

TransAlta Corporation

Screens attractive but setup complicated by Alberta power market dynamics

Reiterate Rating: NEUTRAL | PO: 11.50 CAD | Price: 9.46 CAD

Normalizing power prices, gen headlines foreboding

We reiterate our Neutral rating on Canadian-based independent power producer (IPP) TransAlta Corporation (TA). Despite TA's YTD share price performance of -14% vs -5% for other Canadian utility and IPP peers, we are still cautious given significant uncertainty in the Alberta power market, which continues to feature a backwardated forward curve. We see further ambiguity in Alberta's prospective market efficiency given the provincial government's ongoing six-month moratorium on renewable project approvals and recent statements and actions calling for establishment of a "Crown" corporation to serve as baseload generator of last resort. In our view, this could meaningfully affect TA's pricing power in the deregulated AB power market, dealing a potential risk to intramarginal rents and seemingly a rationale behind the latest Heartland acquisition from Nov '23. While TA shares are appealingly priced, we observe outsized near-term core market uncertainty to move from our Neutral rating.

Deemphasizing renewables could be favorably received

Given significantly lower YoY volatility in Alberta power prices in 4Q23 (average pool price for settlement period down -62% YoY for the quarter), see modest downward bias albeit substantively hedged. With the 4Q23 print, we expect management to continue messaging a refocus of capital deployment from economically challenged renewable development (at 10x EV/EBITDA) envisioned at the November analyst day toward more accretive buybacks (well below recent trends). Shares still meaningfully below management's previously indicated target entry point for share repurchase at C\$12/share. We anticipate MW deployment targets could be further delayed. Bottom line, see upbeat messaging on capital return to overshadow bigger picture on slide in prices. We would watch carefully messaging on market future in particular as relevant.

Bulk of value is now renewables driven: Stay Neutral

We update our estimates ahead of 4Q23 earnings, as we MtM power prices to ICE NGX electricity settlement prices. We reduce our PO to C\$11.50/sh versus \$14.00 prior, reflecting lower applied multiples to the Wind and Solar and Energy Marketing businesses, as well as higher discount rate of 15% for legacy and growth assets, reflecting updated risk assumptions given market dynamics in AB and elsewhere.

Estimates (Dec) (C\$)	2021A	2022A	2023E	2024E	2025E
EPS	(2.13)	0.01	1.59	0.71	0.66
EPS Change (YoY)	-74.6%	NM	NM	-55.3%	-7.0%
Consensus EPS (Bloomberg)			2.61	0.49	0.36
DPS	0.18	0.20	0.22	0.23	0.24
EPS (TAC - US\$)	(1.70)	0.01	1.18	0.53	0.49
DPS (TAC - US\$)	0.14	0.15	0.16	0.17	0.18
Valuation (Dec)					
P/E	NM	946.0x	5.9x	13.3x	14.3x
Dividend Yield	1.9%	2.1%	2.3%	2.4%	2.6%
EV / EBITDA*	6.1x	4.7x	4.6x	6.4x	7.1x
Free Cash Flow Yield*	30.2%	29.7%	28.1%	21.6%	19.3%

* For full definitions of *IQmethod*SM measures, see page 7.

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Timestamp: 13 February 2024 05:30AM EST

13 February 2024

Equity

Key Changes

(C\$)	Previous	Current
Price Obj.	14.00	11.50
2023E Rev (m)	3,187.3	3,145.5
2024E Rev (m)	2,643.5	3,148.0
2025E Rev (m)	2,409.1	2,966.7
2023E EPS	1.65	1.59
2024E EPS	0.70	0.71
2025E EPS	0.78	0.66
2023E DPS	0.21	0.22

Julien Dumoulin-Smith

Research Analyst
BofAS
+1 646 855 5855
julien.dumoulin-smith@bofa.com

Tanner W. James, CFA

Research Analyst
BofAS
+1 646 855 2689
tanner.w.james@bofa.com

Paul Zimbardo

Research Analyst
BofAS
+1 646 855 1470
paul.zimbardo@bofa.com

Stock Data

Price (TOR / NYS)	9.46 CAD / 7.03 USD
Price Objective	11.50 CAD / 9.00 USD
Date Established	13-Feb-2024 / 13-Feb-2024
Investment Opinion	B-2-7 / B-2-7
52-Week Range	9.19 CAD - 13.97 CAD
Market Value (mn)	2,921 CAD
Free Float	84.2%
Average Daily Value	9.22 USD
Shares Outstanding (mn)	308.8 / 308.8
BofA Ticker / Exchange	YTA / TOR
BofA Ticker / Exchange	TAC / NYS
Bloomberg / Reuters	TA CN / TA TO
ROE (2023E)	19.8%
Net Dbt to Eqty (Dec-2022A)	126.6%
ESGMeter TM	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".

