

## Lockheed Martin

# Strong demand signals but at-risk programs drag profits; reiterate Neutral

Reiterate Rating: NEUTRAL | PO: 465.00 USD | Price: 431.65 USD

## LMT shares fall on disappointing 2024 outlook

Despite the adj. EPS beat (\$7.90 vs. BofAe 7.31 vs. Street \$7.29), Lockheed Martin (NYSE: LMT) shares fell 4.16% on the day of its earnings release (compared to the S&P 500 up 0.25%). We think that the negative response was largely due to the lackluster 2024 outlook and continued challenges within the Aeronautics segment, mostly related to the F-35 program. Management offered a 2024 adj. EPS forecast range of \$25.65-\$26.35 (compared to Street of \$26.74), particularly driven by losses related to MFC's classified work, FAS/CAS pension expenses, and taxes/interest expenses. We lower our 2024 EPS estimate to \$26.25 (from \$26.30) to account for weaker segment margins and raise our outyear estimates on stronger-than-expected sales growth (see details inside).

## Continued TR-3 delays pressure Aeronautics

The delay in F-35 in the Technology Refresh 3 (TR-3) configuration deliveries continues to hamper the Aeronautics segment. LMT has yet to deliver any TR-3 F-35s, despite initial guidance for delivery beginning in mid-2023. Management now believes that deliveries are more likely to commence in 3Q24 (vs. prior 2Q24). Consequently, LMT now expects 75-110 F-35 deliveries for 2024. LMT concedes that there are somewhere between 100 and 120 F-35s in inventory that are awaiting delivery. Net of actual deliveries, we estimate a FCF impact of roughly \$570mn to the F-35 program in 2024.

## MFC continues Classified struggles despite strong demand

On the one hand, we expect Missiles & Fire Control (MFC) sales growth to outpace that of every other segment through much of the decade. However, we recognize the continued impact of ramping Classified programs on the margin profile. As we highlighted during 3Q23 earnings, this margin pressure is not isolated to 2024, as the total impact will depend on the customer's willingness to exercise procurement options (each of the five options could be a 150-200bps headwind to MFC margins over 4-5 years).

## Reiterate Neutral rating and PO of \$465

We reiterate our Neutral rating and maintain our PO of \$465. Despite strong demand, especially at Aeronautics and MFC, we still see at-risk programs as a drag on profits. Aside from a robust backlog and continued shareholder-friendly capital deployment, we do not see any strongly positive near-term catalysts for LMT. Our PO is based on a DCF analysis that factors in a 9.4% discount rate (vs. prior 8.8% given a higher beta, which factors in the uncertainty about F-35 TR-3 deliveries), implied long-term growth rate of 2.3%, and FCF growth rate of 5% in 2029-2033e (both unchanged).

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	21.66	27.55	26.25	28.90	29.55
GAAP EPS	21.66	29.05	26.51	28.90	29.55
EPS Change (YoY)	-4.8%	27.2%	-4.7%	10.1%	2.2%
Consensus EPS (Bloomberg)			26.70	27.86	29.12
DPS	11.40	12.15	12.85	13.90	15.00
Valuation (Dec)					
P/E	20.3x	16.0x	16.7x	15.2x	14.9x
GAAP P/E	20.3x	15.1x	16.6x	15.2x	14.9x
Dividend Yield	2.6%	2.8%	2.9%	3.2%	3.4%
EV / EBITDA*	13.8x	13.0x	13.6x	12.9x	12.8x
Free Cash Flow Yield*	5.8%	5.9%	5.9%	6.2%	6.5%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 7.

