

Fortive Corporation

Rational '24 guide, but upside may require improving macro

Reiterate Rating: NEUTRAL | PO: 85.00 USD | Price: 78.18 USD

2024 guide is above Street, but has lower tax & 2H ramp

2024 adjusted EPS guidance of \$3.73-3.85 was above \$3.66 consensus, aided by better margins and a ~200bp tax rate benefit from the EA Elektro-Automatik acquisition. However, EPS growth is second half weighted (BofAe: 1H +6% y/y vs 2H +12% y/y). We see less scope for guidance raises through 2024, as guidance already embeds working down excess backlog, book-to-bill >1.0x for several key business units in 2H, and the accretion from the EA acquisition. We raise our price objective by \$8 to \$85, based on an 16x 2025E EV/EBITDA multiple (versus 15x prior). The higher multiple reflects FTV's improved margin expansion trajectory. Our target multiple is a discount to the 20x high-quality compounder peer average to reflect below average margins and EPS growth.

Reasons for better 2H, but upside requires better macro

2024 guidance has set expectations for a 2H improvement in core revenue and EPS growth. We acknowledge there are good reasons for a 2H acceleration, including tailwinds from easier comparisons, less destocking, and the non-repeat of a distribution transition in Advanced Healthcare Solution. However, upside to guidance will likely require macro tailwinds, in our view.

Raise 2024E adjusted EPS by \$0.18 to \$3.75 (+9% y/y)

We forecast 3.0% y/y core revenue growth (down 10bp from our prior estimate) and adjusted operating margin of 27.0% (up 50bp from our prior estimate). Our 2024 adjusted EPS is \$0.18 higher at \$3.75, +9% y/y. Relative to our prior estimates, this represents \$0.04 of operational upside and \$0.14 from lower tax rate and share count. For 2025, we forecast 4.5% y/y core revenue growth and 40bp of adjusted operating margin expansion, driving our adjusted EPS estimate of \$4.06, +8% y/y.

Adjusted EPS of \$0.98 was \$0.04 above Street

4Q23 adjusted EPS of \$0.98 was \$0.04 above \$0.94 consensus and \$0.05 above our \$0.93 estimate. Relative to our model, core operations drove a \$0.04 beat. A lower tax rate (14.8% versus ~16% guidance) was a \$0.01 benefit.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	3.15	3.43	3.75	4.06	4.37
GAAP EPS	2.10	2.43	2.62	3.03	3.37
EPS Change (YoY)	14.5%	8.9%	9.3%	8.3%	7.6%
Consensus EPS (Bloomberg)			3.66	4.03	4.59
DPS	0.28	0.29	0.32	0.36	0.40
Valuation (Dec)					
P/E	24.8x	22.8x	20.8x	19.3x	17.9x
GAAP P/E	37.2x	32.2x	29.8x	25.8x	23.2x
Dividend Yield	0.4%	0.4%	0.4%	0.5%	0.5%
EV / EBITDA*	20.9x	18.9x	17.1x	16.1x	15.2x
Free Cash Flow Yield*	4.3%	4.5%	4.8%	5.3%	5.7%

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

01 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	77.00	85.00
2024E Rev (m)	6,406.3	6,460.0
2025E Rev (m)	6,727.7	6,750.7
2026E Rev (m)	7,065.7	7,054.5
2024E EPS	3.57	3.75
2025E EPS	3.86	4.06
2026E EPS	4.22	4.37

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Stock Data

Price	78.18 USD
Price Objective	85.00 USD
Date Established	1-Feb-2024
Investment Opinion	B-2-7
52-Week Range	62.70 USD - 82.17 USD
Mkt Val (mn) / Shares Out (mn)	27,926 USD / 357.2
Free Float	99.6%
Average Daily Value (mn)	121.99 USD
BofA Ticker / Exchange	FTV / NYS
Bloomberg / Reuters	FTV US / FTV.N
ROE (2024E)	12.3%
Net Dbt to Eqty (Dec-2023A)	17.0%
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".

