

Raymond James Financial

Maintain Buy; Counter-rate qualities, cap-lite business model + attractive valuation

Maintain Rating: BUY | PO: 135.00 USD | Price: 112.43 USD

RJF is better insulated from rate cuts than given credit for

We believe RJF's earnings are better insulated from rate cuts than the market recognizes. We estimate that RJF would experience a negative \$0.81 run rate EPS impact (9.7% 23' adj. EPS) per 100bps decline in fed funds. This does not fully consider additional factors that would help offset the decline including the ability to greatly frontload their deposit beta (pass on early cuts), adjustments to investment portfolio positioning, and a pickup in its alternative earnings streams that should benefit from lower rates (positive market-beta and capital markets (CM) activity; estimate \$0.75-1.25 run rate EPS pickup from CM alone).

Robust organic growth + cap-lite business model = quality

RJF PCG is targeting +5-7% NNA growth driven by their strong value proposition that is well positioned to compete with wirehouses and win over high-productivity advisors, with the broker managing to outperform expectations over the last two years (+8.6%/+7.1% 22'/23'). RJF has done a good job capitalizing on their growth with high FCF conversions, driven by their disciplined approach to capital deployment, which includes sustainable and consistent investment in capex as well as a methodical process for deployment focusing on ROI. In tandem, we view these qualities as having a powerful flywheel effect that should lead to shareholder return outperformance.

Trading at discount to historical range despite positives

RJF is currently trading at 11x forward P/E, which is on the lower end of its historical 10-17x range despite robust organic growth, a capital-lite business model and trough earnings from capital markets. We believe investors value the broker on peak-earnings without giving enough credit for: (1) downside protection in a rate-cutting environment; and (2) earnings potential from a pick-up in capital markets activity and positive market-beta sources. We expect the valuation multiple to re-rate higher toward peers (13-14x) over the next 12-months as both scenarios unfold.

Maintain Buy; cheap valuation + overlooked qualities

RJF operates with a high-growth well diversified business model, building its wealth management segment. We believe RJF is attractively priced and well positioned to (1) maintain strong organic growth driven by the "breakaway broker" theme; (2) continue to benefit from higher rates as sorting slows and it can restart its migration of capital from third-party contracts into its bank; and (3) take advantage of stabilizing markets in both its asset management and capital markets segments.

Estimates (Sep) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	7.50	8.33	9.68	10.39	12.29
GAAP EPS	6.99	7.98	9.25	9.92	11.82
EPS Change (YoY)	6.2%	11.0%	16.3%	7.4%	18.3%
Consensus EPS (Bloomberg)			9.48	9.89	10.53
DPS	0	0	0	0	0
Valuation (Sep)					
P/E	15.1x	13.6x	11.7x	10.9x	9.2x
GAAP P/E	16.2x	14.2x	12.2x	11.4x	9.6x

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Equity

Mark McLaughlin, CFA

Research Analyst
BofAS
+1 646 855 4234
mark.mclaughlin@bofa.com

Craig Siegenthaler, CFA

Research Analyst
BofAS
+1 646 855 5004
craig.siegenthaler@bofa.com

Eli Abboud

Research Analyst
BofAS
+1 646 855 5791
eli.abboud@bofa.com

Maggie Cao

Research Analyst
BofAS
+1 646 855 5034
maggie.cao@bofa.com

Stock Data

Price	112.43 USD
Price Objective	135.00 USD
Date Established	24-Jan-2024
Investment Opinion	B-1-9
52-Week Range	82.00 USD -116.58 USD
Mkt Val / Shares Out (mn)	23,464 USD / 208.7
Free Float	89.9%
Average Daily Value	125.63 USD
BofA Ticker / Exchange	RJF / NYS
Bloomberg / Reuters	RJF US / RJF.N
ROE (2024E)	0%
ESGMeter™	Medium

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"](#).

See page 8 for a Glossary of abbreviations used in the report.

iQprofileSM Raymond James Financial

Income Statement Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Revenue	11,003	11,619	12,715	14,048	15,763
% Change	12.7%	5.6%	9.4%	10.5%	12.2%
Investment Advisory Fees	NA	NA	NA	NA	NA
Compensation & Benefits	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA
Non-Compensation Expenses	NA	NA	NA	NA	NA
Net Income to Ordinary Shareholders	1,505	1,733	1,972	2,096	2,470
Adjusted Net Income (Operating)	1,615	1,807	2,064	2,196	2,570
% Change	8.2%	11.9%	14.2%	6.4%	17.1%
Adjusted EBITDA (Operating)	NA	NA	NA	NA	NA
Cash EPS	7.17	8.18	9.49	10.19	12.14
% Change	NA	NA	NA	NA	NA