AESO – Alberta Electric System
Operator
AB – Alberta

iQprofileSM TransAlta Corporation

iQmethodSM – Bus Performance*

(C\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-1.4%	3.7%	8.9%	5.3%	5.0%
Return on Equity	-19.1%	0.2%	19.8%	8.1%	7.2%
Operating Margin	-5.0%	20.7%	33.0%	16.8%	16.0%
Free Cash Flow	881	867	821	632	563

iQmethodSM – Quality of Earnings*

(C\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	NM	2.4x	4.6x	5.1x
Asset Replacement Ratio	0.2x	0x	0.3x	0.3x	0.5x
Tax Rate	NM	54.4%	30.0%	20.0%	20.0%
Net Debt-to-Equity Ratio	99.0%	126.6%	107.6%	75.5%	45.2%
Interest Cover	-0.6x	2.3x	4.5x	2.2x	2.4x

Income Statement Data (Dec)

(C\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	2,721	2,976	3,145	3,148	2,967
% Change	29.5%	9.4%	5.7%	0.1%	-5.8%
Gross Profit	1,489	1,635	2,193	1,719	1,616
% Change	31.4%	9.8%	34.1%	-21.6%	-6.0%
EBITDA	1,263	1,634	1,693	1,205	1,088
% Change	36.2%	29.4%	3.6%	-28.8%	-9.8%
Net Interest & Other Income	(245)	(262)	(233)	(236)	(201)
Net Income (Adjusted)	(576)	4	421	187	174
% Change	-71.4%	NM	NM	-55.5%	-7.0%

Free Cash Flow Data (Dec)

(C\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(537)	50	467	233	220
Depreciation & Amortization	719	599	667	677	612
Change in Working Capital	214	(319)	(96)	(1)	103
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	605	547	(46)	(46)	(46)
Capital Expenditure	(120)	(10)	(171)	(231)	(326)
Free Cash Flow	881	867	821	632	563
% Change	31.5%	-1.6%	-5.3%	-23.0%	-10.9%
Share / Issue Repurchase	(4)	(52)	0	(30)	(30)
Cost of Dividends Paid	(87)	(54)	(54)	(54)	(54)
Change in Debt	(39)	360	(86)	(679)	0

Balance Sheet Data (Dec)

(C\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	947	1,134	1,134	1,104	1,779
Trade Receivables	651	1,589	1,679	1,681	1,584
Other Current Assets	599	991	1,007	1,007	990
Property, Plant & Equipment	5,320	5,556	5,644	5,097	4,615
Other Non-Current Assets	1,709	1,471	1,471	1,471	1,471
Total Assets	9,226	10,741	10,936	10,360	10,439
Short-Term Debt	1,087	178	178	178	178
Other Current Liabilities	844	2,710	2,720	2,720	2,709
Long-Term Debt	2,423	3,475	3,389	2,710	2,710
Other Non-Current Liabilities	2,279	2,389	2,389	2,389	2,389
Total Liabilities	6,633	8,752	8,676	7,997	7,986
Total Equity	2,588	1,989	2,260	2,363	2,453
Total Equity & Liabilities	9,221	10,741	10,936	10,360	10,439

* For full definitions of iQmethodSM measures, see page 7.

Company Sector

Electric Utilities

Company Description

TransAlta Corp (TA) is a Calgary-based independent power producer with operations across Canada, the United States, and Australia. Its principal business is power generation via its fleet of thermal, gas-fired, wind, solar, and cogeneration assets with a combination of merchant pricing exposure (principally in Alberta) and contracted arrangements. TA owns generating facilities directly and through a 60% stake in TransAlta Renewables (RNW CN).

Investment Rationale

We rate TransAlta Corp Neutral. The company's Alberta fleet of hydro facilities provides emissions-free power generation with the ability to capture premium to the merchant price, although expectations are for the market to soften in coming years. The contracted gas generation, wind, and solar fleet provides stable cash flows with modest recontracting risk. Renewables development is a priority though execution and permitting risks are meaningful.