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Timestamp: 01 February 2024 05:00AM EST

iQprofileSM Fortive Corporation

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	8.4%	9.1%	9.7%	10.2%	10.9%
Return on Equity	11.8%	12.2%	12.3%	12.3%	12.1%
Operating Margin	24.3%	25.9%	27.0%	27.4%	27.8%
Free Cash Flow	1,207	1,246	1,354	1,493	1,603

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.2x	1.1x	1.1x	1.1x	1.1x
Asset Replacement Ratio	0.2x	0.2x	0.2x	0.3x	0.3x
Tax Rate	14.0%	15.7%	14.8%	15.5%	16.3%
Net Debt-to-Equity Ratio	26.2%	17.0%	19.4%	6.6%	-4.7%
Interest Cover	14.4x	12.7x	9.8x	14.2x	24.5x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	5,826	6,065	6,460	6,751	7,054
% Change	10.9%	4.1%	6.5%	4.5%	4.5%
Gross Profit	3,364	3,611	3,876	4,062	4,258
% Change	11.5%	7.3%	7.4%	4.8%	4.8%
EBITDA	1,494	1,651	1,830	1,938	2,051
% Change	16.4%	10.5%	10.8%	5.9%	5.8%
Net Interest & Other Income	(98)	(124)	(178)	(130)	(80)
Net Income (Adjusted)	1,133	1,220	1,332	1,450	1,570
% Change	13.7%	7.7%	9.2%	8.8%	8.3%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,133	1,220	1,332	1,450	1,570
Depreciation & Amortization	466	457	530	525	521
Change in Working Capital	82	31	15	21	19
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(378)	(354)	(402)	(369)	(360)
Capital Expenditure	(96)	(108)	(121)	(133)	(147)
Free Cash Flow	1,207	1,246	1,354	1,493	1,603
% Change	32.5%	3.2%	8.7%	10.3%	7.4%
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	(100)	(102)	(114)	(129)	(144)
Change in Debt	0	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	709	1,889	905	700	1,189
Trade Receivables	959	961	1,054	1,116	1,180
Other Current Assets	809	822	845	862	879
Property, Plant & Equipment	422	440	555	597	651
Other Non-Current Assets	12,992	12,800	13,975	13,566	13,164
Total Assets	15,891	16,912	17,334	16,841	17,064
Short-Term Debt	1,000	549	0	0	0
Other Current Liabilities	1,727	1,791	1,823	1,830	1,832
Long-Term Debt	2,252	3,097	3,087	1,518	547
Other Non-Current Liabilities	1,223	1,149	1,159	1,144	1,125
Total Liabilities	6,202	6,587	6,070	4,491	3,504
Total Equity	9,689	10,325	11,264	12,350	13,559
Total Equity & Liabilities	15,891	16,912	17,334	16,841	17,064

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

Company Sector

Industrials/Multi-Industry

Company Description

Fortive is a diversified industrial company operating in three divisions: Intelligent Operating Solutions, Precision Technologies, and Advanced Healthcare Solutions. Key business units include Fluke, Tektronix, and ASP.

Investment Rationale

We view Fortive as a well-managed company with strong M&A capabilities. However, we see near-term pressures on test & measurement end markets which will likely drag on EPS growth.

Stock Data

Average Daily Volume 1,560,408

Quarterly Earnings Estimates

	2023	2024
Q1	0.75A	0.80E
Q2	0.85A	0.90E
Q3	0.85A	0.93E
Q4	0.98A	1.12E

Key takeaways from 4Q23 results

Dissecting 2024 guidance

Fortive is moving the Invetech business from the Advanced Healthcare Solutions segment to the Precision Technologies segment. We have realigned our estimates accordingly.

- **Intelligent Operating Solutions:** Core revenue guidance of 4-5% y/y compares to consensus of 4.1%. This represents a modest deceleration from 5.9% y/y core revenue growth in 2023. Adjusted operating margin guidance of ~33.4% compares to consensus of 32.5%.
- **Precision Technologies:** Core revenue guidance of 0-2% y/y compares to consensus of 1.5%. This represents a deceleration from ~4% y/y pro forma core growth in 2023 (for Invetech realignment). Adjusted operating margin guidance of ~26.8% compares to consensus of 27.0%. The EA Elektro-Automatik acquisition adds ~\$195mn of revenue at ~40% operating margins.
- **Advanced Healthcare Solutions:** Core revenue guidance of 4-5% y/y compares to consensus of 4.7%. This represents an acceleration from ~4% y/y pro forma core growth in 2023 (for Invetech realignment). The US distributor change was a ~100bp drag in 2023, and we estimate new product launches in 2024 could add a further ~50bp. Adjusted operating margin guidance of ~25.4% compares to consensus of 23.4%.
- **Total Fortive:** Core revenue guidance of 2-4% y/y compares to consensus of 3.3%. Adjusted operating margin guidance of ~27% compares to consensus of 26.5%. Adjusted EPS guidance of \$3.73-3.85 compares to consensus of \$3.67.