Performance Metrics (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Operating Margin	18.4%	19.6%	20.0%	19.4%	20.4%
Pre-Tax Profit Margin	18.4%	19.6%	20.0%	19.4%	20.4%
Net Profit Margin	14.7%	15.6%	16.2%	15.6%	16.3%
Comp Expense/Revenue	0%	0%	0%	0%	0%
Non-Comp Expense / Revenue	0%	0%	0%	0%	0%
Net Revenue Growth	12.7%	5.6%	9.4%	10.5%	12.2%
Operating Expense Growth	12.7%	4.0%	8.9%	11.4%	10.8%

Asset Management Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Assets Under Management (\$bn)	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA
% Equity	NA	NA	NA	NA	NA
% Fixed Income	NA	NA	NA	NA	NA
% Money Mkt / Other	NA	NA	NA	NA	NA
Net New Flows (\$bn)	NA	NA	NA	NA	NA
Organic Growth	NA	NA	NA	NA	NA
Organic Growth ex-Money Market	NA	NA	NA	NA	NA
Advisory Fees / Avg. AUM	NA	NA	NA	NA	NA

Balance Sheet Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Assets	80,951	78,360	80,611	90,067	98,468
Total Shareholders' Equity	9,432	10,187	11,388	12,673	14,242
Tangible Shareholders' Equity	NA	NA	NA	NA	NA
BVPS (Stated Equity)	NA	NA	NA	NA	NA
ROE (Stated Equity)	NM	NM	NM	NM	NM
Cash & Investments	NA	NA	NA	NA	NA
Net Cash & Investments Per Share	NA	NA	NA	NA	NA

Company Sector

Securities Broker/Dealer

Company Description

Raymond James Financial is a diversified financial services company with four segments providing brokerage, capital markets, asset management, and banking products and services to individuals, corporations, and municipalities. The firm operates predominately in the United States and to a lesser extent in Canada, the United Kingdom, and other parts of Europe. RJF was established in 1962 and has been public since 1983 under the ticker RJF. RJF's brokerage segment (PCG)

Investment Rationale

RJF operates a high-growth well diversified business model and has continued to expand its offerings to advisors and clients. We believe RJF is well-positioned to benefit from higher interest rates as well as a turnaround in markets including higher beta levels and less uncertainty given its diversified model.

Quarterly Earnings Estimates

	2023	2024
Q1	2.29A	2.40A
Q2	2.03A	2.47E
Q3	1.85A	2.36E
Q4	2.13A	2.45E

Measuring Rate Exposure

Measuring Rate Exposure; downside protection overlooked

We make the assumptions below to estimate RJF's sensitivity to a -100bps move in fed funds at an -\$0.81 run rate EPS impact (9.7% EPS FY23). These estimates require deposit beta forecasts and do not include: (1) any negative-rate correlated impacts (capital markets activity, market-beta, etc.); and (2) portfolio changes (third-party migrations to bank, floating-to-fixed reallocations). We believe these are the two important factors currently being overlooked by investors.

Exhibit 1: RJF Interest-Rate Sensitivity Analysis

Our interest-rate sensitivity assumptions below include 70% of IEA are floating and 0.65 deposit beta for IBL

IEA	Avg Balance	Deposit Beta	Net Impact to NII
Floating IEA	50,465	1.00	(505)
IBL	Avg Balance	Deposit Beta	Net Impact to NII
Money Market and Savings Accounts	32,001	0.50	160
Interest-bearing checking Accounts	19,565	1.00	196
Certificates of Deposit	2,757	1.00	28
FHLB Advances and Other IBL	1,231	0.00	-
Trading Liabilities	756	1.00	8
Broker Client Payables	4,668	0.50	23
Senior Notes Payables	2,039	0.00	-
All Other IBL	980	0.50	5
Total IBL	63,997	0.65	419
Third-Party Deposits	Avg Balance	Deposit Beta	Net Impact to NII
Third-Party Deposits	17,820	0.75	(134)

Source: BofA Global Research estimates

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Exhibit 2: RJF Interest-Rate Sensitivity Analysis

We estimate that RJF will lose \$0.81 of run rate EPS per -100bps move in the effective fed funds rate.

