

## Rockwell

# The state of automation: global 4Q earnings review

Maintain Rating: NEUTRAL | PO: 300.00 USD | Price: 279.72 USD

## Companies are calling the bottom on industrial automation

Rockwell earnings surprised to the downside in CYQ4, with a 23% headline EPS miss on consensus. ROK maintained the 2024 guide. The key feedback we hear from investors is little conviction on orders and revenue reacceleration in 2H24. Our work indicates ROK revenue has a strong relationship with US capex spending, rather than industrial production (IP). We believe that over the past several years, IP has been a less reliable indicator due to supply chain and lead time distortions. This analysis would indicate that ROK has not pulled forward demand in '22/'23. ROK's commentary is consistent with other industrial automation companies reporting 4Q earnings, including Omron, Mitsubishi Electric and Yokogawa (all covered by our BofA Global Research colleague Kenjin Hotta), and ABB, Schneider and Siemens (all covered by our colleague Alex Virgo). See discussion below. We maintain our Neutral rating on Rockwell.

## Guides assume an inflection in 2H24

Siemens stated its 0-3% revenue outlook for DI assumes that global demand in automation, especially China, will pick up after destocking in FY2H. "Official sources expect rather muted growth momentum for production output at our end customers, particularly in export-driven industries such as machine building...We see this as transitional." Omron (which cut guidance into FQ4) initially anticipated industrial automation improving in FQ3. Given semis and EV battery capex delays, it no longer expects recovery, but called FQ4 as the production bottom. 2H24 recovery is broadly consistent with ROK's framework.

## Orders: ~30% y/y declines across the board

One concern we have heard from investors is that ROK's execution issues have led to share losses, particularly to Siemens DI. Our peer set orders analysis indicates similar order rates for the group. While we have also heard anecdotal evidence of ROK market share loss in specific product lines, the data indicates largely stable market shares across the industry. ABB stated Robotics orders were down 16% y/y, with discrete automation worse. ABB guidance assumes Robotics & Discrete Automation orders improve through '24, especially in 2H. Siemens DI is confident that FQ4/CYQ1 was the bottom for orders.

Estimates (Sep) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	9.50	12.15	13.38	14.67	16.03
GAAP EPS	7.97	11.98	12.88	13.58	14.94
EPS Change (YoY)	0.7%	27.9%	10.1%	9.6%	9.3%
Consensus EPS (Bloomberg)			12.29	13.61	14.61
DPS	4.48	4.72	5.00	5.24	5.48
Valuation (Sep)					
P/E	29.4x	23.0x	20.9x	19.1x	17.4x
GAAP P/E	35.1x	23.3x	21.7x	20.6x	18.7x
Dividend Yield	1.6%	1.7%	1.8%	1.9%	2.0%
EV / EBITDA*	23.1x	20.4x	17.6x	16.1x	14.9x
Free Cash Flow Yield*	2.2%	3.6%	4.3%	5.0%	5.5%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 9.

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**Refer to important disclosures on page 10 to 12. Analyst Certification on page 8. Price Objective Basis/Risk on page 8.**

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### Stock Data

Price	279.72 USD
Price Objective	300.00 USD
Date Established	16-Feb-2024
Investment Opinion	B-2-7
52-Week Range	252.11 USD - 348.52 USD
Mrkt Val (mn) / Shares Out (mn)	33,986 USD / 121.5
Free Float	99.8%
Average Daily Value (mn)	320.21 USD
BofA Ticker / Exchange	ROK / NYS
Bloomberg / Reuters	ROK US / ROK.N
ROE (2024E)	37.5%
Net Dbt to Eqty (Sep-2023A)	48.1%
ESGMeter <sup>TM</sup>	High

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

DI – Digital Industries

# iQprofile<sup>SM</sup> Rockwell

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	14.7%	17.4%	19.7%	19.5%	18.9%
Return on Equity	38.9%	41.6%	37.5%	33.7%	30.1%
Operating Margin	18.4%	18.9%	20.2%	21.1%	21.7%
Free Cash Flow	751	1,214	1,463	1,715	1,876