Exhibit 2: 2024 guidance versus BofA estimates

We have raised our adjusted operating margin forecast for 2024

	2024 guidance as of 4Q23	BofA estimates	
		Current	Prior
Core revenue growth			
Intelligent Operating Solutions	4 - 5%	4.5%	3.5%
Precision Technologies	0 - 2%	0.6%	2.0%
Advanced Healthcare Solutions	4 - 5%	4.0%	4.0%
Fortive	2 - 4%	3.0%	3.1%
Adj. operating margin by segment			
Intelligent Operating Solutions	~33.4%	33.4%	32.3%
Precision Technologies	~26.8%	26.7%	27.6%
Advanced Healthcare Solutions	~25.4%	25.2%	23.2%
Fortive	~27.0%	27.0%	26.5%

Source: Company filings, BofA Global Research estimates

Note: Fortive is moving the Invetech business from the Advanced Healthcare Solutions segment to the Precision Technologies segment. We have realigned our estimates accordingly.

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Taking action on Invetech

Fortive is moving the entire Invetech business from the Advanced Healthcare Solutions segment to the Precision Technologies segment. Management is “exploring strategic alternatives” for the design & engineering portion of Invetech. This division has ~\$20mn in revenue with break-even profitability. The remaining portion of Invetech (Dover Motion) sells automated microscopy instruments.

Advanced Healthcare Solutions through US transition

AHS reported 3.0% y/y core revenue growth in 4Q23, below management’s guidance of ~3.5%. Last quarter, Fortive transitioned the US portion of Advanced Sterilization Products (62% of segment revenue) from a distributor to a direct sales model. Advanced Sterilization Products had mid-single digit core growth in 4Q, including ~7% y/y growth in US consumables.



4Q adj. EPS \$0.05 beat versus BofAe

4Q23 adjusted EPS of \$0.98 was \$0.05 above our estimate. Relative to our model, core ops were a \$0.04 beat. Total core revenue grew 2.9% y/y, below our 4.3% estimate. Adj. operating margin of 27.7% was 90bp above our estimate. Higher corporate expense was a \$(0.01) drag. A lower tax rate was a \$0.01 boost.

Intelligent Operating Solutions was \$0.03 above our estimate. Core revenue grew 5.9% y/y, above our 4.5% estimate. Adjusted operating margin of 34.2% was 120bp above our 33.0% estimate and was above prior 33.0-33.5% guidance.

Precision Technologies was \$0.02 above our estimate. Core revenue declined (1.1)% y/y, above our forecast of a (2.0)% decline. Adjusted operating margin of 29.0% was 150bp above our 27.5% forecast and was above prior 27.5-28.0% guidance.

Advanced Healthcare Solutions was in line. Core revenue grew 3.0% y/y, in line with our forecast. Adjusted operating margin of 25.7% was 70bp above our 25.0% estimate and was above prior 25.0-25.5% guidance.