Assumption	
Change in Rates	-1.00%
Tax Rate	21%
Avg Shares-Outstanding	213.8
EPS Delta	\$ (0.81)

Source: BofA Global Research estimates

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Exhibit 3: Adj. EPS Delta per -100bps EFR Across Our Coverage

Below estimates hold balances the same as last reported quarter and do not include counter-sensitive balances

Ticker	EPS Delta	2023 Adj. EPS	%
SCHW	\$(0.11)	\$3.14	-3.3%
AMP	\$(1.30)	\$28.85	-4.5%
RJF	\$(0.81)	\$8.33	-9.7%
LPLA	\$(1.51)	\$14.99	-10.1%
IBKR	\$(0.69)	\$5.69	-12.1%

Source: BofA Global Research estimates, These are our estimates (not from company disclosures)

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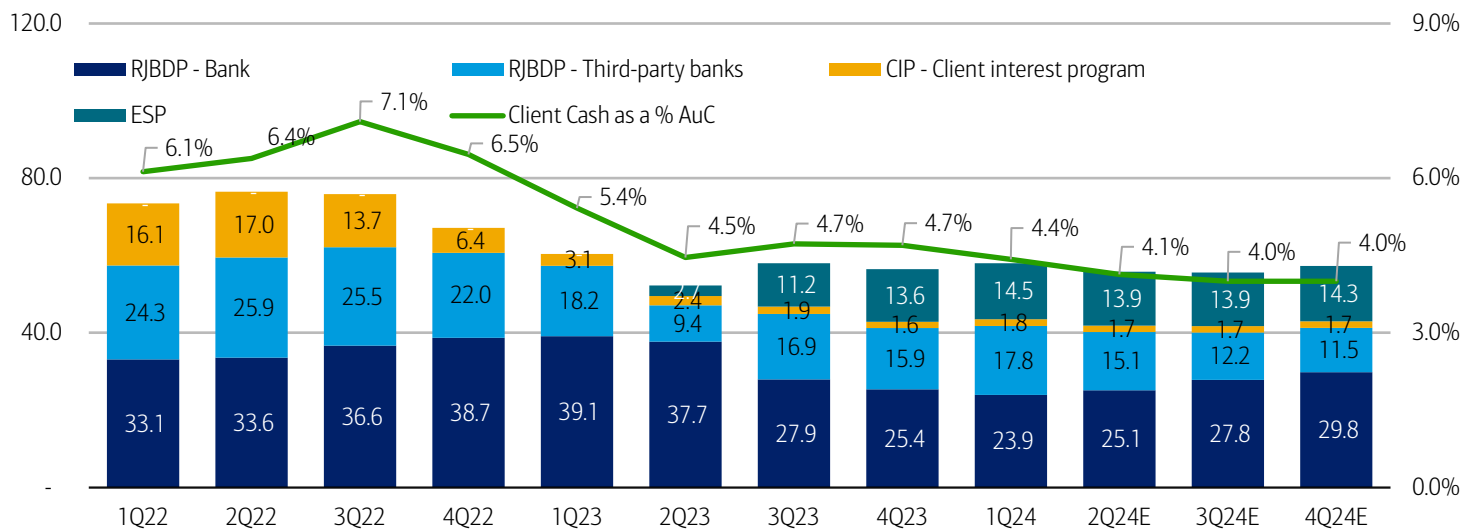


Sound strategy handling sorting will pay off during cuts; expect higher deposit beta than peers = NIM protection

When sorting activity picked up during 2H22, RJF elected to keep its cash sweep rates competitive in order to hold onto deposits versus many other brokers that chose to keep deposit rates low (SCHW (Charles Schwab) = 45bps / LPLA (LPL Financial) = 80bps) and let sorting take its course until a transactional cash floor was reached. While no one knows for certain, we agree with the perceived consensus that we are now closer to the end than the beginning for advisor-directed client cash sorting and forecast that deposits from organic means will outpace decelerating sorting levels to the point that we reach an inflection in net core deposit growth by 2H24. As of 12/31/23, RJF's blended IBL cost was 3.17%. With markets now forecasting five to six cuts through 2024, we believe RJF is better positioned than many peers given its ability to instantaneously tweak its deposit cost beta instantaneously, which we expect them to forecast decide to frontload, setting them up for better downside protection of their NIM than we believe markets recognize.