25 January 2024

### Equity

**Ronald J. Epstein**  
Research Analyst  
BofAS  
[r.epstein@bofa.com](mailto:r.epstein@bofa.com)

**Mariana Perez Mora**  
Research Analyst  
BofAS  
[mariana.perez mora@bofa.com](mailto:mariana.perez mora@bofa.com)

**Andre Madrid**  
Research Analyst  
BofAS  
[andre.madrid@bofa.com](mailto:andre.madrid@bofa.com)

**Jordan Lyonna**  
Research Analyst  
BofAS  
[jordan.lyonna@bofa.com](mailto:jordan.lyonna@bofa.com)

**Samantha Stiroh**  
Research Analyst  
BofAS  
[samantha.stiroh@bofa.com](mailto:samantha.stiroh@bofa.com)

### Stock Data

Price	431.65 USD
Price Objective	465.00 USD
Date Established	19-Oct-2023
Investment Opinion	B-2-7
52-Week Range	393.77 USD - 508.10 USD
Mkt Val (mn) / Shares Out (mn)	106,243 USD / 241.6
Free Float	286.8%
Average Daily Value (mn)	490.40 USD
BofA Ticker / Exchange	LMT / NYS
Bloomberg / Reuters	LMT US / LMT.N
ROE (2024E)	97.1%
Net Dbt to Eqty (Dec-2023A)	234.3%
ESGMeter™	High

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DCF: discounted cash flow

PO: price objective

vs.: versus

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Timestamp: 25 January 2024 03:00AM EST

# iQprofile<sup>SM</sup> Lockheed Martin

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	19.4%	21.1%	19.9%	21.4%	21.6%
Return on Equity	56.7%	86.0%	97.1%	107.2%	99.8%
Operating Margin	12.7%	13.1%	12.1%	12.4%	12.1%
Free Cash Flow	6,132	6,229	6,275	6,579	6,883

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.4x	1.1x	1.3x	1.2x	1.3x
Asset Replacement Ratio	1.2x	1.2x	1.2x	1.2x	1.3x
Tax Rate	14.2%	13.9%	15.4%	15.5%	15.5%
Net Debt-to-Equity Ratio	139.0%	234.3%	279.7%	249.3%	225.0%
Interest Cover	5.2x	18.8x	8.7x	9.1x	9.0x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	65,984	67,571	69,287	72,479	75,043
% Change	-1.6%	2.4%	2.5%	4.6%	3.5%
Gross Profit	7,467	7,389	7,303	8,030	8,391
% Change	1.2%	-1.0%	-1.2%	10.0%	4.5%
EBITDA	9,752	10,315	9,855	10,445	10,535
% Change	-7.0%	5.8%	-4.5%	6.0%	0.9%
Net Interest & Other Income	(1,668)	(409)	(964)	(988)	(1,002)
<b>Net Income (Adjusted)</b>	<b>5,732</b>	<b>6,920</b>	<b>6,235</b>	<b>6,748</b>	<b>6,796</b>
<b>% Change</b>	<b>-9.2%</b>	<b>20.7%</b>	<b>-9.9%</b>	<b>8.2%</b>	<b>0.7%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	5,732	7,298	6,295	6,748	6,796
Depreciation & Amortization	1,404	1,430	1,452	1,471	1,491
Change in Working Capital	(385)	(289)	338	962	472
Deferred Taxation Charge	(757)	(498)	0	0	0
Other Adjustments, Net	1,808	(21)	(60)	(790)	0
Capital Expenditure	(1,670)	(1,691)	(1,750)	(1,812)	(1,876)
<b>Free Cash Flow</b>	<b>6,132</b>	<b>6,229</b>	<b>6,275</b>	<b>6,579</b>	<b>6,883</b>
<b>% Change</b>	<b>-20.4%</b>	<b>1.6%</b>	<b>0.7%</b>	<b>4.9%</b>	<b>4.6%</b>
Share / Issue Repurchase	(7,900)	(6,000)	(4,000)	(2,931)	(2,882)
Cost of Dividends Paid	(3,016)	(3,056)	(3,063)	(3,245)	(3,450)
Change in Debt	3,961	1,860	750	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	2,547	1,442	1,404	1,806	2,358
Trade Receivables	14,823	15,315	13,857	14,253	14,007
Other Current Assets	3,621	3,764	5,548	5,987	6,122
Property, Plant & Equipment	7,975	8,370	8,913	9,495	10,115
Other Non-Current Assets	23,914	23,565	23,320	22,870	22,635
<b>Total Assets</b>	<b>52,880</b>	<b>52,456</b>	<b>53,042</b>	<b>54,411</b>	<b>55,238</b>
Short-Term Debt	0	168	168	168	168
Other Current Liabilities	15,887	16,769	17,433	19,229	19,591
Long-Term Debt	15,429	17,291	18,041	18,041	18,041
Other Non-Current Liabilities	12,298	11,393	11,393	10,393	10,393
<b>Total Liabilities</b>	<b>43,614</b>	<b>45,621</b>	<b>47,035</b>	<b>47,831</b>	<b>48,193</b>
<b>Total Equity</b>	<b>9,266</b>	<b>6,835</b>	<b>6,008</b>	<b>6,579</b>	<b>7,045</b>
<b>Total Equity &amp; Liabilities</b>	<b>52,880</b>	<b>52,456</b>	<b>53,042</b>	<b>54,411</b>	<b>55,238</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 7.

