent not-for-profit organisations working on the links between food, nutrition and health (18 institutes comprising 250 researchers, physicians and dieticians). **Improved reporting on KPIs** across health and wellness issues for 12 countries representing over 70% of the group's total revenue.

Near-term, we forecast high-single-digit organic sales growth and an EPS CAGR of 11% for 2012-15E. Volume growth should continue due to exposure to healthier categories, innovation, low penetration rates and emerging markets (51% of 2011 sales). Cost pressures appear manageable (mid single digits in 2012) and better organic growth and Unimilk synergies could provide upside to guidance for flat margins in 2012. Danone should deploy strong cash flow into bolt-on M&A or possible buybacks, bolstering EPS growth.

Dole Foods: leader in fresh produce

Table 52: Dole Foods - Key data

Analyst's Name	Oksenhendler,Ryan		
Analyst's Email Id.	ryan.oksenhendler@baml.com		
Analyst's Phone No.	+1 646 855 5895		
	2011	2012E	2013E
Revenues	7,224	7,317	7,514
Operating Profit	277	250	274
Operating Margin	3.8%	3.4%	3.7%
Y-o-Y Growth	43.7%	-9.7%	9.6%
Net Profit	127	115	137
Net Margin	1.8%	1.6%	1.8%
Y-o-Y Growth	-475.5%	-9.6%	19.4%
EBIT	277	250	274
EBIT Margin	3.8%	3.4%	3.7%
EBITDA	390	362	386
EBITDA Margin	5.4%	5.0%	5.1%
Operating Cash Flow	128.3	134.2	228.2
Capex	100.0	100.0	100.0
Free Cash Flow	28.3	34.2	128.2
Net Debt/Equity	152.9	133.1	107.1

Source: BofA Merrill Lynch Global Research estimates

Dole Foods is the world's leading producer, marketer, and distributor of fresh fruit and vegetables with about US$7bn of sales. The company operates three business segments: Fresh Fruit (70% of sales), selling bananas, pineapples, and other fruits; Fresh Vegetables (15% of sales), selling fresh packaged vegetables and salads; and Packaged Foods (15% of sales), selling canned pineapple, fruit bowls, juices, and frozen fruit.

Dole (high FO exposure) has a multi-fold health and wellness strategy: **H&W product lines**: the world's largest fresh produce company including healthy fresh fruit (bananas, pineapple, Chilean winter fruit, grapes, apples, pears, stonefruit, kiwi, tropical fruit) and vegetables; value-added vegetables and salads (packaged salads, introduction of FRUIT BOWLS® in 100% juice, fruit in plastic jars); fresh-packed vegetables (lettuce, celery, cauliflower, broccoli and strawberries). **Nutrition education** to communicate to the public the health benefits of eating a diet rich in fruits and vegetables. This includes the Dole Nutrition Institute, Dole Nutrition Research Laboratory (eight universities collaborating with Dole R&D) and Dole Nutrition Handbook. Dole is also a founding member of the National 5 A Day for Better Health Program and is an industry leader in children's nutrition education.

We expect the shares to underperform the Food group over the next several months, as we see downside risk to estimates because banana prices remain weak due to excess supply from Latin America. Upside risks are: 1) better than expected banana profits, 2) higher than expected top line growth in the packaged salad business, 3) an increase in input costs (i.e., diesel and linerboard), 4) greater distribution of new products in the Packaged Food segment, and 5) faster-than-expected pay-down of debt or the sale of non-core assets.

Table 53: General Mills Inc - Key data

Analyst's Name	Spillane,Bryan		
Analyst's Email Id.	bryan.spillane@baml.com		
Analyst's Phone No.	+1 646 855 1979		
	2011	2012E	2013E
Revenues	14,880	16,674	17,503
Operating Profit	2,763	2,831	3,055
Operating Margin	17.9%	16.5%	16.9%
Y-o-Y Growth	0.6%	2.5%	7.9%
Net Profit	1,793	1,627	1,810
Net Margin	12.0%	9.8%	10.3%
Y-o-Y Growth	17.3%	-9.2%	11.2%
EBIT	2,763	2,831	3,055
EBIT Margin	18.6%	17.0%	17.5%
EBITDA	3,235	3,382	3,634
EBITDA Margin	21.7%	20.3%	20.8%
Operating Cash Flow	1,526.8	1,554.1	2,388.6
Capex	648.8	499.0	717.6
Free Cash Flow	878.0	1,055.1	1,670.9
Net Debt/Equity	105.1	91.4	80.4

Source: BofA Merrill Lynch Global Research estimates

General Mills: pushing nutrition at the breakfast table

General Mills is the world's 9th-largest producer and marketer of packaged food and the 5th-largest in the US. The company's 13 divisions compete in over 20 food categories, supplying products to all manner of retailers along with food distributors, restaurants, bakeries and vending machine operators.

GIS (medium FO exposure) has a multi-fold health and wellness strategy: **H&W product lines**: its cereals are the No.1 source of whole grain at breakfast in the US (at least 9g of whole grain per serving for Big G cereals, 38mn servings per day). Whole grains are nutrient-dense and have been linked to healthier body weights and may reduce the risk of heart disease. They have significant development potential given that an estimated 95% of Americans are not eating enough whole grain; all of CPW's global brands (GIS's JV with Nestlé) have at least 8g of whole grain per serving; and it has 500 US retail products with <100 cal/serving and 800 with <150. **Reformulation**: in 2011, 24.6% of US retail sales comprised products with improved nutrition profiles (as measured by the company's internal health metric) with the biggest gains coming from reducing trans fat (26%) and sodium (26%), followed by adding vitamins and minerals (19%) and increasing whole grain (12%); from FY 2005 to the end of fiscal 2011, 64% of GIS's US retail product sales volume had been nutritionally improved (vs. 16% in FY05 and 45% in FY09); all of its "Big G" kid cereals are now at 10g of sugar or less per serving (vs. 12g+ a few years ago) and GSI is targeting single digits for all of them; other targets include removing trans fat from all products (83% of US retail sales volume at end-FY11 had none) and reducing sodium by 20%, on average, for its top 10 product categories by 2015; from FY04-FY11, spending on H&W increased by 75%. **Labelling**: including the voluntary adoption of "Nutrition Keys", front-of-pack per cup information for Big G cereals on calories, saturated fat, sodium and sugar, and two optional icons that represent "nutrients to encourage"; **Marketing**: child marketing guidelines for under 12s were strengthened in July 2011 via the US CFBAI standard.

Near-term, General Mills continues to exhibit the strongest operating momentum in the group despite a difficult and volatile macro environment, and therefore should trade at a premium multiple to the group, in our view.

Table 54: H.J. Heinz Company - Key data

Analyst's Name	Spillane,Bryan		
Analyst's Email Id.	bryan.spillane@baml.com		
Analyst's Phone No.	+1 646 855 1979		
	2012	2013E	2014E
Revenues	11,649	11,870	12,224
Operating Profit	1,675	1,754	1,861
Operating Margin	14.4%	14.8%	15.2%
Y-o-Y Growth	1.0%	4.7%	6.1%
Net Profit	923	1,130	1,211
Net Margin	7.9%	9.5%	9.9%
Y-o-Y Growth	-6.7%	22.4%	7.1%
EBIT	1,675	1,754	1,861
EBIT Margin	14.4%	14.8%	15.2%
EBITDA	2,002	2,054	2,161
EBITDA Margin	17.2%	17.3%	17.7%
Operating Cash Flow	1,322.5	1,435.8	1,447.4
Capex	384.3	309.4	318.6
Free Cash Flow	938.2	1,126.5	1,128.8
Net Debt/Equity	127.2	97.0	74.3

Source: BofA Merrill Lynch Global Research estimates

Heinz: healthy ingredients

Heinz (HNZ) manufactures and markets food products worldwide with over US$10bn in sales. Products include Heinz-brand ketchup and other condiments, diet foods (Weight Watchers Smart Ones), frozen potatoes and snacks (Ore-Ida Bagel Bites). The company also operates in the foodservice channel in the US. In Europe the company also produces soups, beans, pasta and infant foods. Heinz has a leading market share in most core businesses.

Heinz (medium FO exposure) has a multi-fold health and wellness strategy including: **H&W product portfolio**: a majority of its portfolio is centred on tomato-based foods, beans, soups, and other inherently healthy products; wholesome Infant/Nutrition products (world #5 baby food manufacturer including #1/2 positions in Australia, Canada, China, Italy and UK); a leader in the nutritional/weight management category (with Weight Watchers Smart Ones and Weight Watchers from Heinz-branded meals, snacks and desserts); **Reformulation** to improve the attributes of its portfolio through its Global Nutrition Council, Global Health & Wellness Taskforce of internal advisory groups, Better for You platform, and nutrition criteria for product development based on dietary guidance from the government and/or recognised NGOs (i.e. per serving targets for total fat, saturated fat and added sugars and 100 gram targets for trans fatty acids and sodium). Measures include Heinz North America targeting 100% of total new product innovations meeting strict criteria for healthy nutrition innovation since 2011 (e.g. over half of product reformulations in the US in 2010 included sodium reductions and the addition of whole grains). It is also launching a database application to track and report global progress in sodium reduction, fat/calorie reduction, trans fat elimination and other areas; and **Funding** non-profit programs promoting health, nutrition and wellbeing, including the Heinz Micronutrient Campaign.

Its premium multiple is supported by HNZ's exposure to faster-growing geographies and 3.5% dividend yield. We do not expect its valuation premium to expand, thus earnings upside is needed to drive the stock higher.

Table 55: Kellogg Co - Key data

Analyst's Name	Spillane,Bryan		
Analyst's Email Id.	bryan.spillane@baml.com		
Analyst's Phone No.	+1 646 855 1979		
	2011	2012E	2013E
Revenues	13,198	13,133	13,491
Operating Profit	1,976	1,894	1,987
Operating Margin	15.0%	14.4%	14.7%
Y-o-Y Growth	-0.7%	-4.1%	4.9%
Net Profit	1,231	1,195	1,235
Net Margin	9.3%	9.1%	9.2%
Y-o-Y Growth	-1.3%	-2.9%	3.4%
EBIT	1,976	1,894	1,987
EBIT Margin	15.0%	14.4%	14.7%
EBITDA	2,345	2,307	2,414
EBITDA Margin	17.8%	17.6%	17.9%
Operating Cash Flow	1,595.0	2,165.5	1,739.6
Capex	594.0	525.3	539.6
Free Cash Flow	1,001.0	1,640.2	1,200.0
Net Debt/Equity	303.0	451.6	345.2

Source: BofA Merrill Lynch Global Research estimates

Kellogg's: dietary fibre and whole grains

Kellogg's is the global leader in breakfast cereal, as well as a leader in categories such as cookies, crackers, cereal bars and toaster pastries. It is a focused organization with 82% of sales coming from three businesses: North American retail channel snacks (30%), International cereal (28%) and North American retail channel cereal (24%). Over 60% of total sales are in the US, but the company has a growing presence in Europe, Latin America and Asia/Pacific.

K (medium FO exposure) has a multi-fold health and wellness strategy including: **H&W product portfolio**: via fibre and whole grains in Morning Foods (cereal, toaster pastries, and health and wellness business marketed under the Kellogg's name) and the Kashi segment (branded cereal, cereal bars, crackers, cookies and fruit snacks). K is the global #1 in ready-to-eat cereals that are at least a good source of fibre and provide at least 8g of whole grains, which remains a long-term driver given that 90% of adults and children in the US, for instance, fail to meet government guidelines for dietary fibre intake. **Reformulating portfolio** by reducing the amount of sodium, sugar and fats or increasing fibre in 200+ products worldwide since 2007. As certain of its cereal products have very few ingredients, further reductions will not come easily, especially with regard to sodium. **Consumer information and labelling**: including transitioning from its current front-of-pack Guideline Daily Amounts (GDAs) format to an updated, industry-wide approach across its entire US product portfolio (eg, K's 2011 "Nutrition Keys" program).

Our overall positive view is predicated on our view that K has plans to address and fix its underlying issues (market share, better hit rates on new products, supply chains), which should start to be realized in FY12.

Kerry Group: I&F supplier - key to product reformulation

Table 56: Kerry Group plc - Key data

Analyst's Name	Oh,Jacklyn		
Analyst's Email Id.	jacklyn.oh@baml.com		
Analyst's Phone No.	+44 20 7996 1222		
	2011	2012E	2013E
Revenues	5,302	5,841	6,114
Operating Profit	479	503	550
Operating Margin	9.0%	8.6%	9.0%
Y-o-Y Growth	5.7%	4.9%	9.4%
Net Profit	361	371	420
Net Margin	6.8%	6.4%	6.9%
Y-o-Y Growth	11.3%	3.0%	13.1%
EBIT	479	503	550
EBIT Margin	9.0%	8.6%	9.0%
EBITDA	580	621	674
EBITDA Margin	10.9%	10.6%	11.0%
Operating Cash Flow	424.3	465.3	518.2
Capex	174.0	175.2	201.8
Free Cash Flow	250.3	290.1	316.4
Net Debt/Equity	74.3	53.2	36.0

Source: BofA Merrill Lynch Global Research estimates

Kerry is the world's largest ingredients and flavours company, providing a broad range of integrated solutions for the food, beverage and pharma industries. The group is also one of the largest suppliers of chilled foods in the UK and Ireland.

Kerry's (low FO exposure) health and wellness strategy is focused on its role in **product reformulation demand** for major F&B companies. With demand for reduced-fat, lower-sodium and clean label foods rising, food producers are looking to Kerry as their broad I&F portfolio allows the group to take a holistic approach to reformulation (pulling all possible levers – flavours, textures, ingredients), unlike its specialist peers, which may only have conventional flavouring methods at their disposal. Kerry also works with its customers to ensure taste is not compromised after reformulating, e.g. by keeping the taste and feel of an ice cream product unchanged after reducing its milk content.

As the largest I&F supplier, Kerry is well positioned to benefit from the trend of increasing F&B manufacturer outsourcing, as it can offer the broadest portfolio, along with one of the widest geographical footprints. The group can also capitalise on customers' growth to expand in EMs, a key focus for most F&B producers. Rising demand for packaged food, underpinned by rising incomes and urbanisation, will also drive demand for Kerry's I&F solutions.

H&W product portfolio: the group is the global market leader in Savoury & Dairy (e.g. cheese and meat flavourings, culinary bases), Cereal & Sweet (e.g. cereal clusters, yoghurt compounds), and Proteins. Its strategy is to focus on a select portion of the €20bn added-value chilled foods market, in particular the 'Kerry Drive' categories of cooked meats, meat snacking, cheese, pastry and chilled ready meals and the 'Kerry Nurture' categories of sausages, rashers, spreads and ready-to-cook meals.

Near-term, we view Kerry as an attractive opportunity in a fully valued consumer sector. As the largest ingredients and flavours supplier in the industry, Kerry is well positioned to grow market share in this fragmented sector. We also see scope for steady trading margin expansion of 30bps p.a. We expect Kerry to deliver 10.4% EPS growth p.a. over 2011-14E, above the consumer staples average of 9% and the flavours and fragrances average of 5-8%.

Kraft Foods: broad H&W focus

Kraft is the largest US food manufacturer and second-largest in the world behind Nestlé. It has the most diverse product portfolio of the US packaged food manufacturers, competing in over 30 different major categories. The company also has a large international presence with operations in over 60 countries.

KFT (medium FO exposure) has a multi-fold health and wellness strategy including: **Product portfolio**, with 30% of its portfolio offering consumers "better-for-you" choices; **Improving the attributes of its portfolio** with a focus on foods with less fat, sodium, sugar and calories – as well as on more beneficial ingredients, such as whole grains, fibre, healthier oils and micronutrients. Since 2005, it has reformulated or launched more than 5,000 better-for-you products globally; **R&D**, including in partnership with stakeholders on health and wellness product and technology development; **Labelling** including providing nutrition labelling on all products in all markets worldwide (even when this is not required) and front-of-pack labelling based on the GDAs, which delivers meaningful information at a glance and fits local needs; **Advertising** responsibly to children, including no advertising to children under age six; only advertising better-for-you products for children aged 6 to 11; only advertising products that meet specific nutrition criteria to children under 12s; and no in-school advertising; and **Promoting healthy lifestyles** via support for initiatives to educate consumers on nutrition and physical activity, including the first healthy lifestyle program designed specifically for Latino families in the US.

We view shares in Kraft as an attractive investment because we believe the current share price offers a compelling entry point for both the high-growth snack company (Mondelez) and the stable-return grocery company (Kraft Foods).

Table 57: Kraft Foods Inc. - Key data

Analyst's Name	Spillane,Bryan		
Analyst's Email Id.	bryan.spillane@baml.com		
Analyst's Phone No.	+1 646 855 1979		
	2011	2012E	2013E
Revenues	54,366	54,902	58,012
Operating Profit	7,218	7,931	8,571
Operating Margin	13.3%	14.4%	14.8%
Y-o-Y Growth	9.6%	9.9%	8.1%
Net Profit	3,528	4,292	5,021
Net Margin	6.5%	7.8%	8.7%
Y-o-Y Growth	-14.2%	21.6%	17.0%
EBIT	7,218	7,931	8,571
EBIT Margin	13.3%	14.4%	14.8%
EBITDA	8,703	9,401	10,079
EBITDA Margin	16.0%	17.1%	17.4%
Operating Cash Flow	4,520.0	5,047.2	7,057.5
Capex	1,771.0	1,839.2	1,827.4
Free Cash Flow	2,749.0	3,208.0	5,230.2
Net Debt/Equity	70.9	59.6	47.3

Source: BofA Merrill Lynch Global Research estimates

Nestlé: multi-fold health and wellness approach

Nestlé is the world's leading food manufacturer with activities in coffee, bottled water, milk products and dietetics, prepared dishes and pet food, chocolate & confectionery and pharmaceuticals. The company holds a 30% stake in L'Oreal and has JV agreements with several companies.

Nestlé (medium FO exposure) has a multi-fold health and wellness strategy including: a **Nutrition, Health and Wellness strategy** focused on people with specific nutritional needs and those on low incomes, and guided by the Nestlé Nutrition Council (internationally recognised experts, chaired by EVP Werner Bauer) that meets regularly with management to consider key topics in nutrition relevant to Nestlé's business interests. **H&W product portfolio**: via Nestlé Nutrition (infant nutrition represents the overwhelming majority of the division's sales followed by health care nutrition, weight management and performance nutrition) and Nestlé Health Science (new market between food and pharma), and via the rest of its Food and Beverages business. **Nutritional profiling**: CHF28.7bn of products (c.70% of products were assessed against its Nutritional Foundation profiling criteria in 2011, with 74.1% meeting or exceeding the criteria. **Reformulating products**: 31,000 products have been reformulated in the past 5Y, including 5,066 in 2011, resulting in nutritional improvement – 1,215 to reduce sodium, sugars, trans-fatty acids, total fat or artificial colours, and 3,851 to improve essential nutrients or nutritious ingredients. A global Recipe Management System and database is also being rolled out to more accurately track a wide variety of nutrition and health specifics; 60/40+ testing process to balance taste and nutritional value. **Labelling**: in 2011, CHF21.9bn worth of products had specific portion guidance, the Nestlé Nutritional Compass was

Table 58: Nestle SA - Registered - Key data

Analyst's Name	Waldschmidt,Robert		
Analyst's Email Id.	robert.waldschmidt@baml.com		
Analyst's Phone No.	+44 20 7996 4412		
	2011	2012E	2013E
Revenues	83,642	90,577	98,432
Operating Profit	12,471	13,699	15,199
Operating Margin	14.9%	15.1%	15.4%
Y-o-Y Growth	-67.9%	9.8%	10.9%
Net Profit	9,487	10,400	11,396
Net Margin	11.3%	11.5%	11.6%
Y-o-Y Growth	-72.3%	9.6%	9.6%
EBIT	12,471	13,699	15,199
EBIT Margin	14.9%	15.1%	15.4%
EBITDA	15,396	16,910	18,658
EBITDA Margin	18.4%	18.7%	19.0%
Operating Cash Flow	9,854.0	13,956.6	14,859.5
Capex	4,779.0	5,126.3	5,560.0
Free Cash Flow	5,075.0	8,830.3	9,299.5
Net Debt/Equity	17.5	12.7	24.5

Source: BofA Merrill Lynch Global Research estimates

included on 98% of product packaging, and % GDA indication for energy features on the front of pack of 98.9% of products in Europe; A Portion Guidance Framework was developed in 2010 and product- or pack-related guidance was applied to products with sales >CHF21.9bn at end-2011. **Responsible marketing** including further strengthening of its Policy on Marketing and Communication to Children in 2011. **Weight Management** via the global Jenny Craig business (weight loss, weight management, and nutrition).

Near-term, Nestlé's scale and spread enable it to weather most headwinds and deliver mid-single-digit organic sales growth. After a strong performance since the 1H11 results, the shares now offer limited upside, in our view. We expect lower input cost pressures to be reinvested in A&P to support slowing organic sales growth, limiting scope for EPS upgrades. We expect the shares to be stuck in a trading range as slower near-term growth is offset by the dividend yield and the group's long-term, defensive growth prospects.

PepsiCo, Inc: growing healthy products

Table 59: PepsiCo, Inc. - Key data

Analyst's Name	Spillane,Bryan		
Analyst's Email Id.	bryan.spillane@baml.com		
Analyst's Phone No.	+1 646 855 1979		
	2011	2012E	2013E
Revenues	66,504	67,056	69,709
Operating Profit	10,477	9,699	10,297
Operating Margin	15.8%	14.5%	14.8%
Y-o-Y Growth	7.2%	-7.4%	6.2%
Net Profit	6,438	6,340	6,769
Net Margin	9.7%	9.5%	9.7%
Y-o-Y Growth	1.9%	-1.5%	6.8%
EBIT	10,477	9,699	10,297
EBIT Margin	15.8%	14.5%	14.8%
EBITDA	13,214	12,357	13,174
EBITDA Margin	19.9%	18.4%	18.9%
Operating Cash Flow	8,944.0	9,399.3	9,584.9
Capex	3,339.0	3,041.2	3,059.1
Free Cash Flow	5,605.0	6,358.1	6,525.7
Net Debt/Equity	108.0	96.9	78.3

Source: BofA Merrill Lynch Global Research estimates

PepsiCo, a global snack and beverage company, manufactures and markets salty and convenient snacks, carbonated and non-carbonated beverages and foods. Divisions were restated in March 2008 to include Pepsi Americas Foods (including Frito-Lay), Pepsi Americas Beverages and Pepsi Int'l. Key exposures include the UK, Mexico, India and China. Brands include Pepsi Cola, Mountain Dew, Gatorade, Tropicana, Frito-Lay, Quaker, SoBe and Aquafina.

Pepsi (medium FO exposure) has a multi-fold health and wellness strategy, including: **H&W product portfolio**: c.US$13bn of the company's sales come from healthy or functional products. Pepsi has committed to growing this part of its business to US$30bn by 2020. As part of this commitment, it has created the PepsiCo Global Nutrition Group (as a subset of Snacks & Beverage) to accelerate the growth of its nutrition business and capture a larger share of the US$500bn addressable H&W consumer packaged goods market. In 2011, GNG saw 9% net revenue growth (ex-acquisitions and divestitures). **Reformulation**: for important global brands in key countries, it aims to reduce added sugar per serving for beverages by 25% by 2020 (vs. 2006 baseline), saturated fat per serving in food by 15% by 2020 (vs. 2006 baseline), trans fats (nearly eliminated from US portfolio and many global products), and sodium per serving in food by 25% by 2015 (vs. 2006 baseline). It is also looking to increase the amount of whole grains, fruit, vegetables, nuts, seeds and low-fat dairy in its global product portfolio; **Labelling**: complies with all legally required nutrition labelling; 2012 target if basic nutritional information is made available for all food and beverage products in key markets, and working toward displaying calorie or energy counts on the fronts of packages; and **Responsible marketing**: joined the International Food & Beverage Alliance abd adopted a global policy consistent with its policy; science-based nutritional criteria for advertising to children under 12; and from 2012, no longer offers full-sugar soft drinks directly to primary or secondary schools for sale to students worldwide.

Our near-term view is that the current valuation is not pricing in a turnaround and that PEP will respond positively to a concerted effort (marketing and management energy) to reaccelerate growth in the core business.

Table 60: Seneca Foods Corporation - Key data

Analyst's Name	Spillane,Bryan		
Analyst's Email Id.	bryan.spillane@baml.com		
Analyst's Phone No.	+1 646 855 1979		
	2011	2012E	2013E
Revenues	1,195	1,267	1,392
Operating Profit	33	23	51
Operating Margin	2.7%	1.8%	3.7%
Y-o-Y Growth	-61.0%	-29.8%	121.9%
Net Profit	17	11	25
Net Margin	1.4%	0.8%	1.8%
Y-o-Y Growth	-57.3%	-36.1%	136.1%
EBIT	33	23	51
EBIT Margin	2.7%	1.8%	3.7%
EBITDA	55	45	73
EBITDA Margin	4.6%	3.6%	5.3%
Operating Cash Flow	17.0	36.0	22.4
Capex	19.5	19.4	21.4
Free Cash Flow	(2.5)	16.6	1.1
Net Debt/Equity	64.4	57.4	53.1

Source: BofA Merrill Lynch Global Research estimates

Seneca Foods Corporation: canned fruit and veg producer

Seneca Foods Corporation produces and distributes processed fruits and vegetables, frozen vegetables, and other food products in the US. The company's products include canned, frozen, and bottled produce and snack chips that are sold under private label, as well as national and regional brands that it owns or licenses, including Seneca, Libby's, Aunt Nellie's Farm Kitchen, Stokely's, Read, and Diamond A. It packs Green Giant, Le Sueur, and other brands of canned vegetables.

Seneca (high FO exposure) has a health and wellness strategy focused in its **H&W product portfolio**: the company is one of the world's leading producers of canned fruits and vegetables (a US$4.8bn market), which are linked to lowered risk of heart disease, diabetes, certain cancers, and obesity (and compare favourably with, or even exceed, the nutritional profile of their fresh counterparts). In the US, it supplies the full food distribution channels spectrum including retail grocery, foodservice, industrial, and other food processors, including General Mills under an alliance agreement. It has leading market shares in the retail private label, foodservice, and export canned fruit and vegetable markets, and holds the No.3 position in branded canned fruits and vegetables. Seneca also supplies frozen fruit and vegetable products to private label and foodservice accounts, as well as to GMOL. Finally, Seneca produces and sells cereal and snack chip products to food retailers, restaurants and (as ingredients) to other food processors.

We continue to expect the stock to underperform in the near term as the industry keeps working though its inventory. Upside risks to our PO are better-than-expected volumes as consumers trade into and down to value-oriented food, such as canned fruits and vegetables, and lower-than-expected input costs.

Table 61: Unilever NV - Key data

Analyst's Name	Waldschmidt,Robert		
Analyst's Email Id.	robert.waldschmidt@baml.com		
Analyst's Phone No.	+44 20 7996 4412		
	2011	2012E	2013E
Revenues	46,467	50,766	53,265
Operating Profit	6,433	6,779	7,342
Operating Margin	13.8%	13.4%	13.8%
Y-o-Y Growth	1.5%	5.4%	8.3%
Net Profit	4,252	4,392	4,720
Net Margin	9.2%	8.7%	8.9%
Y-o-Y Growth	0.2%	3.3%	7.5%
EBIT	6,433	6,779	7,342
EBIT Margin	13.8%	13.4%	13.8%
EBITDA	7,462	8,020	8,635
EBITDA Margin	16.1%	15.8%	16.2%
Operating Cash Flow	5,165.0	5,589.0	5,854.7
Capex	2,099.0	2,273.4	2,255.2
Free Cash Flow	3,066.0	3,315.7	3,599.5
Net Debt/Equity	68.6	63.7	55.1

Source: BofA Merrill Lynch Global Research estimates

Unilever: 'Sustainable Living Plan'

Unilever is one of the world's leading companies in food manufacturing and in household products and personal care. The group's activities cover a number of categories including detergents, deodorants, hair care, ice cream, frozen food, spreads and culinary. Unilever operates a range of global and regional brands including Dove, Axe, Ben & Jerry's, Cif and Domestos throughout the developed and developing world.

Unilever (medium FO exposure) has a multi-fold health and wellness strategy which is set out in its Unilever Sustainable Living Plan, including: **H&W product portfolio**: food is c.30% of sales and all main brands offer full fat and low fat, sweetened and unsweetened variants; and increasingly developing new products that have clear and positive health benefits (i.e. Knorr Vie, Becel / Flora.pro.activ shots); **Reformulation**: the entire range of products has been assessed against a nutritional profiling model based on WHO and national guidelines to develop action plans for enhancing the nutritional profile of its portfolio (44% of products met standards at end-2010; target of 40% of portfolio meeting highest globally recognised nutritional standards by 2020 (vs. 20% in 2010); minimising the use of salt (c.78% of its global portfolio met the interim target of 6g/day at end-2010; 5g/day target between 2015 and 2020, depending on the country), saturated fat (2012: all spreads will contain <33% saturated fat as a proportion of total fat), trans fat (2012: trans fat originating from partially hydrogenated vegetable oil removed from all products), sugar (2012-20 reduction targets for ready-to-drink teas, 2014: 100% of children's ice creams will contain <110 calories/portion (vs. 60% by 2012)). **Labelling**: all products in the EU and NAm provide full nutritional information and this will be extended to all global products by 2015 (energy per portion on the front of pack plus eight key nutrients and % GDA or % Daily values for five nutrients on the back of pack); Choices stamp for communicating healthy product options (governed by an international independent foundation and country-level foundations, stamp can be found on some 5,500 products).

Responsible marketing: Global Principles for Responsible Food and Beverage Marketing provides guidance to brand managers, advertising to children under 6 years old is prohibited, marketing to children between 6-11 is restricted for all products (excluding those meeting its Nutrition Criteria), no use of cartoon characters and celebrities on packaging, labelling and point-of-sale materials, specific guidelines for school education programmes, only use models/actors with a BMI of 18.5-25 in advertising; and Accenture audits of adherence to principles.

Weight management: Slim·Fast (brand of shakes, bars, snacks, packaged meals and dietary supplement foods) as a means of weight loss efficacy.

Near-term, while Unilever is delivering more consistent results, this appears more than amply priced in. We expect Unilever to deliver 2012 results at the bottom of its long-term targets of 4-6% organic sales growth and sustainable margin improvement. A slowing top line limits the scope for EPS upgrades, while 'core' EBIT margins remain well below peers, due to tough competition and high recurring restructuring costs.

2) Food retail

Dollar General Corp: consumer needs in food deserts

Table 62: Dollar General Corporation - Key data

Analyst's Name	Chai,Denise		
Analyst's Email Id.	denise.chai@baml.com		
Analyst's Phone No.	+1 646 855 3988		
	2012	2013E	2014E
Revenues	14,807	16,170	17,621
Operating Profit	1,515	1,690	1,921
Operating Margin	10.2%	10.5%	10.9%
Y-o-Y Growth	17.1%	11.5%	13.7%
Net Profit	819	949	1,098
Net Margin	5.5%	5.9%	6.2%
Y-o-Y Growth	30.4%	15.9%	15.7%
EBIT	1,515	1,690	1,921
EBIT Margin	10.2%	10.5%	10.9%
EBITDA	1,790	1,980	2,226
EBITDA Margin	12.1%	12.2%	12.6%
Operating Cash Flow	1,050.5	1,322.1	1,420.7
Capex	514.9	625.0	600.0
Free Cash Flow	535.6	697.1	820.7
Net Debt/Equity	53.3	44.2	36.4

Source: BofA Merrill Lynch Global Research estimates

Dollar General is the largest US dollar store retailer, with more than 20% market share and estimated 2011 revenues of approximately $15 billion. The company operates nearly 10,000 stores, offering an assortment of everyday items, including highly consumable merchandise, seasonal, home products, and basic apparel.

DG (low FO exposure) is a FO play on tackling food deserts in the U.S.. We believe that DG is uniquely positioned to address food deserts since 70% of its stores are in locations with populations of less than 20,000 and many of its stores are sized to efficiently serve areas with less than 1,500 households. For over 70 years, DG has sought to "serve the under-served", with a particular emphasis on the rural populations. While around 45% of Family Dollar's stores are located in urban areas, a similar proportion of Dollar General's are rural. The company sees an opportunity to use its new DG Plus format, with its expanded cooler doors, to reach food deserts, where no full-line grocery stores are within easy access. Particularly in the Western US, where dollar store penetration is very low, we note the material overlap with both low population density areas (which may not have sufficient critical mass for a full-line grocery store) as well low-income areas. While the nutritional content of some of the traditional convenience foods sold in dollar stores (and elsewhere) is certainly debatable as an answer to a food desert, we note that the increase in cooler doors can help compensate for the lack of produce in DG Plus stores by increasing the availability of frozen vegetables, for example.