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.8x	1.0x	1.1x	1.1x	1.1x
Asset Replacement Ratio	0.6x	1.2x	1.3x	1.0x	0.8x
Tax Rate	15.8%	18.4%	17.0%	17.5%	17.5%
Net Debt-to-Equity Ratio	110.9%	48.1%	26.5%	1.2%	-17.6%
Interest Cover	12.0x	13.5x	16.4x	18.3x	20.3x

## Income Statement Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	7,760	9,058	9,635	10,138	10,731
% Change	10.9%	16.7%	6.4%	5.2%	5.8%
Gross Profit	3,102	3,717	3,932	4,148	4,401
% Change	7.1%	19.8%	5.8%	5.5%	6.1%
EBITDA	1,573	1,785	2,061	2,250	2,434
% Change	11.9%	13.5%	15.5%	9.1%	8.2%
Net Interest & Other Income	(119)	(127)	(119)	(117)	(115)
<b>Net Income (Adjusted)</b>	<b>1,111</b>	<b>1,406</b>	<b>1,540</b>	<b>1,689</b>	<b>1,846</b>
<b>% Change</b>	<b>0.4%</b>	<b>26.6%</b>	<b>9.6%</b>	<b>9.7%</b>	<b>9.3%</b>

## Free Cash Flow Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,111	1,406	1,540	1,689	1,846
Depreciation & Amortization	239	250	244	238	232
Change in Working Capital	(530)	(120)	(306)	(171)	(196)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	72	(161)	149	81	91
Capital Expenditure	(141)	(161)	(164)	(122)	(97)
<b>Free Cash Flow</b>	<b>751</b>	<b>1,214</b>	<b>1,463</b>	<b>1,715</b>	<b>1,876</b>
<b>% Change</b>	<b>-34.2%</b>	<b>61.7%</b>	<b>20.5%</b>	<b>17.2%</b>	<b>9.4%</b>
Share / Issue Repurchase	(243)	(312)	(333)	8	3
Cost of Dividends Paid	(519)	(454)	(575)	(602)	(630)
Change in Debt	(150)	(876)	0	0	0

## Balance Sheet Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	491	1,072	1,687	2,807	4,056
Trade Receivables	1,737	2,167	2,306	2,426	2,568
Other Current Assets	1,383	1,672	1,423	1,462	1,511
Property, Plant & Equipment	587	684	718	714	688
Other Non-Current Assets	6,562	5,709	5,457	5,384	5,319
<b>Total Assets</b>	<b>10,759</b>	<b>11,304</b>	<b>11,591</b>	<b>12,793</b>	<b>14,142</b>
Short-Term Debt	968	9	0	0	0
Other Current Liabilities	2,604	3,357	3,087	3,237	3,416
Long-Term Debt	2,868	2,863	2,871	2,871	2,871
Other Non-Current Liabilities	1,302	1,332	1,162	1,146	1,121
<b>Total Liabilities</b>	<b>7,742</b>	<b>7,561</b>	<b>7,120</b>	<b>7,254</b>	<b>7,408</b>
<b>Total Equity</b>	<b>3,017</b>	<b>3,743</b>	<b>4,472</b>	<b>5,538</b>	<b>6,734</b>
<b>Total Equity &amp; Liabilities</b>	<b>10,759</b>	<b>11,304</b>	<b>11,591</b>	<b>12,793</b>	<b>14,142</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 9.

## Company Sector

Industrials/Multi-Industry

## Company Description

Rockwell Automation is a global supplier of industrial automation equipment, software, and services and is divided into two segments. The Architecture & Software segment contains integrated control and information architecture that allows the customer to connect its manufacturing enterprise. The Control Products & Solutions segment includes intelligent motor control and industrial control products that allow the customer to implement an automation or information solution on the plant floor.

## Investment Rationale

We view ROK as a beneficiary from reshoring of US manufacturing. ROK has a strong position in the US and international automation markets. However, we lack visibility on the ability to navigate supply chain pressures.

## Stock Data

Average Daily Volume 1,158,040

## Quarterly Earnings Estimates

	2023	2024
Q1	2.46A	2.04E
Q2	3.01A	2.41E
Q3	3.01A	3.97E
Q4	3.64A	4.96E

# CY4Q: automation around the world

## Mix: destocking was a larger-than-expected margin drag

Rockwell cited the impact of mix and volume deleveraging as a large drag on CYQ4 earnings in its Intelligent Devices subsegment, as the company sees more distributor destocking and more engineered-to-order shipments. Siemens DI cited a similar dynamic in margins given “lower fast-turning automation orders.”