## Company Sector

Defense Electronics

## Company Description

Lockheed Martin principally researches, designs, develops, manufactures, integrates, operates and sustains advanced technology systems, products and services. The Company operates in four principal business segments: Aeronautics, Missiles and Fire Control, Rotary and Mission Systems, and Space Systems. LMT is the prime contractor for the F-35 Joint Strike Fighter and the parent company of Sikorsky. The company is headquartered in Bethesda, Maryland.

## Investment Rationale

A rising defense budget and strong international demand should put a floor on Lockheed Martin's valuation. But a shareholder-friendly capital deployment strategy is offset by limited short- to medium-term growth opportunities. As a result, we see limited upside potential to the shares.

## Stock Data

Average Daily Volume 1,115,377

## Quarterly Earnings Estimates

	2023	2024
Q1	6.61A	5.57E
Q2	6.63A	6.00E
Q3	6.73A	6.44E
Q4	7.58A	8.24E

## Lackluster 2024 EPS outlook

We think that much of the underperformance seen on the day of LMT's earnings report stems from a disappointing 2024 outlook. Management outlined a 2024 adj. EPS forecast range of \$25.65-\$26.35 compared to Street expectations of \$26.74. Management's segment outlook implies 2024 operating margin of 10.5% compared to ~10.9% in 2023 and 11.3% in 2022, driven by a decline in operating margins at the midpoint in Aeronautics, MFC, and Space. However, we highlight that excluding the 50bps headwind stemming from losses associated with MFC's Classified work, management expects underlying margin in 2024 to be 11%.

## Aero: F-35 TR-3 deliveries pushed mainly to 2H24

In 4Q23, LMT delivered 18 F-35 Joint Strike Fighter aircraft in the Technology Refresh 2 (TR-2) configuration. To date, no F-35s in the Technology Refresh 3 (TR-3) configuration have been delivered. As we highlighted last quarter ([refer to our note](#)), the Department of Defense (DoD) has made it clear that it is no longer taking delivery of F-35s with the TR-3 upgrade until the company can prove that the hardware/software is performing up to expectations. While management highlighted that over 90% of the TR-3 functionality is in flight-test, it noted that the bulk of deliveries will likely be pushed out until the back half of 2024. We forecast 75 deliveries in 2024, at the lower end management's expected range, as customer acceptance hurdles and concerns regarding funding could be further obstacles. Net of actual deliveries, we estimate a FCF impact of roughly \$570mn to the F-35 program in 2024.

### Software issues are holding up first delivery

LMT noted that while hardware issues may have previously been a holdup, the remaining watch items are largely related to software maturation. Currently, LMT is identifying software issues and communicating the need for appropriate fixes to its supplier base. We note that L3Harris (NYSE: LHX) does supply the TR-3 hardware elements that house the upgraded software.

### Opportunity for catch up deliveries once first TR-3 delivery occurs

According to the company, 100-120 parked F-35s are awaiting upgrades and eventual delivery. However, once the TR-3 upgrade is accepted by the customer, a path emerges for LMT to catch up on delayed deliveries. Historically, LMT has delivered at a 12- to 14-per month rate. However, if the upgrade process is sorted out, the company is optimistic that it could move to 18-20 deliveries per month as it unwinds built-up F-35 inventory. However, there are limits to the rate of customer acceptance, as these aircraft must undergo pre-delivery flight testing both with LMT and the customer. A 16- to 17-per-month delivery rate would still be ambitious but would indicate 200 annual deliveries in 2025, if achieved. We remain cautious about the rate at which LMT will be able to unwind F-35 inventory and expect actual deliveries of ~180 per year through the outyears.