Near-term, Dollar General offers a compelling investment opportunity that combines positive industry drivers with ongoing company-specific initiatives to grow revenue and margins. Our earnings growth forecasts are among the highest in the Hardline retail space, and we believe multiple structural drivers are in place to support medium-term growth irrespective of the macro outlook.

The Fresh Market: quality food offerings

The Fresh Market (TFM) is a specialty retailer in the grocery industry with a unique small-store format that focuses on high-quality perishable food and a differentiated customer service strategy. The company operated 100 stores as of the end of 2010 and is located primarily in the Southeast of the US and Florida, with a few locations in the Northeast.

TFM (medium FO exposure) is an H&W FO play on increasing customer demand for healthy, fresh and quality offerings, such as premium perishable and prepared food. Its focus on whole, fresh, natural, organic and unprocessed foods can play a role in promoting healthy eating and minimising the risk of obesity. Growing demand from TFM's generally less price-sensitive consumers has been supported by strong merchandising & promotional programs, a strong private label program (130 new products introduced in F12 with 150 planned for F13), and a differentiated in-store customer experience. Its product offering also ties in with other sustainability trends like demographics (older people are a key market for food-at-home spending by households), environmental concerns, food safety, responsible sourcing, regionally and locally sourced products and sustainable agriculture.

Near-term, we believe that TFM's specialty retailing grocery model will continue to support market share gains in the food retailing space, while providing compelling returns with its high-return economic model.

Table 63: The Fresh Market - Key data

Analyst's Name	Ohmes,Robert		
Analyst's Email Id.	robert.ohmes@baml.com		
Analyst's Phone No.	+1 646 855 0078		
	2012	2013E	2014E
Revenues	1,108	1,328	1,547
Operating Profit	83	105	130
Operating Margin	7.5%	7.9%	8.4%
Y-o-Y Growth	19.0%	27.3%	23.1%
Net Profit	51	65	82
Net Margin	4.6%	4.9%	5.3%
Y-o-Y Growth	995.4%	26.9%	25.0%
EBIT	83	105	130
EBIT Margin	7.5%	7.9%	8.4%
EBITDA	119	150	179
EBITDA Margin	10.8%	11.3%	11.6%
Operating Cash Flow	94.0	115.4	136.7
Capex	88.1	100.0	92.8
Free Cash Flow	5.9	15.4	43.9
Net Debt/Equity	42.0	19.7	(2.2)

Source: BofA Merrill Lynch Global Research estimates

United Natural Foods: natural and organic food

United Natural Foods, Inc. (UNFI) is the largest distributor of natural and organic products in the US. UNFI services over 23,000 customer locations with more than 60,000 natural, organic and specialty food and non-food products. UNFI operates 28 distribution centres throughout the US and Canada, representing about 7.6 million square feet of warehouse space.

UNFI (medium FO exposure) is an H&W FO play on changing at-home eating trends, with growing demand for natural and organic food. Its focus on whole, fresh, natural, organic and unprocessed foods can play a role in promoting healthy eating and minimising the risk of obesity. UNFI has positioned itself as the US leader in the c.US$150bn natural & organics distribution business (i.e. grocer/general merchandise, specialty foods, produce and perishables, frozen foods, personal care items and nutritional supplements). This model supports the ongoing acquisition of new supermarket customers as: 1) crossover consumers continue to step up their purchases of nat/organic foods (5 in 10 households are buying considerably more organic products than last year); 2) more families shift toward crossover status; and 3) dedicated nat/organic customers remain committed to their healthy-eating lifestyles. Its product offering also ties in with other sustainability trends like demographics (older people are a key market for food-at-home spending by households), environmental concerns, food safety, responsible sourcing, regionally and locally sourced products and sustainable agriculture.

Near-term, we believe potential growth will come from new channels, acquisitions, existing customers through SKU and category expansion, competitive advantages from being the largest distributor of natural and organic products and favourable industry trends, which support our strong revenue growth outlook.

Table 64: United Natural Foods, Inc. - Key data

Analyst's Name	Ohmes,Robert		
Analyst's Email Id.	robert.ohmes@baml.com		
Analyst's Phone No.	+1 646 855 0078		
	2011	2012E	2013E
Revenues	4,530	5,213	5,735
Operating Profit	136	162	182
Operating Margin	3.0%	3.1%	3.2%
Y-o-Y Growth	18.3%	19.3%	12.4%
Net Profit	77	96	108
Net Margin	1.7%	1.8%	1.9%
Y-o-Y Growth	12.2%	24.9%	12.6%
EBIT	136	162	182
EBIT Margin	3.0%	3.1%	3.2%
EBITDA	169	200	224
EBITDA Margin	3.7%	3.8%	3.9%
Operating Cash Flow	16.8	57.8	91.7
Capex	45.3	40.0	68.8
Free Cash Flow	(28.5)	17.8	22.9
Net Debt/Equity	16.9	14.6	13.0

Source: BofA Merrill Lynch Global Research estimates

Whole Foods Markets: natural, organic and unprocessed food

Whole Foods Markets, Inc. (WFM) is the largest natural and organics food retailer, with about 300 stores varying in size from 30,000-55,000 square feet. Whole Foods is committed to the promotion of organically grown foods, food safety concerns, and the sustainability of the entire ecosystem.

WFMI (medium FO exposure) is an H&W FO play on changing at-home eating trends, with growing demand for natural and organic food. Its focus on whole, fresh, natural, organic and unprocessed foods can play a role in promoting healthy eating and minimising the risk of obesity. WFM is the world's no.1 operator in the field and organic grocery is c.40% of grocery sales. It is offering an increasing number of "Health Starts Here" products as part of its efforts to encourage healthy eating and all of its stores feature signage on the Aggregate Nutrient Density Index (ranks foods based on nutrient density (vitamins, minerals, phytochemicals and antioxidants) per calorie). Its growth continues to be supported by the attractiveness of WFM's ongoing "value" product introductions, Whole Deal discounts and promotional activities which: 1) broaden WFM's reach with new customers; 2) support increased market share gains from existing customers; and 3) underpin a strong sales outlook. Its product offering also ties in with other sustainability trends like demographics (older people are a key market for food-at-home spending by households), environmental concerns, food safety, responsible sourcing, regionally and locally sourced products and sustainable agriculture.

Near-term, WFMI's valuation is attractive given its broadened growth prospects, lower-risk profile, accelerating square-footage growth, and outlook for improving returns, in our view.

Table 65: Whole Foods Market, Inc. - Key data

Analyst's Name	Ohmes,Robert		
Analyst's Email Id.	robert.ohmes@baml.com		
Analyst's Phone No.	+1 646 855 0078		
	2011	2012E	2013E
Revenues	10,108	11,629	13,083
Operating Profit	548	725	822
Operating Margin	5.4%	6.2%	6.3%
Y-o-Y Growth	25.0%	32.3%	13.4%
Net Profit	343	450	507
Net Margin	3.4%	3.9%	3.9%
Y-o-Y Growth	39.4%	31.4%	12.7%
EBIT	548	725	822
EBIT Margin	5.4%	6.2%	6.3%
EBITDA	835	1,029	1,145
EBITDA Margin	8.3%	8.9%	8.8%
Operating Cash Flow	765.5	796.4	870.0
Capex	398.2	435.0	450.0
Free Cash Flow	367.3	361.4	420.0
Net Debt/Equity	(21.3)	(25.3)	(29.4)

Source: BofA Merrill Lynch Global Research estimates

3) Fast food

Chipotle Mexican Grill: "Food with Integrity" commitment

Chipotle Mexican Grill, Inc. operates over 1,200 fast-casual Mexican restaurants offering freshly made burritos, tacos, burrito bowls and salads. CMG is 100% company-operated and runs average unit volumes of roughly US$2mn. The company operates in 33 US states and DC, Toronto (Canada) and London (UK). CA, OH, TX, CO and IL are the biggest markets, representing 51% of the system.

Chipotle (low FO exposure) is primarily an H&W FO play on the back of its "Food with Integrity" (FWI) commitment – food quality that serves the brands well and fits with consumers' growing H&W concerns. The unprocessed foods on which it focuses should have higher nutritional content than processed foods. There is ongoing potential for greater brand awareness with brand identity being built around the company's FWI theme or culture – including via new growth vehicles, such as an Asian concept, and international expansion.

Near-term, Chipotle is one of the few remaining high-growth restaurant stocks. While the company faces some challenges as it grows larger, it also has numerous appealing attributes, including brand differentiation, sales track record, unit expansion with improving returns, and balance sheet strength. We expect the shares to be rewarded with a premium valuation. The stock also fits our sales leadership industry thesis. High food costs have pressured margins but investor focus is on top-line performance.

Table 66: Chipotle Mexican Grill - Key data

Analyst's Name	Buckley,Joseph		
Analyst's Email Id.	joseph.buckley@baml.com		
Analyst's Phone No.	+1 646 855 2232		
	2011	2012E	2013E
Revenues	2,270	2,762	3,239
Operating Profit	356	460	573
Operating Margin	15.7%	16.7%	17.7%
Y-o-Y Growth	21.2%	29.1%	24.6%
Net Profit	216	278	347
Net Margin	9.5%	10.1%	10.7%
Y-o-Y Growth	20.9%	28.6%	24.9%
EBIT	356	460	573
EBIT Margin	15.7%	16.7%	17.7%
EBITDA	431	539	661
EBITDA Margin	19.0%	19.5%	20.4%
Operating Cash Flow	411.1	413.4	533.8
Capex	151.1	155.0	155.0
Free Cash Flow	259.9	258.4	378.8
Net Debt/Equity	(38.4)	(51.8)	(62.2)

Source: BofA Merrill Lynch Global Research estimates

Table 67: Darden Restaurants Inc. - Key data

Analyst's Name	Buckley,Joseph		
Analyst's Email Id.	joseph.buckley@baml.com		
Analyst's Phone No.	+1 646 855 2232		
	2011	2012E	2013E
Revenues	7,500	8,055	8,710
Operating Profit	741	734	832
Operating Margin	9.9%	9.1%	9.5%
Y-o-Y Growth	16.3%	-1.0%	13.4%
Net Profit	479	474	531
Net Margin	6.4%	5.9%	6.1%
Y-o-Y Growth	17.6%	-1.1%	12.1%
EBIT	741	734	832
EBIT Margin	9.9%	9.1%	9.5%
EBITDA	1,058	1,082	1,206
EBITDA Margin	14.1%	13.4%	13.8%
Operating Cash Flow	894.7	944.4	1,043.5
Capex	547.7	637.5	712.5
Free Cash Flow	347.0	306.9	331.0
Net Debt/Equity	78.6	98.3	101.3

Source: BofA Merrill Lynch Global Research estimates

Darden Restaurants: Seasons 52 – a healthier chain

Darden is the largest casual-dining restaurant company in the world with FY11 revenues of US$7.5bn. DRI's approximately 1,960 restaurants are 100% company-owned and include three large brands – 776 Olive Garden restaurants, 702 Red Lobster and 374 LongHorn Steakhouse units. The company's smaller brands include Capital Grille, Bahama Breeze, Seasons 52 and Eddie V's.

DRI (low FO exposure) is primarily an H&W FO play on the back of its expanding Seasons 52 chain (a 21-unit chain). All Seasons' 52 menu entrées contains fewer than 475 calories and there is an emphasis on fresh, high-quality foods. Seasons 52 also offers mini-desserts with roughly 200-300 calories per offering. In terms of the group's wider H&W strategy, DRI is aiming to improve the nutritional content of its menu offerings (i.e. at Olive Garden, customers can substitute 100% whole grain pasta in any dish; at Red Lobster, they can have seafood prepared over a wood-fire grill or broiled). The group is also examining portion size and children's menus, as well as specific nutrients such as sodium and fat and the inclusion of positive nutrients like lean proteins, fruits and vegetables and whole grains.

Near-term, while DRI has a consistent record of outperforming its casual dining competitors, the degree of outperformance has narrowed recently. But sustained positive same-store sales seem achievable and this should permit Darden to leverage its scale and expand margins. Unit growth is stepping up, especially at LongHorn. Earnings growth may be more capital-intensive than in the past, but targeted EPS growth of 10-15% should be attainable. Valuation should improve as investors grow more comfortable with the new business model.

Table 68: Panera Bread Company - Key data

Analyst's Name	Buckley,Joseph		
Analyst's Email Id.	joseph.buckley@baml.com		
Analyst's Phone No.	+1 646 855 2232		
	2011	2012E	2013E
Revenues	1,822	2,078	2,332
Operating Profit	225	266	302
Operating Margin	12.4%	12.8%	12.9%
Y-o-Y Growth	21.7%	18.2%	13.2%
Net Profit	139	164	186
Net Margin	7.6%	7.9%	8.0%
Y-o-Y Growth	24.3%	17.8%	13.4%
EBIT	225	266	302
EBIT Margin	12.4%	12.8%	12.9%
EBITDA	305	358	408
EBITDA Margin	16.7%	17.2%	17.5%
Operating Cash Flow	152.0	259.9	298.8
Capex	90.0	95.0	95.0
Free Cash Flow	62.0	164.9	203.8
Net Debt/Equity	(17.0)	(11.7)	(20.2)

Source: BofA Merrill Lynch Global Research estimates

Panera Bread Company: Food quality focus

Panera Bread Co. is an upscale fast-casual chain with over 1,300 stores in 40 states. Besides its differentiating fresh-baked bread, menu offerings include made-to-order sandwiches, salads and soups, as well as breakfast items, including new breakfast sandwiches. Panera's system is 58% franchised and 42% company-owned.

Panera (low FO exposure) is primarily an H&W FO play through its emphasis on food quality, which serves the brands well and fits with consumers' growing H&W concerns. Its bakery-cafes feature fresh-baked bread, antibiotic-free chicken, whole grain bread, and select organic and all-natural ingredients, with zero grams of artificial trans fat per serving. Company sales initiatives will remain focused on several fronts, with the continued fine-tuning of the My Panera loyalty program, which was introduced in late 2010 (now including 10.4mn members), higher media spend (projected to be up 27% in 2012) and new products across all dayparts, including innovation from the Panini grills, catering and salads.

Near-term, we believe Panera is one of the best-managed and best-positioned restaurant companies, a leader in the growing quick casual segment of the industry. The company seems capable of achieving its 3-to-5-year 15-20% EPS growth targets. This combination of growth and strong unit-level economics warrants a P/E valuation higher than the company's growth targets, in our view.

Table 69: Companies involved in fighting obesity food and food retail that we do not cover

Company	BBG ticker	Overview
BONDUELLE SCA	BON FP	Produces canned, frozen, and fresh vegetables for distribution in Europe. The company markets its products under the Bonduelle, Cassegrain, and Marie Thomas brand names. Bonduelle is involved in all stages of production, from cutting and cleaning the vegetables to treatment, packaging, and distribution.
DEL MONTE FOODS	DLM US	Produces, distributes, and markets branded and private label food and pet products for the US retail market. The company's products are sold nationwide, in all channels serving retail markets, as well as to the US military, certain export markets, the foodservice industry, and other food processors. In terms of healthy products, it has either the #1 or #2 Food/Mass market share position in Fruit, Vegetables, Tomato and Broth.
PREMIER FOODS	PFD LN	Manufactures a range of branded and proprietary products across many food categories. The company sells to retailers, food service operators, plant bakeries, and food processors in the UK and worldwide. Healthy(ier) brands are said to include: Hovis Breads, Batchelors range (starch-based savoury tastes), Quorn and Cauldron (meat-free sources of protein), Branston (beans), Ambrosia (custards and creamy rice puddings) and Sharwoods, Loyd Grossman, Hartleys, Bisto, Oxo, and Robertsons (meal accompaniments to help consumers to prepare a wide selection of tastes within their daily diets). In March 2012, the company announced that it is to reduce calories across one third of its portfolio by 2014 as part of its latest contribution to the (UK) Public Health Responsibility Deal. In addition, at least 30% of the company's new products will provide consumers with lower-calorie choices.

Source: Bloomberg, company sources

Commercial weight loss, diet management & nutrition

Targeted Nutrition & Behavioural Change

Surveys suggest 42-54% of US adults dieting at any one time

This 42-54% corresponds to up to c.108mn people in 2012 (Source: Gallup, Calorie Control Council, Marketdata). This is up significantly from an estimated 33% in 2004 (Source: Calorie Control Council). Of the dieters, a large proportion (c.60%) were attempting to lose weight, while the remainder were trying to maintain their weight. The typical American dieter now makes four weight loss attempts per year – the highest number in 15 years (Source: Marketdata).

Table 70: BofAML Fighting Obesity (FO) via commercial weight loss, diet management & nutrition

Company	FO exposure
HERBALIFE	High
WEIGHT WATCHERS INT.	High
NESTLE	Medum
DSM	Low
VITAMIN SHOPPE INC	Low

Source: BofA Merrill Lynch Global Research. . * FO exposure = BofAML estimates of current sales derived from fighting obesity-related products, services, technologies and solutions

Commercial weight loss centres growing in popularity

A rising number of dieters are looking to commercial weight loss centres, which combine products and services such as targeted nutrition (e.g. lower-calorie food replacements) and behavioural change (e.g. via classes and clubs) to promote new eating habits and H&W lifestyle choices and change. The US market alone is estimated to be worth more than US$4bn in 2012, with long-term drivers including: online usage, emerging market demand, adoption by governments, B2B and the healthcare sector, and men. The US$30bn vitamin, minerals and supplement (VMS) industry is also an indirect beneficiary of consumer H&W demand.

A number of stocks well placed to benefit from this theme

Many stocks have exposure to weight loss, diet management and nutrition as a means of fighting global obesity through their involvement in areas such as: commercial weight loss centre chains, dietary and weight management supplements, meal replacement products, multi-level marketers that sell weight management products, nutrition, and the VMS industry, among others.

US$4bn+ US commercial weight loss market

US sales from the largest commercial weight loss centre chains and multi-level marketers that sell weight management products, including Weight Watchers, Herbalife, Medifast, Jenny Craig and NutriSystem, are expected to grow 5.5% yoy to US$3.6bn in 2012 (Source: Market Data). Factoring in smaller commercial programmes, the US market is probably worth well over US$4bn. Such organisations combine products and services such as targeted nutrition (e.g. lower calorie food replacements) and behavioural change (e.g. via classes and clubs) to promote new eating habits and H&W lifestyle choices.

50% of adult Americans are dieting

Various surveys and reports estimate that between 42% and 54% of the US adult population is dieting – or up to c.108mn people in 2012 (Source: Gallup, Calorie Control Council, Marketdata).

Recession seeing 70-80% of dieters (trying to) go it alone

Of those currently dieting in the US , an estimated 80% will try to do it themselves, usually with a low-cost, home-based or DIY/self-help plan (Source: Marketdata, Ibisworld). The economic downturn is certainly playing a role as consumers cut back on personal spending. Costs in the commercial weight management sector are largely borne by the consumer, or more specifically women/mothers (who account for up to 90% of take-up). Both Weight Watchers and Nestlé's Jenny Craig have been hit by the downturn. But as and when the economy picks up and unemployment declines, commercial programmes should benefit from renewed consumer spending.

Notoriously fickle market

The weight loss/diet market is notoriously fickle, with silver-bullet-seeking dieters shifting from fad to fad. Indeed, the sector has experienced 50 years of fluctuating sales. Much like fashion trends, the industry's dynamics are impacted by constantly changing new diets, pills, programmes and solutions. The strength or popularity of celebrity endorsers and advertising campaigns – with recent examples including Jennifer Hudson, Mariah Carey and Janet Jackson – is also key, as companies try to convince potential dieters to pay up for commercial weight loss programmes.

Lancet study could offer boost to government take-up

Lancet study shows those enrolled in commercial programme lost 5.1kg by year-end (vs. 2.2kg on standard care). Those completing the full 12M lost an avg. 6.7kg on WTW (vs. 3.3kg on standard care)

To date, studies undertaken on commercial weight management have presented mixed results. However, according to the findings of a study by the UK Medical Research Council published in *The Lancet* in 2011, overweight patients told by their doctors to go to Weight Watchers (WTW) lose around 2x as much weight as people receiving standard weight loss care over 12 months. The study was funded by WTW International but run as an investigator-led trial by the UK's MRC, with all data collection and analysis conducted by an independent research team, which assessed 772 overweight and obese adults in Australia, Germany and Britain. Patients were randomly assigned to receive either 12 months of standard care as usually offered by the primary care team (i.e. their doctor), or given 12 months' free membership for a Weight Watchers group in their neighbourhood. The study is the first randomised controlled trial comparing a commercial weight-loss programme with standard care by family doctors.

Strong long-term growth drivers

Despite short-term challenges posed by the economic downturn, the long-term prospects for the commercial weight loss market look strong as the rise in obesity rates and health care premiums shows no sign of abating. Key market drivers include:

- **Online** – Subscription-based online weight management programmes through mobile apps, etc.

- **Emerging markets** – North America accounts for c.65% of the commercial weight loss industry, followed by Western Europe. But rising affluence, changing lifestyles (diet and physical activity) and obesity levels are making EM consumers a prime target for the industry. Target markets include Eastern Europe, Asia-Pacific, Latin America and China and India.

The most immediate opportunities are in the US as large employers are self-insured and pay health care costs directly

- **B2B partnerships** – With obesity-related costs for employers potentially outweighing those for smoking (cf. section on Costs), compounded by productivity and absenteeism costs, employers are increasingly working with and subsidising commercial weight loss industry programmes for employees. The motivation for such companies is cost, with corporate insurance premiums having risen by an average of 8% p.a. over the past 10 years in the US (rising obesity having played an important role in this). B2B programmes offer executives and HR departments real data on the impact of obesity on healthcare costs, and the benefits of emphasizing weight loss meetings at work mitigate costs. WTW, for instance, is tying up with employers to promote its products and adapting its online systems to the needs of employers. Weight loss programmes at work are currently estimated to be a US$215mn market for the top 3 companies in the US (Source: Marketdata).

Table 71: Total reductions in annual costs (medical and absenteeism) for person by % of body weight lost

Avg. weight loss (%)	25-29.9 BMI	30-34.9 BMI	35.5-39.9 BMI	>40 BMI	All overweight & obese
5%	$60	$100	$110	$160	$90
10%	$160	$200	$250	$320	$190
15%	$240	$300	$370	$480	$290
20%	$320	$400	$500	$640	$390
25%	$400	$510	$620	$790	$490

Source: RTI International. All figures in 2007 dollars

Big Pharma is an opportunity and a potential threat as it seeks FDA et al regulatory approval for obesity drugs – although its primary focus is on obesity-related co-morbidities

- **Health care partnerships** – With obesity now widely accepted as a major driver of health care costs, and obesity-driven diabetes ever more prominent, commercial weight loss companies are partnering with health care companies. For instance, WTW has partnered with Merck to arm doctors with programme information and clinical data to help drive patients who struggle with weight towards WTW's solution. We also note that Amway has added Nutrilite diet supplements to its door-to-door cosmetics and home care offerings.

- **Government take-up** – Assuming further scientific studies like that in *The Lancet* discussed above, commercial programmes could become a component of publicly funded healthcare. In a commentary on the *Lancet* study, researchers from the School of Health and Population Sciences at Britain's Birmingham University said that their cost-effectiveness could make the case for incorporation intuitively appealing – as did the fact that participants learned skills they can use for managing their weight.

- **Men** – With c.90% of services taken up by women, men are a huge untapped opportunity. Companies are increasingly targeting this group with specific programmes and advertising campaigns, such as Weight Watchers taking on its first male spokesperson in 2012, former NBA star Charles Barkley (nicknamed in his playing days as the "The Round Mound of Rebound") as part of its "Lose Like a Man" campaign.

Vitamin, Minerals, Supplement industry

The vitamin, minerals and supplement (VSI) industry is currently estimated to be a $30bn industry. It is a niche industry and is extremely fragmented with the two largest actors GNC and Vitamin Shoppe only holding about 8% market share, with 5% and 3% respectively. Our Retail team sees the industry growing at an annual rate of 6-7% (cf. Vitamin Shoppe, Inc., 14 December 2011) with performance of the industry as a whole being affected by a variety of trends, including health, demographic and lifestyle choices, as well as potential regulatory risks.

Fits in with H&W trends including obesity

Strong VMS sales results demonstrate that consumers often consume health and nutrition products - ranging from vitamins and minerals to nutritional supplements, herbs, sports nutrition formulas, homeopathic remedies, and health and beauty aids - to support a variety of lifestyle needs. In the U.S. alone, more than 150mn people take a dietary supplement every day. Growth drivers are also strong and include the increasing focus on healthy living and preventative health care, rising health care costs, the ageing population and e-commerce.

Commercial weight loss, diet management and nutrition companies & the fight against obesity

We have identified the following companies covered by BofA Merrill Lynch Global Research that have exposure to fighting obesity as a percentage of sales vis-à-vis their involvement in weight loss and nutrition. Although it is difficult to accurately gauge the link between such exposure and share price performance (as many factors outside the scope of this analysis play a role in short- and long-term price development), we still consider fighting obesity exposure an important positive point to track.

Table 72: List of companies covered by BofAML involved in fighting obesity via commercial weight loss, diet management and nutrition

BBG Ticker	Company	Location	BofAML Ticker	Market Cap (US$mn)	FO sub-sector	FO Exposure
DSM NA	DSM	Netherlands	KDSKF	8,055.1	Cmcl. weight mgt, diet, nutrition	Low
HLF US	HERBALIFE	United States	HLF	5,340.4	Cmcl. weight mgt, diet, nutrition	High
NESN VX	NESTLE	Switzerland	NSRGF	187,222.3	Cmcl. weight mgt, diet, nutrition	Medium
VSI US	VITAMIN SHOPPE INC	United States	VSI	1,476.9	Cmcl. weight mgt, diet, nutrition	Low
WTW US	WEIGHT WATCHERS INTL	United States	WTW	3,168.9	Cmcl. weight mgt, diet, nutrition	High

Source: IQ. DataStream, BofA Merrill Lynch Global Research. * FO exposure = BofAML estimates of current sales derived from fighting obesity-related products, services, technologies and solutions

DSM: H&W and food reformulation via Nutrition division

DSM comprises four divisions. Pharma: Fine chemical intermediates for pharma & agro, anti-infectives. Nutrition: Vitamins, caretonoids, UV filters, food specialties. Performance Materials: Resins (coatings and composite), engineering plastics fibers. Polymer Intermediates (Caprolactam and acrylonitrile). It also has an Innovation division which houses biomedical, enzymes, succinic acid.

DSM (low FO exposure) is a fighting obesity play on health & wellness and food reformulation via its Nutrition division (c.52% of group profits). It has a broad portfolio of dietary supplements (13 vitamins, nutritional ingredients, functional ingredients and custom-made nutritional blends) and is a leading player in infant nutrition. It is also a leader in nutritional functional ingredients for the Beverages and Dairy industries, where it plays a role in enhancing taste, texture, quality and nutritional value and reducing salt, sugar and fat. In addition, it is involved in weight management ingredients (Teavigo, Fabuless) and obesity-related co-morbidities (e.g. blood glucose regulation ingredient for type-2 diabetes). DSM recently announced that it has acquired the omega 3 nutritional supplements business, Ocean Nutrition, and further acquisitions could well be forthcoming in the near term. We note that DSM also provides exposure to sustainability megatrends such as under-nutrition, the fight against hidden hunger (iron deficiency), feeding the world and changing diets in EMs, next-gen biofuels and energy efficiency (LEDs, lightweighting in transport).

Near-term, DSM's investment case rests on its positive nutrition and personal care fundamentals, and a strong balance sheet. Chinese competitors' cost inflation, a stronger USD and stricter environmental regulations should ensure that Nutrition margins remain well supported over the mid-term. Equally, current pricing trends in Polymer Intermediates and Performance Materials may not be as bad as the market is already discounting.

Table 73: DSM - Key data

Analyst's Name	Stott,Andrew		
Analyst's Email Id.	andrew.stott@baml.com		
Analyst's Phone No.	+44 20 7996 2180		
	2011	2012E	2013E
Revenues	9,193	9,250	9,561
Operating Profit	866	864	966
Operating Margin	9.4%	9.3%	10.1%
Y-o-Y Growth	15.2%	-0.2%	11.7%
Net Profit	814	604	660
Net Margin	8.9%	6.5%	6.9%
Y-o-Y Growth	60.6%	-25.8%	9.3%
EBIT	866	864	966
EBIT Margin	9.4%	9.3%	10.1%
EBITDA	1,296	1,296	1,408
EBITDA Margin	14.1%	14.0%	14.7%
Operating Cash Flow	882.0	882.2	863.0
Capex	423.0	450.0	480.0
Free Cash Flow	459.0	432.2	383.0
Net Debt/Equity	5.3	5.3	3.6

Source: BofA Merrill Lynch Global Research estimates

Herbalife: global weight management & targeted nutrition

Herbalife is a global network marketing company that sells weight management, nutritional supplement and personal-care products in 79 countries through a network of 2.7 million independent distributors. Approximately 80% of the company's sales are outside the US.

Herbalife (high FO exposure) is a fighting obesity play on global weight management and targeted nutrition. Products include protein shakes, protein snacks, nutrition, energy and fitness supplements and personal care products. The company distributes its products through a network of independent distributors, some of which earn profit on product sales and additional commission from a multi-level marketing (MLM) compensation structure. While concerns have been raised about its MLM business practices, we believe the business model is defensible and meets legal and regulatory standards.

Growth drivers include: increasing per capita volume point penetration via the nutrition club concept, which attracts an increasingly dedicated and loyal following (vol. point penetration for Latino portion of US markets c.11, Korea and Taiwan >7, Brazil 1.3 and China/India <1), global appetite for health in a bottle has never been stronger (c.63% of sales from weight management products and c.23% from targeted nutrition); geographic diversity, which helps insulate Herbalife from risk (rapid EM sales growth incl. Mexico, South & Central America and Asia-Pac, distributor growth and record retention rates); getting consumers to increase their daily use of Herbalife's nutrition and skin products; and innovating its product line (Herbalife 24 product lines for athletes).

Near-term, Herbalife's multi-level marketing model brings with it both risk and opportunity. While visibility is clearly limited and headline risk is meaningful, the model is well suited to developing markets, as HLF generates just 20% of sales in North America. The nutritional club business has been a growth driver in North America and we expect double-digit sales growth again this year. Management has shown itself to be good operators of the model, has returned cash to shareholders, and has generated a strong track record of meeting or beating expectations.

Table 74: Herbalife, Ltd. - Key data

Analyst's Name	Ferrara,Christopher		
Analyst's Email Id.	c.ferrara@baml.com		
Analyst's Phone No.	+1 646 855 1379		
	2011	2012E	2013E
Revenues	3,455	3,847	4,146
Operating Profit	562	619	682
Operating Margin	16.3%	16.1%	16.5%
Y-o-Y Growth	36.6%	10.0%	10.2%
Net Profit	413	442	490
Net Margin	11.9%	11.5%	11.8%
Y-o-Y Growth	37.9%	7.0%	10.9%
EBIT	562	619	682
EBIT Margin	16.3%	16.1%	16.5%
EBITDA	634	694	761
EBITDA Margin	18.4%	18.0%	18.4%
Operating Cash Flow	509.3	508.5	581.9
Capex	90.4	99.7	111.9
Free Cash Flow	418.9	408.8	470.0
Net Debt/Equity	(9.8)	(10.0)	(8.6)

Source: BofA Merrill Lynch Global Research estimates

Nestlé

See section on Food - Nestlé.

Vitamin Shoppe Inc: exposed to growing VMS industry

The Vitamin Shoppe is the second-largest specialty retailer in sales within the Vitamin, Minerals, Supplement (VMS) industry, with low single-digit market share and 2011E revenues of US$857mn. The company operates more than 500 stores in 37 states with products spanning a wide array of categories, including vitamins, herbs and botanicals, meal supplements, sports nutrition, minerals, and specialty.

VSI (low FO exposure) is a fighting obesity play on health and wellness via its role in the growing c.US$29bn VMS industry. In the US more than 150mn people take a dietary supplement every day, and VSI's nutritional products range from vitamins and minerals to nutritional supplements, herbs, sports nutrition formulas, homeopathic remedies, and health and beauty aids. Key competitive advantages that have been a component in establishing the company's leading position in the market include: 1) its best-in-class product assortment and knowledge base; 2) a distinctive value proposition; and 3) a loyal customer base. Relative to most Hardline retailers, VSI is young, with over 532 stores and room to nearly double the chain in the US. Within the company's core markets there is potential for 900 total stores. As VSI and GNC represent only c.8% combined share of the highly fragmented health and supplement market, we believe there are ample opportunities for expansion. VSI is also developing its ecommerce strategy (e.g. industry-leading SKU assortment, as well as online health forums and a live chat feature with health experts, new search engine, targeted emails, mobile site).