Exhibit 4: Client Cash Balances (\$B)

Total client cash balances have been gradually stabilizing driven by RJF's Enhanced Savings Program which has helped stem outflows given its competitive sweep rate. By keeping the deposits on RJF's balance sheet, this will allow the broker more control over sweep pricing / deposit betas to use to their advantage in a cutting environment



Source: Company reports, BofA Global Research estimates

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RJF has ample maneuverability in portfolio strategy

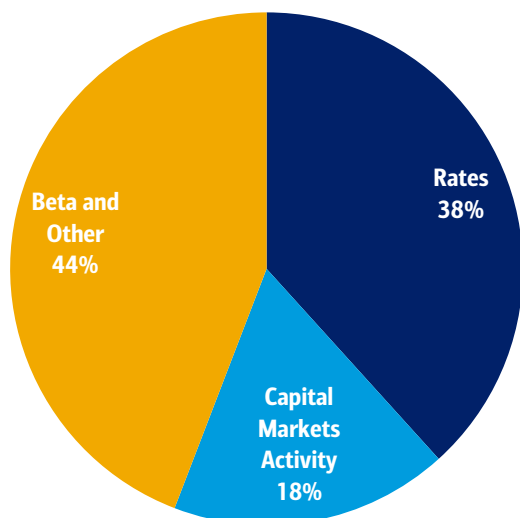
As of 12/31/23, RJF had \$17.8B of client cash sweep deposits allocated to third-party banks, strategically creating a large funding cushion and liquidity to utilize subsequent client cash sorting dynamics when attractive loan growth opportunities resurface. We estimate that RJF could pick up an additional 100-150bps of yield by reallocating third-party balances into their bank and could additionally lock in fixed rates, which would further substantially limit downside earnings potential in a rate-cutting scenario (estimate \$0.33 of run rate EPS downside protection). Additionally, roughly 70% of RJF's bank portfolio is currently floating rate with \$16.3B of maturities over the next year (includes contractual principal repayments, does not include estimates of prepayments), which have the potential to be reallocated into fixed-rate investments. Given management's emphasis on trying not to "predict rates", we expect minimal reallocation, but do believe there could be some further downside protection added following the first few cuts.

High % of earnings streams negatively correlated to rates

We estimate that roughly 38% of gross profit came from interest rate-driven sources (NII + third-party bank fees / net revenues subtracting FA compensation) in 1Q24. This compares favorably with many peers (SCHW = 52%, IBKR (Interactive Brokers) = 64%, HOOD (Robinhood Markets) = 51%, LPLA = 39%, AMP (Ameriprise Financial) = 33%) and we think best displays RJF's diversification. RJF also benefits from gross profit sources that are more directly negatively correlated to interest rates than just overall market beta (assume lower rates = higher market beta). Capital Markets returned to profitability last quarter driven by an uptick in brokerage revenues (+40% q/q), which benefitted from depository institution portfolio repositioning. We expect further upside potential through 2024 and beyond driven by investment banking activity as it experiences a gradual recovery as companies grapple with the higher rate environment and volatility subsides, which would be accelerated further in the case of additional rate cuts. We estimate an additional \$0.75-1.25 of run rate EPS from the Capital Markets segment recovery alone.

Exhibit 5: Gross Profit Drivers by Factor Exposure (1Q24)

RJF has more diversified gross profit sources than many peers with sources such as Capital Markets displaying negative correlation with interest rates

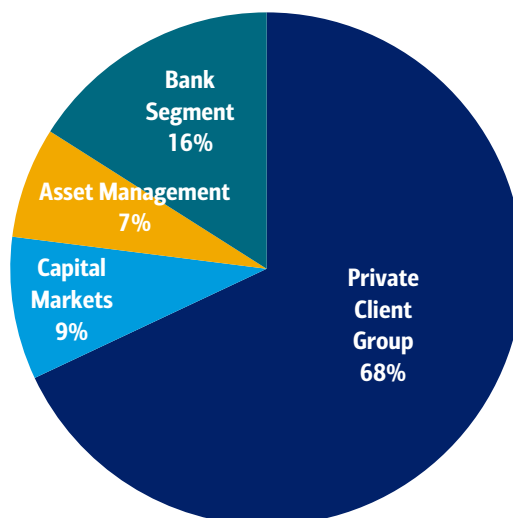


Source: BofA Global Research estimates

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Exhibit 6: Net Revenue by Segment (4Q23)

While PCG drives the business, we believe RJF's diversification gets overlooked without analyzing on both a Gross Profit and Factor Driven level



Source: Company reports, BofA Global Research

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Organic Growth and Capital Allocation

High Organic Growth and Capital-Lite Business Model

RJF's PCG reports strong annualized NNA growth targeting +5-7%, driven by a strong value proposition that includes wide breadth of products/services and a technology stack that is similar and positions it well to compete with wirehouses as an attractive home with all the same offerings but more independence and a higher payout. RJF's robust organic growth comes in tandem with high free cash flow conversions driven by management's disciplined approach to capital allocation, which includes sustainable but consistent investment in capex/technology spending as well as a methodical approach to judging opportunities based on ROI. We believe this is displayed well in their approach to