## F-35: revisiting difference b/w production and delivery

### DoD withholding cash, not taking deliveries until TR-3 upgrade is proven

As we highlighted in our [2Q23 recap report](#), the DoD announced in mid-June that it would no longer take delivery of F-35 Joint Strike Fighters with the Tech Refresh 3 (TR-3) upgrade until it could prove that the hardware/software was performing up to expectations, potentially pushing out TR-3 deliveries into 2024. We see this delay as a FCF headwind given that limited cash payments (\$7mn/delivery) and some risk retirement events may continue to be withheld until LMT begins TR-3 deliveries.

### Revenue recognized on percent-of-completion, only a cash payment timing issue

Revenue on F-35 contracts is recognized on a percentage-of-completion basis, which indicates that revenues are recorded based on progress toward contract completion. With that said, the issue of delayed F-35 deliveries only impacts cash payments. However, any delays further out might necessitate a reassessment of production rates.

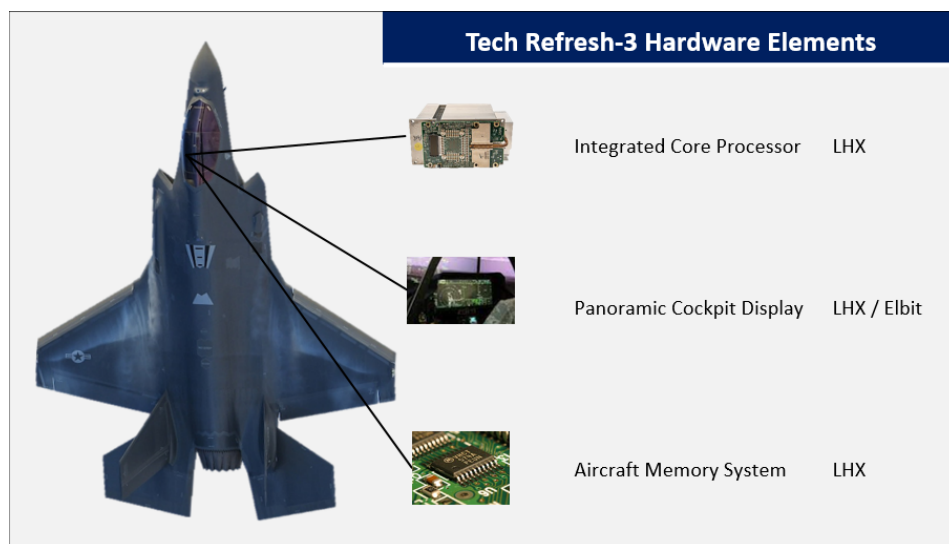


## LMT confirmed delivery delay, cash expected to be recouped through outyears

In September, LMT confirmed that TR-3 deliveries would not commence until April-June 2024 and that it expected to deliver only 97 F-35s in 2023, below the prior 100-120 target. LMT eventually delivered 98 F-35s. Assuming \$7mn/jet, we believe that LMT will have to work to burn down excess inventories through 2027, affecting the FCF ramp through the outyears. We note that responsibility for the fix will likely rest on LMT as the prime.

### Exhibit 1: Tech Refresh-3

LMT confirmed that TR-3 deliveries likely will not commence until 3Q23 (vs. prior April-June 2024)



Source: BofA Global Research

BofA GLOBAL RESEARCH

## MFC: Classified work compresses margins

We continue to see upside opportunities to LMT's MFC segment as the US works to replenish depleted munitions inventories within the US and continues to support allies abroad. Despite the strong demand outlook and backlog (up 12%), we expect continued margin pressure stemming from the ramp-up of Classified program work. Management expects 2024 MFC margins to compress by ~200bps, with ~230bps of compression stemming from Classified work. This implies that the balance of the portfolio, particularly Tactical and Strike Missiles as well as Integrated Air & Missile Defense, should see profit expansion. We forecast 2024 MFC margin of 11.5%.