Near-term, VSI should experience low-single-digit market share and an attractive opportunity to expand sales and margins. However, in our opinion, current valuations already reflect VSI's positive outlook.

Table 75: Vitamin Shoppe, Inc. - Key data

Analyst's Name	Chai,Denise		
Analyst's Email Id.	denise.chai@baml.com		
Analyst's Phone No.	+1 646 855 3988		
	2011	2012E	2013E
Revenues	857	944	1,033
Operating Profit	82	99	113
Operating Margin	9.6%	10.5%	11.0%
Y-o-Y Growth	33.3%	21.1%	14.4%
Net Profit	45	59	68
Net Margin	5.2%	6.3%	6.6%
Y-o-Y Growth	53.4%	32.1%	14.8%
EBIT	82	99	113
EBIT Margin	9.6%	10.5%	11.0%
EBITDA	102	121	136
EBITDA Margin	12.0%	12.9%	13.2%
Operating Cash Flow	66.8	82.6	89.4
Capex	23.0	38.0	30.0
Free Cash Flow	43.8	44.6	59.4
Net Debt/Equity	(2.5)	(14.4)	(25.3)

Source: BofA Merrill Lynch Global Research estimates

Weight Watchers: weight management & targeted nutrition

Weight Watchers (WTW) is the world's largest provider of commercial weight loss services, focusing on education and group support through its company-owned and franchise operations. Each week approximately 1.3m members attend >45,000 Weight Watchers meetings around the world, run by >12,000 leaders. WeightWatchers.com is the company's subscription-based online weight management program with nearly 2.4m active subscribers. The company also offers products and publications on weight control. WTW went public in November 2001.

WTW (high FO exposure) is a fighting obesity play on global weight management and targeted nutrition. It offers dieting products and services to assist weight loss and maintenance on the back of an approach centred on forming helpful habits, eating smarter, getting more exercise and providing support. Recent execution has been spotty, with hiccups in the small business portion of the at-work program, a slower than expected rollout of WTW's updated centers, and a failed marketing plan in the UK, all leading to two consecutive disappointing quarters. These fundamental issues, combined with the company's Dutch tender through which it repurchased ~25% of its shares outstanding, including 9m from the controlling shareholder, at $82, before issuing disappointing guidance, have driven shares to the low-$50s.

Weight Watchers operates a unique, proven weight loss model and generates a significant amount of cash. Moreover, its higher-margin online business, Weightwatchers.com, is growing at a double-digit pace, and is now big enough to move the needle, likely reaching 37% of EBIT this year. The company is facing a very challenging comparison in 2012, as it laps the launch of the new PointsPlus

Table 76: Weight Watchers International, Inc. - Key data

Analyst's Name	Ferrara,Christopher		
Analyst's Email Id.	c.ferrara@baml.com		
Analyst's Phone No.	+1 646 855 1379		
	2011	2012E	2013E
Revenues	1,819	1,881	1,998
Operating Profit	546	542	590
Operating Margin	30.0%	28.8%	29.5%
Y-o-Y Growth	39.9%	-0.8%	8.8%
Net Profit	305	284	311
Net Margin	16.8%	15.1%	15.6%
Y-o-Y Growth	56.4%	-6.9%	9.8%
EBIT	546	542	590
EBIT Margin	30.0%	28.8%	29.5%
EBITDA	577	574	623
EBITDA Margin	31.7%	30.5%	31.2%
Operating Cash Flow	402.3	353.7	371.9
Capex	44.8	48.5	40.0
Free Cash Flow	357.5	305.2	332.0
Net Debt/Equity	NM	NM	NM

Source: BofA Merrill Lynch Global Research estimates

program and the Jennifer Hudson marketing campaign, but we expect it to return to growth in 2H12. FCF realization is being driven by its cash tax shield, and low capex and working capital. Long-term drivers include men, still a very underserved market, the online/mobile business, international growth beyond the US, B2B as employers turn to WTW to improve their employees' health and thus productivity, and potential for insurance coverage ultimately.

Near-term, valuation looks compelling to us on both a P/E and P/FCF basis.

Table 77: Companies involved in fighting obesity via weight loss and nutrition that we do not cover

Company	BBG ticker	Overview
GNC HOLDINGS INC	GNC US	GNC Holdings, Inc. operates a chain of health and wellness stores throughout the US and internationally. The company is a global specialty retailer of health and wellness products including vitamins, minerals and herbal supplements ("VMHS") products, sports nutrition products and diet products.
MEDIFAST INC	MED US	Medifast, Inc. combines physician-supervised weight loss programs with nutritional supplements and multidisciplinary patient education programs. The company provides an internet-based physician and medical practitioner network to consumers. Medifast also provides a corporate wellness program for large corporations, associations, and their health insurance carriers.
NUTRISYSTEM	NTRI US	Nutrisystem, Inc. operates an online weight loss community. The company's website provides members with a weight management program that incorporates personal online counseling, individual diet and exercise plans, as well as other information. Nutrisystem also markets the Nutrisystem Sweet Success brand of diet meal replacement products through retail outlets.

Source: Bloomberg, company sources

Physical activity & sportswear/apparel

WHO: physical inactivity fourth-leading risk factor for global mortality

WHO estimates that physical inactivity causes 6% of global deaths (3.2mn) annually. It is also the main cause of 21-25% of breast and colon cancers, 27% of diabetes and approximately 30% of ischaemic heart disease burden, as well as their risk factors such as high blood pressure, raised blood sugar and overweight. The nature of the problem is global, with 31% of adults considered to be insufficiently physically active, with women at highest risk and EMs at growing risk.

Table 78: BofAML Fighting Obesity (FO) via Physical Activity Stock List

Company	FO exposure
361 DEGREES INTL.	Low
ADIDAS GROUP	Low
ANTA SPORTS PROD.	Low
ASICS CORPORATION	Low
CHINA DONGXIANG	Low
COLUMBIA SPORTS.	Low
DICKS SPORTING GOO.	Low
FINISH LINE	Low
FOOT LOCKER	Low
GILDAN ACTVEWEAR	Low
HOSA INTERNATIONAL	Low
LI NING CO LTD	Low
LULULEMON ATHLETICA	Low
NIKE	Low
POU SHENG INTL.	Low
SPORTS DIRTECT INTL.	Low
UNDER ARMOUR INC	Low
YUE YUEN INTL.	Low

Source: BofA Merrill Lynch Global Research. . * FO exposure = BofAML estimates of current sales derived from fighting obesity-related products, services, technologies and solutions

Increasing physical activity becoming key plank of fight against obesity

Physical activity contributes to weight loss and weight maintenance over the long term, as well as improving metabolic, respiratory and cardiovascular function and reducing the risk of obesity-related co-morbidities and falling and fractures. Governments are thus setting targets to tackle physical inactivity and increasing funding to promote physical fitness and improve built infrastructure in ways that encourage physical activity. Other growth drivers include the rising global popularity of sports and leisure activity, with growing adoption by women, older demographics and in EMs. This is likely to result in growing numbers engaging in sports and demand for affordable equipment and apparel to engage in physical activity or sports – with the US$340bn global athletic industry a key beneficiary.

A number of stocks well placed to benefit from the theme

We expect certain stocks to benefit from increasing physical activity as a means of fighting global obesity through their involvement in areas such as: fitness, footwear, gyms, leisure, manufacturers and retailers of sports apparel, recreational sports and activities, specialty sports, sports apparel, sports clothing, sports lifestyle products, sports retailers and sports venues.

Inactivity: #4 risk factor for global mortality

Physical activity is commonly defined as any bodily movement produced by skeletal muscles that require energy expenditure

WHO identifies physical inactivity (i.e. lack of physical activity) as the fourth-leading risk factor for global mortality, causing an estimated 6% of global deaths (3.2mn) annually. It follows high blood pressure (13%), tobacco use (9%) and high blood glucose (6%), but is actually ahead of overweight and obesity, which are responsible for 5% of global mortality.

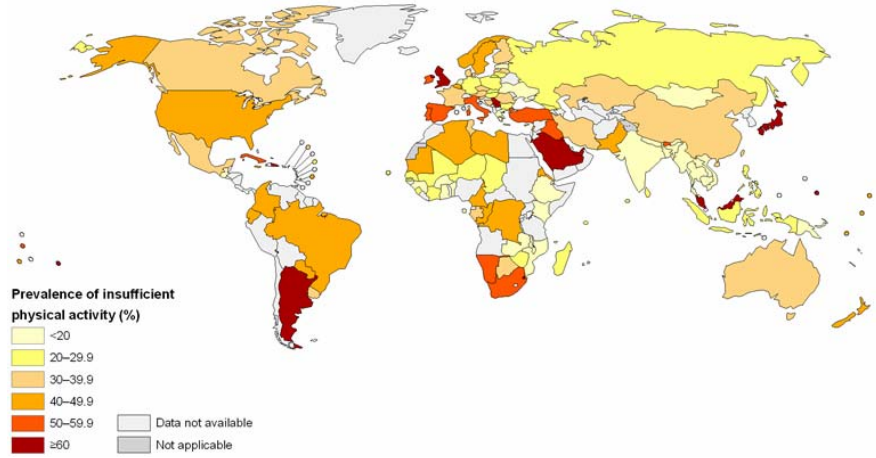
Heavy co-morbidity burden

It is also the main cause of approximately 21-25% of breast and colon cancers, 27% of diabetes and approximately 30% of ischaemic heart disease burden – as well as their risk factors such as high blood pressure, raised blood sugar and overweight. (Source: WHO).

31% of adults globally are insufficiently physically active

Globally in 2008, 31% of adults aged 15+ were insufficiently active – i.e. they did less than 5x 30 minutes of moderate activity per week or less than 3x 20 minutes per week of vigorous activity, or equivalent – according to WHO. The causes are manifold but include a decrease in active transport (i.e. walking, biking), increasing use of IT/sedentary behaviour-promoting devices, and lack of prioritisation of physical activity in urban planning, work and school environments.

Chart 32: Prevalence of insufficient physical activity for age 15+ (%)

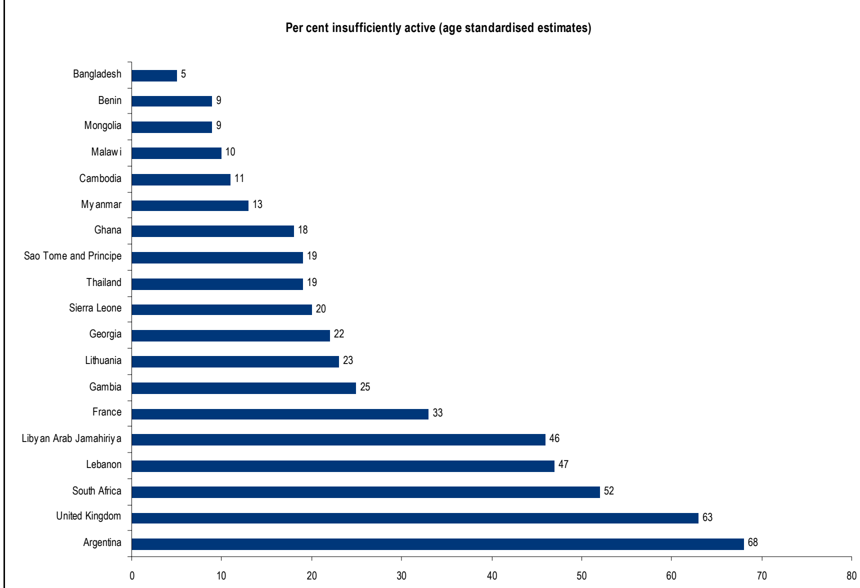


Source: WHO, BofA Merrill Lynch Global rseearch

Americas & Eastern Med at highest risk

The prevalence of insufficient physical activity was highest in the Americas and Eastern Mediterranean – with 40% and 36% of men and 50% of women insufficiently active, respectively. South East Asia showed the lowest percentages (15% for men and 19% for women).

Chart 33: Age standardized % of insufficient physical activity 2008-10



Source: World Cancer Research Fund International

Women at higher risk than men

In all regions and nearly every country, men are more active than women, with the biggest differences visible in high-income countries where close to one in two women was insufficiently physically active. This may be partly explained by increased work and transport-related physical activity for both men and women in the low and lower middle-income countries. The increased automation of work and life in higher-income countries creates opportunities for insufficient physical activity.

Inactivity rises with income

The prevalence of insufficient physical activity rises in line with income levels. High-income countries have 2x the prevalence of low-income countries – with 41% of men and 48% of women being insufficiently physically active in the former (vs. 18% and 21% for the latter) (Source: WHO).

Growing risk for EMs

Over the coming years, a growing share of the burden of physical inactivity-related morbidity and disability will occur in EMs. Levels of physical inactivity are rising in many EMs on the back of rising income levels, automation, industrialisation, population-ageing and rapid urbanisation – which are resulting in increasingly unhealthy behaviours and environments.

Chart 34: % of population with insufficient physical activity

Source: WHO, BofA Merrill Lynch Global Research

Physical activity and the fight against obesity

Exercise is a subcategory of physical activity that is planned, structured, repetitive, and purposeful – i.e. the improvement or maintenance of one or more components of physical fitness is the objective

Increasing population-wide participation in physical activity – which includes exercise and other activities involving bodily movement as part of work, play, active transport, house chores and recreational activity – is a global health priority. We believe that countries will increasingly seek to invest in strategies, programmes and supporting environments to facilitate greater physical activity. This will require a concerted effort across schools, media and multi-stakeholder initiatives. While the initial focus will be on developed markets, this will emerge as a growing theme in rapidly transitioning and increasingly overweight/obese EMs.

Table 79: Recommendations for making physical activity an integral and routine part of life

Strategy	Overview
Enhance the physical and built environment	• Communities, organizations, community planners, and public health professionals should encourage physical activity by enhancing the physical and built environment, rethinking community design, and ensuring access to places for such activity.
Provide and support community programmes designed to increase physical activity	• Communities and organizations should encourage physical activity by providing and supporting programmes designed to increase such activity

Table 79: Recommendations for making physical activity an integral and routine part of life

Strategy	Overview
Adopt physical activity requirements for licensed child care providers	• Child care & early childhood education regulators should establish requirements for each programme to improve its current physical activity standards
Provide support for the science and practice of physical activity	• Federal, state, and local government agencies should make physical activity a national health priority through support for the translation of scientific evidence into best-practice applications

Source: IOM, BofA Merrill Lynch Global Research

Huge health benefits

WHO has shown that participation in regular physical activity: reduces the risk of coronary heart disease and stroke, diabetes, hypertension, colon cancer, breast cancer and depression; lowers the risk of falling and of hip or vertebral fractures; and is a key determinant of energy expenditure, and thus is fundamental to energy balance and weight control/management. It is important to note that both moderate (i.e. brisk walking, dancing or household chores) and vigorous physical activity (i.e. running, fast cycling, fast swimming or moving heavy loads) bring health benefits.

Table 80: WHO recommendations on physical activity

Age	Recommendations
5-17	Should accumulate at least 60 minutes of moderate to vigorous physical activity daily. Amounts of physical activity greater than 60 minutes provide additional health benefits.
18-64	Should do at least 150 minutes of moderately intense physical activity throughout the week or at least 75 minutes of vigorous- activity throughout the week or an equivalent combination of moderate- and vigorous activity. All activity should be performed in bouts of at least 10 minutes duration.
65+	The main recommendations for adults and older adults are the same. In addition, older adults with poor mobility should do physical activity to enhance balance and prevent falls three or more days per week. When older adults cannot do the recommended amount of physical activity due to health conditions, they should be as physically active as their abilities and conditions allow.

Source: WHO, BofA Merrill Lynch Global Research

Governments promoting active lifestyles

The scale of the global obesity crisis is seeing governments and stakeholders place increasing focus on the promotion of active lifestyles to fight obesity and related co-morbidities. Physical activity and exercise contribute to weight loss and weight maintenance over the long term, as well as improving metabolic, respiratory and cardiovascular function.

Table 81: Sample of government initiatives to encourage physical activity

Country	Overview of physical activity initiative
Australia	• Swap it, Don't Stop It (2011): call to make easy, small, healthier lifestyle choices to reduce the risk of illness and disease (i.e. portion control, occasional treats; nutritional quality, physical activity) • Measure Up (2008): encourages people to know their waist measurement and raise awareness of the dangers of intra-abdominal fat. • "Life. Be In It" (1978): encourages Australians to lead an active lifestyle to prevent and control chronic disease
Brazil	• Projeto "Pratique Saude" (`Make Health`): media initiatives to stimulate physical activities and healthy diet • Ministry of Health financial support for municipalities to local projects concerning physical activities
China	• Physical Health Law & Nation-wide Physical Fitness Program (1995): encourages people to engage in at least one sport activity every day, learn at least two ways of keeping fit and have a health examination every year • Building more playgrounds and may pass a law requiring students to exercise or play sports for an hour a day at school
Finland	• Government initiative that awards cash prizes to towns that lose the most weight • Government encourages shoe companies to make non-slip soles standard, to avoid deterring physical activity in winter
Germany	• Fit instead of Fat (2007): aims to reduce obesity rates by 2020 by improving the quality of food offered in schools and hospitals and encouraging children to participate in physical activity
Japan	• Measuring the waistlines of all 40-74 year old citizens who are part of the country's national health insurance program (2009): those who exceed limits set by Japan's Ministry of Health are offered guidance regarding diet and exercise. • Laws require companies to reduce their number of overweight workers by 10% as of 2012 and 25% by 2015 – failure to do so will result in financial penalties

Table 81: Sample of government initiatives to encourage physical activity

Country	Overview of physical activity initiative
Switzerland	• Actionsanté (2009): aims to improve quality of life by enabling environments conducive to a healthy and physically active lifestyle
UK	• Change4Life (2009): utilises TV and print to push the message 'eat well, move more, live longer, targets 45-65 year olds • Minister for Fitness (2006): Public Health minister given the task of getting people to boost their activity levels
USA	• Task Force on Childhood Obesity (2010): charged with reducing childhood obesity including via physical activity • President's Council on Physical Fitness and Sports: advisory committee of volunteer citizens to promote multi-stakeholder sponsored health, physical activity, fitness, and enjoyment programmes. • Let's Move (2010): Focuses on children and how parents can encourage good eating and exercise habits from a young age

Source: Government websites, BofA Merrill Lynch Global Research

Increasing focus for employers & insurers

Increasingly, employers and insurers are looking for ways to improve their employees' health, such as via workplace programmes to encourage employees to lose weight and be more physically active. Growing health care costs are a key factor in pushing employers to invest in health and wellness programmes for employees as a long-term means of reducing obesity-related costs. It is also pushing health care insurers to offer health plan options that include strategies for encouraging policyholders and their families to maintain a healthy weight, increase physical activity and improve the quality of their diet – including diet and nutrition counselling, preconception counselling, and routine BMI screening (Source: IOM).

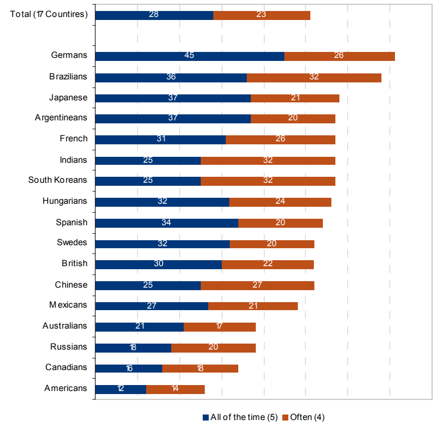
Evidence suggests that when employers and insurers provide incentives for weight loss and health maintenance, participants are more likely to engage in H&W-friendly behaviour and are thus more likely to lose weight (Source: Archer et al 2011, Arterbum et al 2008, Simpson and Cooper 2009).

Table 82: Total reductions in annual costs (medical and absenteeism) for person by % of body weight lost

Avg. weight loss (%)	25-29.9 BMI	30-34.9 BMI	35.5-39.9 BMI	>40 BMI	All overweight & obese
5%	$60	$100	$110	$160	$90
10%	$160	$200	$250	$320	$190
15%	$240	$300	$370	$480	$290
20%	$320	$400	$500	$640	$390
25%	$400	$510	$620	$790	$490

Source: RTI International. All figures in 2007 dollars

Chart 35: Share of population that walk or bicycle to meaningful destinations

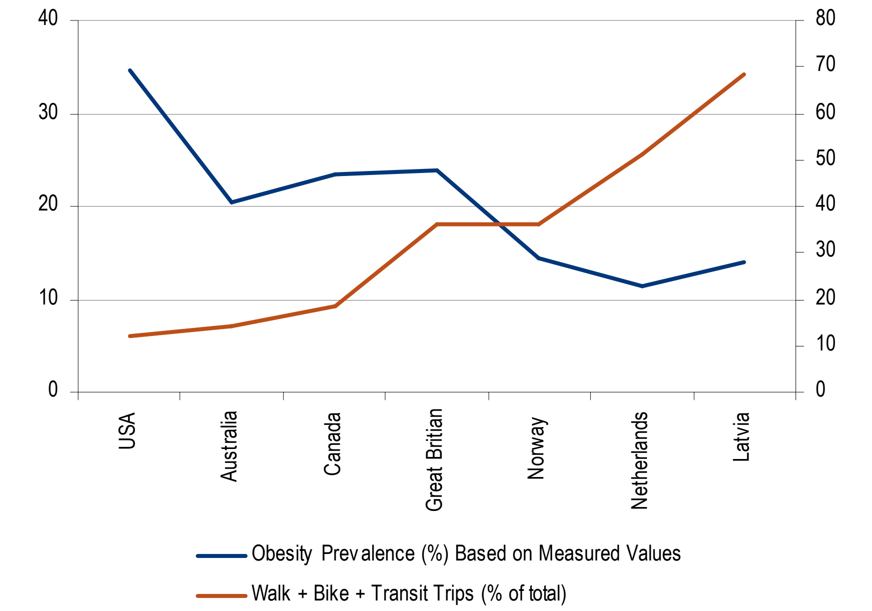


Source: National Geographic, BofA Merrill Lynch Global Research

Adapting the built environment & active transport

A focus area for regulators will be the built environment and active transport, and increasing opportunities for people to be more active. A study published in the *American Journal of Preventive Medicine* found that people who live within easy walking distance of shops and businesses lower their risk of obesity by 35%. Other studies have found that countries with the highest levels of active transportation generally have the lowest obesity rates (Source: Bassett et al in the *Journal of Physical Activity and Health*). While such results do not prove causality, they suggest that active transportation could help to explain international differences in obesity rates. We also note that many employers are engaging in workplace re-design to promote physical activity - i.e. exercise facilities, walking trails, changes to the cafeteria.

Chart 36: Obesity (BMI ≥ 30 kg · m−2) prevalence and rates of active transportation (defined as the combined percentage of trips taken by walking, bicycling, and public transit)



Source: Journal of Physical Activity and Health, BofA Merrill Lynch Global Research

This section is based on our Global Retail team's "*Global Athletic Report: A look at the athletic cycle*". See the report for a comprehensive overview of the sector.

Global Retailing, 27 April 2012

Sportswear & apparel a long-term beneficiary

The promotion of physical activity in the fight against obesity is likely to result in growing numbers engaging in sports and demand for affordable equipment and apparel to engage in physical activity or sports. We believe that stocks with exposure to such themes as fitness, physical activity and sportswear and apparel will be well placed to benefit from the theme of physical activity as a means of fighting global obesity. The rising popularity of sports and leisurewear, a continued interest in sports and a general trend towards increased leisure time and healthier lifestyles should continue to lead to a rise in their unit sales over the next decade.

3 key segments: athletic footwear, apparel & equipment

We separate the global athletics industry into three major categories: athletic footwear, apparel, and equipment:

- **Athletic footwear** – all sneaker and outerwear/rugged (hiking/outdoor boots) footwear categories (excluding brown shoe products). Within athletic footwear, major categories include: basketball, casual athletic, golf, indoor sport specialty (e.g. tennis), cleats (e.g. baseball, football), training, outdoor (e.g. hiking boots), running, street casual (e.g. boat shoes), toning, and action sport (e.g. skate).

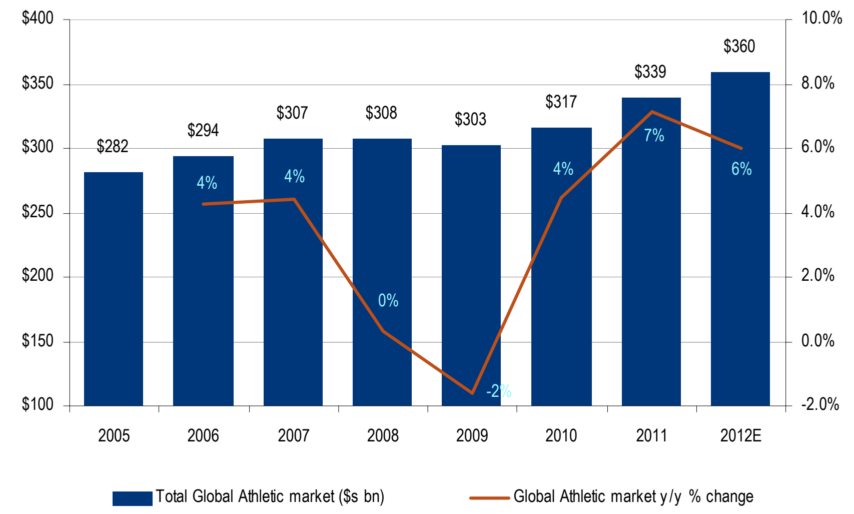
- **Athletic apparel market** – clothing designed for casual or informal wear that is suitable for recreation. Within athletic apparel, categories include: outerwear, golf, performance/compression t-shirts (synthetic and cotton), polos (golf, tennis), athletic shorts, sweats (bottoms and tops), uniforms, undergarments (including baselayer), hunting apparel, fleece, sportswear, and softgoods accessories (socks, headbands).
- **Equipment.**

US$340bn retail industry

We estimate the global athletic industry represents a US$340bn annual market at retail after growing mid-to-high single digits in 2011

Our Global Retail team estimates that the total global athletic industry represented an approximately US$340bn market at retail (US$165-175bn at wholesale) in 2011 after growing in the mid-to-high single digits from US$315bn in 2010. The acceleration was driven by increases across all categories, led by a double-digit % increase in footwear and a low-single-digit % increase in average selling prices. By geography, North America grew the most in dollars, while China and Emerging Markets (including Latin America) had the highest yoy growth rates. The 2011 growth rate was the strongest y/y% in six years and an acceleration from the approximately 4% growth in 2010 and 2% CAGR from 2005-10.

Chart 37: Estimated 2011 global athletic market at retail = US$340bn

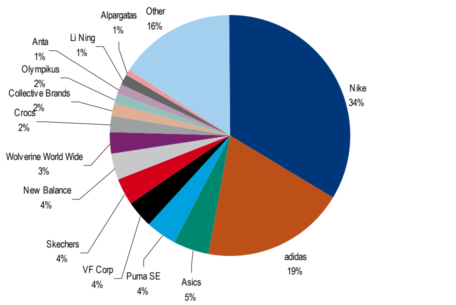


Source: BofA Merrill Lynch Global Research, NPD data, Sporting Goods Intelligence

Key global athletic players

The global athletics industry is dominated by a handful of large, increasingly global vendors. Key vendors have consolidated through a combination of global organic sq. footage and door expansion growth, resulting in market share gains as well as several large mergers (including VFC acquisition of Timberland and adidas acquisition of Reebok).

Chart 38: Key athletic footwear vendors



Source: BofA Merrill Lynch Global Research, Sporting Goods Intelligence

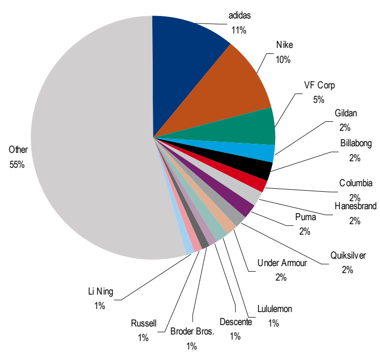
Key athletic footwear vendors

Table 83: Key athletic footwear vendors

	Est. footwear revenue	Global market share %
Nike (NKE)	15,361	33.6%
adidas (ADS GY)	8,715	19.1%
Asics (7936 JT)	2,154	4.7%
Puma SE (PP FP)	1,950	4.3%
VF Corp (VFC)	1,703	3.7%
Skechers (SKX)	1,606	3.5%
New Balance (private)	1,608	3.5%
Wolverine World Wide (WWW)	1,274	2.8%
Crocs (CROX)	1,001	2.2%
Collective Brands (PSS)	779	1.7%
Top 30 brands	43,180	94.5%
Estimated wholesale global athletic footwear market	**$45,700**	

Source: BofA Merrill Lynch Global Research, Sporting Goods Intelligence

Chart 39: Key athletic apparel vendors



Source: BofA Merrill Lynch Global Research, Sporting Goods Intelligence

Key athletic apparel vendors

Table 84: Key athletic apparel vendors

	Est. apparel revenue	Global market share %
adidas (ADS GY)	7969	11.2%
Nike (NKE)	7,102	9.9%
VF Corp (VFC)	3,522	4.9%
Gildan (GIL CN - Canada)	1,726	2.4%
Billabong (BBG AU - Australia)	1,669	2.3%
Hanesbrands (HBI)	1,465	2.0%
Puma SE (PP FP)	1,300	1.8%
Columbia (COLM)	1,235	1.7%
Quiksilver (ZQK)	1,191	1.7%
Under Armour (UA)	1,122	1.6%
Top 26 brands	38,211	53.8%
Estimated wholesale global athletic apparel market	**$71,089**	

Source: BofA Merrill Lynch Global Research, Sporting Goods Intelligence

Athletic trends remain favourable globally in 2012

We expect 2012 to be another strong year of growth led by (1) a healthy global athletic footwear and apparel product cycle, supporting rising prices, (2) sq. ft. expansion, particularly in underpenetrated regions (China & Emerging Markets), supported by owned retail/outlet expansion, (3) improved in-stock levels vs. 2011 as manufacturers have ramped up factory capacity to match global demand for technical athletic product, and (4) support from the 2012 London Olympics/UEFA Football Championships, which should help to offset macroeconomic headwinds in Europe.

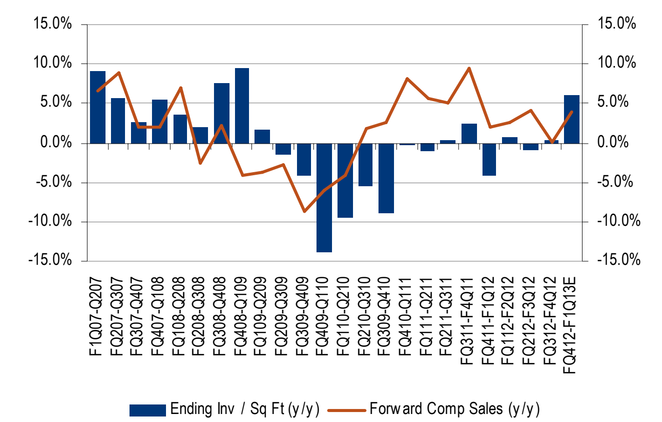
Global growth supported by retail leaders

We believe global expansion through leveraging retail partnerships will be key to driving long-term growth for athletic vendors. By region, distribution models vary between wholesale, owned retail, distributor, and licensees, influenced by the fragmentation of the retail environment. In the US, we continue to see same-store sales and margin upside for DKS, FL, and FINL as retailers benefit from a strong product pipeline driving sell-through rates and rising ASPs. In Europe, we believe Sports Direct will continue to benefit from its dominant position in the UK and online sales potential in a fragmented European sporting goods market. In China, Pou Sheng and Belle remain key to Nike's and adidas's growth, but will be muted in the short term due to excess sportswear inventory in the market.

US: DKS, FL and FINL to benefit from athletic cycle

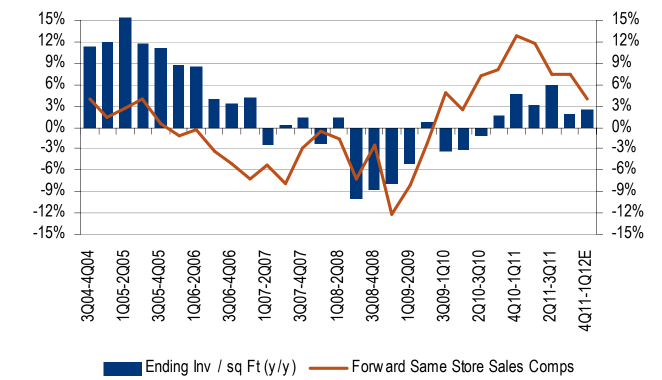
We still favor the US athletic retailers as same-store sales momentum and margin upside continue to be driven by powerful trends in premium athletic footwear and apparel. Sportscan data and store checks indicate that trends remain strong at the premium Athletic retailers led by high ASP lightweight and technical Running products. Over the past three months (ending 4/15), total Athletic footwear has increased 0.1% (+3.2%, excluding Toning) with US$85+ price points increasing 7.4%, and US$150+ footwear up 69.7%, offsetting <US$85 price points down -5.9%. Over the same time period, Running footwear increased 0.6% (>50% on 2-yr basis) led by products priced US$85+ increasing 7.3% and footwear priced US$150+ up 43.4% y/y (<US$85 products declined -9.3%). ASP growth of 2-3% in the last three months has accelerated to +3.5% in the last four weeks driven by the launch of Airmax 2012 (US$170 from US$160 in ’11), Air Jordan 2012 (US$223 from US$180 in ‘11), and Nike Free Run +3 (US$100 from US$90 in ’11). Importantly Nike Free momentum remains powerful y/y, growing over 75% in the last three months. We also believe the continued roll-out of shop-in-shops concepts supports comps and margins at the premium athletic retailers.