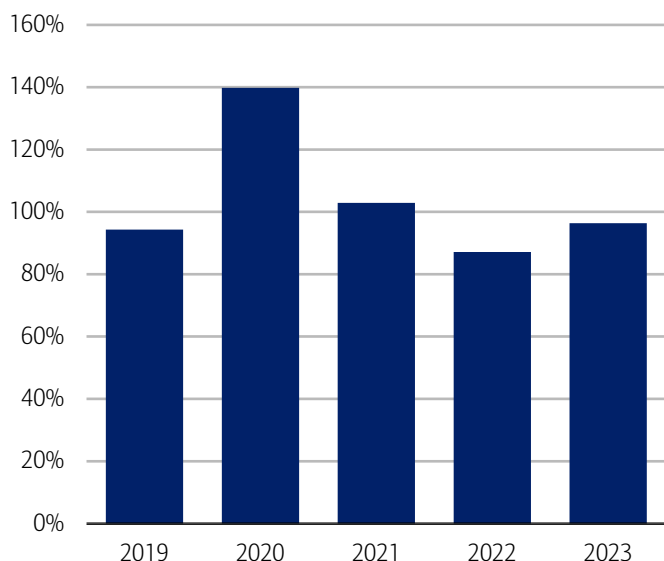
deployment of transition assistance, not offering the highest terms for all advisors, but taking quality over quantity to maintain sustainable growth. We believe sustainable organic growth in tandem with overall market-beta driven growth and sustained ROCA is ultimately a very powerful algorithm for outperformance over the long term.

Substantial opportunity in RIA custody model

Between 3/31/18 and 12/31/23, RJF was able to grow AuA in its RIA & Custody Services (RCS) affiliation model from \$37B to \$147B (+32% CAGR). Cerulli estimates the total RIA custody TAM at +\$8T with SCHW, Fidelity and Pershing together holding ~74% of the market share. Given recent trends (banking crisis, better cash management solutions), we expect more advisors will investigate diversifying their custody base despite added complexities and technology costs. By offering the RIA custody affiliation model, RJF increases its flexibility and helps mitigate “graduation risk” from its current independent and employee advisor channels on the chance they decide to transition to an RIA model depending on how they believe they can best serve their clients. An example of this was Steward Partners Holdings, which transitioned in 2021 with over \$18B of AuC; Seward decided to remain on RJF’s platform and was priced so that RJF was neutral on the transition. RJF does not offer its services through RCS “a la carte” but instead as a percentage fee based on AuC.

Exhibit 7: Free Cash Flow Conversion (FCFF / EBITDA)

RJF boasts strong FCF conversions driven by highly selective advisor selection and capital allocation

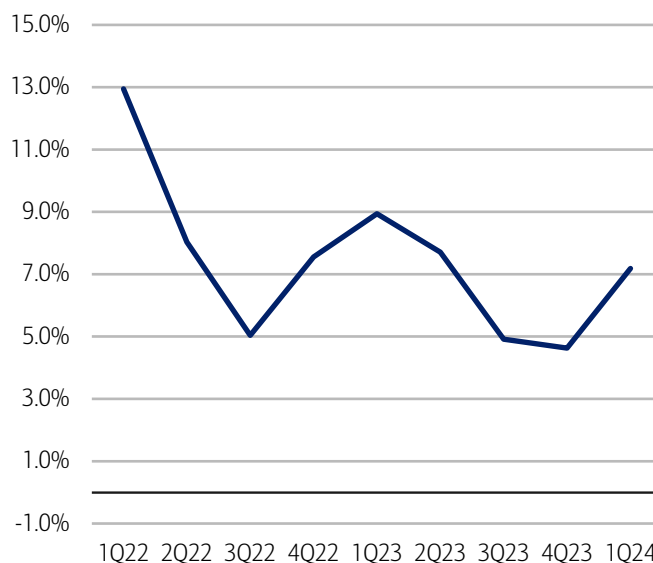


Source: BofA Global Research

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Exhibit 8: Annualized NNA Growth

RJF targets +5-7% NNA growth while continuing to target high-productivity advisors