Stock Data

Average Daily Volume	1,334,428
Shares / Common - Dual Listed	1.00

Quarterly Earnings Estimates

	2022	2023
Q1	0.69A	1.10A
Q2	-0.30A	0.23A
Q3	0.23A	1.41E
Q4	-0.60A	-1.17E

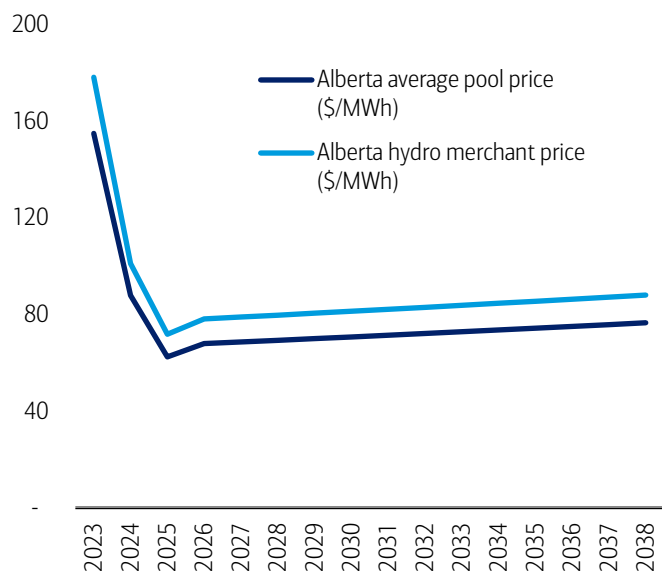
Key Changes

(US\$)	Previous	Current
Price Obj.	11.00	9.00
2023E EPS	1.23	1.18
2024E EPS	0.52	0.53
2025E EPS	0.58	0.49
2023E DPS	0.15	0.16

AESO prices are down and likely to remain depressed into the medium-term as we perceive both new supply already contemplated as well as risks for changes to inframarginal rents through further provincial involvement/procurement could yet add to the backdrop. We perceive shares as appealing in spite of this backwarddated outlook. We note a modest tone on medium-term outlook on Alberta Power from a range of perspectives including independent market consultants as well as from both TA & CPX themselves. [See our full estimates](#). And earlier Fall '23 Analyst Day [recap](#) too.

Exhibit 1: BofA forecast for Alberta Pricing (C\$/MW)

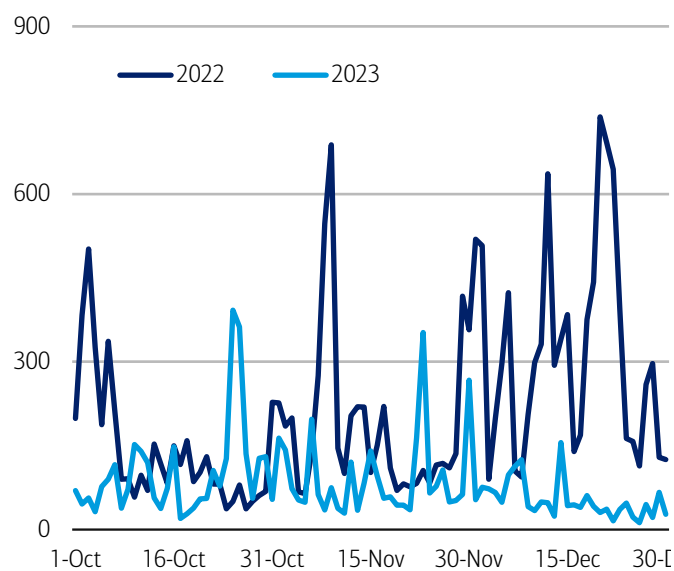
Backwardation through 2025



Source: Alberta Electric System Operator Pool Price Data, ICE NGX, BofA Global Research
BofA GLOBAL RESEARCH

Exhibit 2: AESO Pool Price Data for 4Q (C\$/MW)

Power prices much less volatile YoY in 4Q23



Source: Alberta Electric System Operator Pool Price Data

BofA GLOBAL RESEARCH

Valuation: PO to C\$11.50; expect significant volatility

Below we detail our SOTP valuation for TA, which now derives a PO of C\$11.50 to reflect updated estimates and revised multiples for updated economic and policy risks. In all, we see a pathway toward significant appreciation as TA's performance could regress toward that of its general IPP peers; however, downside implied by potential changes in regional power policy and provincial government intervention cause us to heed caution and maintain our Neutral rating. We look to greater visibility to normalized pricing conditions and policy refinement after 4Q23 earnings.