Chart 40: Dick’s Sporting Goods ending inventory vs. same-store sales



Source: BofA Merrill Lynch Global Research, Company Data

Chart 41: Foot Locker ending inventory vs. same-store sales



Source: BofA Merrill Lynch Global Research, Company Data

Europe: Sports Direct to drive growth in UK

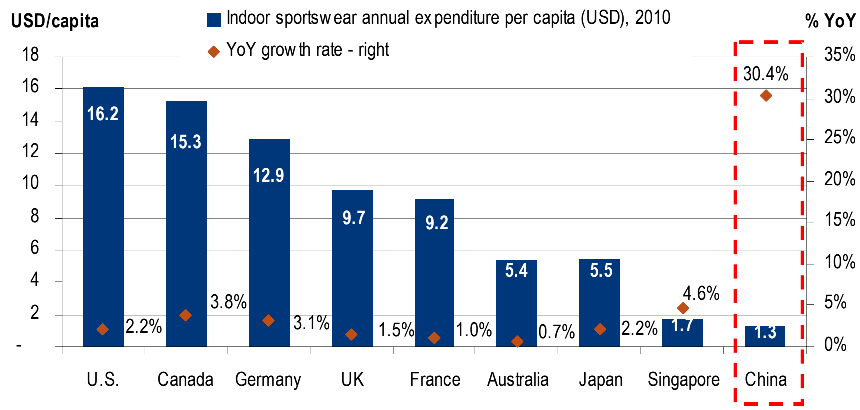
Sports Direct International is the UK market leader in sports retailing, a position we expect it to build upon to drive double-digit EPS growth. We think it has developed a successful model of undercutting rivals on popular third-party brands, acquiring brands to drive margin and expanding space aggressively. We think that the market has underestimated the international and online potential of the company and note that its Employee Bonus Share Scheme has helped to retain talent and gives a further advantage over its rivals. Sports Direct remains positive on the outlook with Euro 2012 and the London Olympics to look forward to this summer. For the Olympics it is selling Team GB adidas merchandise as part of its “Better” ranges and we think early sales are encouraging.

EMs are getting sportier

According to the UN, the global population is projected to grow to 7bn by the end of 2012 and over 9bn by 2050, with most of this growth coming from EMs. Sports participation in EMs has historically been lower than in developed markets. However, rising employment rates and real and disposable income levels among the middle classes are fuelling EM economies and physical activity and sports.

We expect sports participation rates to increase over the long term with greater leisure time, investments in built infrastructure and the broadening of awareness of the benefits of physical activity. European and North American sporting goods brands should benefit from this as they are often seen as affordable luxury goods.

Chart 42: Indoor sportswear expenditure per capita in major countries (USD), 2010



Source: Frost & Sullivan, BofA Merrill Lynch Global Researcj

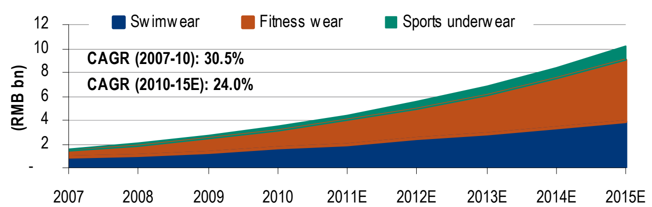
Cross Reference

Hosa International Limited, 28 January 2012

China focus

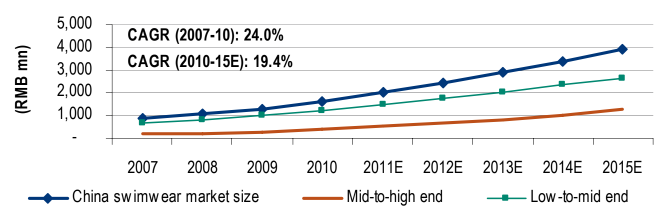
The market is in the early stages and very much still emerging, given the currently low per capita consumption (at US$1.3, about a tenth of that in the US). The increasing availability of sports facilities (swimming pools, gyms, yoga centers), especially in lower-tier cities through new housing projects, coupled with Chinese people's rising health awareness should drive growth of the market. That said, the Chinese sportswear sector faces two headwinds in the near term: 1) over-expansion and lack of efficient inventory/channel management have led to excess inventory at the distributor level for domestic brands; and 2) the rise of casual wear has also taken share from athletic apparel; this is particularly true for those brands which are less performance-oriented.

Chart 43: China's indoor sportswear market size (ex-factory revenue)*



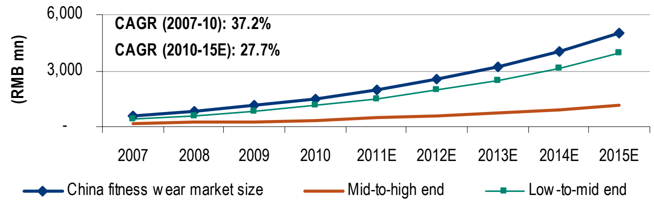
Source: Frost & Sullivan * Market size refers to the domestic market for China

Chart 44: China's swimwear market size (ex-factory revenue)*



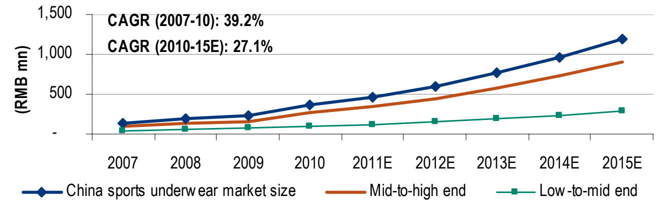
Source: Frost & Sullivan. *Mid-to-high end includes brands whose women's swimwear products had retail label prices >RMB295/set in 2010. Low-to-mid end includes brands with <RMB295/set. * Domestic market for China.

Chart 45: China's fitness wear market size (ex-factory revenue)*



Source: Frost & Sullivan. *Mid-to-high end includes brands whose women fitness products had retail label prices >RMB200/unit in 2010. Low-to-mid end includes brands with <RMB200/unit. * Domestic market for China.

Chart 46: China's sports underwear market size (ex-factory revenue)*



Source: Frost & Sullivan. *Mid-to-high end includes brands whose products had retail label prices >RMB75/unit in 2010. Low-to-mid end includes brands with <RMB75/unit. * Domestic market for China.

Women are getting sportier

Another attractive segment is the women's sports market, with women accounting for more than a third of total spending on athletic footwear (Source: Adidas). Increasing numbers of companies are investing in developing women-specific product offerings in both the performance and lifestyle segments.

Older demographics are getting sportier

Rapidly ageing populations in many parts of the world also mean an increasing focus on physical activity and sports as the elderly devote more time to leisure activities including exercise and sport.

Sports-lifestyle growing 3x faster than performance

Companies involved in the broad sports apparel and equipment market are seeing sport becoming an increasingly important part of the lives of their consumers, as the borders between pure athletics and lifestyle blur. Adidas estimates the global sports lifestyle market to be at least three times larger than the performance market, opening up additional opportunities for companies with strong brands and positions in the space as:

- People increasingly want to be fashionable when doing sport without compromising on quality or technological advances;
- Performance features and styles are finding their way into leisure-oriented products (i.e. improved moisture management, better ease of motion and increased comfort).

Euro 2012 & Olympics 2012 boost

Further boosts to physical activity and sportswear should come from high-profile sporting events, such as the UEFA Euro 2012 football tournament and the 2012 London Olympics – even if such events do add to volatility. The London Olympics, for instance, are expected to help the industry grow by 3.8% in 2012, which is positive given the recent downturn in the clothing industry since the recession (Source: Key Note). Adidas stands to benefit as the official sportswear partner for the event, but the industry as a whole should also receive a boost.

Sports apparel & equipment & fighting obesity

We have identified the following companies covered by BofA Merrill Lynch Global Research that have exposure to fighting obesity as a percentage of sales vis-à-vis their involvement in sports apparel and equipment. Although it is difficult to accurately gauge the link between such exposure and share price performance (as many factors outside the scope of this analysis play a role in short- and long-term price development), we still consider fighting obesity exposure an important positive point to track.

Table 85: List of companies covered by BofAML involved in fighting obesity via sports wear

BBG Ticker	Company	Location	BofAML Ticker	Market Cap (US$mn)	Investment Opinion	FO Exposure
1361 HK	361 DEGREES INTERNATIONAL	Hong Kong	TSIOF	517.0	NEUTRAL	Low
ADG GR	ADIDAS GROUP	Germany	ADDDf	15,137.0	BUY	Low
2020 HK	ANTA SPORTS PRODUCTS	Hong Kong	ANPDF	1,877.3	BUY	Low
7936 JP	ASICS CORPORATION	Japan	ASCCF	2,136.8	BUY	Low
3818 HK	CHINA DONGXIANG	Hong Kong	CDGXF	601.6	UNDERPERFORM	Low
COLM US	COLUMBIA SPORTSWEAR	United States	COLM	1,682.4	BUY	Low
DKS US	DICKS SPORTING GOODS, INC	United States	DKS	5,725.5	BUY	Low
FINL US	FINISH LINE	United States	FINL	976.1	BUY	Low
FL US	FOOT LOCKER	United States	FL	4,590.4	BUY	Low
GIL CN	GILDAN ACTVEWEAR	Canada	YGIL	3,304.5	BUY	Low
2200 HK	HOSA INTERNATIONAL	Hong Kong	XSIHF	412.5	BUY	Low
2331 HK	LI NING CO LTD	Hong Kong	LNNGF	672.2	UNDERPERFORM	Low
LULU US	LULULEMON ATHLETICA INC	United States	LULU	8,864.7	UNDERPERFORM	Low
NKE US	NIKE	United States	NKE	47,951.4	BUY	Low
3813 HK	POU SHENG INTERNATIONAL	Hong Kong	PSHGF	367.1	UNDERPERFORM	Low
SPD LN	SPORTS DIRTECT INTL.	UK	SDIPF	2,711.6	BUY	Low
UA US	UNDER ARMOUR INC	United States	UA	5,366.9	BUY	Low
551 HK	YUE YUEN INTERNATIONAL	Hong Kong	YUEIF	4,927.0	BUY	Low

Source: IQ. DataStream, BofA Merrill Lynch Global Research. * FO exposure = BofAML estimates of current sales derived from fighting obesity via sports apparel and equipment

361 Degrees International: sportswear potential in China

Established in 2003 and listed on June 30, 2009, 361 Degrees is the third-largest domestic sportswear brand in terms of revenues and retail network as of 2009. The company is vertically integrated from design, R&D and manufacturing to brand management and wholesales.

361 Degrees (low FO exposure) is a play on fighting obesity via its position as a rising sportswear brand owner that offers exposure to China's fast-growing sportswear market. It sells 361 products to 30 distributors which wholesale to sub-distributors and sell to end-consumers through over 6,700 stores nationwide. In FY11, footwear represented 52% of sales, apparel 46% and accessories 2%.

Near-term, industry fundamentals are challenging given the current high channel inventory and increasing competition from international casualwear brands. We remain cautious on 361 Degrees given receivable days may lengthen during a downturn, heightening balance sheet risk. Revenue growth remains subdued as channel inventory accumulates amid fierce competition. In order for the sportswear industry to return to more of a supply/demand equilibrium, we believe some smaller/mid-sized brands will first need to be phased out.

Table 86: 361 Degrees International Limited - Key data

Analyst's Name	Luo,Chen		
Analyst's Email Id.	chen.luo@baml.com		
Analyst's Phone No.	+852 2161 7734		
	2011	2012E	2013E
Revenues	5,569	5,907	6,406
Operating Profit	1,385	1,288	1,409
Operating Margin	24.9%	21.8%	22.0%
Y-o-Y Growth	20.8%	-7.0%	9.4%
Net Profit	1,133	1,048	1,041
Net Margin	20.3%	17.7%	16.2%
Y-o-Y Growth	15.3%	-7.5%	-0.7%
EBIT	1,385	1,288	1,409
EBIT Margin	24.9%	21.8%	22.0%
EBITDA	1,452	1,359	1,486
EBITDA Margin	26.1%	23.0%	23.2%
Operating Cash Flow	(80.8)	929.7	1,312.3
Capex	341.6	206.8	224.2
Free Cash Flow	(422.5)	723.0	1,088.1
Net Debt/Equity	(11.5)	(10.1)	(19.7)

Source: BofA Merrill Lynch Global Research estimates

adidas: training, running & swimming

The adidas Group is the second-largest global athletic footwear and apparel vendor, with a 19% market share of athletic footwear sales. Brand adidas comprises 73% of revenues, followed by Reebok and TaylorMade-adidas Golf at 18% and 8%, respectively.

Adidas (low FO exposure) is a play on fighting obesity via its strong market position in categories considered suitable for weight loss such as training, running and swimming. In 2011, adidas posted double-digit revenue growth in all distribution channels and regions except Non-China-Asia (up 7.8%). The adidas brand and TaylorMade grew 13% and 15%, respectively, in 2011, while Reebok grew 2%. In 2012, adidas brand momentum should be supported by the Olympics with strong consumer appetite, innovation providing genuine benefits to consumers (lighter, cooler shoes etc.) and pricing power to the brand. Long-term drivers include: ageing populations, increasing obesity rates and rising health care costs. The company should benefit from government and stakeholder efforts to encourage societies to live more healthily, such as via sports participation, given its strong position across a wide range of performance sports disciplines. The company is involved in a number of global initiatives to encourage people to participate in sport (adiZones, Build Our Kids' Success).

Near-term, we find the current valuation attractive given the ongoing repositioning of Reebok, solid product pipeline in 2012E supported by strong marketing efforts in recent quarters, and the optimization potential of retail operations.

Table 87: adidas Group - Key data

Analyst's Name	Ozun,Rodolphe		
Analyst's Email Id.	rodolphe.ozun@baml.com		
Analyst's Phone No.	+33 1 53 65 58 92		
	2011	2012E	2013E
Revenues	13,344	15,012	16,063
Operating Profit	1,011	1,190	1,355
Operating Margin	7.6%	7.9%	8.4%
Y-o-Y Growth	13.1%	17.7%	13.9%
Net Profit	671	812	938
Net Margin	5.0%	5.4%	5.8%
Y-o-Y Growth	18.3%	21.0%	15.5%
EBIT	1,011	1,190	1,355
EBIT Margin	7.6%	7.9%	8.4%
EBITDA	1,263	1,473	1,659
EBITDA Margin	9.5%	9.8%	10.3%
Operating Cash Flow	731.6	775.4	884.7
Capex	318.0	330.0	360.0
Free Cash Flow	413.6	445.4	524.7
Net Debt/Equity	2.1	(3.0)	(8.4)

Source: BofA Merrill Lynch Global Research estimates

Anta Sports Products: mid/low-end China sportswear

Listed on July 10, 2007 on the Hong Kong Stock Exchange, Anta is the second-biggest domestic sportswear brand and the fourth-largest overall in China. The company is vertically integrated from design, R&D, and manufacturing through to brand management and wholesale. It sells Anta products to 50 distributors, which either wholesale to sub-distributors or sell directly to end-consumers through >6,600 stores nationwide.

Anta (low FO exposure) is a play on fighting obesity via its role as a consolidator in the mid- to low-end sportswear market, which is largely ignored by the international and high-end brands. We estimate this low-end and unbranded segment accounted for >35% of the sportswear sector. In particular, it is strategically well positioned in running – one of the most popular sports in China (footwear is 48% of 2012E sales, apparel 48%).

Near-term, Anta has consistently delivered solid growth and good execution, and despite the industry-wide headwinds, we believe that its industry leadership, strong branding and solid execution track record could help it better weather the storm than peers and take more share in a weak market.

Table 88: Anta Sports Products Limited - Key data

Analyst's Name	Luo,Chen		
Analyst's Email Id.	chen.luo@baml.com		
Analyst's Phone No.	+852 2161 7734		
	2011	2012E	2013E
Revenues	8,905	8,385	9,080
Operating Profit	2,011	1,782	2,045
Operating Margin	22.6%	21.3%	22.5%
Y-o-Y Growth	15.8%	-11.4%	14.7%
Net Profit	1,730	1,460	1,616
Net Margin	19.4%	17.4%	17.8%
Y-o-Y Growth	11.5%	-15.6%	10.7%
EBIT	2,011	1,782	2,045
EBIT Margin	22.6%	21.3%	22.5%
EBITDA	2,101	1,881	2,135
EBITDA Margin	23.6%	22.4%	23.5%
Operating Cash Flow	1,447.6	1,135.0	1,515.1
Capex	126.7	184.5	199.8
Free Cash Flow	1,320.9	950.5	1,315.4
Net Debt/Equity	(47.0)	(44.6)	(45.4)

Source: BofA Merrill Lynch Global Research estimates

Asics Corporation: beneficiary as running gains popularity

Asics began as athletic footwear specialist Onitsuka Co.,Ltd., established in 1949. It has since expanded into sporting goods and sportswear, but athletic footwear still accounts for 74% of sales. It receives major profit contributions from overseas markets, with Japan accounting for 27% of FY3/10 OP, the Americas 18%, Europe 45%, and Asia-Pacific 11%. Its five-year plan through FY3/16 aims for consolidated operating revenue of at least JPY400bn, with an operating margin of at least 10%, and ROE of 15%.

Asics (low FO exposure) is a play on fighting obesity via its role in health and running. Its earnings and share price have been solid for eight years on fully fledged earnings growth from 2002 and should remain so thanks to the global trend in health and running, as well as growing recognition of its products' high performance. One of the key developments in this regard is the launch of lightweight footwear in the US led by the ASICS 33 Collection, a lightweight, everyday running shoe collection that encourages natural foot movement through 33 joints.

Near-term global growth potential backed by an international brand makes Asics attractive. Overseas accounts for as much as 76% of profit, making yen appreciation a risk, but medium-term growth potential is still sound and share price performance should remain favourable.

Table 89: Asics Corporation - Key data

Analyst's Name	Aoki,Hidehiko		
Analyst's Email Id.	hidehiko.aoki@baml.com		
Analyst's Phone No.	+81 3 6225 7633		
	2012	2013E	2014E
Revenues	247,792	260,000	275,000
Operating Profit	19,628	20,000	21,500
Operating Margin	7.9%	7.7%	7.8%
Y-o-Y Growth	-9.0%	1.9%	7.5%
Net Profit	12,618	12,000	12,800
Net Margin	5.1%	4.6%	4.7%
Y-o-Y Growth	14.2%	-4.9%	6.7%
EBIT	19,628	20,000	21,500
EBIT Margin	7.9%	7.7%	7.8%
EBITDA	24,568	24,940	26,440
EBITDA Margin	9.9%	9.6%	9.6%
Operating Cash Flow	10,239.0	23,554.8	23,913.2
Capex	3,154.0	3,500.0	5,000.0
Free Cash Flow	7,085.0	20,054.8	18,913.2
Net Debt/Equity	4.8	(7.6)	(14.1)

Source: BofA Merrill Lynch Global Research estimates

China Dongxiang: China distributor & retailer

China Dongxiang is a multi-brand sportswear company, currently wholesaling and distributing the Kappa and Phenix brands in mainland China (incl. Macau) and Japan.

China Dongxiang (low FO exposure) is a play on fighting obesity via its role as a distributor and retailer of sportswear in China. We believe the market offers solid growth potential given the low per capita consumption (US$1.3 in 2010), rising health awareness and increasing availability of indoor sports facilities. According to a ZOU Marketing research report, Kappa was the No. 3 international sportswear brand in China with a 6.2% market share. It currently has 41 distributors and 3,511 retail outlets as of YE09, sourcing from 80 suppliers.

Near-term, we think the risk-reward looks unfavourable from the standpoint of revenue momentum, margins, inventory and potential M&A. Given its high price positioning, we think expansion into T-2/3 cities could put pressure on both further ASP increases and growth in sales/average store. Marketing spending is rising, and difficulties of executing an acquisition reduce the option value of its US$1bn net cash.

Table 90: China Dongxiang (Group) Co., Ltd - Key data

Analyst's Name	Luo,Chen		
Analyst's Email Id.	chen.luo@baml.com		
Analyst's Phone No.	+852 2161 7734		
	2011	2012E	2013E
Revenues	2,742	2,888	3,201
Operating Profit	99	630	714
Operating Margin	3.6%	21.8%	22.3%
Y-o-Y Growth	-94.3%	538.7%	13.4%
Net Profit	106	589	643
Net Margin	3.9%	20.4%	20.1%
Y-o-Y Growth	-92.9%	454.3%	9.3%
EBIT	99	630	714
EBIT Margin	3.6%	21.8%	22.3%
EBITDA	138	684	770
EBITDA Margin	5.0%	23.7%	24.0%
Operating Cash Flow	(242.0)	584.8	861.4
Capex	16.5	155.0	30.0
Free Cash Flow	(258.5)	429.8	831.4
Net Debt/Equity	(55.1)	(53.9)	(57.8)

Source: BofA Merrill Lynch Global Research estimates

Columbia Sportswear: apparel for outdoor physical activity

Columbia designs, sources, markets, and distributes affordable outdoor apparel. Its product categories include outerwear, sportswear, footwear, accessories, and equipment.

COLM (low FO exposure) is a play on fighting obesity via its role in providing apparel for outdoor physical activity. Long-term drivers include strong product innovation led by Omni-Heat, expanding the footwear (including Sorel) and women's business, as well as the expansion of new technologies into a greater number of SKUs, and improving their product line and distribution strategy with a mix shift to higher-margin Sporting Goods and Specialty Retailers.

Near-term we are positive on COLM shares, given the significant long-term operating margin expansion opportunity.

Table 91: Columbia Sportswear - Key data

Analyst's Name	Ohmes,Robert		
Analyst's Email Id.	robert.ohmes@baml.com		
Analyst's Phone No.	+1 646 855 0078		
	2011	2012E	2013E
Revenues	1,694	1,701	1,786
Operating Profit	136	134	158
Operating Margin	8.1%	7.9%	8.8%
Y-o-Y Growth	32.0%	-1.7%	17.5%
Net Profit	103	99	116
Net Margin	6.1%	5.8%	6.5%
Y-o-Y Growth	34.3%	-4.8%	18.0%
EBIT	136	134	158
EBIT Margin	8.1%	7.9%	8.8%
EBITDA	180	178	203
EBITDA Margin	10.6%	10.5%	11.4%
Operating Cash Flow	44.6	110.3	130.9
Capex	72.7	65.0	65.0
Free Cash Flow	(28.1)	45.3	65.9
Net Debt/Equity	(18.9)	(19.1)	(20.6)

Source: BofA Merrill Lynch Global Research estimates

Dick's Sporting Goods: physical activity & weight loss

Dick's Sporting Goods, Inc is a full-line sporting goods retailer that offers a broad assortment of brand and private-label sporting goods apparel, footwear, and equipment in a large-box store format. The company also operates specialty standalone golf stores under the Golf Galaxy name. Dick's operated 480 stores in 42 states (at March 2012).

DKS (low FO exposure) is a play on fighting obesity via its strong market position in the US on a broad range of categories considered suitable for physical activity and weight loss. It has strong positions in footwear (c.19% of sales) led by lightweight running, apparel/outerwear strength (led by UA, TNF, and Nike), improved trends in golf, team sports (a high school regulation change away from BESR to BBCOR certified bats) and the outdoor category. It also actively promotes the importance of maintaining a healthy and active lifestyle through daily physical activity (e.g. National Runners' Month and Action for Healthy Kids (fighting childhood obesity).

Near-term, we view DKS as the best-positioned Sporting Goods retailer in the US and we rate the shares a Buy, given (1) strength in comp sales, supported by momentum in the higher-margin footwear and apparel categories, (2) accelerating square-footage growth and continued market share gains, and (3) continued margin expansion. The recent investment in JJB – one of the UK's leading sports retailers – also provides a low-risk international opportunity.

Table 92: Dick's Sporting Goods Inc. - Key data

Analyst's Name	Ohmes,Robert		
Analyst's Email Id.	robert.ohmes@baml.com		
Analyst's Phone No.	+1 646 855 0078		
	2012	2013E	2014E
Revenues	5,212	5,896	6,405
Operating Profit	430	527	598
Operating Margin	8.2%	8.9%	9.3%
Y-o-Y Growth	27.8%	22.6%	13.4%
Net Profit	255	316	360
Net Margin	4.9%	5.4%	5.6%
Y-o-Y Growth	40.1%	23.8%	13.8%
EBIT	430	527	598
EBIT Margin	8.2%	8.9%	9.3%
EBITDA	546	649	724
EBITDA Margin	10.5%	11.0%	11.3%
Operating Cash Flow	339.9	462.8	478.1
Capex	207.6	241.0	221.0
Free Cash Flow	132.3	221.8	257.1
Net Debt/Equity	(35.2)	(38.4)	(41.6)

Source: BofA Merrill Lynch Global Research estimates

Finish Line: running and toning

The Finish Line is a leading retailer of branded athletic footwear and apparel with approximately 700 Finish Line stores in operation. Apparel is 20% of total sales. The company also has a growing e-commerce website.

FINL (low FO exposure) is a play on fighting obesity via its strong market position in the US as a premium running and toning retailer. We note its continued momentum in lightweight running products led by Nike (Free, Lunar, Max), adidas (Climacool) and Reebok (Zig), improving basketball trends led by a strong launch schedule from Nike, Jordan and adidas, expanded technical apparel offerings led by NKE, UA, and TNF, and the July launch of Nike Flyknit and Nike+ technology for the Olympics. We also anticipate that the Nike Track Club roll-out and Running Co. acquisition will be long-term drivers. FINL also actively promotes the importance of maintaining a healthy and active lifestyle through daily physical activity (e.g. Finish Line Foundation, funding for children's health and fitness organisations).

Near-term, FINL's outlook should be supported by a strong footwear cycle, with (1) rising APS trends as product trends favor higher-priced products in Running and Toning, (2) occupancy and SGA leverage on an improving comp sales outlook, and (3) continued square-footage rationalization, which benefits sales productivity.

Table 93: Finish Line - Key data

Analyst's Name	Ohmes,Robert		
Analyst's Email Id.	robert.ohmes@baml.com		
Analyst's Phone No.	+1 646 855 0078		
	2012	2013E	2014E
Revenues	1,369	1,435	1,557
Operating Profit	135	132	153
Operating Margin	9.9%	9.2%	9.8%
Y-o-Y Growth	22.1%	-2.2%	15.8%
Net Profit	85	82	95
Net Margin	6.2%	5.7%	6.1%
Y-o-Y Growth	23.2%	-2.9%	15.8%
EBIT	135	132	153
EBIT Margin	9.9%	9.2%	9.8%
EBITDA	162	161	184
EBITDA Margin	11.9%	11.2%	11.8%
Operating Cash Flow	89.8	101.0	115.1
Capex	29.1	90.0	70.0
Free Cash Flow	60.7	11.0	45.1
Net Debt/Equity	(58.1)	(51.7)	(50.8)

Source: BofA Merrill Lynch Global Research estimates

Foot Locker: footwear and apparel

Foot Locker is an athletic footwear and apparel retailer in the US and other geographies. Its marketing format includes Foot Locker, Champs Sports, Kids Foot Locker, Lady Foot Locker, Eastbay and Footlocker.com.

FINL (low FO exposure) is a play on fighting obesity via its strong market position as a footwear and apparel retailer. The company is experiencing continuing momentum driven by: accelerating basketball trends (FL's largest category) led by strength in Jordan, Nike and adidas; continued momentum in lightweight running products led by Nike, adidas, and Reebok; improved apparel offerings led by adidas, Nike (including NFL license), Jordan and UA, as well as a dramatic expansion of women's offerings (apparel is c.22-23% of sales); and improving trends in Europe, supported by improving access to Nike Free as well as the upcoming Olympics/Euro 2012 football tournament this summer (international represents 30% of sales). The outlook for store growth internationally has also turned positive – Foot Locker expects the majority of its net store expansion to come from International – with significant opportunity in underpenetrated regions such as Eastern Europe.

Near-term, FL's outlook should be supported by (1) a strong footwear cycle with favourable product trends, including a shift to higher-priced technical footwear and apparel, (2) continued GM upside supported by strong full priced sell-thru and occupancy leverage, and (3) significant long-term EBIT margin expansion supported by strong execution and new initiatives, including banner differentiation and improving in-store productivity.

Table 94: Foot Locker - Key data

Analyst's Name	Ohmes,Robert		
Analyst's Email Id.	robert.ohmes@baml.com		
Analyst's Phone No.	+1 646 855 0078		
	2012	2013E	2014E
Revenues	5,623	6,041	6,218
Operating Profit	442	577	628
Operating Margin	7.9%	9.5%	10.1%
Y-o-Y Growth	62.5%	30.5%	8.9%
Net Profit	278	363	393
Net Margin	4.9%	6.0%	6.3%
Y-o-Y Growth	64.3%	30.5%	8.5%
EBIT	442	577	628
EBIT Margin	7.9%	9.5%	10.1%
EBITDA	552	693	746
EBITDA Margin	9.8%	11.5%	12.0%
Operating Cash Flow	460.0	409.6	485.2
Capex	152.0	160.0	160.0
Free Cash Flow	308.0	249.6	325.2
Net Debt/Equity	(33.9)	(36.2)	(40.4)

Source: BofA Merrill Lynch Global Research estimates

Gildan Activewear: sports shirts & activewear manufacturer

Gildan (GIL) is a vertically integrated manufacturer of basic apparel. It is the market leader in the supply of t-shirts, sport shirts and fleeces to the wholesale distribution channel in the US and has a growing international presence. GIL is also a leading supplier of socks in US mass-market retail. The company is leveraging its manufacturing capabilities and retail relationships in order to gain a deeper penetration of underwear and activewear in the retail channel.

GIL (low FO exposure) is a play on fighting obesity via its position as a manufacturer of sports shirts and activewear (branded apparel, printwear). From a sustainability perspective, we also note the company's cost savings from Biomass energy (now used by all the plants).

Despite near-term macro challenges, GIL's long-term earnings growth outlook remains solid, driven by: (1) continued market share gains in wholesale distribution, (2) increasing penetration in the retail channel, and (3) margin enhancement through cost-control initiatives. The strong balance sheet provides further value-enhancing opportunities. FY2012 guidance understates GIL's long-term earnings power, in our view.

Table 95: Gildan Activewear Inc. - Key data

Analyst's Name	Li,Chris		
Analyst's Email Id.	christopher.li@baml.com		
Analyst's Phone No.	+1 416 369 8781		
	2011	2012E	2013E
Revenues	1,726	1,936	2,169
Operating Profit	232	171	298
Operating Margin	13.4%	8.8%	13.7%
Y-o-Y Growth	15.4%	-26.2%	74.2%
Net Profit	240	159	277
Net Margin	13.9%	8.2%	12.8%
Y-o-Y Growth	21.1%	-33.8%	74.4%
EBIT	232	171	298
EBIT Margin	13.4%	8.8%	13.7%
EBITDA	312	263	405
EBITDA Margin	18.1%	13.6%	18.7%
Operating Cash Flow	181.6	160.1	318.0
Capex	159.9	100.0	140.0
Free Cash Flow	21.6	60.1	178.0
Net Debt/Equity	9.0	13.3	3.0

Source: BofA Merrill Lynch Global Research estimates

Hosa International: Chinese indoor sportswear

Hosa International Limited, founded in 1996, is a leading indoor sportswear brand in China. It designs and manufactures a wide range of mid-to-high-end indoor sportswear products under the Hosa brand. Its products include swimwear, fitness wear, sports underwear and accessories. Hosa is based in Jinjiang, Fujian province, where it also has a manufacturing plant. It was listed on the HKSE in 2011.