Source: BofA Global Research

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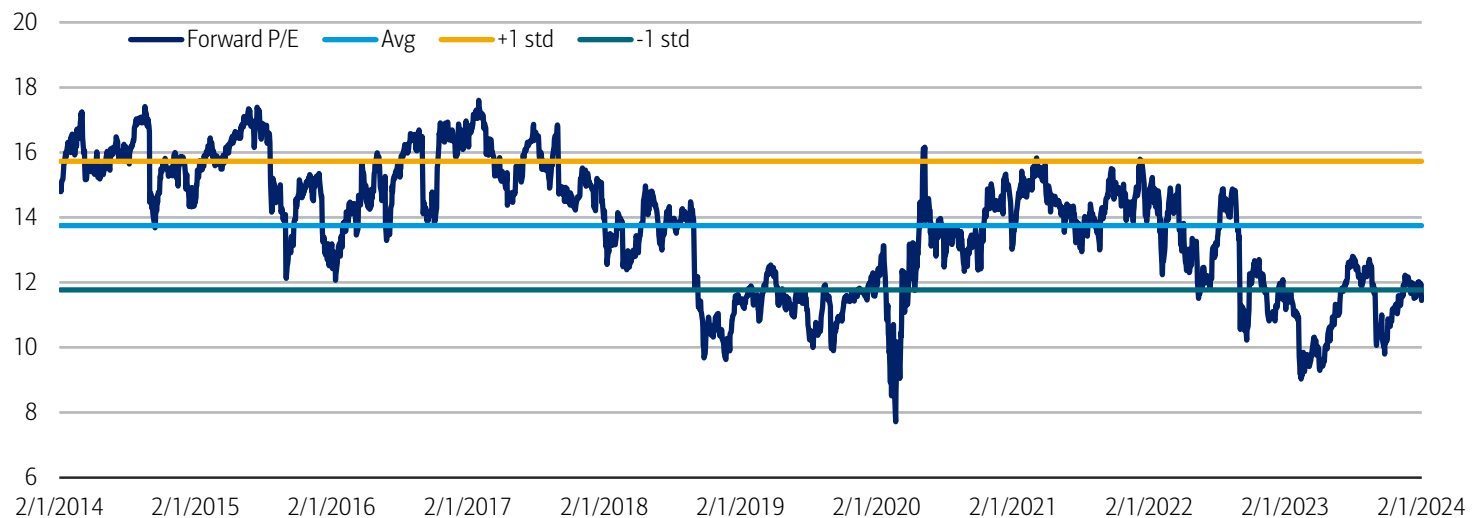
Valuation

RJF is trading at a discount historically and to peers

RJF currently trades at an 11x forward P/E, which is on the lower end of its historical 10-17x range despite robust organic growth, a capital-lite business model and trough earnings from capital markets. We believe investors value the broker on peak earnings without giving enough credit for (1) downside protection in a rate-cutting environment; and (2) earnings potential from a pick-up in capital markets activity and positive market-beta sources. We expect the valuation multiple to re-rate higher (13-14x) near peers over the next 12-months as Fed policy and macroeconomic variables play out.

Exhibit 9: RJF Historical Forward P/E

RJF is currently trading at a discount on a historical P/E which we believe is unjustified given robust organic growth, high FCF conversion and downside protections to rate exposures



Source: BofA Global Research

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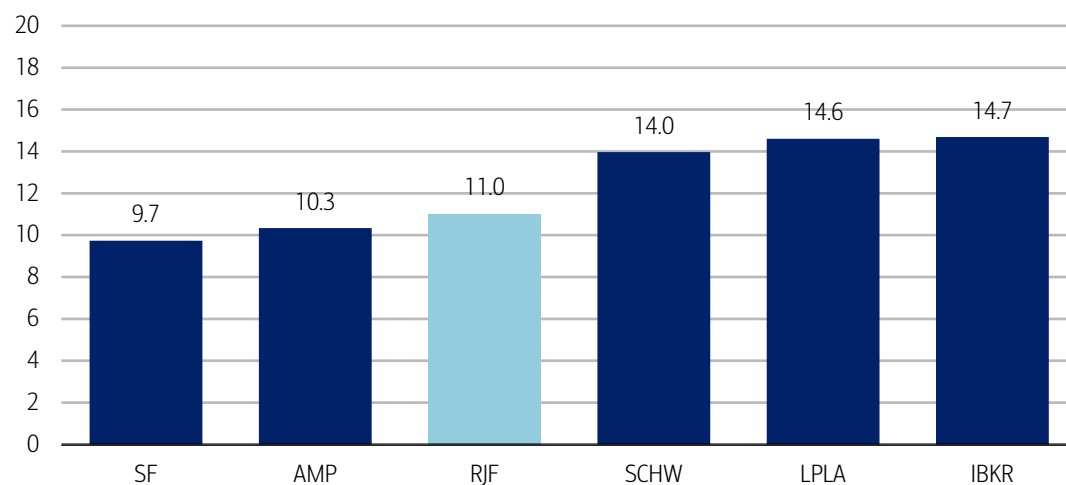
Compelling risk-reward payoff

We believe RJF offers a compelling risk-reward trade-off with a positive upside skew given attractive pricing both historically and versus peers. We conclude potential for future upside pricing pressures when fast-money short-interest normalizes and long-horizon investors feel more comfortable buying into a high-quality name after concerns about high interest rate exposure subside.