## China weak, but particularly weak in automation

China was a surprise to the downside across our coverage (ex-Auto) this Q, but notably it seems discrete automation is particularly weak. The biggest drag ABB is seeing in China is in Robotics & Discrete Automation. Siemens DI expects inventory levels to normalize by FYH2 (CY2Q/3Q), but believes China may take longer. Yokogawa saw China orders in its Control business fall (18)% y/y, versus North America orders down (7)% y/y.

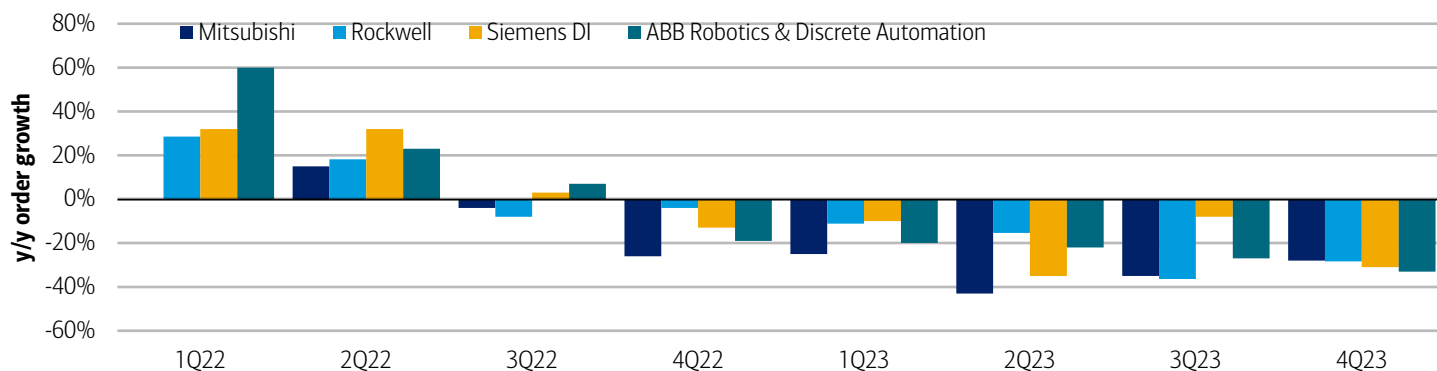
Mitsubishi Electric sees weakness in China due to sluggish exports and slower domestic demand.

## Order activity suggests stable market share

One bear thesis we have heard from investors is that Rockwell’s execution issues have caused share losses to its competitors, particularly Siemens DI. Our analysis of orders across the peer set indicates Rockwell has not reported meaningfully different order losses or declines over the past several quarters. This is supportive of our view that market share has been largely stable despite the execution challenges at ROK. We note that Rockwell’s quarterly orders are estimated based on backlog and sales disclosures.

### Exhibit 1: Reported and estimated y/y order growth, 1Q22-4Q23

Y/y order increases and declines have been fairly consistent across Mitsubishi, Rockwell, Siemens DI, and ABB RA



Source: Company files

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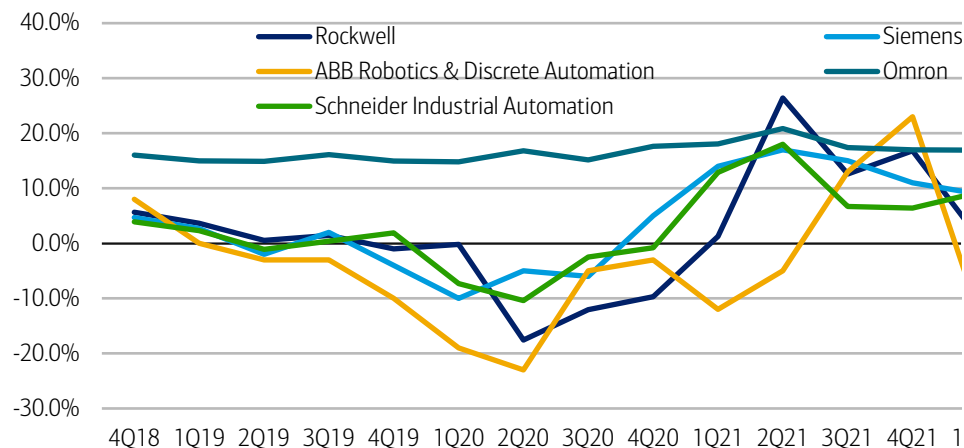
## Revenue growth shows ROK outperformed peer group