Hosa (low FO exposure) is a play on fighting obesity via its position as a leader in the fragmented and fast-growing Chinese indoor sportswear market (RMB3.5bn with a projected 24% CAGR during 2010-15). We believe the market offers solid growth potential given the low per capita consumption (US$1.3 in 2010), rising health awareness and increasing availability of indoor sports facilities. Hosa has a network of 976 POS, mostly in Tier 1/2 cities as of 30 June 2011, about a tenth of the top 5 domestic sportswear brands. We expect network growth of 42/26% in 2012/13. We also note that Hosa sponsors a number of initiatives to promote healthy lifestyles (e.g. Five-Minute Fitness program on CCTV, National Fitness Walk, and National Sports Aerobics Contest).

Near-term, with the company's store network expected to grow rapidly, we believe Hosa can deliver consistent and profitable growth and take share in a consolidating market.

Table 96: Hosa International Limited - Key data

Analyst's Name	Luo,Chen		
Analyst's Email Id.	chen.luo@baml.com		
Analyst's Phone No.	+852 2161 7734		
	2011	2012E	2013E
Revenues	695	873	1,073
Operating Profit	306	384	475
Operating Margin	44.0%	43.9%	44.2%
Y-o-Y Growth	166.0%	25.3%	23.7%
Net Profit	274	334	360
Net Margin	39.4%	38.3%	33.6%
Y-o-Y Growth	135.8%	22.1%	7.8%
EBIT	306	384	475
EBIT Margin	44.0%	43.9%	44.2%
EBITDA	313	386	478
EBITDA Margin	45.0%	44.2%	44.5%
Operating Cash Flow	309.3	347.2	331.0
Capex	2.6	17.0	120.0
Free Cash Flow	306.8	330.2	211.0
Net Debt/Equity	(74.0)	(76.5)	(68.7)

Source: BofA Merrill Lynch Global Research estimates

Li Ning: high-quality China consumer sports brand

Li Ning is a leading sports apparel & footwear retailer and brand manager in China. It focuses on marketing & R&D and outsources almost all of its manufacturing and retailing. It has strategic marketing partnerships with the NBA, ATP, various Olympic teams and star NBA athletes. With more than 7,250 outlets and plans for 8,000 by 2010, it is the largest domestic apparel & footwear retailer in China, ranking in the top 2 in the athletic market by sales and No.1 by volume.

Li Ning (low FO exposure) is a play on fighting obesity via its role as a high-quality China consumer sports brand franchise and company with clear industry leadership, in our view.

Near-term, we believe Li Ning is halfway through destocking, while most peers are still in the early stages. It also faces less margin pressure due to the low base. However, we also believe the near-term visibility is still low given its internal operational issues and the tough industry landscape, which could cap its re-rating potential in the near term.

Table 97: Li Ning Co Ltd - Key data

Analyst's Name	Luo,Chen		
Analyst's Email Id.	chen.luo@baml.com		
Analyst's Phone No.	+852 2161 7734		
	2011	2012E	2013E
Revenues	8,929	8,430	8,966
Operating Profit	631	533	667
Operating Margin	7.1%	6.3%	7.4%
Y-o-Y Growth	-59.2%	-15.6%	25.2%
Net Profit	386	287	407
Net Margin	4.3%	3.4%	4.5%
Y-o-Y Growth	-65.2%	-25.5%	41.8%
EBIT	631	533	667
EBIT Margin	7.1%	6.3%	7.4%
EBITDA	892	785	929
EBITDA Margin	10.0%	9.3%	10.4%
Operating Cash Flow	15.6	856.4	914.1
Capex	385.7	210.8	179.3
Free Cash Flow	(370.1)	645.6	734.8
Net Debt/Equity	(9.8)	(23.6)	(34.7)

Source: BofA Merrill Lynch Global Research estimates

lululemon athletica Inc: culture and values H&W-focused

lululemon is a specialty retailer of yoga-inspired athletic wear. Founded in 1998 in Vancouver, Canada, the brand began as a line of clothing made out of technical fabric. Today, lululemon has stores in Canada, the US and Australia and is poised for significant expansion.

lululemon (low FO exposure) is a play on fighting obesity via fitness and athletic activities for women. Its stores target affluent, athletic women with innovative products, including for yoga, in terms of style, fit and performance. The company's corporate culture and values are H&W-focused – notably in promoting living a longer, healthier and more fun life. This has been a highly successful strategy – lululemon is one of the fastest growers in retail – and its fundamentals are excellent.

Near-term, however, we think there is limited potential upside to the stock given that it trades at a high multiple on our peak earnings scenario.

Table 98: lululemon athletica Inc - Key data

Analyst's Name	Hutchinson,Lorraine		
Analyst's Email Id.	lorraine.hutchinson@baml.com		
Analyst's Phone No.	+1 646 855 0951		
	2012	2013E	2014E
Revenues	1,001	1,355	1,571
Operating Profit	284	361	431
Operating Margin	28.4%	26.6%	27.4%
Y-o-Y Growth	57.6%	26.9%	19.5%
Net Profit	184	231	276
Net Margin	18.4%	17.0%	17.6%
Y-o-Y Growth	50.8%	25.2%	19.8%
EBIT	284	361	431
EBIT Margin	28.4%	26.6%	27.4%
EBITDA	315	400	480
EBITDA Margin	31.4%	29.5%	30.5%
Operating Cash Flow	203.6	259.8	314.0
Capex	116.7	81.7	80.0
Free Cash Flow	87.0	178.1	234.0
Net Debt/Equity	(67.5)	(69.9)	(73.5)

Source: BofA Merrill Lynch Global Research estimates

Nike: global position in athletic footwear and apparel

Nike is the premier global athletic footwear company. It also sells Cole Haan shoes, athletic apparel and equipment. It produces through independent contracts and sourcing abroad.

Nike (low FO exposure) is a play on fighting obesity via its no.1 position in global athletic footwear, as well as a leadership position in apparel. Drivers include: innovation via the Fly-Knit (launching in July, made from engineered knit that uses yarns and fabric variations that are engineered to be formfitting with a virtually seamless upper, creating an extremely lightweight upper that can eventually be used on a range of Nike's existing footwear platforms); expansion of Lunar technology offerings in training and Basketball footwear with a reengineered platform and new Flywire upper that flexes with an athlete's movement; Nike+ for Basketball and Training, which is digitally enabled footwear that connects with mobile applications to measure data (eg., jump height, speed).

Nike will also be launching products specifically for the London Olympics including "Turbo speed suits" (aerodynamic suit for sprinters), the Superfly R4 sprinting shoe, and new lightweight, moisture wicking technical Basketball uniforms for the US, Chinese and Brazilian national teams. Nike's apparel outlook continues to be supported by the European Soccer Championships and the Olympics, as Nike is likely to use the global exposure to commercialize its new uniform/apparel innovations.

In the US, the football category should also grow, supported by Nike's new licensee agreement with the NFL for on-field apparel. We continue to believe that Nike remains well positioned in China, as it still leads its competitors on market share. Nike has also long been involved in providing funding for youth sports and fitness and fighting child obesity (NikeGo).

Near-term, we believe NKE's outlook should be supported by global share gains, driven by a powerful footwear product engine, with the outlook for global footwear ASPs continuing to rise.

Table 99: Nike - Key data

Analyst's Name	Ohmes,Robert		
Analyst's Email Id.	robert.ohmes@baml.com		
Analyst's Phone No.	+1 646 855 0078		
	2011	2012E	2013E
Revenues	20,862	24,185	26,120
Operating Profit	2,815	3,078	3,526
Operating Margin	13.5%	12.7%	13.5%
Y-o-Y Growth	13.8%	9.3%	14.6%
Net Profit	2,133	2,299	2,659
Net Margin	10.2%	9.5%	10.2%
Y-o-Y Growth	11.9%	7.8%	15.7%
EBIT	2,815	3,078	3,526
EBIT Margin	13.5%	12.7%	13.5%
EBITDA	3,150	3,586	4,075
EBITDA Margin	15.1%	14.8%	15.6%
Operating Cash Flow	1,817.1	2,280.0	2,901.3
Capex	518.1	432.0	432.0
Free Cash Flow	1,299.0	1,848.0	2,469.3
Net Debt/Equity	(39.4)	(44.4)	(51.2)

Source: BofA Merrill Lynch Global Research estimates

Pou Sheng Intl: largest sportswear distributor in China

Listed in June 2008, Pou Sheng retails, wholesales and licenses leading sportswear brands through >8,600 outlets that it operates directly and indirectly, and its regional joint ventures. The company is the largest sportswear distributor in China by number of stores.

Pou Sheng (low FO exposure) is a play on fighting obesity via its role as the largest sportswear distributor in China: #2 with Nike, #1 with Adidas, #1 with Reebok, #1 with Li Ning, #1 with Puma, #1 with Kappa and #1 with Converse.

Near-term, we expect Pou Sheng to experience operational pressure given the short notice of the CEO's resignation and the new acting CEO's lack of retail managing experience. Meanwhile, margins will likely be under pressure in coming quarters as the firm increases retail discounts to clear excess inventories.

Table 100: Pou Sheng International (Holdings) Ltd. - Key data

Analyst's Name	Ching,Raymond		
Analyst's Email Id.	raymond.ching@baml.com		
Analyst's Phone No.	+852 2161 7992		
	2011	2012E	2013E
Revenues	1,590	1,827	2,069
Operating Profit	82	35	69
Operating Margin	5.2%	1.9%	3.3%
Y-o-Y Growth	88.6%	-56.9%	93.8%
Net Profit	52	9	46
Net Margin	3.3%	0.5%	2.2%
Y-o-Y Growth	52.9%	-82.6%	411.5%
EBIT	82	35	69
EBIT Margin	5.2%	1.9%	3.3%
EBITDA	109	67	103
EBITDA Margin	6.9%	3.7%	5.0%
Operating Cash Flow	40.7	(65.8)	73.1
Capex	30.2	32.9	37.2
Free Cash Flow	10.5	(98.7)	35.9
Net Debt/Equity	(0.4)	12.5	9.7

Source: BofA Merrill Lynch Global Research estimates

Sports Direct Intl: UK market leader in sports retailing

Sports Direct is the UK's leading sports retailer by revenue and operating profit. It operates from around 400 stores in the UK, which accounts for around 90% of retail revenues, with the balance in Continental European stores. Sports Direct combines a reputation as a price leader with access to a mix of third-party brands such as adidas, Nike and Reebok, group brands such as Dunlop, Lonsdale and Slazenger, and licensed-in brands such as Diadora and Umbro.

SPD (low FO exposure) is a play on fighting obesity via its role as the UK market leader in sports retailing, with a c.18% market share. Its scale and buying power enable it to offer third-party brands at a discount to other retailers – which, in turn, encourages sales of its group brands. We believe customers are attracted to Sports Direct for its low prices and wide product range. The company is further consolidating its advantage by extending its product and ranges and through specialist collaborations. An example is its "she runs, he runs" concept in store, which has helped to increase its presence in technical running shoes, improved its appeal to women and positioned it for an uplift in spend on running shoes before and during the London Olympics.

We think Sports Direct has a clear strategy with the following key elements: UK Retail (continuing to invest in store environment, training, specialist collaborations and logistics); online (c.11% of total Retail sales, supporting international growth); and exploiting the potential of the group's brands (wholesale, licensing in the Americas and Asia Pacific). Further boosts to sales should come from high-profile sporting events, such as the Euro 2012 football tournament and the London Olympics, along with government policies aimed at raising participation in sport and reducing obesity. Sports Direct is also the only retailer to sell the Sport Relief T-shirt this year. We note, furthermore, that SPD has a stable, experienced management team and investors appear to be buying into majority shareholder Mike Ashley's drive and willingness to take a longer-term view to grow the business.

Table 101: Sports Direct International - Key data

Analyst's Name	Chamberlain,Richard		
Analyst's Email Id.	richard.chamberlain@baml.com		
Analyst's Phone No.	+44 20 7996 0824		
	2011	2012E	2013E
Revenues	1,599	1,748	2,008
Operating Profit	137	169	199
Operating Margin	8.6%	9.7%	9.9%
Y-o-Y Growth	101.3%	23.5%	17.5%
Net Profit	84	118	144
Net Margin	5.3%	6.7%	7.2%
Y-o-Y Growth	4.7%	40.0%	22.4%
EBIT	137	169	199
EBIT Margin	8.6%	9.7%	9.9%
EBITDA	200	235	270
EBITDA Margin	12.5%	13.5%	13.4%
Operating Cash Flow	198.0	193.7	211.8
Capex	21.9	60.5	65.5
Free Cash Flow	176.1	133.2	146.3
Net Debt/Equity	45.0	34.4	14.0

Source: BofA Merrill Lynch Global Research estimates

Near-term, we are positive on Sports Direct for three main reasons: 1) It should be able to drive double-digit underlying EPS growth through exploiting its dominant position in UK sportswear retailing. 2) We think the market has underestimated the international and online potential of the company. 3) It has a further competitive advantage on account of its best-in-class staff training and Employee Bonus Share Scheme – both key differentiators, in our view.

Under Armour Inc: leading global athletic brand

Under Armour develops, markets, and distributes branded performance products for men, women, and youth. UA designs and sells a broad offering of authentic [apparel, footwear, and accessories in the US, Europe, and Asia.

UA (low FO exposure) is a play on fighting obesity via its role as a leading global athletic brand. Growth drivers include: more shop-in-shops at DKS and new product momentum (Cold Black, Armour Bra, and higher priced Tech Ts); rapidly growing, higher-margin DTC (direct-to-consumer) (UA's largest customer at c.18% of sales) business led by 20-25% outlet door growth; improved footwear trends and the launch of a new lightweight running shoe in 2H12; the rollout of Underwear to 500 department store doors (including 250 Macy's) in spring 2012; and international growth supported by increased marketing initiatives including uniform sponsorship of EPL (English Premier League) club Tottenham Hotspur beginning this fall (International is c.6% of sales in 2011 ex-Canada, with roughly 4,000 points of retail outside of North America (vs. c.18,000 in NAm).

Long term, UA should triple revenues through (1) growth in core apparel through continued market share gains, supported by new programs and category extensions, (2) continued expansion in direct to consumer, (3) expansion in athletic footwear in 2012 and , and (4) international growth opportunities, with a long-term goal to have 50% of revenues generated outside the US.

Table 102: Under Armour Inc - Key data

Analyst's Name	Ohmes,Robert		
Analyst's Email Id.	robert.ohmes@baml.com		
Analyst's Phone No.	+1 646 855 0078		
	2011	2012E	2013E
Revenues	1,473	1,789	2,210
Operating Profit	161	205	269
Operating Margin	11.1%	11.6%	12.3%
Y-o-Y Growth	44.5%	27.6%	31.4%
Net Profit	97	125	165
Net Margin	6.6%	7.0%	7.5%
Y-o-Y Growth	41.5%	28.7%	32.1%
EBIT	161	205	269
EBIT Margin	10.9%	11.5%	12.2%
EBITDA	197	251	322
EBITDA Margin	13.4%	14.1%	14.6%
Operating Cash Flow	5.4	98.5	120.7
Capex	56.2	65.0	70.0
Free Cash Flow	(50.9)	33.5	50.7
Net Debt/Equity	(15.3)	(17.2)	(19.5)

Source: BofA Merrill Lynch Global Research estimates

Yue Yuen Intl: largest footwear manufacturer in the world

The world's largest manufacturer of branded athletic & casual footwear, with factories in China, Vietnam and Indonesia, Yue Yuen has expanded into sport apparel via stakes in Eagle Nice (OEM apparel maker for Nike) and Yuen Thai (apparel maker for Adidas). Athletic shoes make up 61% of sales, casual shoes 15%, and soles & components 19%. The US is its largest market (over 40% of total sales). It also has a small but fast-growing China retail business.

Yue Yuen (low FO exposure) is a play on fighting obesity via its role as the largest footwear manufacturer in the world. It has strong relationships with key customers such as Nike and adidas.

Near-term, Yue Yuen is well positioned for a stronger recovery when the market improves. With the inventories of the leading sportswear brands at a two-year low, we expect the brands to gradually rebuild their inventories as demand returns. We think this could be a very favorable environment for Yue Yuen over the next couple of years.

Table 103: Yue Yuen Industrial - Key data

Analyst's Name	Tseng,Tony		
Analyst's Email Id.	tony.tseng@baml.com		
Analyst's Phone No.	+852 2161 7177		
	2011	2012E	2013E
Revenues	7,045	7,535	8,398
Operating Profit	499	488	623
Operating Margin	7.1%	6.5%	7.4%
Y-o-Y Growth	5.3%	-2.2%	27.5%
Net Profit	475	550	618
Net Margin	6.7%	7.3%	7.4%
Y-o-Y Growth	-0.8%	15.9%	12.3%
EBIT	499	488	623
EBIT Margin	7.1%	6.5%	7.4%
EBITDA	708	711	871
EBITDA Margin	10.0%	9.4%	10.4%
Operating Cash Flow	598.1	700.3	781.9
Capex	516.0	268.3	382.9
Free Cash Flow	82.1	431.9	399.0
Net Debt/Equity	10.9	6.5	4.1

Source: BofA Merrill Lynch Global Research estimates

Table 104: Companies involved in fighting obesity via sportswear & apparel that we do not cover

Company	BBG ticker	Overview
CENTRAL SPORTS CO LTD	4801 JP	Operates health and fitness clubs. The company offers various kinds of programs and services including swimming courses, aerobics classes, tennis lessons, scuba diving training, and massage and spa therapy.
CIE DES ALPES	CDA FP	Manages chair lift networks and ski slopes for ski resorts. The company controls approximately eight subsidiaries.
JD SPORTS FASHION PLC	JD/ LN	Operates a chain of retail stores which sell brand-name sports and leisure wear. The company sells sports and leisure footwear, clothing, and accessories, among other items.
JJB SPORTS PLC	JJB LN	Retails sportswear and sports equipment in the UK and Europe. The company's products include clothing, footwear, cycles, sports equipment and accessories, and replica kits. JJB also manages and operates health clubs and three indoor soccer centres.
LIFE TIME FITNESS INC	LTM US	Operates sports, fitness, and recreation centers in Minnesota, Illinois, Michigan, Ohio, Indiana, Virginia, Arizona, and Texas. The company offers fitness centers, personal training services, LifeSpa services, LifeCafe nutritional food and beverage services, "Experience Life" magazine, corporate wellness programs, athletic events, and other services.
RENAISSANCE INC	2378 JP	Mainly operates sports clubs including fitness clubs, swimming, and tennis schools. The company also offers various kinds of sports lessons such as golf, squash, and soccer for children.
VAIL RESORTS INC	MTN US	Operates resorts in Colorado. Its resorts include Vail Mountain, a ski mountain complex, and Beaver Creek Resort, a family-oriented mountain resort. Vail Resorts also operates Breckenridge Mountain, a destination resort with après-ski activities, and Keystone Resort, a year-round family vacation destination.
WARNACO GROUP	WRC US	Designs, sources, markets, licenses and distributes a broad line of intimate apparel, sportswear and swimwear worldwide. The company's products are distributed domestically and internationally, primarily to wholesale customers, through various distribution channels, including major department stores, independent retailers, chain stores, and membership clubs.

Source: Bloomberg, company sources

Table 105: BofAML Global Fight Obesity Exposure Stock List - Multiples

				P/E				Gross Yield				FCF Yield				EV/EBITDA				Price
Company	Ticker	Currency	Price	2010	FY11a	FY12e	FY13e	2010	FY11a	FY12e	FY13e	2010	FY11a	FY12e	FY13e	2010	FY11a	FY12e	FY13e	Book
Food																				
Campbell Soup	CPB	USD	32.45	12.66	12.31	13.08	12.98	3.44	3.44	3.69	3.95	7.53	8.77	9.76	10.04	7.82	7.83	8.88	8.99	9.24
Chipotle	CMG	USD	416.54	70.18	57.87	44.98	35.82	-	-	-	-	1.41	2.08	2.06	3.03	33.19	27.94	22.34	18.24	11.99
ConAgra	CAG	USD	25.04	14.69	13.94	14.02	12.93	3.22	3.59	3.71	3.91	9.53	8.53	7.11	7.14	7.69	7.49	7.61	7.2	2.21
Danone	GPDNF	EUR	48.7	19.3	18.07	16.1	14.47	2.49	2.66	3	3.34	5.16	5.5	6.4	6.73	12.2	11.12	9.99	9.23	2.57
Darden	DRI	USD	51.49	17.23	14.45	13.8	11.96	2.03	2.6	3.49	3.77	7.2	5.3	4.69	5.06	9.84	8.73	8.54	7.65	3.38
Dole	DOLE	USD	8.94	24.82	6.74	7.54	6.29	-	-	-	-	7.29	3.43	4.14	15.52	7.34	6.04	6.29	5.92	0.9
Dollar General	DG	USD	52.2	38.31	26.69	21.17	17.73	1.47	-	-	-	2.48	2.4	3.18	4.13	15.71	12.97	11.22	10.14	4.15
General Mills	GIS	USD	38.8	16.53	15.33	15.03	13.88	2.52	2.95	3.21	3.46	6.04	3.46	4.16	6.59	10.54	10.41	9.92	9.25	3.98
Heinz	HNZ	USD	55.2	18.73	17.39	16	15.36	3.13	3.35	3.57	3.81	5.68	7.19	5.41	6.49	11.4	10.84	10.61	10.34	5.25
Kellogg	K	USD	49.6	14.66	14.31	14.4	13.4	3.22	3.46	3.68	3.94	3.07	5.75	9.42	6.89	9.29	9.44	9.59	9.17	9.88
Kerry Group	KRYAF	EUR	34.75	18.48	16.62	15.06	13.43	0.81	0.91	1.02	1.15	4.27	4.02	4.66	5.09	12.86	13.23	11.68	10.79	3.37
Kraft Foods Inc.	KFT	USD	39	19.03	16.86	15.25	13.63	3.02	3.02	3.02	3.02	3.05	4.01	4.68	7.63	11.65	10.74	9.94	9.28	1.95
Nestle (Reg)	NSRGF	CHF	55.95	16.89	18.23	16.47	14.98	3.31	3.49	3.75	4.03	4.5	2.84	4.94	5.2	8.7	10.44	9.44	8.53	3.15
Panera Bread	PNRA	USD	150.82	38.73	30.15	24.9	21.18	-	-	-	-	3.81	1.52	4.05	5	16.37	13.61	11.62	10.18	6.97
PepsiCo	PEP	USD	69.31	16.6	15.4	16.88	15.51	2.76	2.95	3.1	3.28	4.78	5.16	5.86	6.01	10.98	10.05	10.75	10.08	5.24
Seneca Foods Corp.	SENEA	USD	25.07	5.71	15.09	24.81	10.39	-	-	-	-	6.57	-0.95	6.3	0.41	5.54	10.67	12.98	8.06	0.76
The Fresh Market	TFM	USD	53.9	80.17	58.73	47.21	37.41	-	-	-	-	1.02	-0.1	0.24	0.63	31.29	24.57	21.23	16.9	33.92
Unilever NV	UNLNF	EUR	25.525	17.07	16.07	14.83	14.3	3.25	3.52	3.83	3.97	4.78	4.26	4.61	5	11.51	11.05	9.89	9.44	5.04
United Natural Foods	UNFI	USD	54.47	31.83	29.74	25.63	22.92	-	-	-	-	-0.96	-1.16	0.73	0.93	18.66	15.72	13.27	11.85	2.82
Whole Foods Mkt.	WFM	USD	95.68	62.87	46.58	36.69	32.69	0.06	0.33	0.62	0.72	1.46	2.22	2.19	2.54	22.57	19.29	15.64	14.07	5.52
Pharmaceuticals & Health Care																				
Allergan	AGN	USD	93.49	28.75	24.89	21.58	18.43	0.22	0.22	0.23	0.23	1.28	3.42	4.14	4.62	17.59	15.46	13.61	11.93	5.3
Arena Pharma	ARNA	USD	9.7	NM	NM	NM	NM	-	-	-	-	-3.79	-5.28	-4.08	0.21	NM	NM	NM	NM	141.34
Coloplast	CLPBF	DKK	1060	35.65	24.38	19.97	18.35	0.96	1.35	1.74	1.9	3.31	4.48	5.43	5.76	16.84	14.45	12.41	11.76	9.74
DaVita	DVA	USD	93.54	19.86	16.86	14.38	13.7	-	-	-	-	6.06	8.62	8.43	8.31	10.55	9.14	8.02	7.8	3.79
Fresenius Medi Care	FMCQF	EUR	54.42	22.05	19.45	17.17	15.6	1.27	1.39	1.52	1.68	4.2	4.16	5.13	6.86	10.6	9.85	8.66	7.85	2.47
Getinge	GNGBF	SEK	177.5	18.71	16.84	14.79	12.39	1.82	2.1	2.3	2.74	8.3	6.59	9.02	9.76	10.6	10.16	9.05	7.91	2.92
Medtronic	MDT	USD	38.41	11.54	11.02	10.74	10.15	2.2	2.41	2.68	2.78	9.35	8.51	8.57	10.49	7.65	8.95	7.45	8.42	2.38
Novo Nordisk	NONOF	DKK	825	32.78	26.89	22.68	19.66	1.24	1.74	2.1	2.43	3.37	3.96	4.18	4.86	18.69	16.69	14.36	13.22	11.93
Orexigen	OREX	USD	3.9	NM	NM	NM	NM	-	-	-	-	2.24	-11.44	-21.49	-22.93	NM	NM	NM	NM	2.56
St Jude Medical	STJ	USD	37.4	11.96	10.98	10.43	9.73	-	1.74	1.97	2.18	8.48	8.57	8.84	9.07	8.4	7.66	7.61	7.3	2.56
Smith & Nephew	SNNUF	GBP	613	13.84	13.8	14.69	13.41	1.66	1.83	2.01	2.21	6.72	6.35	6.2	6.78	7.65	7.54	7.47	6.9	2.62
Stryker Corp	SYK	USD	55.19	15.46	13.84	12.56	11.39	0.78	0.78	0.78	0.78	7.31	6.54	9.06	7.46	7.62	7.16	6.78	6.42	2.54
Vivus, Inc.	VVUS	USD	26.91	NM	NM	NM	NM	-	-	-	-	-2.67	-1.63	-4	0.15	NM	NM	NM	NM	17.46
Zimmer	ZMH	USD	63.3	13.85	12.49	11.49	10.5	-	-	0.95	1.52	9.85	9.39	9.79	36.86	7.78	7.44	7.69	7.65	2.05
Sports apparel & equipment																				
adidas Group	ADDDF	EUR	59.21	20.63	17.94	14.83	12.83	1.39	1.67	1.84	2.02	5.72	3.44	3.7	4.36	11.43	10.47	8.97	7.97	2.26
361 Degrees Intl Ltd	TSIOF	HKD	1.94	3.47	2.87	3.15	3.17	9.79	14.69	15.91	15.8	-11.54	-12.83	21.96	33.04	1.46	1.2	1.28	1.17	0.77
Anta Sports	ANPDF	HKD	5.59	7.98	6.84	8.21	7.42	9.09	10.99	8.34	9.59	11.24	11.05	7.95	11	4.37	3.78	4.23	3.72	1.88
Asics	ASCCF	JPY	943	20.39	15.36	13.45	14.14	1.12	1.12	1.34	1.34	8.23	2.86	4.18	11.82	8.67	7.12	7.46	7.35	1.7
China Dongxiang	CDGXF	HKD	0.8	2.68	35.63	6.56	6	24.89	4.16	10.67	11.66	37.01	-6.75	11.22	21.7	-1.41	-18.66	-3.75	-3.33	0.56
Columbia Sprtswr	COLM	USD	53.08	21.83	16.3	17.09	14.57	4.48	1.72	1.78	1.78	-0.74	-1.67	2.69	3.92	10.33	8.14	8.24	7.2	1.57
Dick's	DKS	USD	47.81	37.79	27.82	22.45	18.14	-	-	1.1	1.1	2.82	3.47	2.31	3.87	15.69	11.82	9.67	8.14	4.2
Finish Line	FINL	USD	19.29	21.99	14.66	11.67	11.82	0.64	0.85	1.05	1.06	14.09	8.99	6.22	1.13	6.7	5.16	4.38	4.43	1.99
Foot Locker	FL	USD	29.74	55.09	27.05	16.35	12.66	2.02	2	2.22	2.42	6.74	3.81	6.71	5.44	16.17	10.56	7.23	5.77	2.27
Gildan	YGIL	CAD	28.12	16.27	13.31	20.92	11.98	-	0.84	1.1	1.1	5.34	0.63	1.82	5.39	11.87	10.53	12.78	8.16	2.59
Hosa	XSIHF	HKD	1.98	17.52	7.21	7.86	7.29	-	13.2	5.09	5.49	2.71	11.68	12.57	8.03	15.76	6.03	4.88	3.95	2.99

Table 105: BofAML Global Fight Obesity Exposure Stock List - Multiples

			P/E					Gross Yield				FCF Yield				EV/EBITDA				Price
Li Ning Co Ltd	LNNGF	HKD	4.94	4.01	10.95	14.66	10.71	10.06	2.78	2.69	3.82	16.87	-8.65	15.08	17.16	1.86	3.67	4.17	3.53	1.23
lululemon ath	LULU	USD	64.43	151.02	72.85	49.14	39.19	-	-	-	-	1.16	1.69	0.98	2.01	77.17	40.36	26.39	20.74	22.48
Nike	NKE	USD	101.54	26.41	23.23	20.86	17.93	1	1.12	1.28	1.41	5.72	2.71	3.85	5.15	15.69	13.93	12.24	10.77	4.87
Pou Sheng Intl	PSHGF	HKD	0.67	10.67	6.98	40.4	7.91	-	-	-	-	27.67	2.86	-26.89	9.77	7.37	5.19	8.5	5.51	0.42
Sports Direct	SDIPF	GBP	303	28.67	18.35	15.21	12.75	-	-	1.38	2.06	8.24	10.65	7.86	8.41	12.14	9.62	8.16	7.12	5
Under Armour	UA	USD	106.44	75.32	54.56	42.95	33.09	-	-	-	-	0.1	-0.95	0.62	0.94	36.64	26.45	20.77	16.26	8.43
Yue Yuen	YUEIF	HKD	23.9	9.89	10.81	9.86	8.12	3.81	3.82	3.9	4.74	3.2	1.67	8.77	8.1	8.51	7.85	7.81	6.38	1.35
Weight Management & Nutrition																				
DSM	KDSKF	EUR	39.38	13.25	10.84	10.73	9.85	3.55	3.81	3.94	4.34	11.67	7.24	6.78	5.98	6.16	5.67	5.67	5.22	1.11
Herbalife, Ltd.	HLF	USD	47.62	18.64	13.63	12.39	10.92	1	1.77	2.66	2.93	6.01	7.84	7.66	8.8	11.26	8.53	7.79	7.11	9.53
Vitamin Shoppe	VSI	USD	53.84	44.75	29.48	24.86	22.08	-	-	-	-	2.49	2.97	3.02	4.02	17.86	14.43	12.16	10.84	4.01
Weight Watchers	WTW	USD	55.06	20.9	13.07	11.55	9.78	1.3	1.3	1.3	1.3	8.18	11.28	9.63	10.48	11.62	8.44	8.49	7.82	NM