## RMS: Could a "SmarHawk" be in the Army's future?

LMT's Rotary and Mission Systems (RMS) was the "forgotten" segment during 4Q23 earnings. However, we continue to see a solid future for the segment. During the quarter, LMT's Sikorsky installed the US Army's improved turbine engine on the Raider-X aircraft designed for the Army's Future Attack Reconnaissance Aircraft (FARA) program. First flight of the aircraft is expected in late 2024. As noted in our discussion with John Ferrari on the USG budget ([refer to our note](#)), some experts see the Army's Future Vertical Lift program (FVL) as potentially at risk given funding shortfalls. Even if this were to be the case, we see opportunities for LMT to upgrade and enhance the existing BlackHawk helicopter fleet. We see a digital upgrade insertion (such as an upgraded "smart" BlackHawk) as a more versatile, cost-efficient, and rapid way for the US Army to achieve future long-range helicopter flight.

## Space: growth moderating & soft ULA equity incomes

In Space, growth moderated in the quarter, with 4Q23 sales up 3.5% Y/Y (vs. 7.6%-15.6% Y/Y growth in the previous three quarters). High volumes and positive net profit adjustments boosted operating profit but were partially offset by lower ULA (United Launch Alliance) equity income. AS ULA equity income continues to come in below

expectations, we wonder what the status of ULA's potential sale is. We expect growth in the segment to continue to moderate and stabilize at approximately 3-4% growth per year. Despite this, we see upside potential for LMT's Space business, particularly its hypersonics portfolio, to benefit from funding increases should the appropriated budget look like the FY2024 President's Budget Request.

### **\$1bn of pension contribution in 2025**

We continue to see the counteracting effects of higher interest rates and weaker asset returns. From a baseline perspective, there are no contributions required in 2024, but \$1bn will be contributed in 2025. Given the strength of LMT's balance sheet, we would not be surprised to see some pension contributions pull forward into 2024, a possibility that management acknowledged.

### **Raise EPS estimates through the outyears**

We now expect 2024 EPS of \$26.25 (vs. prior \$26.30) on account of weaker segment margins, higher interest expense, and less pension income. We raise our outyear EPS estimates on account of stronger-than-expected sales growth across Aeronautics, MFC, and RMS. We now expect EPS of \$28.90 (vs. prior \$27.90) in 2025 and \$29.55 (vs. prior \$29.20) in 2026.

## Price objective basis & risk

### Lockheed Martin (LMT)

We derive our PO of \$465 using a discounted cash flow (DCF) analysis that factors in a discount rate of 8.8%, an implied long-term growth rate of 2.3%, and an FCF growth rate of 5% for years 2027-2032e.

Downside risks: as LMT derives nearly 30% of revenue from the Aeronautics division, should the company run into any execution issues on the F-35 program, we believe this could materially affect the company's financials in addition to posing headline risks. Execution risk on defense programs could result in cost overruns and margin contractions. Unexpected cancellations to programs in both commercial and military could materially impact Lockheed Martin as a result. Orders from international programs are difficult to time due to the complexity of the process. Thus, we could see some lumpiness with regard to international orders.

Upside risks: F-35 program performs better than anticipated, defense spending is higher than expected, and LMT continues to buy back more shares than we forecast, driving higher EPS growth.

## Analyst Certification

I, Ronald J. Epstein, 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 - Aerospace and Defense Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	AerCap Holdings N.V.	AER	AER US	Ronald J. Epstein
	Air Lease Corporation	AL	AL US	Ronald J. Epstein
	Boeing	BA	BA US	Ronald J. Epstein
	Booz Allen Hamilton	BAH	BAH US	Mariana Perez Mora
	BWX Technologies, Inc.	BWXT	BWXT US	Ronald J. Epstein
	CACI International	CACI	CACI US	Mariana Perez Mora
	Cadre Holdings Inc	CDRE	CDRE US	Ronald J. Epstein
	Crane Co.	CR	CR US	Ronald J. Epstein
	Embraer	ERJ	ERJ US	Ronald J. Epstein
	General Dynamics	GD	GD US	Ronald J. Epstein
	Howmet Aerospace Inc.	HWM	HWM US	Ronald J. Epstein
	KBR	KBR	KBR US	Mariana Perez Mora
	Leidos Holdings	LDOS	LDOS US	Mariana Perez Mora
	Leonardo DRS, Inc.	DRS	DRS US	Ronald J. Epstein
	Northrop Grumman	NOC	NOC US	Ronald J. Epstein
	Palantir Technologies	PLTR	PLTR US	Mariana Perez Mora
	Parsons Corporation	PSN	PSN US	Mariana Perez Mora
	RBC Bearings Inc	RBC	RBC US	Ronald J. Epstein
	Rocket Lab	RKLB	RKLB US	Ronald J. Epstein
	Teledyne Technologies Inc	TDY	TDY US	Ronald J. Epstein
	TransDigm Group Inc.	TDG	TDG US	Ronald J. Epstein
<b>NEUTRAL</b>				
	Albany International	AIN	AIN US	Ronald J. Epstein
	Garmin	GRMN	GRMN US	Ronald J. Epstein
	HEICO Corporation	HEI	HEI US	Ronald J. Epstein
	Hexcel Corporation	HXL	HXL US	Ronald J. Epstein
	L3Harris	LHX	LHX US	Ronald J. Epstein
	Lockheed Martin	LMT	LMT US	Ronald J. Epstein
	Textron	TXT	TXT US	Ronald J. Epstein