ROK outperformed the peer set in 4Q23, with organic growth of +1% y/y. This compares to Siemens DI (1.0)%, ABB Robotics & Discrete (7.0)%, Omron (9.8)% y/y, and Schneider Industrial Automation +1% y/y. Rockwell outperformed the peer group by an average of 250bps from 1Q22-4Q23.

Notably, ROK outperformed its global competitor Siemens DI throughout 2023. On average since 4Q18, ROK has underperformed Siemens by 80bps. We believe the shifts in growth have more to do with geographic mix than market share gains. For example, Siemens was a larger beneficiary from China recovery out of COVID, but also had a larger drag from the current weak market.

**Exhibit 2: Quarterly organic growth, Rockwell vs. peer set**

Rockwell has outperformed the peer average in CY23

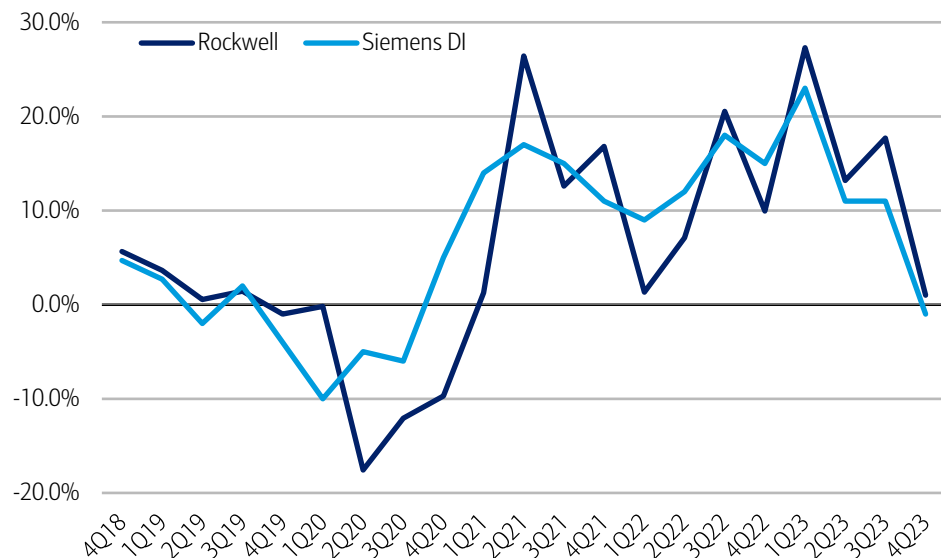


Source: Company files

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**Exhibit 2: Quarterly organic growth, Rockwell vs. Siemens**

Growth differential likely reflects geographic mix than market share gains



Source: Company files

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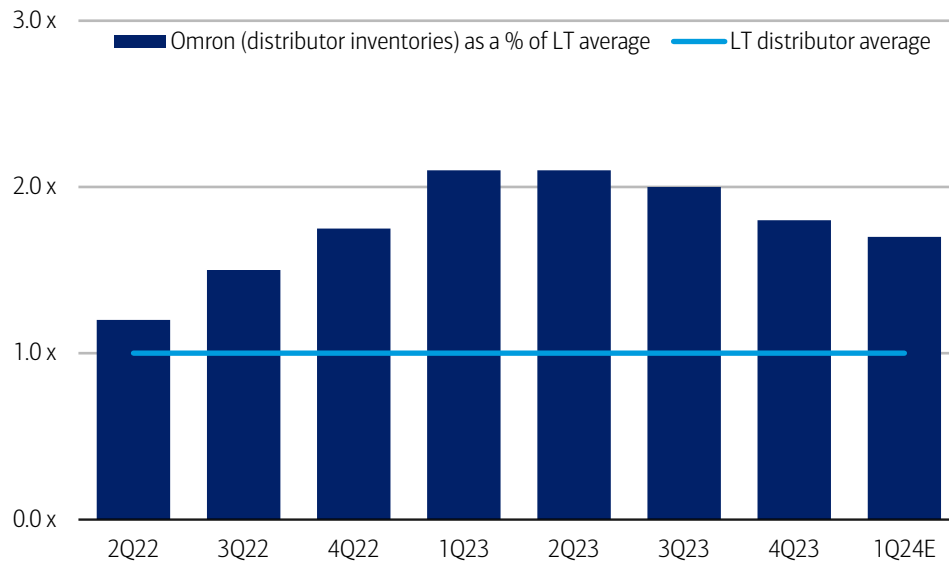
**Omron IAB (Industrial Automation Business)**