Source: BofA Merrill Lynch Global Research estimates

Table 106: BofAML Global Fight Obesity Exposure Stock List - Multiples

				Market Cap		Free float	EV FY1		Share Price Performance		
Company	Ticker	Recommendation	QRQ	LC mn	USD mn	%	LC mn	USD mn	-1w Abs	-3m Abs	YTD Abs
Food											
Campbell Soup	CPB	NEUTRAL	B-2-7	10,048.0	10,048.0	NA	12,604.0	12,604.0	31.6	32.9	33.9
Chipotle	CMG	NEUTRAL	C-2-9	12,515.6	12,515.6	NA	12,050.0	12,050.0	404.1	400.1	270.9
ConAgra	CAG	BUY	B-1-7	10,388.4	10,388.4	NA	12,576.1	12,576.1	24.9	26.4	24.3
Danone	GPDNF	BUY	A-1-7	31,039.7	39,029.3	97.5	48,640.9	48,640.9	50.8	52.9	50.4
Darden	DRI	BUY	C-1-7	6,544.4	6,544.4	NA	9,231.7	9,231.7	49.2	52.7	46.9
Dole	DOLE	UNDERPERFORM	C-3-9	826.1	826.1	NA	2,356.1	2,356.1	9.9	9.9	12.9
Dollar General	DG	BUY	C-1-9	16,860.5	16,860.5	NA	20,082.9	20,082.9	49.0	43.9	33.0
General Mills	GIS	BUY	B-1-7	25,366.0	25,366.0	NA	32,686.0	32,686.0	38.0	38.5	38.3
Heinz	HNZ	NEUTRAL	A-2-7	17,345.7	17,345.7	NA	21,234.4	21,234.4	53.4	52.8	53.7
Kellogg	K	BUY	B-1-7	17,416.8	17,416.8	NA	22,134.8	22,134.8	48.4	52.5	55.0
Kerry Group	KRYAF	BUY	A-1-7	6,221.5	7,822.9	83	9,889.2	10,002.8	33.7	33.5	29.1
Kraft Foods Inc.	KFT	BUY	B-1-7	68,538.5	68,538.5	NA	93,495.5	93,495.5	38.2	38.2	34.3
Nestle (Reg)	NSRGF	NEUTRAL	A-2-7	178,806.7	187,222.3	100	176,474.5	176,474.5	54.5	56.4	53.2
Panera Bread	PNRA	NEUTRAL	C-2-9	4,077.1	4,077.1	NA	4,154.5	4,154.5	143.7	163.8	119.1
PepsiCo	PEP	BUY	A-1-7	108,583.2	108,583.2	NA	132,808.2	132,808.2	67.7	64.1	69.6
Seneca Foods Corp.	SENEA	UNDERPERFORM	B-3-9	263.7	263.7	NA	590.8	590.8	22.6	25.9	23.8
The Fresh Market	TFM	BUY	C-1-9	2,445.0	2,445.0	NA	2,534.2	2,534.2	55.4	48.3	35.5
Unilever NV	UNLNF	UNDERPERFORM	B-3-7	71,988.5	90,518.3	100	110,150.1	110,150.1	25.0	25.9	22.3
United Natural Foods	UNFI	BUY	B-1-9	2,449.5	2,449.5	NA	2,657.4	2,657.4	50.3	47.6	40.7
Whole Foods Mkt.	WFM	BUY	C-1-7	16,526.5	16,526.5	NA	16,103.4	16,103.4	90.3	85.1	54.8
Pharmaceuticals & Health Care											
Allergan	AGN	BUY	B-1-7	28,136.2	28,136.2	NA	27,594.9	27,594.9	90.7	93.4	79.8
Arena Pharma	ARNA	UNDERPERFORM	C-3-9	1,492.9	1,492.9	NA	1,492.8	1,492.8	670.0	1.8	1.3
Coloplast	CLPBF	NEUTRAL	B-2-7	43,145.8	7,300.4	49.9	7,598.2	7,598.2	1,015.0	931.0	770.5
DaVita	DVA	BUY	B-1-9	8,121.9	8,121.9	NA	12,994.8	12,994.8	84.3	87.2	83.2
Fresenius Medi Care	FMCQF	BUY	A-1-7	16,032.7	20,159.6	69.5	25,726.5	25,726.5	51.9	52.4	50.9
Getinge	GNGBF	BUY	C-1-7	42,588.4	6,060.8	63	8,026.6	8,026.6	176.6	188.3	167.1
Medtronic	MDT	BUY	A-1-7	38,050.9	38,050.9	NA	44,801.2	44,801.2	37.1	38.6	38.4
Novo Nordisk	NONOF	BUY	A-1-7	432,969.4	73,259.2	73.3	70,919.7	70,919.7	804.0	801.0	644.0
Orexigen	OREX	BUY	C-1-9	255.2	255.2	NA	111.5	111.5	3.1	4.5	1.7
St Jude Medical	STJ	BUY	B-1-7	11,439.0	11,439.0	NA	13,728.6	13,728.6	38.8	42.3	49.1
Smith & Nephew	SNNUF	NEUTRAL	B-2-7	5,445.8	8,486.0	99.8	9,240.0	9,240.0	600.5	628.0	655.5
Stryker Corp	SYK	BUY	A-1-7	19,499.3	19,499.3	NA	17,405.6	17,405.6	51.2	54.2	58.9
Vivus, Inc.	VVUS	BUY	C-1-9	2,462.7	2,462.7	NA	2,330.1	2,330.1	24.0	20.1	7.9
Zimmer	ZMH	BUY	B-1-7	11,316.0	11,316.0	NA	12,225.3	12,225.3	60.2	62.7	63.8
Sports apparel & equipment											
adidas Group	ADDDF	BUY	B-1-7	12,038.3	15,137.0	100	16,624.5	16,624.5	58.9	59.9	50.6
361 Degrees Intl Ltd	TSIOF	NEUTRAL	C-2-7	4,011.1	517.0	28.8	272.9	272.9	2.0	2.8	5.0
Anta Sports	ANPDF	BUY	C-1-7	14,564.8	1,877.3	31	1,248.3	1,248.3	6.1	8.8	14.0
Asics	ASCCF	BUY	B-1-7	169,690.5	2,136.8	65.4	2,307.0	2,307.0	892.0	986.0	1,134.0
China Dongxiang	CDGXF	UNDERPERFORM	C-3-7	4,667.5	601.6	49	(402.8)	(402.8)	0.9	1.4	2.4
Columbia Sprtswr	COLM	BUY	B-1-8	1,682.4	1,682.4	NA	1,464.6	1,464.6	49.0	50.1	59.4
Dick's	DKS	BUY	C-1-7	5,725.5	5,725.5	NA	5,283.4	5,283.4	46.4	48.1	35.9
Finish Line	FINL	BUY	C-1-7	976.1	976.1	NA	711.2	711.2	19.8	23.7	22.4
Foot Locker	FL	BUY	B-1-7	4,590.4	4,590.4	NA	3,993.4	3,993.4	30.6	30.3	23.0
Gildan	YGIL	BUY	C-1-7	3,386.9	3,304.5	NA	3,304.5	3,304.5	25.7	27.0	33.2
Hosa	XSIHF	BUY	C-1-7	3,200.0	412.5	25	296.0	296.0	2.0	1.8	
Li Ning Co Ltd	LNNGF	UNDERPERFORM	C-3-7	5,215.1	672.2	68	514.5	514.5	5.6	9.9	13.2
lululemon ath	LULU	UNDERPERFORM	C-3-9	8,864.7	8,864.7	NA	8,301.6	8,301.6	63.8	72.4	45.8

Table 106: BofAML Global Fight Obesity Exposure Stock List - Multiples

Company	Ticker	Recommendation	QRQ	Market Cap LC mn	USD mn	Free float %	EV FY1 LC mn	USD mn	Share Price Performance -1w Abs	-3m Abs	YTD Abs
Nike	NKE	BUY	B-1-7	47,951.4	47,951.4	NA	43,881.4	43,881.4	107.4	110.3	82.2
Pou Sheng Intl	PSHGF	UNDERPERFORM	C-3-9	2,848.4	367.1	25.88	568.2	568.2	0.6	1.0	1.4
Sports Direct	SDIPF	BUY	B-1-7	1,740.1	2,711.6	26	2,991.3	2,991.3	291.7	292.2	226.4
Under Armour	UA	BUY	C-1-9	5,366.9	5,366.9	NA	5,264.5	5,264.5	99.8	97.6	69.7
Yue Yuen	YUEIF	BUY	B-1-7	38,226.1	4,927.0	33.3	5,555.0	5,555.0	24.0	27.7	25.4
Weight Management & Nutrition											
DSM	KDSKF	NEUTRAL	B-2-7	6,406.2	8,055.1	100	9,238.4	9,238.4	38.8	43.3	45.4
Herbalife, Ltd.	HLF	BUY	C-1-7	5,340.4	5,340.4	NA	5,409.2	5,409.2	44.9	69.9	54.6
Vitamin Shoppe	VSI	NEUTRAL	C-2-9	1,476.9	1,476.9	NA	1,477.5	1,477.5	50.3	42.2	44.4
Weight Watchers	WTW	BUY	C-1-7	3,168.9	3,168.9	NA	4,871.9	4,871.9	56.0	81.5	69.8

Source: BofA Merrill Lynch Global Research estimates

Table 107: BofAML Global Fight Obesity Exposure Stock List - Multiples

Company	Ticker	2010	EPS 2011	2012E	2013E	2014	EPS 4y CAGR	DPS 2011	2012E	2013E	2014E	DPS 4y CAGR	EBITDA (in mn) 2011	2012E	2013E	2014E	EBITDA 4y CAGR
Food																	
Campbell Soup	CPB	2.48	2.55	2.40	2.42	2.56	0.80	1.08	1.16	1.24	1.34	3.51	1610.00	1419.41	1401.27	1447.65	-2.64
Chipotle	CMG	5.64	6.84	8.80	11.05	13.50	24.38	0.00	0.00	0.00	0.00	NA	431.31	539.50	660.71	796.71	21.71
ConAgra	CAG	1.69	1.78	1.77	1.92	2.04	4.82	0.89	0.92	0.97	1.01	4.94	1679.40	1653.25	1747.59	1828.52	2.82
Danone	GPDNF	2.71	2.89	3.25	3.61	4.02	10.37	1.39	1.57	1.75	1.94	7.67	3366.15	3820.62	4189.66	4526.80	10.00
Darden	DRI	2.86	3.41	3.57	4.12	4.69	13.16	1.28	1.72	1.86	2.11	16.71	1058.00	1081.56	1206.36	1325.15	9.02
Dole	DOLE	0.38	1.40	1.25	1.50		NA	0.00	0.00	0.00		NA	390.20	362.30	385.69		NA
Dollar General	DG	1.31	1.88	2.37	2.83	3.35	26.46	0.00	0.00	0.00	0.00	-100.00	1548.69	1790.41	1979.74	2225.74	14.87
General Mills	GIS	2.30	2.48	2.53	2.74	2.91	6.06	1.12	1.22	1.32	1.42	8.24	3235.30	3382.27	3633.97	3780.60	4.24
Heinz	HNZ	2.87	3.09	3.36	3.50	3.75	6.91	1.80	1.92	2.05	2.19	5.10	1958.15	2002.00	2054.00	2161.08	3.79
Kellogg	K	3.30	3.38	3.36	3.61	3.83	3.79	1.67	1.78	1.90	2.04	5.12	2345.00	2307.19	2413.91	2514.72	1.36
Kerry Group	KRYAF	1.92	2.13	2.35	2.64	2.96	11.49	0.32	0.36	0.41	0.47	9.19	580.20	621.39	674.36	736.32	5.18
Kraft Foods Inc.	KFT	2.02	2.28	2.52	2.82		NA	1.16	1.16	1.16		0.00	8703.00	9401.49	10078.83		NA
Nestle (Reg)	NSRGF	3.31	3.07	3.40	3.74	4.02	4.97	1.95	2.10	2.25	2.46	5.06	15396.00	16909.88	18658.00	20046.83	-16.88
Panera Bread	PNRA	3.62	4.65	5.63	6.62	7.75	20.96	0.00	0.00	0.00	0.00	#DIV/0!	305.16	357.64	408.29	458.75	15.96
PepsiCo	PEP	4.13	4.45	4.06	4.42	4.82	3.94	2.03	2.12	2.25	2.39	4.42	13214.00	12356.74	13173.64	13962.04	3.64
Seneca Foods Corp.	SENEA	3.91	1.48	0.90	2.15	2.35	-11.95	0.00	0.00	0.00	0.00	#DIV/0!	55.39	45.50	73.31	77.49	-7.66
The Fresh Market	TFM	0.63	0.86	1.07	1.35	1.68	27.79	0.00	0.00	0.00	0.00	#DIV/0!	103.15	119.37	149.98	179.36	21.99
Unilever NV	UNLNF	1.50	1.59	1.72	1.79	1.89	5.94	0.90	0.98	1.02	1.07	5.10	7462.00	8019.60	8635.04	9190.65	5.81
United Natural Foods	UNFI	1.57	1.68	1.95	2.18	2.45	11.77	0.00	0.00	0.00	0.00	#DIV/0!	169.09	200.30	224.30	251.05	15.23
Whole Foods Mkt.	WFM	1.43	1.93	2.45	2.75	3.18	22.12	0.30	0.56	0.64	0.74	88.89	834.73	1029.37	1144.92	1323.42	16.70
Pharmaceuticals & Health Care																	
Allergan	AGN	3.16	3.65	4.21	4.93	5.70	15.89	0.20	0.20	0.21	0.21	1.64	1785.10	2027.97	2312.39	2654.53	14.05
Arena Pharma	ARNA	-1.14	-0.80	-0.54	-0.17	0.03	NA	0.00	0.00	0.00	0.00	#DIV/0!	-72.67	-59.33	-13.31	25.64	#NUM!
Coloplast	CLPBF	29.15	42.61	52.03	56.63	61.33	20.44	14.00	18.11	19.71	21.21	18.46	3108.00	3617.43	3818.73	4058.59	11.95
DaVita	DVA	4.38	5.16	6.05	6.35	6.99	12.40	0.00	0.00	0.00	0.00	#DIV/0!	1306.06	1513.45	1551.32	1645.84	11.06
Fresenius Medi Care	FMCQF	3.22	3.54	3.88	4.27	4.73	10.04	0.93	1.01	1.12	1.24	7.20	2611.74	2981.03	3278.48	3548.00	9.96
Getinge	GNGBF	9.55	10.61	12.08	14.42	15.73	13.27	3.75	4.11	4.90	5.35	10.81	5376.00	6174.78	7074.14	7646.96	10.43
Medtronic	MDT	3.22	3.37	3.46	3.66	3.84	4.50	0.90	1.00	1.03	1.06	5.97	5809.52	5988.00	6093.30	6253.50	1.42
Novo Nordisk	NONOF	24.60	29.99	35.57	41.03	48.06	18.22	14.00	16.96	19.56	22.92	18.27	25107.00	29181.61	31703.10	35654.65	12.29
Orexigen	OREX	-1.10	-0.58	-0.91	-0.98	-0.84	-6.52	0.00	0.00	0.00	0.00	#DIV/0!	-27.44	-60.08	-66.08	-56.65	2.70
St Jude Medical	STJ	3.01	3.28	3.45	3.70		NA	0.63	0.71	0.79		#DIV/0!	1791.76	1803.40	1881.28		NA
Smith & Nephew	SNNUF	0.69	0.69	0.65	0.71	0.81	3.91	0.17	0.19	0.21	0.23	7.41	1224.88	1236.76	1339.97	1497.55	5.52
Stryker Corp	SYK	3.33	3.72	4.10	4.52		NA	0.40	0.40	0.40		0.00	2429.43	2565.83	2711.78		NA
Vivus, Inc.	VVUS	-0.82	-0.55	-1.05	-0.01	1.67	NA	0.00	0.00	0.00	0.00	#DIV/0!	-46.73	-102.30	0.07	170.16	NA
Zimmer	ZMH	4.33	4.80	5.22	5.71		NA	0.00	0.57	0.91		#DIV/0!	1643.48	1588.97	1597.16		NA
Sports apparel & equipment																	
adidas Group	ADDDF	2.79	3.21	3.88	4.48	5.10	16.31	0.96	1.06	1.16	1.28	9.77	1263.00	1473.37	1658.58	1866.90	12.71
361 Degrees Intl Ltd	TSIOF	0.47	0.55	0.51	0.50	0.51	1.90	0.23	0.25	0.25	0.26	11.82	1451.77	1359.15	1486.13	1517.56	6.29
Anta Sports	ANPDF	0.62	0.69	0.58	0.65	0.74	4.40	0.52	0.40	0.46	0.48	0.55	2101.24	1880.98	2135.38	2439.79	7.59
Asics	ASCCF	43.90	58.27	66.56	63.29	67.51	11.36	10.00	12.00	12.00	12.00	4.66	25721.00	24568.00	24940.00	26440.00	5.75
China Dongxiang	CDGXF	0.26	0.02	0.10	0.11	0.13	-16.54	0.03	0.07	0.08	0.09	-17.93	137.51	684.03	769.89	884.22	-16.48
Columbia Sprtswr	COLM	2.27	3.04	2.90	3.40	3.80	13.75	0.85	0.88	0.88	0.88	-20.65	179.97	177.84	203.43	223.62	12.07
Dick's	DKS	1.20	1.63	2.02	2.50	2.85	24.14	0.00	0.50	0.50	0.50	#DIV/0!	446.84	546.45	648.68	724.49	21.12
Finish Line	FINL	0.86	1.29	1.62	1.60	1.85	21.11	0.16	0.20	0.20	0.20	13.34	137.82	162.34	160.67	184.05	14.74
Foot Locker	FL	0.54	1.10	1.82	2.35	2.55	47.41	0.59	0.66	0.72	0.72	4.58	378.00	552.00	692.61	746.20	31.84
Gildan	YGIL	1.67	2.01	1.30	2.27	2.68	12.55	0.23	0.30	0.30	0.40	#DIV/0!	311.65	262.62	405.03	466.53	14.93
Hosa	XSIHF	0.10	0.22	0.21	0.23	0.26	28.21	0.21	0.08	0.09	0.10	#DIV/0!	312.52	386.04	477.85	560.93	47.17
Li Ning Co Ltd	LNNGF	1.04	0.37	0.28	0.38	0.45	-18.83	0.11	0.11	0.16	0.19	-22.11	892.26	785.24	929.10	1051.35	-12.08
lululemon ath	LULU	0.41	0.85	1.26	1.58	1.89	46.53	0.00	0.00	0.00	0.00	#DIV/0!	205.01	314.61	400.24	479.84	45.33

Table 107: BofAML Global Fight Obesity Exposure Stock List - Multiples

			EPS				EPS	DPS				DPS	EBITDA (in mn)				EBITDA
Company	**Ticker**	**2010**	**2011**	**2012E**	**2013E**	**2014**	**4y CAGR**	**2011**	**2012E**	**2013E**	**2014E**	**4y CAGR**	**2011**	**2012E**	**2013E**	**2014E**	**4y CAGR**
Nike	NKE	3.87	4.40	4.90	5.70	6.35	13.18	1.14	1.31	1.44	1.44	8.87	3150.00	3586.04	4074.71	4513.65	12.71
Pou Sheng Intl	PSHGF	0.01	0.01	0.00	0.01	0.01	15.91	0.00	0.00	0.00	0.00	#DIV/0!	109.46	66.88	103.08	126.38	13.15
Sports Direct	SDIPF	10.14	15.84	19.12	22.80	23.31	23.14	0.00	4.00	6.00	7.00	#DIV/0!	199.82	235.16	269.76	276.35	23.61
Under Armour	UA	1.34	1.85	2.35	3.05	3.75	29.34	0.00	0.00	0.00	0.00	#DIV/0!	197.00	251.37	321.74	393.17	28.88
Yue Yuen	YUEIF	0.31	0.28	0.31	0.37	0.44	9.33	0.12	0.12	0.14	0.17	5.64	707.69	711.27	871.24	1017.57	11.73
Weight Managemen & Nutrition																	
DSM	KDSKF	2.87	3.51	3.55	3.86	4.21	10.06	1.45	1.50	1.65	1.75	5.14	1296.00	1295.88	1408.12	1488.31	5.71
Herbalife, Ltd.	HLF	2.42	3.31	3.64	4.13	4.62	17.55	0.80	1.20	1.32	1.44	30.87	634.12	694.11	761.27	825.06	14.49
Vitamin Shoppe	VSI	1.10	1.67	1.98	2.23	2.52	23.03	0.00	0.00	0.00	0.00	#DIV/0!	102.43	121.50	136.35	153.21	16.66
Weight Watchers	WTW	2.57	4.11	4.65	5.49	6.16	24.43	0.70	0.70	0.70	0.70	0.00	577.25	574.17	623.08	682.34	12.94

Source: BofA Merrill Lynch Global Research estimates

Price objective basis & risk

Asics Corporation (7936)

We base our PO of JPY950 on a P/E of 14x our FY3/14 EPS forecast. We assign a slight valuation premium to the retail sector average to reflect the strength of the Asics brand in the global market, its high margins, and robust balance sheet.

The risk factors to our assumption are: 1) a demand slump in Europe due to crisis conditions, 2) exchange rates, 3) increased competition in global markets, and 4) single-quarter earnings volatility resulting from the timing of advertising spend and product shipments.

361 Degrees International Limited (TSIOF)

We value 361 Degrees at HK$2.6, based on a blend of P/E (HK$2.49) and DCF (HK$2.72). We applied 4.0x P/E to our 2012E EPS and 14.0pct WACC, 1.3 beta and 3pct terminal growth to our DCF valuation. We believe that 361 Degrees should trade at a discount to its peers due to its less favorable balance-sheet position and longer receivable days turnover, despite its maturing brand status and improving operational track record. At our price objective, the company would trade at 4.2x 2012E P/E.

Upside risks to our price objective are an earlier-than-expected decline in channel inventory, stronger recovery of retail environment for sportswear, and decline in sourcing costs.

Downside risks are a credit default risk, channel inventory build, network expansion execution, relationships with distributors and retailers, consistent new product development, working capital management, increasing competition and over-distribution.

adidas Group (ADDDF)

Our price objective of EUR72 (US$47/ADR) is based on DCF methodology. We use a WACC of 9.1%, a 2011A-2022E free cash flow CAGR of 8% and a perpetual growth rate of 2%. At our price objective, the stock would trade on a 2013E exit PE multiple of16x, which compares with a normalized trading range of 13x to 17x over 2005-2008

Downside risks to our price objective: 1/ Rising input costs (labor costs in Asia, raw materials in particular), 2/ Stronger-than-expected reinvestment of profits into marketing initiatives near-term.

Allergan (AGN)

Our $106 price objective for AGN assumes that the stock can trade in one year at approximately 22x our 2013 EPS estimate of $4.92. Our price objective is supported by a sum-of-the-parts discounted cash flow (DCF) analysis, which we believe is based on reasonable assumptions, including (1) mid-to-high single-digit revenue growth through 2016, followed by low single-digit growth, (2) successful lifecycle management / continued exclusivity for the Lumigan and Restasis franchises through 2023, (3) mid-to-high single-digit growth for Botox driven by strong growth for new therapeutic indications (migraine, spasticity, overactive bladder), partially offset by slower growth for cosmetic use as competition increases, and (4) flat operating expense growth beyond 2014. Risks to our price objective are: sector rotation away from Specialty Pharma, macroeconomic pressures, greater-than-expected competition to Botox (29 percent of '11 revenue) from MRX and Ipsen's Dysport and Merz's Xeomin, Restasis, dermal fillers, and breast implants, patent challenges to key products, increased pressure on Medicare/Medicaid sales from potential US austerity measures, greater than expected pressure from price cuts / austerity measures in Europe, and general R and D risks, including pipeline failures.

Anta Sports (ANPDF)

Our 12-month price objective of HK$8.3 is based on a blend of P/E (HK$6.6) and DCF (HK$10) analysis. We applied 9.5x P/E to our 2012E EPS and 12pct WACC, 1.0 beta and 3pct terminal growth to our DCF valuation. We believe a 9.5x 2012E P/E, which is at a 44% discount to its historical mean of 17x, is enough of a discount for the industry's current over-distribution problems and intensive competitive landscape. We like Anta's top-of-mind brand leadership among mass market brands, strong execution and likelihood to benefit from the industry's consolidation in the coming years. At our PO, the stock would be trading at 11.3x 2012E P/E and an 8.3x ex-cash 2012E P/E.

Upside risks are faster-than-expected revenue growth and margin expansion from strong pricing power. Downside risks are over-reliance on distributors, excess inventory in distribution channels, rising production costs, increasing competition, higher marketing spend and execution risks of the FILA deal.

Arena Pharmaceuticals (ARNA)

Our DCF-derived PO of $5 is based on a probability-adjusted sales forecast for lorcaserin and cash and NOLs, partially offset by pipeline investments. Risks to our estimates and price objective are: 1) FDA request for long-term trials, 2) FDA rejection of the lorcaserin NDA, 3) approval with restricted use (e.g., no diabetic patients) and 4) slower-than-expected ramp of sales post-approval. Our PO could be exceeded if 1) the company achieves cost of production that is lower than we expect and 2) if lorcaserin gains market share faster than we project.

Campbell Soup Company (CPB)

Our $34 price objective is based on a 14.0x multiple on our CY12 EPS estimate of $2.43, a 10.0% discount to its packaged food peers. We believe this is warranted given the uncertainty surrounding long-term soup performance sustainability.

Risks to Campbell achieving our price objective are a weak soup category, trade down to private label, increased price competition, higher-than-expected commodity cost inflation, higher-than-expected advertising and promotional spending, or a more negative than expected macro economic environment. Better-than-expected trend in the soup category, trade down, price competition, commodity costs, advertising and promotional spending, or macroeconomic factors could drive upside to our target.

China Dongxiang (CDGXF)

Our PO of HK$1.15 is derived from a blend of P/E (HK$0.52 based on 4.1x 2012E EPS) and DCF (HK$1.76), based on 11.8pct WACC, 0.8 beta and 1pct terminal growth). At our PO, the stock would trade at a 8.8x 2012E P/E, which we think would reflect its risk-reward profile from the standpoint of revenue momentum, margins, inventory and potential M&A.

Upside risks to our PO are the faster-than-expected inventory clearance, upward shift in sales mix and better-than-expected performance of the Phenix skiwear brand in China. Downside risks to our PO are slower-than-expected revenue growth due to inventory overhang and competition, as well as margin pressure from higher input costs, higher marketing spending and reduced operating leverage.

Chipotle Mexican Grill (CMG)

Chipotle is one of the few remaining high-growth restaurant stocks. The company is differentiated by distinctive food and labor cultures. We expect the shares to be rewarded with a premium valuation. The stock also fits our sales leadership industry thesis.

Our $465 price objective is derived by applying a 42x multiple to our 2013 EPS estimate, modestly higher than a 2.0 P/E to sustainable growth (PEG) ratio. Our valuation parameter is pushed up by accelerated sales growth in recent quarters, affirmation of a low teen unit growth goal, potential for improving returns from lower cost new units under the A-model plan, and increasing investor focus on the new Asian concept, Shophouse Southeast Asian Grill. The company is also developing its international business as another potential growth vehicle. We expect the potential of Shophouse and international to push CMG's valuation higher, especially when the company is executing strongly.

There are risks that our price objective could be low if there is a sustained acceleration in either same-store sales gains or unit expansion.

There are also risks that our price objective could be too optimistic if sales slow and/or the margin pressure evident in 2011 persists. Higher food costs pose a specific risk to margins as do potential labor issues around proper documentation of workers. But the likelihood of the labor issue emerging as a serious problem diminishes over time given employee turnover and new hiring practices.

Coloplast-B (CLPBF)

Our Price Objective is DKK 950. We believe that the companys strong improvement in profitability in recent years and current growth momentum justify a valuation in line with the European medtech sector rather than the relative discount at which Coloplast has traded historically (-3.5% 10-year historical average). Assuming a sector valuation and given our underlying assumption that the sector can at least maintain its current valuation levels 12 months forward, implies a 12 month forward PO of DKK 950.

Downside risks to our price objective are 1) Worse than expected and/or surprise reimbursement especially in France or Germany, 2) the wound business not returning to growth mid-term, and 3) a faster than expected deceleration in US continence care sales. Upside risks are 1) large reimbursement cuts not materializing in Europe, 2) a faster than expected turnaround of its Wound & Skin Care division, and 3) unexpected positive reimbursement developments such as a pricing differential for SelfCath and SpeediCath in the US market.

Columbia Sprtswr (COLM)

Our $55 PO is 16x our 2013E EPS of $3.40, or 14x on a net cash adjusted basis ($7/share), supported by (1) strong product innovation led by Omni-Heat, (2) longer-term opportunity to expand the footwear (including Sorel) and women's business, as well as the expansion of new technologies into a greater number of SKUs, and (3) significant long term operating margin upside as COLM continues to improve their product line and distribution strategy. Risks to the downside are a worsening retail environment, unseasonable warm weather trends, a worsening sourcing environment, weakening in Europe, weaker-than-expected traction in new product initiatives and higher-than-expected cost pressures related to investment spend.

ConAgra Foods, Inc. (CAG)

Our $28 price objective is based on a 14.7x multiple on our CY2012 estimate of $1.90, a 5% discount to its packaged food peers. We believe a below peer multiple is justified by lower margins and growth targets.

Risks to ConAgra achieving our price objective are an inability to maintain pricing as commodity costs recede and hedges roll off, weaker than expected volume growth, and trade down to private label.

Danone (GPDNF)

Our PO of EUR58/US$15.4 assumes a 12m fwd PE of 15.6x, in line with the European food sector.

In the European food space, we believe Danone is most likely to see EPS upgrades in 2011 based on reaccelerating topline growth, easing input cost pressures and strong FCF generation.

We believe the shares should be supported as investors continue to favour stocks exposed to EMs in 2011. (BofAML continue to forecast 2011/12E EM GDP growth of 5% as compared to 1.5-2% for developed markets). Danone's high EM exposure (45% of sales) coupled with continued US growth should drive top line, particularly in Dairy and Baby Nutrition.

The shares have de-rated vs. Nestle and Unilever over the past 12 months, and we believe a return to its historical premium to peers is possible if growth reacceleration continues.

The downside risks to our price objective are material and unrecoverable cost inflation, especially in milk and PET, trading down in Europe and US markets, collapse in developing market GDP and currencies, negative impact from the European Food Safety Authority claims process, and large-scale value destructive M&A.

Upside risks are further input cost relief or a sustained reacceleration of top-line growth, leading the Street to put Danone back on a meaningful premium to peers.

Darden (DRI)

Our $62 price objective is based on a P/E of about 15x our FY 2013 EPS estimate. Our targeted multiple is in line with historical mature casual dining valuations in the mid-teens and consistent with Darden's 5-year and 10-year average multiples.

The company's long-term growth rate should be enhanced by the RARE acquisition bumping potential sales growth to 7%-9% and making a targeted 10% to 15% EPS growth rate more sustainable. LongHorn has more unit expansion potential than Olive Garden and Red Lobster brands. Over time, this has potential to raise DRI shares' valuation metrics.

Risks to our price objective are the potential for more prolonged weakness in sales at Olive Garden, DRI's largest brand, that could negate cost control efforts. There is also risk that food costs, which have recently been higher than expected, do not moderate as expected in coming quarters. In addition, we note that earnings growth will be more capital intense and this raises the risk profile for that growth.

We may also be too conservative on our price objective if sales pick up and the company enjoys positive operating leverage on its reduced cost base.

Davita Inc. (DVA)

Our $100 PO represents 8.7x our 2012 EBITDA estimate, at the high end of the company's historical range of 6-10x EBITDA as we expect growth to be solid but well below previous highs in 2005 and 2006. Risks to our price objective are that managed care represents the vast majority of profits for DVA and rising unemployment and the loss of managed care coverage could pressure margins. In addition, we believe that dialysis is generally well positioned under health care reform. However, crowd out represents a potential risk without any volume benefit as an offset.

Dick's Sporting Goods (DKS)

Our $58 PO is 20-21x our F14 EPS estimate of $2.85, in line with DKS' historical average of 21-23x during times of sales and margin expansion, and our outlook should be supported by (1) strength in comp sales guidance, supported by momentum in higher-margin footwear and apparel categories, (2) expected continued margin expansion and (3) continued market share gains and accelerated square-footage growth. Risks are: further weakening of the macro environment and rising gas prices, weaker traffic trends, higher-than-expected cost pressures and the risk of a more competitive pricing environment

Dole Foods (DOLE)

Our $9 price objective is based on our 2012 EBITDA estimate of $374 mil and a 5.8x EV/EBITDA multiple, which is in line with peers Chiquita (CQB) and Fresh Del Monte (FDP) historical multiple of 5.5x-6.0x.

Upside/Downside risks to our price objective are: 1) better/lower than expected banana profits, 2) higher/lower than expected top line growth in the packaged salad business, 3) decline/increase in input costs (i.e., diesel and linerboard), 4) increased/decreased distribution of new products of Packaged Food segment, and 5) faster/slower than expected pay down of debt or sale of non core assets.

Dollar General Corporation (DG)

Our PO of $56 represents a 20x FY12E P/E, which at the high end of its historical range. We think Dollar General deserves a premium for its visible, sustainable, above-market growth and improving fundamentals. Downside risks are intensified macro pressure on its core low-income customer, which affects sales and mix, input cost pressure, which could take time to pass on, execution of its ambitious network expansion plans and planned entry to the California market, direct sourcing and other initiatives. In addition, Wal-Mart's plans to accelerate its Express store openings could pose a competitive threat. Private equity's majority stake is an overhang for the shares. Upside risks are an increase in sales due to consumers striving to conserve spending and/or trade down, more favorable commodity prices, supply chain efficiencies and a stable competitive landscape.

DSM (KDSKF)

Our price objective of EUR49 (US$15.88/ADR) is set on the basis of a DCF valuation methodology (WACC of 8.2%). The basis for this target is an increase in NOPAT margins from 7.8% in 2011 to 8.5% by 2014E with 2.5% terminal growth.

Risks to our price objective are: 1) Loosening of the global vitamin and or/anti-infective markets as a result of more significant Chinese competition): 2) a strengthening or weakening of general industrial production: and 3) movements in the USD versus EUR, and the CHF/$) execution risk/opportunity from management's Vision 2015 portfolio restructuring strategy.

Finish Line (FINL)

Our $28 price objective assumes that FINL will trade at 15x our F14 EPS estimate of $1.85. This multiple is at a slight premium to the average P/E for peer comparable athletic stocks, given favorable athletic trends that should support top-line comps and significant margin upside. Risks to our price objective are declining traffic in US malls, slowing ASP growth, occupancy and SGA cost initiatives, potential loss of share to sporting goods retailers, and reliance on access to key branded athletic product.