Exhibit 10: Forward P/E vs. Peers

RJF is trading at a steep discount to peers despite strong organic growth, cap-lite business model and trough earnings from capital markets.

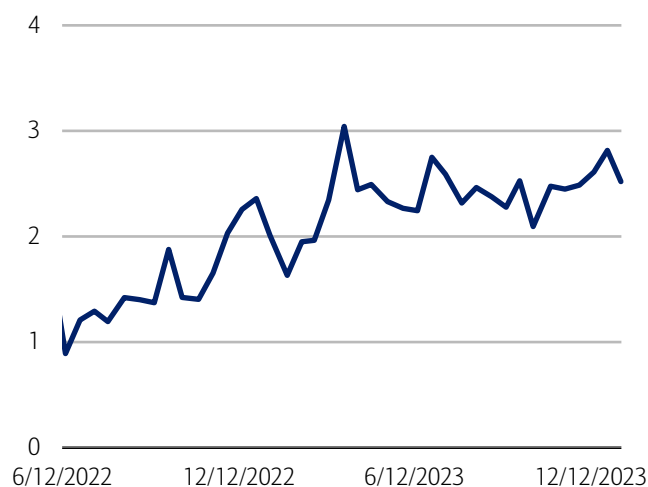


Source: BofA Global Research

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Exhibit 11: RJF Historical Short-Interest % Float

RJF is a crowded broker short amongst the buy-side due to expected downside rate exposure

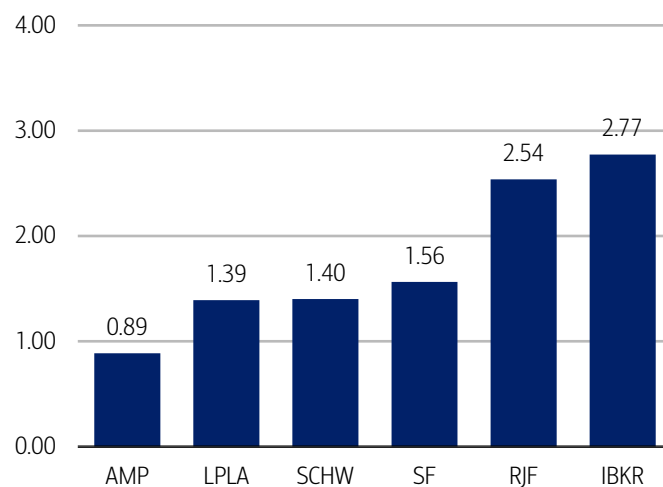


Source: BofA Global Research

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Exhibit 12: Short-Interest % Float Across Brokers

RJF is a crowded broker short amongst the buy-side due to expected downside rate exposure



Source: BofA Global Research

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Glossary

AM = asset management

AuC = assets under custody

CM = Capital Markets

FCF = free cash flow

FCFF = free cash flow to firm

NII = net interest income

NIM = net interest margin

NNA = net new assets

PCG = private client group

RIA = registered investment advisor

ROI = return on investment

LT = long-term

ST = short-term

TAM = total addressable market



Price objective basis & risk

Raymond James Financial (RJF)

Our \$135 PO is based on 11x EPS multiple on our 2026 EPS estimate. Given that RJF operates four different business lines that offer different qualities (growth, volatility, capital), we derive our price objective using a sum-of-the-parts framework accounting for peers in wealth management (15x), traditional asset management (9x), capital markets (7x), and traditional banking (9x). This multiple is at the bottom of its 5Y historical range (11-20x), given a conservative stance on market conditions.

Downside risks are (1) breakaway broker theme threatening organic growth (2) cash sorting (3) challenging market backdrop for active management and capital markets.