Omron reported fiscal 3Q earnings on February 5. The company lowered its guidance on its IAB business, which is grappling with excess inventory and weak end market demand. Its previous forecast assumed gradual IAB recovery in 4Q (calendar year 1Q), which it no longer expects. The company stated that 4Q is likely the bottom for IAB production.

Notably, Omron is seeing a reduction in capital investment for semiconductors and battery investments. Omron stated that given the lack of visibility, it cannot anticipate an improvement in orders in CYQ1 given timing and it will exclude these “high-risk” sales going forward. The company stated that it believes its distributor inventories have already peaked and will gradually work down going forward.

**Exhibit 3: Distributor inventories as a % of LT average**

LT distributor average



Source: BofA Global Research estimates, company files

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**Yokogawa Control**

Yokogawa control orders decreased (9)% y/y in the quarter. This largely reflects weakness in China, where orders were down (18)% y/y. North America orders were down (7)% y/y. Central and South American orders were down (15)% y/y, but this is much smaller as a % of sales.

**Mitsubishi Electric Factory Automation**

Mitsubishi lowered its factory automation forecast, as it sees the “impact of market slowdown.” The company lowered its revenue guidance 5% and operating profit down 16% on lower volumes, showing the impact of volume deleveraging.

The key regional drivers of weakness are China and Europe. Management sees soft demand in both regions. Similar to Omron, Mitsubishi also cited lithium-ion battery projects being postponed. This led to orders decelerating faster than expected and demand decreasing faster than expected.

**ABB Robotics & Discrete Automation**

The biggest drag ABB is seeing in China is in the discrete automation and robotics market. Notably, ABB stated that while Robotics orders were down 16% y/y, discrete automation was an even larger drag. ABB guidance assumes that discrete automation and robotics orders will improve through 2024, especially in 2H24. Management stated that customers are holding back on placing new orders as delivery lead times normalize.

The company is confident that 4Q23 was the bottom for orders in discrete. However, it sees two more quarters of y/y order declines in discrete automation to work through. ABB’s margin held up relative to expectations because robotics has a lower margin than machine automation. It continues to ship through some automation backlog, whereas robotics (which is more short cycle than automation) is declining y/y in sales.

**Siemens Digital Industries (DI)**

Siemens stated on its conference call that its 0-3% revenue outlook for DI assumes that “after destock ends, global demand in automation picks up in 2H24.” Management noted that the first indications in January are promising for DI inflection. “Official sources expect rather muted growth momentum for production output at our end customers, particularly in export-driven industries such as machine building...We see this as transitional.”



The company anticipates normalization of inventory levels by FY2H, albeit China may be longer. There are two pillars for automation to normalize: the first is that distributor inventory levels have 13-14 outbound weeks versus 5-8 weeks pre-COVID, so distributors must work down their inventories to the pre-COVID levels. The second pillar is stimulus kicking in and investment sentiment picking up in 2H24.

The pricing environment is muted, with only very limited room for incremental pricing in the market at the moment. We model slightly positive price/cost for ROK in 2024. Notably, Siemens cited “lower fast-turning automation orders.”

### **Schneider Industrial Automation**

Schneider Industrial Automation sales were up 1% in 4Q. On the conference call, CFO Hilary Maxson stated, “Strong software sales and continued growth in process automation was partly offset by the expected weakness in the discrete markets we discussed in Q32023.” The company saw discrete automation decline y/y in the U.S., “as lead times and inventories across the OEM value chain continued to normalize.”