Foot Locker (FL)

Our $40 PO is 15-16x our F14 EPS estimate of $2.55. This multiple is at a premium to the average P/E for peer comparable athletic stocks, given favorable athletic trends that should support top-line comps and significant margin upside. This also reflects the expectation of FL's strong cash flow generation, supported by lowered capex, expense reductions, and lean inventory, square footage rationalization, rising ASPs, and maintenance of FL's current $0.72 per share dividend. Risks to our PO are weakening trends in the US with declines in traffic in US malls, deceleration in Western Europe, dependence on key footwear vendors, potential market-share loss to sporting goods and family footwear retailers, and a material deterioration in the macro economy.

Fresenius Medical Care (FMCQF)

Our Price Objective is EUR59 (ADR: US$78.9). We consider a 10% premium to the sector above the stock's 3% 3-year average discount as appropriate. This reflects both the very strong underlying fundamentals of the dialysis industry and improved visibility around regulation, particularly in the US. Given our underlying assumption that the wider sector can maintain its current valuation levels 12 months forward, a 10% premium would imply a PO of EUR59 on our forecasts. We assume a EURUSD rate of 1.35 in calculating our PO.

Upside risks to our price objective are: 1) an announcement from CMS of a large-scale integrated care pilot program in the US 2) the potential for other advanced economy governments to implement efficiency incentives for dialysis clinics, 3) better than expected profitability from US medicare payment reforms. Downside risks: 1) disruption from the introduction of the new reimbursement system in the US and 2) unfavourable reimbursement developments in major markets. In addition FME faces upside and downside FX risk, reporting in USD with a primary listing in EUR.

General Mills (GIS)

Our 12-month price objective of $42 is based on 16x our CY12 EPS estimate of $2.62. Our target multiple is an 3.0% premium to the packaged food group average. We believe GIS should trade at a premium to the group given its

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defensive nature, higher top-line and profit growth prospects, strong portfolio, limited private label penetration, and solid execution compared to its peers. Risks to General Mills achieving our price objective are consumers trading down to private label, higher-than-expected commodity cost inflation, greater-than-expected weakness in Bakeries and Foodservice, and weaker-than-expected International sales.

Getinge (GNGBF)

We assume that a 20% discount to the European medtech sector's valuation, slightly ahead of the stocks 10-year relative P/E valuation (-28%), is appropriate for Getinge to reflect its improving mix and margin expansion potential. Given our underlying assumption that the sector can at least maintain its valuation level 12 months forward, this implies a PO of SEK 201.

Downside risks: worsening European pricing as a result of government austerity measures, a sharp slowdown in hospital capital equipment spending and, in light of the company's leveraged business model, risk related to increases in financing costs. The company also faces currency risks from the appreciation of the SEK vs. major currencies. Upside risks to our estimates are faster-than-expected uptake of new product launches or the announcement of a strategic transaction that the market views as positive.

Gildan Activewear (YGIL)

Our C$32 PO (US$32) is based on a target P/E multiple of just over 14x F2013E EPS (translated into C$ at a rate of $1.01 USD/CAD). Our target multiple is below GIL's historical long-term average forward P/E of 16.5x which reflects near term macro challenges. Our target valuation is also supported by DCF. Key long term assumptions include: long-term sales growth of 12%, EBITDA margin declining from around 20% to 18% partly due to increasing sales mix from retail which we estimate carries lower margin than wholesale, capex intensity at about 7% of sales, WACC of 10% and terminal free cash flow growth of 4%.

Risks: 1) low visibility on pricing and demand, 2) rising input costs, 3) loss of significant customers, 4) changes to free trade or tax regulations, 5) loss of cost advantage as competitors increase offshore manufacturing and 6) integration risks from acquisitions.

H.J. Heinz Company (HNZ)

Our $56 price objective is based on 16.4x our CY12 estimate of $3.41, an 8% premium to the packaged food group. We believe the shares should trade around that level owing to the improvements in the portfolio over the last few years, productivity savings potential and solid long-term outlook, given the emerging market exposure. However, multiple upside potential appears limited by the deal dilution, higher commodity cost inflation, and incremental spending behind Keystone. Downside risks to our PO are: 1) unfavorable exchange rates and 2) continued weakness in consumer trends.

Herbalife (HLF)

Our $65 price objective is based on a multiple valuation, assuming a P/E of 15x our 2013 EPS estimate one year from now, ahead of the direct-seller comp group but we believe justified by volume, sales, and EPS growth well ahead of peers. HLF's balance sheet is also among the strongest of the group. Risks to our price objective are a strengthening of the US$, lack of visibility, negative near-term sentiment, a deceleration in U.S. growth, and failure to obtain additional direct-selling licenses in China.

Hosa International Limited (XSIHF)

We value Hosa at HK$2.30, based on a blend of P/E (HK$2.24) and DCF (HK$2.35). We applied 6.6x P/E to our 2012E EPS with a 0.5x PEG, and apply 14.7pct WACC, 1.3 beta and 3pct terminal growth to our DCF valuation. We think that Hosa should trade at a premium to sportswear sector average given its leadership in an emerging, high-growth sector, but likely at a discount to sportswear brand leaders such as Anta and Li Ning given its shorter financial track record and weaker working capital position. At our PO, the company would be trading at 6.8x 2012E P/E.

Downside risks are network expansion execution, relationships with distributors and retailers, working capital management, increasing competition, over-distribution, channel inventory build, and relationship with the major shareholder-owned fitness gyms.

Kellogg (K)

Our price objective of $55 implies a 16.4x multiple on our FY12 EPS estimate of $3.36, a modest premium to the packaged food group average. We believe Kellogg deserves a premium multiple due to solid top-line growth as a result of strong brands and favorable categories, as well as an above-average dividend yield. Risks to Kellogg achieving our price objective are worse-than-expected currency translation impact, price competition, greater-than-expected consumer trade-down to private label, weaker-than-expected international markets and slower than expected growth from acquisitions.

Kerry Group (KRYAF)

Our PO of EUR 39 ($52.80/ADR) is primarily based on an implied 14.6x forward PE multiple, a modest re-rating vs the 20-year long-run average of 14x. We believe this is justified given Kerry's above-average earnings profile, with a 2012-16E EPS CAGR of 12.5% p.a., organic sales growth 2x that of the market and scope for steady 40-50bps trading margin expansion.

Kerry has a solid track record of earnings growth, with a 2005-11 EPS CAGR of 8.6%, in line or better than large cap Consumer Staples companies. As the largest, most diversified player in the $50bn Ingredients and Flavours market (10% share), Kerry is well positioned to take market share and act as an industry consolidator in this fragmented market.

Our estimates assume EPS growth of 10-11% in 2012-13E with organic sales growth of 4-4.9% at the group level and 5-6% in Ingredients and Flavours. We expect group trading margin expansion of 20-30bps in 2012-13E, driven by operating leverage, efficiency savings and improving mix and partly offset by costs associated with the Kerryconnect SAP programme.

Risks to our price objective are: 1) rising input cost pressures offsetting operating leverage, mix and savings, 2) a large, significantly returns-dilutive acquisition, 3) increased competitive pressures and a deteriorating consumer environment.

Kraft Foods Inc. (KFT)

Our $44 PO is based on a 15.6x multiple on our FY13 EPS estimate of $2.82, in line with top-tier multinationals and at a 20% premium to its packaged food peers. We believe this is justified because KFT's long term annual organic revenue growth of +5% and earnings growth target of +9-11% are higher than the peer group average.

Risk factors in achieving our PO are failed integration of Cadbury Plc., potential increases in input costs in confections and weaker than expected demand due to weak consumer purchasing power.

Li Ning Co Ltd (LNNGF)

We value Li Ning at HK$4.7, based on P/E valuation. We applied 11.5x multiple to our average 2012/13E EPS. This multiple is at a discount to the China consumer sector, given the sportswear industry's still challenging fundamentals and Li Ning's longer-than-expected de-stocking process.

The downside risks to our PO are 1) longer-than-expected completion of distribution restructuring, 2) increasing competition from the global brands, 3) margin erosion from giving extra discounts to distributors and lower margin contribution from the non-Li Ning brands, 4) lapse in monitoring of its franchised sales network, 5) execution risk of the Aigle joint venture and Lotto, 6) EPS dilution from convertible bonds conversion.

The upside risks to our PO are 1) Sharp recovery in trade fair orders, 2) strong ASP growth leading to GPM expansion, 3) significant improvement in lower-tier city SSSG, 4) significant drop in raw material prices such as cotton.

lululemon ath (LULU)

Our $55/C$55 price objective is based on a 29x 2013E P/E. This P/E is above peers, due to what we believe are lulu's best-in-class growth prospects, which include a productive US rollout, rapid e-commerce growth, eventual international expansion and a development concept. Downside risks to our price objective: Operational stumbles could cause sales to be worse than expected. Rapid store growth is not without risk, and we will carefully monitor the challenges of opening so many new stores. A slowdown in consumer demand could cause comps to retrench, and lead to multiple compression. Upside risks to our price objective: faster store growth or greater-than-expected margin growth could drive the stock beyond our target.

Medtronic (MDT)

Our price objective for MDT is $45 or a slight discount to medtech on CY 2013E EPS and EV/EBITDA. Our PO assumes MDT can trade at 11.5x CY2013E EPS, which comes to the medtech average of 12x. We think MDT's significant discount to medtech is no longer warranted as we think MDT's top line growth will accelerate from the current .5% to the 2-4% area going forward on the back of new products and a slowing of the pace of decline in CRM. Upside risks to our PO are increasing confidence in the stability of the CRM and spine markets, better than anticipated ramps in Resolute, CoreValve, and Ardian, and larger than anticipated share repurchases. Downside risks are reimbursement pressures in Spine, slowing growth in Europe, and greater-than-expected market declines, share losses, and/or pricing pressure in CRM.

Nestle (Reg) (NSRGF)

Our Nestlé price objective of CHF60 per share (ADR $67) is based upon a forward PE multiple of 16.1x, toward the upper end of its historical trading range of 12-18x and at a modest premium to its peers.
Our PO is based on our view that there is limited scope for EPS upgrades due to

the risk of slowing top line growth and limited margin expansion in 2012E. While we expect Nestle to deliver 2012 results in line with the Nestle model (5-6pc organic sale growth and an underlying improvement in trading operating margin.), this is already reflected in consensus. We expect the shares could trade sideways as limited scope for EPS upgrades is balanced by the group's defensive earnings growth. In our view, the shares could also serve as a source of cash if investors rotate away from highly valued defensives.

The risks to our price objective are a consumer acceleration/slowdown in developed markets, better/worse than expected growth in developing markets, a weakening/strengthening Swiss franc, and improvement/deterioration in the pricing environment or a drop/rise in key commodity prices.

Nike (NKE)

Our $120 PO is 21x our F2013 EPS estimate of $5.70, which is a premium to the stock's absolute multiple over the last five years of 15-16x but is supported by Nike's global growth outlook given continued market share gains, price increases, accelerating futures orders, powerful footwear product engine, strong execution and global infrastructure, inventory management and continued expansion internationally. Risks are slower growth globally pressuring further top line deceleration and a rotation out of NKE into consumer discretionary names with more earnings recovery potential.

Novo Nordisk (NONOF)

We set a PO of DKK950/US$168.7. Our PO assumes shares trade at c23x FY13E PE. We believe this multiple is justified by 1) Based on the 17% EPS CAGR, almost 3x the 6% sector average 2) Assumes shares trade towards to the top-end of the 17-23x historic trading range, which we believe appropriate given company's growth outlook plus EPS momentum potential from obesity data.

Risks to our PO are worse-than-expected margin progression, a stall in market share gains for Victoza for diabetes, delay to approval of Degludec, material delays to Victoza in obesity and earlier-than-expected generic competition to insulin analogues.

Orexigen Therapeutics (OREX)

Our DCF-derived PO of $7 is based on a risk-adjusted present value estimate for Orexigen's obesity drug Contrave combined with its cash position. We use a WACC of 13%, commensurate with market risk and no terminal value after 2025, assuming competitive products will enter the market.

Risks to our estimates and price objective are 1) departure of key management personnel, and 2) the cardiovascular outcomes trial does not achieve its primary endpoint. Our PO could be exceeded if 1) Orexigen secures a partner for ex-US sales of Contrave in obesity or a partner for the obese depressed indication, 2) the trial enrollment occurs faster than expected, and 3) managed care organizations add weight loss drugs to formularies.

Panera Bread Co. (PNRA)

Panera is well-positioned as a proven growth brand in the quick-casual sector of the restaurant industry.

Our price objective is $170 and represents a roughly 25x-26x P/E multiple applied to our 2013 EPS estimate. This represents a 1.3x to 1.7x P/E to Growth (PEG) ratio, a plausible range, in our view, given the company's strong fundamental positioning. This valuation is roughly in line with the stock's five year average. PNRA's premium target valuation is supported by industry-leading sales trends, very strong financials and the potential for accelerated unit growth.

There are risks to our price objective in both directions. Sales and traffic counts could weaken if the economic recovery is mild, especially as stronger sales are lapped. In addition, we note that PNRA holds itself to high standards that are included in guidance and this makes it more difficult for the company to significantly exceed Street expectations.

Alternatively, Panera is a well-managed company and might do even better than we are anticipating despite challenging economic conditions. The brand is well-executed and has much flexibility from a product and marketing perspective.

PepsiCo (PEP)

Our 12-month price objective of $72 is based on 16.3x our FY13E EPS of $4.42. This would put PEP at a 6% discount to KO. In our view, this valuation is reasonable given the company's exposure to high value categories (soft drinks and snacks) and attractive growth opportunities outside of the US. Downside risks to our price objective and investment thesis are higher than expected commodity inflation and industry challenges in North America soft drinks.

Pou Sheng International (PSHGF)

We value Pou Sheng at HK$0.63/share derived from a blend of P/E (HK$0.54 based on 8.5x CY12/13E P/E and DCF (HK$0.70 based on 10.6% WACC, 0.8 beta and 3% terminal growth). At our price objective, Pou Sheng would trade at 8x CY2012/13 P/E, a 25% discount to its avg trading multiple.

The downside risks are rising rentals and staff costs, inventory management, challenges in acquiring and integrating regional joint ventures, heavy dependence on brand owners, and increasing competition from global and domestic brands. The upside risks are better-than-expected growth in high-end sportswear demand, early and successful accretive acquisitions of RJVs, and larger-than-expected support from brand owners.

Seneca Foods Corporation (SENEA)

Our $21 price objective is based on 10x our CY12 EPS estimate of $2.14. Given the cyclical nature of its earnings we expect the stock to trade at a higher than average multiple on depressed earnings. Downside risks to our PO are higher-than-expected volatility on crop prices, consumer trade up or out of canned produce, dual share structure overhang, and secular decline in the canned food industry. Upside risks to our PO are better-than-expected volumes as consumers trade into and down to value-oriented food, such as canned fruits and vegetables, and lower-than-expected input costs.

Smith & Nephew (SNNUF)

We believe that Smith & Nephew's discount to the wider European medtech sector is justified given the challenging outlook for the wider orthopaedic and wound management markets. We consider a 25% discount to the sector, slightly below the company's 3yr average discount of 23%, as appropriate. Given our underlying view that the sector can maintain its current valuation levels 12 months forward, this implies a PO of 635p ($49.55).

Upside risks to our price objective are a faster-than-expected recovery in the hip and knee markets, better-than-expected margins esulting from either higher synergies from manufacturing relocation to low-cost regions or operating efficiencies. Downside risks comprise the potential for further slowdown in the joint reconstruction market driven by pricing pressure from governments and private insurers in the US, further European government austerity measures that could negatively effect pricing, product recalls and associated litigation, and foreign exchange.

Sports Direct International (SDIPF)

In common with other sportswear retailers we base our price objective of 350p on DCF analysis using a WACC of 8.5% and terminal growth rate of 0.5%, to reflect the company's well established position in the UK but also as it has some growth potential overseas.

On a calendar 2012 P/E basis, Sports Direct is trading on c.13x, a c.20% premium to the UK General Retail sector. However we model a 3 year CAGR in EPS of 13% for Sports Direct between 2011 and 2014 well ahead of the sector average of 7%. Also Sports Direct trades more in line with a global peer group of sport retailers.

Since its IPO in 2007 Sports Direct has traded on a forward P/E of between 5x and 15x and so its current P/E is towards the top end of that range. However we think the long term outlook has improved due to the company's international and online potential, and its employee bonus share scheme.

Risks are a) inventory risk - Sports Direct's margin may be lower than planned if it is forced to clear unsold inventory b) macro risk - the UK consumer environment may be weaker than anticipated c) potential supply chain disruption or input cost pressures or d) share price volatility due to the the limited free float and lack of liquidity.

St Jude Medical (STJ)

Our price objective for STJ is $50, which is based on a 2013E P/E multiple of 13.5x. Given the strength of the STJ pipeline, we believe STJ should be able to grow at a premium to other companies in medtech with the potential for double-digit earnings CAGR over the long term. We believe a premium to the group is warranted as a result of its superior growth outlook. Large cap medtech trades at 12x 2013E EPS.

Risks to our price objective are the potential for a continued worse-than-expected slowdown in the ICD market or worse than expected performance issues with STJ's Riata ICD lead. Another risk to STJ is that its fast-growing and very visible AFib business does have an elective component to it, which may result in a temporary slowdown in that business as growth in the broader economy remains subdued.

Stryker Corp (SYK)

Our $57 price objective for SYK equates to 13.9x our 2012 earnings estimate of $4.10. This multiple is significantly below SYK's 3-year average multiple of 20x, given the meaningful decline in growth expectations for SYK relative to historical rates. Any upside to our price objective would likely be driven by a 1) lower-than-expected impact from the economy, 2) greater-than-expected impact from JNJ and ZMH's share losses, or 3) consistently strong earnings growth given SYK's increasingly diversified business model. The stock could potentially see downside to our price objective if the economic impact on the Med Surg business from lower capex spending is worse than anticipated or if the hip and knee markets also see a greater impact from the economy than expected.

The Fresh Market (TFM)

$65 PO is based on 37x our F14E EPS of $1.68. Our comparable group of five other high-growth, specialty retailers, have an average long-term EPS growth rate of 22% (ranging from 16% to 32%) and 2012E P/E multiple of 40x. In addition to a strong unit growth outlook and compelling store economics, we forecast solid operating margin expansion from already strong levels (F12A op margin of 7.8%). Combined with our outlook for 3-5% same-store sales growth (vs. 5.6% average comp since 2000), we forecast a 22% 5-year EPS CAGR over the next 5 years. Risks are: economic and competitive pressures, real estate risks and new market expansion (expected entrance into California in 2012/2013 and recently began expansion into Northeast), food pricing trends, execution risk from vendors (including key distribution partner and product suppliers) and company management as the company transitions to operating as a public company and food safety and regulatory risks. Additional risks are volatility in quarterly results which can be affected by calendar timing issues and comparisons.

Under Armour (UA)

Our $120 PO is 39x our C13 EPS estimate of $3.05, in-line with UA's historical 35-40x PE average. Momentum in top-line acceleration should be driven by expansion in core apparel, Direct to Consumer, and the launch of "Charged Cotton". Longer term, UA should triple in revenues through growth in footwear (should become larger than apparel) and International (should become as large as the US). Risks are increased investments to support key launches, potential for missed execution of key launches, pressured near-term growth from a tough US environment, pressured margins related to high inventory levels, and delayed traction in international.

Unilever NV (UNLNF)

Our price objective is EUR26 (US$34.70/ADR), which is based on a forward PE of 15.8x, somewhat below the mid-point in its historical trading range. This reflects our expectations for consensus EPS downgrades, as the market adopts Unilever's core EPS definition, which includes recurring restructuring equal to c.130bps of sales. Sales growth should slow in 2012, as Unilever faces difficult pricing comps, while market growth is expected to trend 100bps lower in 2012. Margin expansion is expected to be limited as input costs could surprise to the upside, while A&P spend could step up to bolster weak sales growth.

The risks to our price objective are a recovery in consumer spending in developed markets, input price relief, a strengthening of developing market currencies and a further rotation into defensive names.

United Natural Foods, Inc. (UNFI)

Our $55 price objective assumes 23-24x our calendar 2013E EPS of $2.33. UNFI's average two-year forward PE over last 10 years is 19x, ranging 5x-29x on a long-term basis. We believe UNFI has several distinguishing strategic and competitive advantages that should continue to separate it from its competitors, supporting a strong growth outlook. Potential growth from new channels, acquisitions and existing customers thru SKU and category expansion is supported by favorable industry trends, in our opinion. Risks are: competition, execution risks associated with acquisition integration risks, natural and organic sales trends and innovation levels, technology and supply chain risks, increased adoption of high-turning natural and organic products by mainstream distributors, customer shifts towards self-distribution, Canadian dollar exchange rate risk, fuel price fluctuations, higher than expected gross margin pressures, inflation rates and risk of loss of largest customer (Whole Foods, 37% of business).

Vitamin Shoppe, Inc. (VSI)

Our $54 PO is based on 27x our 2012E EPS, which is essentially in line with its historical average. With outsized earnings growth tapering off, we value the company at a premium to the Hardline Retail average for its solid growth potential. We believe VSI's growth prospects and share-gain opportunities remain healthy, but with EPS growth forecast to slow to mid-teens in 2013/14, similar to other companies in our universe, we see few near-term catalysts to underpin further multiple expansion. Downside risks to our PO are an increased slowdown in the economy, unfavorable changes in commodity costs, changes in federal or state laws, health-related studies from credible sources that could have negative implications for certain products, supply chain difficulties, changes in the competitive landscape, changes in consumer sentiment, difficulties with new product introduction, and unforeseen difficulties with store expansion. Upside risks to our PO are a materially better macroeconomic environment, more favorable commodity costs, supply chain efficiencies, a stable or easing competitive landscape, relative ease of adaptability for e-commerce strategies, and a smooth progression of store expansion.

Vivus, Inc. (VVUS)

Our DCF-derived price objective of $30 is based on risk-adjusted product sales estimates for Qnexa ($25) in obesity and avanafil ($1) in erectile dysfunction, with the balance from NOLs and cash. We use a WACC of 11%, commensurate with market risk and no terminal value, assuming competitive products will enter the market. Risks to our estimates and PO are: 1) a request from FDA to run a pre-approval CV outcomes trial, 2) additional requests for teratogenicity data, 3) a slower-than-expected ramp to sales once Qnexa is approved, and 4) approval with restrictions on large patient populations. Upside to our price objective would come from 1) earlier than expected approval 2) securing a commercialization partner prior to receiving FDA approval and 3) a faster and stronger-than-expected ramp in sales after approval.

Weight Watchers International (WTW)

Our 12m price objective of $82 is based on a 15x target multiple on our 2013 EPS estimate one year from now, a discount to WTW's historical average. Our target also assumes that WTW trades at a discount to our HPC comp universe, despite much faster long-term revenue and earnings growth, more than triple the ROIC of the HPC group, and nearly double the operating margins. Risks to our PO are if new program gains prove unsustainable, and pressure from various forms of competition ranging from other weight-loss programs to weight-loss drugs, deceleration in the online business, and a weak macroeconomic environment.

Whole Foods Market, Inc. (WFM)

Our $100 price objective assumes 36x our F13E EPS of $2.75 (average 2-year forward PE over the last 10 years of 28x, with a long-term range of 47x to 9x). We believe WFMI valuation is attractive given its strong sales and margin outlook and its strategy to improve its competitive price position and enhance its cost discipline, which broadens WFMIs growth prospects and supports an outlook for improving returns while lowering the companys operating risk profile. Risks to our call are 1) general economic factors influencing consumer spending behaviors, 2) food pricing trends and competitive pressures, 3) availability of quality real-estate sites for new store growth plans, 4) supply and demand for natural and organic products, 5) innovation levels in the natural and organic products industry, 6) foreign exchange risk (roughly 3% of WFMIs sales are from Canada and the United Kingdom), 7) risks related to execution of distribution and 8) food safety and industry regulatory factors.

Yue Yuen (YUEIF)

Our PO of HK$29.5 is derived from a blend of P/E (HK$29.3 or 11x CY12/13E P/E), DCF (HK$29.4 based on 0.7 beta, 10% WACC, and 2.0% terminal growth) and SOTP (HK$30.2 based on 11x for CY12/13E OEM profit, 10x for FY12/13E retail profit, and BV for JCE and associates). At our PO, Yue Yuen would be trading at 10.5x CY12/13E P/E, in line with its 5-year historical trading average, which we believe is warranted by the stronger manufacturing and retail outlook.

The upside risks to our price objective are 1) faster-than-expected OEM order recovery, 2) significant drop in raw material prices, 3) RMB depreciation, 4) higher-than-expected contribution from China retail operations, and 5) higher-than-expected market share gains. The downside risks to our price objective are a slower-than-expected recovery in OEM sales and retail earnings.

Zimmer (ZMH)

Our $66 price objective for ZMH is based on a 2012E earnings multiple of 12.8x, which is an approximately one point premium to the medtech space on a P/E basis but a full point discount to the medtech group based on an EBITDA basis given the growing cash on ZMH's balance sheet. If we see signs or reasons to believe in pricing stability in ortho long term there would be meaningful upside to this target multiple. ZMH could see downside to our PO if the economic impact on the ortho market, particularly pricing and volume, is worse than expected in 2012. On the flip side ZMH could see upside to our PO if the ortho market experiences steady improvement in 2012. ZMH remains highly leveraged to the economy and to the shifting dynamics in the hospital setting that are altering the relationship between the surgeons and the manufacturers.

Link to Definitions

Basic Materials

Click here for definitions of commonly used terms.

Consumer & Retail

Click here for definitions of commonly used terms.

Healthcare

Click here for definitions of commonly used terms.

Industrials

Click here for definitions of commonly used terms.

Analyst Certification

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Canada - Consumer and Media Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Alimentation Couche-Tard	YATDB	ATD/B CN	Chris Li, CFA
	Empire Co.	YEMP A	EMP/A CN	Chris Li, CFA
	George Weston	YWN	WN CN	Chris Li, CFA
	Gildan Activewear	GIL	GIL US	Chris Li, CFA
	Gildan Activewear	YGIL	GIL CN	Chris Li, CFA
	Loblaw	YL	L CN	Chris Li, CFA
	Metro	YMRU	MRU CN	Chris Li, CFA
NEUTRAL				
	Jean Coutu	YPJCA	PJC/A CN	Chris Li, CFA
	Shoppers Drug Mart	YSC	SC CN	Chris Li, CFA
UNDERPERFORM				
	Lamar Advertising	LAMR	LAMR US	Chris Li, CFA
	Transcontinental	YTCLA	TCL/A CN	Chris Li, CFA
	Yellow Media Inc.	YYLO	YLO CN	Chris Li, CFA

EMEA - Big Cap Pharmaceuticals Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Bayer	BAYZF	BAYN GR	Sachin Jain, CFA
	Bayer	BAYRY	BAYRY US	Sachin Jain, CFA
	GlaxoSmithKline	GSK	GSK US	Graham Parry
	GlaxoSmithKline	GLAXF	GSK LN	Graham Parry
	Novo Nordisk	NONOF	NOVOB DC	Sachin Jain, CFA
	Novo Nordisk	NVO	NVO US	Sachin Jain, CFA
	Roche Holdings	RHHBF	ROG VX	Sachin Jain, CFA
	Roche Holdings	RHHBY	RHHBY US	Sachin Jain, CFA
NEUTRAL				
	AstraZeneca	AZN	AZN US	Sachin Jain, CFA
	AstraZeneca	AZNCF	AZN LN	Sachin Jain, CFA
	Merck KGaA	MKGAF	MRK GR	Sachin Jain, CFA
	Sanofi	SNYNF	SAN FP	Graham Parry
	Sanofi	SNY	SNY US	Graham Parry
	Shire	SHPGF	SHP LN	Graham Parry
	Shire	SHPGY	SHPGY US	Graham Parry
UNDERPERFORM				
	Ipsen	IPSEF	IPN FP	Sachin Jain, CFA
	Novartis (Reg.)	NVSEF	NOVN VX	Graham Parry
	Novartis (Reg.)	NVS	NVS US	Graham Parry

EMEA - Chemicals & Paper Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Arkema	ARKAF	AKE FP	Laurent Favre, CFA
	Arkema - A	ARKAY	ARKAY US	Laurent Favre, CFA
	BASF	BFFAF	BAS GR	Laurent Favre, CFA
	BASF	BASFY	BASFY US	Laurent Favre, CFA
	Croda	COIHF	CRDA LN	Andrew Stott
	Lanxess	LNXSF	LXS GR	Andrew Stott
	Rexam	REXMF	REX LN	Ross Gilardi
	Rexam	REXMY	REXMY US	Ross Gilardi
	Solvay S.A.	SVYSF	SOLB BB	Laurent Favre, CFA
	Syngenta	SYENF	SYNN VX	Andrew Stott
	Syngenta AG	SYT	SYT US	Andrew Stott
	Yule Catto	YULCF	YULC LN	Fabio Lopes
NEUTRAL				

EMEA - Chemicals & Paper Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
	Air Liquide	AIQUF	AI FP	Andrew Stott
	Air Liquide	AIQUY	AIQUY US	Andrew Stott
	Clariant	CLZNF	CLN VX	Andrew Stott
	DSM	KDSKF	DSM NA	Andrew Stott
	DSM	DSM	RDSMY US	Andrew Stott
	Israel Chemicals Limited	ISCHF	ICL IT	Andrew Stott
	Johnson Matthey	JMPLF	JMAT LN	Andrew Stott
	Johnson Matthey	JMPLY	JMPLY US	Andrew Stott
	Linde	LNAGF	LIN GR	Laurent Favre, CFA
	Victrex	VTXPF	VCT LN	Fabio Lopes
UNDERPERFORM				
	Akzo Nobel	AKZOF	AKZA NA	Laurent Favre, CFA
	Akzo Nobel	AKZOY	AKZOY US	Laurent Favre, CFA
	Givaudan	GVDBF	GIVN VX	Andrew Stott
	K+S	KPLUF	SDF GR	Andrew Stott
	Lenzing AG	LNZNF	LNZ AV	Fabio Lopes
	Symrise	SYIEF	SY1 GR	Laurent Favre, CFA
	Umicore	UMICF	UMI BB	Andrew Stott
	Yara	YRAIF	YAR NO	Laurent Favre, CFA

EMEA - Consumer Staples Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	AB InBev	BUD	BUD US	Nik Oliver
	Anheuser-Busch InBev	AHBIF	ABI BB	Nik Oliver
	Assoc Brit Foods	ASBFY	ASBFY US	Robert Waldschmidt
	Associated British Foods	ASBFF	ABF LN	Robert Waldschmidt
	Beiersdorf	BDRFF	BEI GR	Jacklyn Oh
	C&C	CGPZF	GCC ID	Henry Davies
	Campari	DVDCF	CPR IM	Nik Oliver
	Carlsberg	CABJF	CARLB DC	Nik Oliver
	Diageo	DEO	DEO US	Nik Oliver
	Diageo	DGEAF	DGE LN	Nik Oliver
	Henkel	HENOY	HENOY US	Jacklyn Oh
	Henkel	HENOF	HEN3 GR	Jacklyn Oh
	Kerry Group	KRYAF	KYG ID	Jacklyn Oh
	Kerry Group	KRYAY	KRYAY US	Jacklyn Oh
	Pernod Ricard	PDRDF	RI FP	Henry Davies
	Reckitt Benckiser	RBGPF	RB/ LN	Robert Waldschmidt
	Reckitt Benckiser	RBGPY	RBGPY US	Robert Waldschmidt
	SABMiller Plc	SBMRF	SAB LN	Nik Oliver
	Swedish Match	SWMAF	SWMA SS	Henry Davies
NEUTRAL				
	Brit American	BTAFF	BATS LN	Henry Davies
	Brit American	BTI	BTI US	Henry Davies
	Britvic	BTVCF	BVIC LN	Henry Davies
	Heineken	HINKF	HEIA NA	Henry Davies
	Heineken NV	HINKY	HINKY US	Henry Davies
	Imperial Tobacco	ITYBF	IMT LN	Nik Oliver
	Nestle (Reg)	NSRGF	NESN VX	Robert Waldschmidt
	Nestle (Reg)	NSRGY	NSRGY US	Robert Waldschmidt
UNDERPERFORM				
	Coca-Cola Hellenic	CCHBF	EEEK GA	Henry Davies
	Coca-Cola Hellenic ADR	CCH	CCH US	Henry Davies
	Danone	DANOY	DANOY US	Robert Waldschmidt
	Danone	GPDNF	BN FP	Robert Waldschmidt
	Lindt & Sprungli	COCXF	LISN SW	Jacklyn Oh
	L'Oreal	LRLCF	OR FP	Robert Waldschmidt
	L'Oreal	LRLCY	LRLCY US	Robert Waldschmidt