Analyst Certification

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

US - Brokers, Asset Managers, & Exchanges Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AllianceBernstein	AB	AB US	Craig Siegenthaler, CFA
	Ameriprise Financial	AMP	AMP US	Craig Siegenthaler, CFA
	Ares Management Corp	ARES	ARES US	Craig Siegenthaler, CFA
	BlackRock, Inc.	BLK	BLK US	Craig Siegenthaler, CFA
	Blackstone	BX	BX US	Craig Siegenthaler, CFA
	Blue Owl Capital	OWL	OWL US	Craig Siegenthaler, CFA
	Cboe Global Markets	CBOE	CBOE US	Craig Siegenthaler, CFA
	Interactive Brokers	IBKR	IBKR US	Craig Siegenthaler, CFA
	Intercontinental Exchange	ICE	ICE US	Craig Siegenthaler, CFA
	KKR & Co. Inc.	KKR	KKR US	Craig Siegenthaler, CFA
	Raymond James Financial	RJF	RJF US	Mark McLaughlin, CFA
	TPG Inc	TPG	TPG US	Craig Siegenthaler, CFA
	Tradeweb Markets Inc.	TW	TW US	Craig Siegenthaler, CFA
	Victory Capital Holdings, Inc.	VCTR	VCTR US	Craig Siegenthaler, CFA
	Virtu Financial	VIRT	VIRT US	Craig Siegenthaler, CFA
NEUTRAL				
	Affiliated Managers Group	AMG	AMG US	Craig Siegenthaler, CFA
	Apollo Global Management	APO	APO US	Craig Siegenthaler, CFA
	Brookfield Asset Management	BAM	BAM US	Craig Siegenthaler, CFA
	CME Group Inc	CME	CME US	Craig Siegenthaler, CFA
	Invesco	IVZ	IVZ US	Craig Siegenthaler, CFA
	Janus Henderson Group	JHG	JHG US	Craig Siegenthaler, CFA
	LPL Financial Holdings	LPLA	LPLA US	Craig Siegenthaler, CFA
	Patria	PAX	PAX US	Craig Siegenthaler, CFA
UNDERPERFORM				
	Charles Schwab Corp.	SCHW	SCHW US	Craig Siegenthaler, CFA
	Franklin Resources	BEN	BEN US	Craig Siegenthaler, CFA
	Nasdaq	NDAQ	NDAQ US	Craig Siegenthaler, CFA
	Robinhood Markets	HOOD	HOOD US	Craig Siegenthaler, CFA
	T. Rowe Price	TROW	TROW US	Craig Siegenthaler, CFA
	The Carlyle Group	CG	CG US	Craig Siegenthaler, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

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

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

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

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

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

iQmethodSM 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.

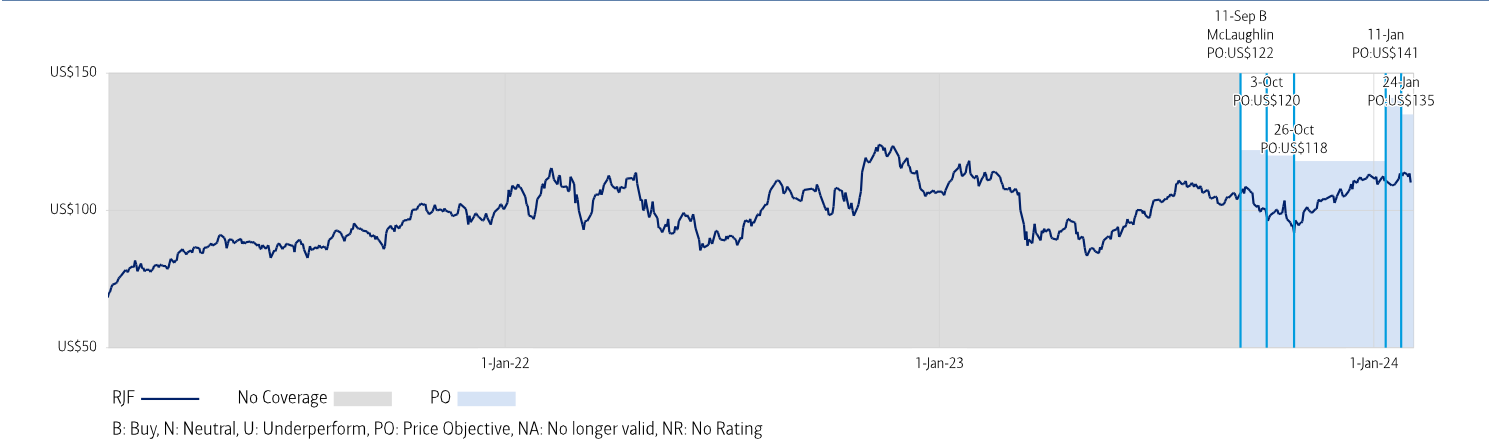
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Disclosures

Important Disclosures

Raymond James (RJF) Price Chart



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: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

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

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

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

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

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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