# Valuation

We base our \$300 price objective on a 16x multiple on our CY25 estimate. Our target multiple is at a one-turn premium to the 15x peer average on 2024. Our slight premium balances the improving macroeconomic outlook into 2H24 with our concerns about execution.

## Exhibit 5: ROK valuation versus comparables

We base our \$300 price objective on a 16x multiple on our CY25 estimate

Company	Ticker	Stock Price 2/16/2024	P/E		EV/EBITDA		EBITDA margin		EPS growth	
			2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
ABB	ABLZF	\$45.35	22.0 x	19.9 x	13.8 x	13.2 x	18.3%	18.1%	4.6%	10.6%
Eaton	ETN	\$277.06	27.8 x	26.2 x	24.0 x	21.1 x	19.7%	21.1%	10.3%	6.4%
Emerson	EMR	\$106.23	19.8 x	18.2 x	15.0 x	14.0 x	29.3%	31.3%	15.5%	8.8%
FANUC*	6N54 JT	¥4,033	29.6 x	25.4 x	17.3 x	16.0 x	23.7%	23.7%	2.0%	16.4%
Honeywell	HON	\$196.66	19.5 x	17.5 x	14.2 x	13.3 x	25.0%	25.3%	9.9%	11.2%
OMRON*	6645 JT	¥5,387	27.3 x	17.2 x	13.1 x	12.3 x	9.4%	9.3%	28.6%	58.7%
Schneider	SBGSF	€ 201.90	27.0 x	24.4 x	17.8 x	16.0 x	18.4%	19.2%	8.8%	10.9%
Siemens	SMAWF	€ 169.22	16.5 x	14.6 x	11.5 x	10.5 x	17.6%	18.2%	3.8%	13.4%
SMC Corp*	6273 JT	¥84,210	30.4 x	28.0 x	19.4 x	18.0 x	30.1%	30.1%	-3.1%	8.7%
Spectris	SEPJF	GBp 3,682	19.2 x	17.1 x	10.6 x	10.1 x	21.6%	21.3%	-1.5%	12.0%
Yokogawa*	6841 JT	¥3,117	<u>17.3 x</u>	<u>17.4 x</u>	<u>9.2 x</u>	<u>8.6 x</u>	<u>15.7%</u>	<u>16.4%</u>	<u>0.1%</u>	<u>-0.9%</u>
<b>AVERAGE</b>			<b>23.3 x</b>	<b>20.5 x</b>	<b>15.1 x</b>	<b>13.9 x</b>	<b>20.8%</b>	<b>21.3%</b>	<b>7.2%</b>	<b>14.2%</b>
<b>Rockwell</b>	<b>ROK</b>	<b>\$280.08</b>	<b>20.4 x</b>	<b>18.7 x</b>	<b>16.2 x</b>	<b>14.9 x</b>	<b>21.6%</b>	<b>22.3%</b>	<b>10.0%</b>	<b>9.6%</b>
<b>Rockwell at PO</b>		<b>\$300.00</b>	<b>21.9 x</b>	<b>20.0 x</b>	<b>17.3 x</b>	<b>15.9 x</b>				

Source: BofA Global Research estimates, Bloomberg

\*\* Indicates Bloomberg consensus estimates

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## Price objective basis & risk

### Rockwell (ROK)

We base our \$300 price objective on a 16x EV/EBITDA multiple of our CY25 estimate, at a premium to peers trading at 15x on 2024E. We argue a 1-turn premium is warranted given the company's market share and exposure to secular themes, partially offset by destocking headwinds and a lack of near-term catalysts.

Upside risks are 1) supply chain improvement, 2) potentially accretive acquisitions.

Downside risks are 1) delays in global capex, 2) execution risks, 3) supply-chain constraints, and 4) greater competition.