EMEA - Consumer Staples Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
	Remy Cointreau	REMYF	RCO FP	Nik Oliver
	Unilever	UL	UL US	Robert Waldschmidt
	Unilever	UNLYF	ULVR LN	Robert Waldschmidt
	Unilever NV	UN	UN US	Robert Waldschmidt
	Unilever NV	UNLNF	UNA NA	Robert Waldschmidt

EMEA - Luxury Goods Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Adidas AG-ADR	ADDYY	ADDYY US	Rodolphe Ozun
	adidas Group	ADDDF	ADS GR	Rodolphe Ozun
	Christian Dior	CHDRF	CDI FP	Rodolphe Ozun
	Hugo Boss AG	HUGPF	BOS3 GR	Claus Roller, CFA
	LVMH	LVMHF	MC FP	Rodolphe Ozun
	Prada SpA	PRDSF	1913 HK	Maud Penillard
NEUTRAL				
	Burberry	BBRYF	BRBY LN	Rodolphe Ozun
	Hermes	HESAF	RMS FP	Rodolphe Ozun
	Swatch Group	SWGAF	UHR VX	Rodolphe Ozun
UNDERPERFORM				
	Damiani	XDMNF	DMN IM	Rodolphe Ozun
	PPR	PPRUF	PP FP	Rodolphe Ozun
	Richemont	CFRHF	CFR VX	Rodolphe Ozun
	TOD'S Group	TODGF	TOD IM	Rodolphe Ozun

EMEA - Medtech Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Amplifon S.p.A.	AMFPF	AMP IM	Ed Ridley-Day
	Fresenius Med	FMS	FMS US	Ed Ridley-Day
	Fresenius Medical Care	FMCQF	FME GR	Ed Ridley-Day
	Fresenius SE & Co KGaA	FSNUF	FRE GR	Ed Ridley-Day
	Getinge	GNGBF	GETIB SS	Ed Ridley-Day
	William Demant	WILLF	WDH DC	Ed Ridley-Day
NEUTRAL				
	Coloplast-B	CLPBF	COLOB DC	Ed Ridley-Day
	Essilor	ESLOF	EI FP	Ed Ridley-Day
	Essilor	ESLOY	ESLOY US	Ed Ridley-Day
	Smith & Nephew	SNNUF	SN/ LN	Ed Ridley-Day
	Smith & Nephew	SNN	SNN US	Ed Ridley-Day
	Sonova	SONVF	SOON VX	Ed Ridley-Day
UNDERPERFORM				
	Celesio	CAKFF	CLS1 GY	Ed Ridley-Day
	Celesio	CAKFY	CAKFY US	Ed Ridley-Day
	Nobel Biocare	NBHGF	NOBN VX	Ed Ridley-Day
	Straumann	SAUHF	STMN SW	Ed Ridley-Day

EMEA - Retailers: Food & General Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Asos	ASOMF	ASC LN	Aurelie Caspar
	Debenhams	XEBHF	DEB LN	Aurelie Caspar

EMEA - Retailers: Food & General Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
	H&M	HMRZF	HMB SS	Richard Chamberlain
	Halfords	HLFDF	HFD LN	Aurelie Caspar
	Kingfisher	KGFHF	KGF LN	Aurelie Caspar
	Kingfisher	KGFHY	KGFHY US	Aurelie Caspar
	Marks & Spencer	MAKSF	MKS LN	Richard Chamberlain
	Marks & Spencer	MAKSY	MAKSY US	Richard Chamberlain
	N Brown	NBRNF	BWNG LN	Aurelie Caspar
	Sports Direct International	SDIPF	SPD LN	Richard Chamberlain
	SuperGroup	SEPGF	SGP LN	Aurelie Caspar
	WH Smith	WHTPF	SMWH LN	Richard Chamberlain
NEUTRAL				
	Dixons Retail plc	DSITF	DXNS LN	Aurelie Caspar
	Dunelm Mill	XGOEF	DNLM LN	Richard Chamberlain
	Home Retail Group	HMRLF	HOME LN	Richard Chamberlain
	Inditex	IDEXF	ITX SM	Richard Chamberlain
	Next	NXGPF	NXT LN	Richard Chamberlain
UNDERPERFORM				
	Carphone Warehouse	XRWCF	CPW LN	Richard Chamberlain
	Kesa Electricals	KESAF	KESA LN	Aurelie Caspar

HK/China Consumer Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Anta Sports	ANPDF	2020 HK	Chen Luo, CFA
	Belle International Holdings Limited	BELLF	1880 HK	Chen Luo, CFA
	China Modern Dairy Holdings Ltd	XMODF	1117 HK	Tina Long, CFA
	China Resources Enterprise Ltd.	CRHKF	291 HK	Chen Luo, CFA
	Chow Sang Sang Holdings Int'l Ltd	CHOWF	116 HK	Tina Long, CFA
	Chow Tai Fook Jewellery	XNQDF	1929 HK	Tina Long, CFA
	Daphne International Holdings Limited	DPNEF	210 HK	Chen Luo, CFA
	Giordano	GRDZF	709 HK	Raymond Ching
	Hengan Intl	HEGIF	1044 HK	Tony Tseng, CFA
	Hosa International Limited	XSIHF	2200 HK	Chen Luo, CFA
	Intime Dept	INTIF	1833 HK	Chen Luo, CFA
	L'Occitane International S.A.	LCCTF	973 HK	Tina Long, CFA
	Sitoy Group Holdings Ltd	XSTYF	1023 HK	Raymond Ching
	Springland International Holdings Ltd.	XIPLF	1700 HK	Chen Luo, CFA
	Stella International Holdings Limited	SLNLF	1836 HK	Raymond Ching
	Trinity Limited	TTTXF	891 HK	Tina Long, CFA
	Uni-president China	UNPSF	220 HK	Tony Tseng, CFA
	Vinda Intl Hldgs	XVIHF	3331 HK	Tony Tseng, CFA
	Want Want China	WWNTF	151 HK	Tony Tseng, CFA
	Wumart Stores	WUMSF	1025 HK	Chen Luo, CFA
	Yue Yuen	YUEIF	551 HK	Tony Tseng, CFA
NEUTRAL				
	361 Degrees International Limited	TSIOF	1361 HK	Chen Luo, CFA
	China Lilang Ltd.	CHGDF	1234 HK	Tina Long, CFA
	Golden Eagle	GDNEF	3308 HK	Chen Luo, CFA
	Li & Fung	LFUGF	494 HK	Tony Tseng, CFA
	Lianhua Superm-H	LHUAF	980 HK	Chen Luo, CFA
	Luk Fook Holdings	LKFLF	590 HK	Tina Long, CFA
	Mengniu Dairy	CIADF	2319 HK	Tina Long, CFA
	Parkson Retail	PKSGF	3368 HK	Chen Luo, CFA
	Ports Design Ltd	PDESF	589 HK	Tina Long, CFA
	Tingyi	TCYMF	322 HK	Tony Tseng, CFA
UNDERPERFORM				
	Ajisen China	AJSCF	538 HK	Lucy Yu
	Bawang International Holding Limited	XBWGF	1338 HK	Raymond Ching
	China Dongxiang	CDGXF	3818 HK	Chen Luo, CFA

HK/China Consumer Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
	Country Style Cooking Restaurant Chain	CCSC	CCSC US	Lucy Yu
	Esprit Holdings	ESHDF	330 HK	Tony Tseng, CFA
	GOME Electrical	GMELF	493 HK	Chen Luo, CFA
	Li Ning Co Ltd	LNNGF	2331 HK	Chen Luo, CFA
	Pou Sheng International	PSHGF	3813 HK	Raymond Ching
	Tsingtao Brew.	TSGTF	168 HK	Tina Long, CFA
	Tsingtao Brew.-A	TSGTY	TSGTY US	Tina Long, CFA
	Yashili International Holdings Ltd	XYILF	1230 HK	Tina Long, CFA
RVW				
	China Hongxing	CIXGF	CHHS SP	Denise Chai, CFA

Japan - Retailing Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Aeon	AONNF	8267 JP	Hidehiko Aoki, CFA
	Asics Corporation	ASCCF	7936 JP	Hidehiko Aoki, CFA
	Don Quijote	DQJCF	7532 JP	Hidehiko Aoki, CFA
	Fast Retailing	FRCOF	9983 JP	Hidehiko Aoki, CFA
	Komeri	KRILF	8218 JP	Hidehiko Aoki, CFA
	Seven & i Hldg	SVNDF	3382 JP	Hidehiko Aoki, CFA
	Shimamura	SHAOF	8227 JP	Hidehiko Aoki, CFA
	Sugi Holdings	SGIPF	7649 JP	Hidehiko Aoki, CFA
	Sundrug	SDGCF	9989 JP	Hidehiko Aoki, CFA
	UNY	UNYAF	8270 JP	Hidehiko Aoki, CFA
	Valor Co Ltd	VLRZF	9956 JP	Hidehiko Aoki, CFA
	Yamada Denki	YMDAF	9831 JP	Hidehiko Aoki, CFA
NEUTRAL				
	FamilyMart	FYRTF	8028 JP	Hidehiko Aoki, CFA
	J. FRONT Retailing	JFROF	3086 JP	Hidehiko Aoki, CFA
	Lawson	LWSOF	2651 JP	Hidehiko Aoki, CFA
UNDERPERFORM				
	Daiei	DIIEF	8263 JP	Hidehiko Aoki, CFA
	Isetan Mitsukoshi Holdings	IMHDF	3099 JP	Hidehiko Aoki, CFA
	Marui Group	MAURF	8252 JP	Hidehiko Aoki, CFA
	Matsumotokiyoshi	MSMKF	3088 JP	Hidehiko Aoki, CFA
	Takashimaya	TKSHF	8233 JP	Hidehiko Aoki, CFA

US - Apparel & Footwear/Discount Stores & Supermarkets Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Carter's Inc	CRI	CRI US	Robert F. Ohmes, CFA
	Casey's General Stores, Inc.	CASY	CASY US	Kelly A. Bania
	Columbia Sprtswr	COLM	COLM 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
	Finish Line	FINL	FINL US	Robert F. Ohmes, CFA
	Foot Locker	FL	FL US	Robert F. Ohmes, CFA
	Nike	NKE	NKE US	Robert F. Ohmes, CFA
	Skullcandy Inc	SKUL	SKUL US	Robert F. Ohmes, CFA
	Susser Holdings Corp	SUSS	SUSS US	Kelly A. Bania
	The Fresh Market	TFM	TFM US	Robert F. Ohmes, CFA
	The Jones Group	JNY	JNY US	Robert F. Ohmes, CFA
	Under Armour	UA	UA US	Robert F. Ohmes, CFA
	United Natural Foods, Inc.	UNFI	UNFI US	Robert F. Ohmes, CFA
	V F Corp	VFC	VFC US	Robert F. Ohmes, CFA
	Wal*Mart Stores	WMT	WMT US	Robert F. Ohmes, CFA

US - Apparel & Footwear/Discount Stores & Supermarkets Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
	Whole Foods Market, Inc.	WFM	WFM US	Robert F. Ohmes, CFA
NEUTRAL				
	Phillips-Van Heusen Corporation	PVH	PVH US	Robert F. Ohmes, CFA
	Ralph Lauren	RL	RL US	Robert F. Ohmes, CFA
	Supervalu Inc	SVU	SVU US	Kelly A. Bania
	Target Corp.	TGT	TGT US	Robert F. Ohmes, CFA
	Warnaco Group, Inc.	WRC	WRC US	Robert F. Ohmes, CFA
UNDERPERFORM				
	Guess? Inc	GES	GES US	Robert F. Ohmes, CFA
	Iconix Brand Grp	ICON	ICON US	Robert F. Ohmes, CFA
	K-Swiss	KSWS	KSWS US	Robert F. Ohmes, CFA
	Perry Ellis International	PERY	PERY US	Robert F. Ohmes, CFA
	Safeway Inc.	SWY	SWY US	Robert F. Ohmes, CFA
	The Kroger Co.	KR	KR US	Robert F. Ohmes, CFA

US - Biotechnology Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Alexion Pharmaceuticals, Inc.	ALXN	ALXN US	Rachel McMinn
	Alkermes plc	ALKS	ALKS US	Steve Byrne, CFA
	Biocryst Pharmaceuticals Inc	BCRX	BCRX US	Steve Byrne, CFA
	Biogen Idec, Inc.	BIIB	BIIB US	Rachel McMinn
	Cubist Pharmaceuticals, Inc.	CBST	CBST US	Steve Byrne, CFA
	Gilead Sciences Inc	GILD	GILD US	Rachel McMinn
	Idenix Pharmaceuticals	IDIX	IDIX US	Rachel McMinn
	Incyte Corporation	INCY	INCY US	Rachel McMinn
	Onyx Pharmaceuticals, Inc.	ONXX	ONXX US	Rachel McMinn
	Optimer Pharmaceuticals, Inc	OPTR	OPTR US	Steve Byrne, CFA
	Orexigen Therapeutics	OREX	OREX US	Steve Byrne, CFA
	Regeneron Pharmaceuticals	REGN	REGN US	Steve Byrne, CFA
	Theravance	THRX	THRX US	Steve Byrne, CFA
	Trius Therapeutics	TSRX	TSRX US	Steve Byrne, CFA
	Vertex Pharmaceuticals, Inc.	VRTX	VRTX US	Rachel McMinn
	Vivus, Inc.	VVUS	VVUS US	Steve Byrne, CFA
NEUTRAL				
	Amgen Inc.	AMGN	AMGN US	Rachel McMinn
	Ariad Pharmaceuticals, Inc.	ARIA	ARIA US	Rachel McMinn
	Celgene Corp	CELG	CELG US	Rachel McMinn
	Dendreon Corporation	DNDN	DNDN US	Rachel McMinn
	Ironwood Pharmaceuticals, Inc.	IRWD	IRWD US	Rachel McMinn
	Seattle Genetics	SGEN	SGEN US	Rachel McMinn
	ViroPharma Incorporated	VPHM	VPHM US	Rachel McMinn
	YM Biosciences	YMI	YMI US	Rachel McMinn
UNDERPERFORM				
	Achillion Pharmaceuticals, Inc.	ACHN	ACHN US	Rachel McMinn
	Arena Pharmaceuticals	ARNA	ARNA US	Steve Byrne, CFA
	Nektar Therapeutics	NKTR	NKTR US	Steve Byrne, CFA
	Savient Pharmaceuticals Inc	SVNT	SVNT US	Steve Byrne, CFA
RSTR				
	Ardea Biosciences Inc	RDEA	RDEA US	Steve Byrne, CFA
	MannKind Corporation	MNKD	MNKD US	Steve Byrne, CFA

US - Consumer and Household Products/ Tobacco Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Altria Group	MO	MO US	Christopher Ferrara, CFA

US - Consumer and Household Products/ Tobacco Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
	Colgate-Palmolive	CL	CL US	Christopher Ferrara, CFA
	Energizer	ENR	ENR US	Christopher Ferrara, CFA
	Estee Lauder	EL	EL US	Christopher Ferrara, CFA
	Herbalife	HLF	HLF US	Christopher Ferrara, CFA
	Kimberly-Clark	KMB	KMB US	Christopher Ferrara, CFA
	Newell Rubbermaid	NWL	NWL US	Christopher Ferrara, CFA
	Nu Skin Enterprises	NUS	NUS US	Olivia Tong, CFA
	Philip Morris International	PM	PM US	Christopher Ferrara, CFA
	Procter & Gamble	PG	PG US	Christopher Ferrara, CFA
	Tupperware Brands	TUP	TUP US	Olivia Tong, CFA
	Weight Watchers International	WTW	WTW US	Christopher Ferrara, CFA
NEUTRAL				
	Lorillard, Inc.	LO	LO US	Christopher Ferrara, CFA
	Reynolds American	RAI	RAI US	Christopher Ferrara, CFA
	Sally Beauty Holdings, Inc.	SBH	SBH US	Christopher Ferrara, CFA
UNDERPERFORM				
	Church & Dwight Co.	CHD	CHD US	Christopher Ferrara, CFA
	Clorox	CLX	CLX US	Christopher Ferrara, CFA
	Prestige Brands	PBH	PBH US	Olivia Tong, CFA
	Scotts Miracle-Gro	SMG	SMG US	Olivia Tong, CFA

US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Acadia Healthcare	ACHC	ACHC US	Kevin Fischbeck, CFA
	Amerigroup Corp.	AGP	AGP US	Scott J. Green, CFA
	CIGNA Corp	CI	CI US	Kevin Fischbeck, CFA
	Coventry Health	CVH	CVH US	Kevin Fischbeck, CFA
	Davita Inc.	DVA	DVA US	Kevin Fischbeck, CFA
	Emeritus Corporation	ESC	ESC US	Kevin Fischbeck, CFA
	HCA	HCA	HCA US	Kevin Fischbeck, CFA
	Health Management Associates	HMA	HMA US	Kevin Fischbeck, CFA
	Humana Inc	HUM	HUM US	Kevin Fischbeck, CFA
	Magellan Health Services, Inc.	MGLN	MGLN US	Scott J. Green, CFA
	Maximus Inc.	MMS	MMS US	Scott J. Green, CFA
	Mednax	MD	MD US	Kevin Fischbeck, CFA
	Select Medical Corp.	SEM	SEM US	Kevin Fischbeck, CFA
	Team Health	TMH	TMH US	Kevin Fischbeck, CFA
	UnitedHealth Group	UNH	UNH US	Kevin Fischbeck, CFA
	Universal Health Services	UHS	UHS US	Kevin Fischbeck, CFA
	Vanguard Health Systems Inc	VHS	VHS US	Kevin Fischbeck, CFA
	WellCare Health Plans, Inc.	WCG	WCG US	Scott J. Green, CFA
	WellPoint	WLP	WLP US	Kevin Fischbeck, CFA
NEUTRAL				
	Aetna Inc	AET	AET US	Kevin Fischbeck, CFA
	Brookdale Senior Living	BKD	BKD US	Kevin Fischbeck, CFA
	Centene Corporation	CNC	CNC US	Scott J. Green, CFA
	Community Health Systems	CYH	CYH US	Kevin Fischbeck, CFA
	LifePoint Hospitals	LPNT	LPNT US	Kevin Fischbeck, CFA
	Tenet Healthcare	THC	THC US	Kevin Fischbeck, CFA
	Universal American	UAM	UAM US	Scott J. Green, CFA
UNDERPERFORM				
	AmSurg	AMSG	AMSG US	Kevin Fischbeck, CFA
	Health Net	HNT	HNT US	Kevin Fischbeck, CFA
	HealthSouth	HLS	HLS US	Kevin Fischbeck, CFA
	Kindred Healthcare	KND	KND US	Kevin Fischbeck, CFA
	Molina Healthcare, Inc.	MOH	MOH US	Scott J. Green, CFA
	Skilled Healthcare Group	SKH	SKH US	Kevin Fischbeck, CFA
	Sun Healthcare Group	SUNH	SUNH US	Kevin Fischbeck, CFA

US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst

US - Food & Beverage Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Beam Inc.	BEAM	BEAM US	Bryan D. Spillane
	ConAgra Foods, Inc.	CAG	CAG US	Bryan D. Spillane
	Constellation Brands	STZ	STZ US	Bryan D. Spillane
	Dean Foods Company	DF	DF US	Ryan Oksenhendler
	General Mills	GIS	GIS US	Bryan D. Spillane
	Kellogg	K	K US	Bryan D. Spillane
	Kraft Foods Inc.	KFT	KFT US	Bryan D. Spillane
	PepsiCo	PEP	PEP US	Bryan D. Spillane
	Smithfield Foods, Inc.	SFD	SFD US	Ryan Oksenhendler
	The Coca Cola Company	KO	KO US	Bryan D. Spillane
	The Hershey Company	HSY	HSY US	Bryan D. Spillane
	Tyson Foods, Inc.	TSN	TSN US	Ryan Oksenhendler
NEUTRAL				
	Bunge Limited	BG	BG US	Bryan D. Spillane
	Campbell Soup Company	CPB	CPB US	Bryan D. Spillane
	Coca Cola Enterprises	CCE	CCE US	Bryan D. Spillane
	Dr Pepper Snapple Group	DPS	DPS US	Bryan D. Spillane
	Green Mountain Coffee Roasters	GMCR	GMCR US	Bryan D. Spillane
	H.J. Heinz Company	HNZ	HNZ US	Bryan D. Spillane
	Mead Johnson Nutrition Company	MJN	MJN US	Bryan D. Spillane
UNDERPERFORM				
	Archer Daniels Midland Company	ADM	ADM US	Bryan D. Spillane
	Dole Foods	DOLE	DOLE US	Ryan Oksenhendler
	Molson Coors Brewing Company	TAP	TAP US	Bryan D. Spillane
	Seneca Foods Corporation	SENEA	SENEA US	Bryan D. Spillane
	Treehouse Foods Inc.	THS	THS US	Bryan D. Spillane
RSTR				
	Sara Lee Corporation	SLE	SLE US	Bryan D. Spillane
RVW				
	Diamond Foods, Inc	DMND	DMND US	Bryan D. Spillane

US - Large Cap and Specialty Pharmaceuticals Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Allergan	AGN	AGN US	Gregg Gilbert
	Auxilium Pharmaceuticals	AUXL	AUXL US	Gregory D. Fraser
	Eli Lilly & Co.	LLY	LLY US	Gregg Gilbert
	Endo Pharma	ENDP	ENDP US	Gregg Gilbert
	Forest Labs	FRX	FRX US	Gregg Gilbert
	Hospira Inc.	HSP	HSP US	Gregg Gilbert
	MAP	MAPP	MAPP US	Gregg Gilbert
	Merck & Co.	MRK	MRK US	Gregg Gilbert
	Mylan Inc.	MYL	MYL US	Gregg Gilbert
	Pain Therapeutics	PTIE	PTIE US	Gregory D. Fraser
	Par Pharma	PRX	PRX US	Gregg Gilbert
	Pfizer Inc.	PFE	PFE US	Gregg Gilbert
	Salix Pharmaceuticals	SLXP	SLXP US	Gregg Gilbert
	Teva	TEVA	TEVA US	Gregg Gilbert
	Warner Chilcott	WCRX	WCRX US	Gregg Gilbert
	Watson Pharm	WPI	WPI US	Gregg Gilbert
NEUTRAL				
	Bristol-Myers Squibb Co.	BMY	BMY US	Gregg Gilbert

US - Large Cap and Specialty Pharmaceuticals Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
	Medicis	MRX	MRX US	Gregg Gilbert
	Momenta Pharmaceuticals, Inc.	MNTA	MNTA US	Sumant S. Kulkarni
	Sagent Pharmaceuticals, Inc.	SGNT	SGNT US	Gregg Gilbert
UNDERPERFORM				
	Cadence Pharmaceuticals	CADX	CADX US	Gregory D. Fraser
	Hi-Tech Pharmacal	HITK	HITK US	Sumant S. Kulkarni
	Impax Labs	IPXL	IPXL US	Sumant S. Kulkarni
	Perrigo Company	PRGO	PRGO US	Gregg Gilbert
	Valeant	VRX	VRX US	Gregg Gilbert

US - Medical Technology & Devices Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Baxter International Inc	BAX	BAX US	Bob Hopkins
	CareFusion	CFN	CFN US	Lennox Ketner
	Covidien Plc	COV	COV US	Bob Hopkins
	Hologic, Inc.	HOLX	HOLX US	Lennox Ketner
	Medtronic	MDT	MDT US	Bob Hopkins
	Nuvasive Inc	NUVA	NUVA US	Bob Hopkins
	St Jude Medical	STJ	STJ US	Bob Hopkins
	Stryker Corp	SYK	SYK US	Bob Hopkins
	Thoratec Corp	THOR	THOR US	Bob Hopkins
	Tornier NV	TRNX	TRNX US	Bob Hopkins
	Zimmer	ZMH	ZMH US	Bob Hopkins
NEUTRAL				
	Abbott Laboratories	ABT	ABT US	Bob Hopkins
	Boston Sci.	BSX	BSX US	Bob Hopkins
	Cr Bard Inc	BCR	BCR US	Bob Hopkins
	Edwards Lifesciences	EW	EW US	Bob Hopkins
	Hill-Rom Holdings, Inc	HRC	HRC US	Lennox Ketner
	Integra Lifesciences	IART	IART US	Bob Hopkins
	Intuitive Surgical, Inc	ISRG	ISRG US	Lennox Ketner
	Johnson & Johnson	JNJ	JNJ US	Bob Hopkins
UNDERPERFORM				
	Abiomed Inc	ABMD	ABMD US	Bob Hopkins
	Cardionet Inc	BEAT	BEAT US	Bob Hopkins
	Masimo	MASI	MASI US	Lennox Ketner

US - Restaurants Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Darden	DRI	DRI US	Joseph T. Buckley, CFA
	McDonald's Corp	MCD	MCD US	Joseph T. Buckley, CFA
	Red Robin Gourmet Burgers	RRGB	RRGB US	Joseph T. Buckley, CFA
	Sonic Corp	SONC	SONC US	Joseph T. Buckley, CFA
	Starbucks Corp	SBUX	SBUX US	Joseph T. Buckley, CFA
	The Cheesecake Factory Inc.	CAKE	CAKE US	Joseph T. Buckley, CFA
	Tim Hortons	THI	THI US	Joseph T. Buckley, CFA
	Tim Hortons	YTHI	THI CN	Joseph T. Buckley, CFA
	Yum Brands Inc	YUM	YUM US	Joseph T. Buckley, CFA
NEUTRAL				
	Chipotle Mexican Grill	CMG	CMG US	Joseph T. Buckley, CFA
	Domino's Pizza	DPZ	DPZ US	Joseph T. Buckley, CFA
	Dunkin' Brands	DNKN	DNKN US	Joseph T. Buckley, CFA
	Panera Bread Co.	PNRA	PNRA US	Joseph T. Buckley, CFA
	The Wendy's Company	WEN	WEN US	Joseph T. Buckley, CFA

US - Restaurants Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
UNDERPERFORM				
	Brinker International	EAT	EAT US	Joseph T. Buckley, CFA
	Cracker Barrel Old Country Store	CBRL	CBRL US	Joseph T. Buckley, CFA
	Jack in the Box	JACK	JACK US	Joseph T. Buckley, CFA
	Ruby Tuesday Inc	RT	RT US	Joseph T. Buckley, CFA

US - Retail Hardline Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	AutoZone Inc.	AZO	AZO US	Denise Chai, CFA
	Bed Bath & Beyond Inc.	BBBY	BBBY US	Denise Chai, CFA
	Dollar General Corporation	DG	DG US	Denise Chai, CFA
	Dollar Tree, Inc.	DLTR	DLTR US	Denise Chai, CFA
	O'Reilly Automotive, Inc.	ORLY	ORLY US	Denise Chai, CFA
	PetSmart, Inc.	PETM	PETM US	Denise Chai, CFA
	Pier 1 Imports Inc.	PIR	PIR US	Denise Chai, CFA
	The Home Depot, Inc.	HD	HD US	Denise Chai, CFA
	Tractor Supply Company	TSCO	TSCO US	Vincent J. Sinisi
NEUTRAL				
	Advance Auto Parts, Inc.	AAP	AAP US	Denise Chai, CFA
	Family Dollar Stores, Inc.	FDO	FDO US	Denise Chai, CFA
	Lowe's Companies, Inc.	LOW	LOW US	Denise Chai, CFA
	Vitamin Shoppe, Inc.	VSI	VSI US	Denise Chai, CFA
UNDERPERFORM				
	Best Buy Co., Inc.	BBY	BBY US	Denise Chai, CFA
	Office Depot, Inc.	ODP	ODP US	Denise Chai, CFA
	RadioShack Corp.	RSH	RSH US	Denise Chai, CFA
	Staples, Inc.	SPLS	SPLS US	Denise Chai, CFA
	Williams-Sonoma, Inc.	WSM	WSM US	Denise Chai, CFA

US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Abercrombie	ANF	ANF US	Lorraine Hutchinson, CFA
	ANN INC	ANN	ANN US	Lorraine Hutchinson, CFA
	Coach	COH	COH US	Lorraine Hutchinson, CFA
	Express	EXPR	EXPR US	Lorraine Hutchinson, CFA
	Macy's	M	M US	Lorraine Hutchinson, CFA
	rue21	RUE	RUE US	Lorraine Hutchinson, CFA
	The Children's Place	PLCE	PLCE US	Rick B. Patel, CFA
	Tiffany & Co.	TIF	TIF US	Lorraine Hutchinson, CFA
	TJX Companies	TJX	TJX US	Rick B. Patel, CFA
	Urban Outfitter	URBN	URBN US	Lorraine Hutchinson, CFA
	Zale	ZLC	ZLC US	Rick B. Patel, CFA
	Zumiez, Inc.	ZUMZ	ZUMZ US	Paul Alexander, CFA
NEUTRAL				
	Aeropostale	ARO	ARO US	Lorraine Hutchinson, CFA
	Chicos	CHS	CHS US	Lorraine Hutchinson, CFA
	Fossil Inc	FOSL	FOSL US	Rick B. Patel, CFA
	Gap Inc.	GPS	GPS US	Lorraine Hutchinson, CFA
	Kohl's	KSS	KSS US	Lorraine Hutchinson, CFA
	Ross Stores Inc	ROST	ROST US	Rick B. Patel, CFA
	Saks	SKS	SKS US	Lorraine Hutchinson, CFA
	Signet Jewelers	SIG	SIG US	Rick B. Patel, CFA
	Teavana Holdings, Inc.	TEA	TEA US	Lorraine Hutchinson, CFA
	Tilly's	TLYS	TLYS US	Lorraine Hutchinson, CFA

US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
UNDERPERFORM				
	American Eagle	AEO	AEO US	Lorraine Hutchinson, CFA
	Blue Nile	NILE	NILE US	Rick B. Patel, CFA
	JCPenney	JCP	JCP US	Lorraine Hutchinson, CFA
	Limited Brands	LTD	LTD US	Lorraine Hutchinson, CFA
	lululemon ath	LULU	LULU US	Lorraine Hutchinson, CFA
	lululemon ath	YLLL	LLL CN	Lorraine Hutchinson, CFA
	Nordstrom	JWN	JWN US	Lorraine Hutchinson, CFA
	Regis Corp	RGS	RGS US	Lorraine Hutchinson, CFA
	The Buckle, Inc.	BKE	BKE US	Paul Alexander, CFA

Important Disclosures

Investment Rating Distribution: Beverages - Soft Drinks Group (as of 01 Apr 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	6	40.00%	Buy	3	75.00%
Neutral	6	40.00%	Neutral	5	100.00%
Sell	3	20.00%	Sell	2	100.00%

Investment Rating Distribution: Chemicals Group (as of 01 Apr 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	46	40.71%	Buy	33	78.57%
Neutral	35	30.97%	Neutral	21	70.00%
Sell	32	28.32%	Sell	16	53.33%

Investment Rating Distribution: Consumer Products Group (as of 01 Apr 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	35	58.33%	Buy	27	81.82%
Neutral	10	16.67%	Neutral	5	62.50%
Sell	15	25.00%	Sell	10	71.43%

Investment Rating Distribution: Food Group (as of 01 Apr 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	34	47.89%	Buy	19	63.33%
Neutral	14	19.72%	Neutral	9	69.23%
Sell	23	32.39%	Sell	15	71.43%

Investment Rating Distribution: Health Care Group (as of 01 Apr 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	144	54.34%	Buy	98	72.06%
Neutral	58	21.89%	Neutral	39	72.22%
Sell	63	23.77%	Sell	39	65.00%

Investment Rating Distribution: Industrials/Multi-Industry Group (as of 01 Apr 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	50	58.14%	Buy	38	92.68%
Neutral	22	25.58%	Neutral	11	55.00%
Sell	14	16.28%	Sell	8	61.54%

Investment Rating Distribution: Restaurants Group (as of 01 Apr 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	8	29.63%	Buy	6	75.00%
Neutral	9	33.33%	Neutral	6	66.67%
Sell	10	37.04%	Sell	9	90.00%

Investment Rating Distribution: Retailing Group (as of 01 Apr 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	91	49.73%	Buy	50	57.47%
Neutral	48	26.23%	Neutral	33	70.21%
Sell	44	24.04%	Sell	24	54.55%

Investment Rating Distribution: Textiles/Apparel Group (as of 01 Apr 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	16	59.26%	Buy	14	93.33%
Neutral	5	18.52%	Neutral	5	100.00%
Sell	6	22.22%	Sell	5	83.33%

Investment Rating Distribution: Global Group (as of 01 Apr 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1881	49.24%	Buy	1265	73.38%
Neutral	992	25.97%	Neutral	641	70.75%
Sell	947	24.79%	Sell	548	62.27%

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

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