We cannot stress enough the extent to which the underlying value of the SOTP is driven by renewables following its earlier buy-in of the RNW YieldCo portfolio. We stress the 13x EV/EBITDA multiple used below is unchanged and derived off the standing call option offer to Brookfield to buy out the Hydro assets at a rolling 3-year average of 13x EBITDA. On balance, we see this as helping provide share price certainty.

While share SOTP at current levels is minimally driven by power market dynamics, we anticipate the uncertainty in the Alberta market itself to still drive the incremental shift in shares. Look for updates in the March-April timeframe from the provincial government to provide some visibility on the direction of shares from here. We remain positively biased despite the regulatory risk: we appreciate the market construct of enabling inframarginal rents has consistently been unique among power markets in the Americas and ambiguity as to the provincial commitment to this construct remains a unique sticking point impeding any real share re-rating for now.

Exhibit 4: TA SOTP Valuation – the vast majority of value tied to core renewables business

Implied price target attractive, but fraught with risk from Alberta policy and pricing

Ongoing Operations	2025 EBITDA (CAD m)	EV/EBITDA	Enterprise Value (CAD m)	CAD/share
Hydro	226	13.0 x	2,941	11.18
Wind and Solar	468	9.0 x	4,210	16.01
Energy Marketing	149	4.0 x	597	2.27
Parent Drag	-119	9.0 x	-1,072	-4.07
Subtotal				25.39
Net Present Value from				
Legacy & Growth Assets	DCF (CAD m)			CAD/share
Gas	1737			6.60
Off Coal Agreement	151			0.58
Energy Transition	-198			-0.75
Renewables DevCo	374			1.42
Sustaining Capex	-1545			-5.87
Subtotal	519			1.97
Net debt				
TA Net Debt	3,172			
Plus: Outstanding preferreds	942			
Adjusted TA Net Debt	4,114			(15.64)
TA shares out 2024 (m)				263
TA Price Objective				11.50
Current Price				9.45
Price Return				21.7%
2024 DPS				0.23
Dividend Yield				2.4%
Total Return				24.1%

Source: BofA Global Research estimates, Company filings, Bloomberg

BofA GLOBAL RESEARCH

Price objective basis & risk

TransAlta Corporation (YTA / TAC)

Our C\$11.50 PO (TAC US\$9) is based on a combination of DCF and multiples analysis. We value segments with a finite asset life (Gas, Energy Transition) and ongoing sustaining Off Coal Agreement, Sustaining Capex, and DevCo using discounted cash flow valuation, applying a discount rate of 15% to reflect meaningful risk presented by power market dynamics in Alberta and development economics internationally.

We value the Hydro segment at 13x 2025 EBITDA. This is in-line with the multiple agreed as part of Brookfield's 2019 investment.

We value the Energy Mkt segment at a multiple of 4x 2025 EBITDA given potential for earnings volatility and exposure to market fluctuations.

We value the renewables segment at 9X 2025 EBITDA, in line with peer comps.

We apply a 9x EBITDA multiple to parent drag, using an average of segment multiples.

Upside risks are higher merchant prices in Alberta and multiple expansion associated with a greater share of renewable generation in TA's asset mix.

Downside risks are new entrants to the Alberta power market driving prices lower, operating risks, fuel price exposure, and legislation adversely affecting the energy sector eg, carbon pricing.

Analyst Certification

I, Julien Dumoulin-Smith, 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.

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	Array Technologies	ARRY	ARRY US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	ENLT	ENLT US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	XENLF	ENLT IT	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Paul Zimbardo
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Fluence Energy	FLNC	FLNC US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Julien Dumoulin-Smith
	MDU Resources Group, Inc.	MDU	MDU US	Julien Dumoulin-Smith
	Nexttracker Inc	NXT	NXT US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Energy Group	NWE	NWE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith



North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Paul Zimbardo
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Sempra	SRE	SRE US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	TPI Composites	TPIC	TPIC US	Julien Dumoulin-Smith
	Vistra Corp	VST	VST US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
NEUTRAL				
	AES	AES	AES US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	AQN	AQN US	Paul Zimbardo
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Paul Zimbardo
	AltaGas	YALA	ALA CN	Cameron Lochridge
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	ChargePoint Holdings	CHPT	CHPT US	Cameron Lochridge
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Paul Zimbardo
	Generac Holdings Inc.	GNRC	GNRC US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	Maxon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	New Fortress Energy	NFE	NFE US	Cameron Lochridge
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	TransAlta Corp	TAC	TAC US	Julien Dumoulin-Smith
	TransAlta Corporation	YTA	TA CN	Julien Dumoulin-Smith
UNDERPERFORM				
	Allete Inc	ALE	ALE US	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Paul Zimbardo
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Paul Zimbardo
	Edison International	EIX	EIX US	Paul Zimbardo
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Paul Zimbardo
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	FREYR Battery	FREY	FREY US	Julien Dumoulin-Smith
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	SolarEdge Technologies	SEDG	SEDG US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	Stem, Inc.	STEM	STEM US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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iQmethodSM 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 & 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

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.

iQdatabase[®] 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.