**US - Aerospace and Defense Coverage Cluster**

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>UNDERPERFORM</b>	Bombardier	BDRBF	BDRBF US	Ronald J. Epstein
	Bombardier Inc.	YBBD B	BBD/B CN	Ronald J. Epstein
	CAE Inc.	YCAE	CAE CN	Ronald J. Epstein
	CAE Inc.	CAE	CAE US	Ronald J. Epstein
	Huntington Ingalls Industries	HII	HII US	Ronald J. Epstein
	Mercury Systems	MRCY	MRCY US	Ronald J. Epstein
	RTX Corp	RTX	RTX US	Ronald J. Epstein
	Spirit AeroSys-A	SPR	SPR US	Ronald J. Epstein
<b>RVW</b>	Triumph Group	TGI	TGI US	Ronald J. Epstein

**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 validations. 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.

**iQdatabase<sup>®</sup>** is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

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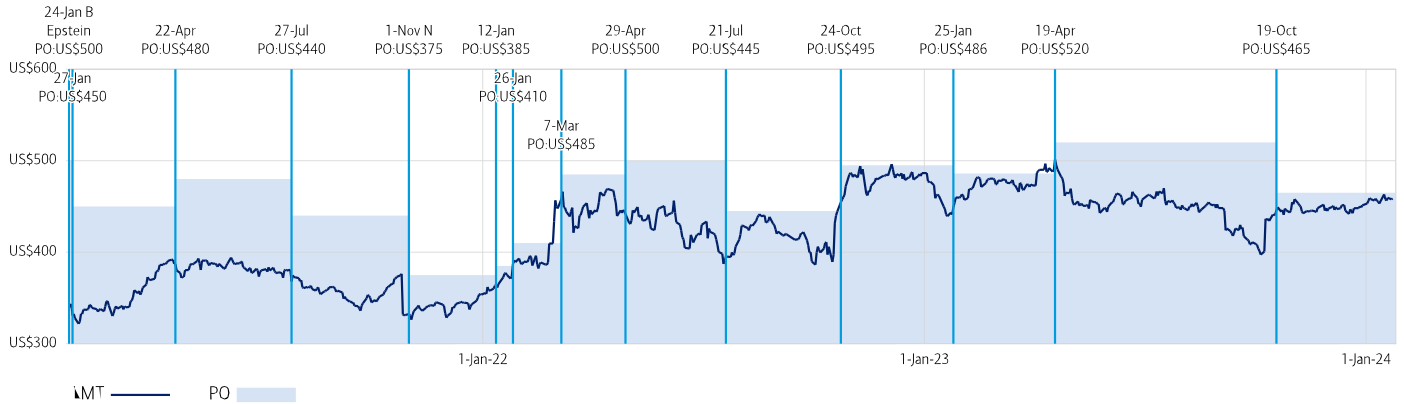




# Disclosures

## Important Disclosures

### Lockheed Martin (LMT) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Aerospace/Defense Electronics Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	31	62.00%	Buy	23	74.19%
Hold	11	22.00%	Hold	9	81.82%
Sell	8	16.00%	Sell	6	75.00%

### 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%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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