## Analyst Certification

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

### US - Multi-Industrials/Engineering and Construction Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	APi Group	APG	APG US	Andrew Obin
	AspenTech	AZPN	AZPN US	Andrew Obin
	Atmus Filtration	ATMU	ATMU US	Andrew Obin
	Dover Corp	DOV	DOV US	Andrew Obin
	Eaton Corp PLC	ETN	ETN US	Andrew Obin
	Emerson Electric Co	EMR	EMR US	Andrew Obin
	Flowserve	FLS	FLS US	Andrew Obin
	General Electric Company	GE	GE US	Andrew Obin
	Honeywell International Inc.	HON	HON US	Andrew Obin
	ITT Inc.	ITT	ITT US	Andrew Obin
	Montrose Environmental Group, Inc.	MEG	MEG US	Andrew Obin
	Parker Hannifin Corporation	PH	PH US	Andrew Obin
	PTC Inc.	PTC	PTC US	Andrew Obin
	Rush	RUSHA	RUSHA US	Andrew Obin
	Vertiv	VRT	VRT US	Andrew Obin
	Vontier	VNT	VNT US	Andrew Obin
<b>NEUTRAL</b>				
	3M Company	MMM	MMM US	Andrew Obin
	AMETEK Inc	AME	AME US	Andrew Obin
	Fortive Corporation	FTV	FTV US	Andrew Obin
	Johnson Controls International PLC	JCI	JCI US	Andrew Obin
	Pentair plc	PNR	PNR US	Andrew Obin
	Rockwell	ROK	ROK US	Andrew Obin
	Trane Technologies PLC	TT	TT US	Andrew Obin
<b>UNDERPERFORM</b>				
	Allegion	ALLE	ALLE US	Andrew Obin
	Carrier Global Corp.	CARR	CARR US	Andrew Obin
	Core & Main	CNM	CNM US	Andrew Obin
	Illinois Tool Works	ITW	ITW US	Andrew Obin
	John Bean Technologies	JBT	JBT US	Andrew Obin
	Keysight	KEYS	KEYS US	David Ridley-Lane, CFA



## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Numerator

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

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

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

Other LT Liabilities

Enterprise Value

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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

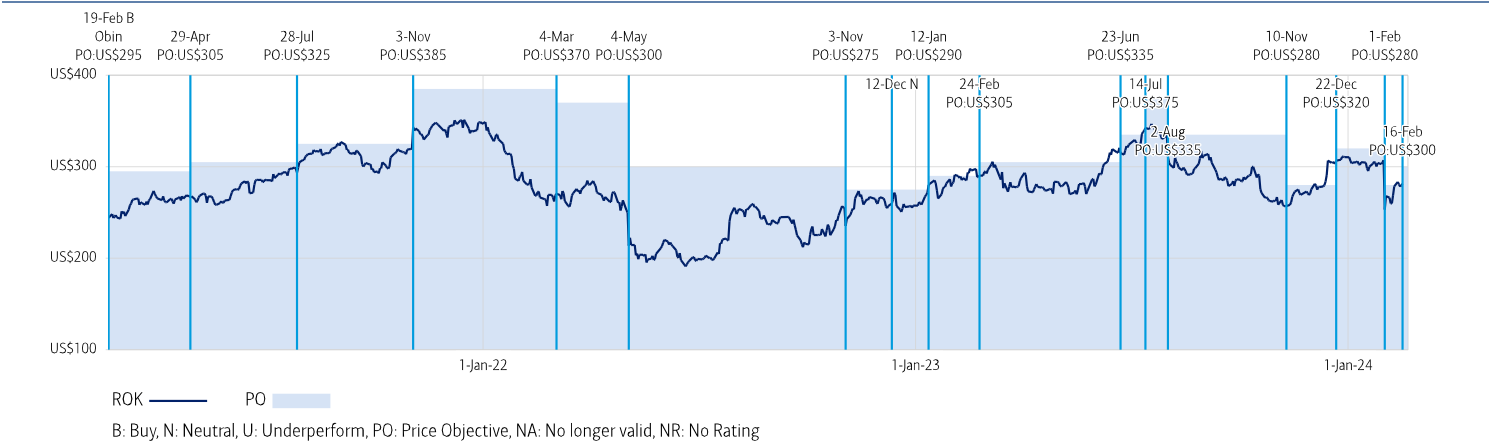
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Rockwell (ROK) Price Chart



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Equity Investment Rating Distribution: Industrials/Multi-Industry Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	45	50.56%	Buy	25	55.56%
Hold	26	29.21%	Hold	13	50.00%
Sell	18	20.22%	Sell	7	38.89%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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

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

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