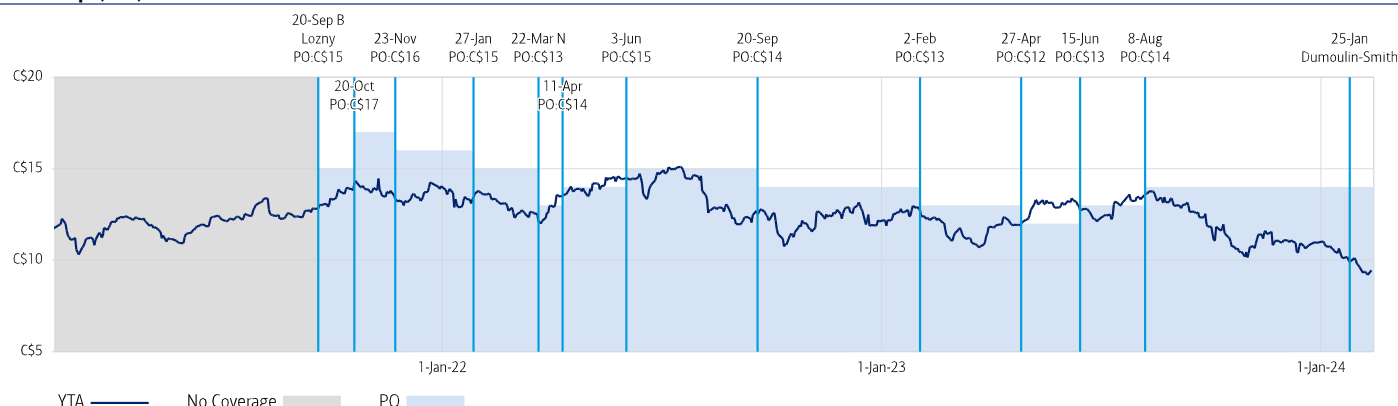
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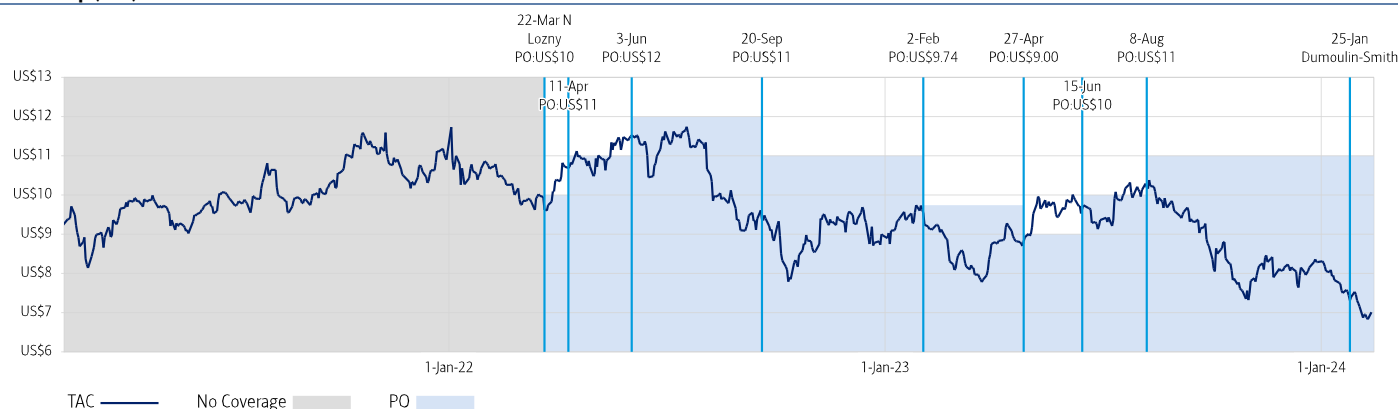
Disclosures

Important Disclosures

TransAlta Corp. (YTA) Price Chart



TransAlta Corp (TAC) Price Chart



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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	72	46.45%	Buy	52	72.22%
Hold	45	29.03%	Hold	32	71.11%
Sell	38	24.52%	Sell	21	55.26%

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.

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

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