Exhibit 3: 4Q23 earnings variance analysis

Adj. EPS was \$0.05 above our estimate

	Actual	Reported		BofA Estimate		Variation vs. BofA		Impact to
(in US\$ mn, except per share data)	4Q:22A	4Q:23A	YOY % Chg.	4Q:23E	YOY % Chg.	Dollar	% / b.p.	EPS
Adj. Revenue by segment								
Intelligent Operating Solutions	635	683	7.6%	672	5.9%	10	2%	
Precision Technologies	553	549	-0.7%	545	-1.5%	5	1%	
Advanced Healthcare Solutions	342	352	2.8%	354	3.6%	(3)	-1%	
TOTAL	1,530	1,584	3.5%	1,571	2.7%	12	1%	
Adj. operating income by segment								
Intelligent Operating Solutions	198	233	17.8%	222	12.0%	12	5%	\$0.03
Precision Technologies	146	159	9.6%	150	2.9%	10	6%	\$0.02
Advanced Healthcare Solutions	83	90	9.3%	89	7.3%	2	2%	\$0.00
Corporate & Other	(36)	(45)	23.2%	(39)	7.7%	(6)	14%	\$(0.01)
TOTAL	390	439	12.4%	421	8.0%	17	4%	\$0.04
Adj. operating margin by segment								
Intelligent Operating Solutions	31.2%	34.2%	300 bp	33.0%	180 bp	120 bp	--	
Precision Technologies	26.3%	29.0%	270 bp	27.5%	120 bp	150 bp	--	
Advanced Healthcare Solutions	24.1%	25.7%	150 bp	25.0%	70 bp	70 bp	--	
TOTAL	25.5%	27.7%	220 bp	26.8%	130 bp	90 bp	--	
Revenue	1,530	1,584	3.5%	1,571	2.7%	12	0.8%	
Cost of Products Sold	637	626	-1.8%	642	0.7%	(16)	-2.5%	
Gross profit	893	958	7.3%	929	4.1%	29	3.1%	\$0.07
SG&A	401	420	4.7%	405	0.9%	15	3.7%	\$(0.04)
Research & Development	101	99	-2.0%	103	1.7%	(4)	-3.6%	\$0.01
Operating profit	390	439	12.4%	421	8.0%	17	4.1%	\$0.04
Interest & other expense / (income)	30	29	-3.3%	27	-8.4%	2	NM	\$(0.00)
EBT	360	410	13.8%	394	9.4%	16	4.0%	\$0.04
Income tax expense	47	61	29.4%	63	34.5%	(2)	-3.8%	
Tax rate	13.1%	14.8%	180 bp	16.0%	300 bp	(120 bp)	--	\$0.01
Operating Net income	313	349	11.4%	331	5.6%	18	5.5%	\$0.05
After-Tax Intangible Amortization/other	-	-	NM	-	N/M	-	NM	\$0.00
FULLY DILUTED CASH EPS	\$0.88	\$0.98	12.1%	\$0.93	5.8%	\$0.05	5.9%	
Diluted Shares Outstanding	357	355	-0.6%	356	-0.2%	(1)	-0.4%	\$0.00
Margin Analysis								
	Actual	Reported		Reported		Variation (b.p.)		
	4Q:22A	4Q:23A		4Q:23A		BofA Est	4Q:22A	
Operating Margin	25.5%	27.7%		26.8%		90 bp	220 bp	
Pretax Margin	23.5%	25.9%		25.1%		80 bp	230 bp	
Net Margin	20.5%	22.0%		21.0%		100 bp	160 bp	
Segment Incremental Margin	35.2%	90.1%		57.2%		3290 bp	5490 bp	

Source: BofA Global Research estimates, company filings

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Valuation

We base our \$85 price objective on a 16x EV/EBITDA multiple of our 2025 EBITDA estimate. Our target multiple is a discount to the 20x peer average on 2024 estimates. We argue a discount is warranted given below-peer margins and EPS growth.

Exhibit 4: FTV comparable valuation analysis

Fortive trades at a discount to peers on both P/E and EV/EBITDA

Company	Ticker	Stock Price 1/31/2024	P/E		EV/EBITDA		EBITDA Margin		EPS Growth	
			2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Ametek	AME	\$162.05	23.8 x	21.9 x	17.4 x	15.9 x	30.4%	30.7%	8%	9%
Aspen Technology	AZPN	\$191.99	26.1 x	22.3 x	23.1 x	18.3 x	41.6%	44.8%	18%	17%
IDEX*	IEX	\$211.50	25.7 x	23.8 x	17.7 x	16.0 x	27.7%	28.4%	1%	8%
PTC Inc.	PTC	\$180.65	36.2 x	32.4 x	24.4 x	18.5 x	37.9%	39.8%	12%	12%
Rockwell	ROK	\$253.28	18.4 x	15.6 x	12.9 x	12.0 x	23.1%	22.8%	17%	17%
Roper Industries*	ROP	\$537.00	<u>29.4 x</u>	<u>26.9 x</u>	<u>23.0 x</u>	<u>20.8 x</u>	<u>40.1%</u>	<u>40.2%</u>	<u>10%</u>	<u>9%</u>
Peer average			26.6 x	23.8 x	19.8 x	16.9 x	33.5%	34.4%	11%	12%
Fortive	FTV	\$78.18	20.8 x	19.3 x	16.7 x	14.8 x	28.3%	28.7%	9%	8%
Fortive at PO	FTV	\$85.00	22.7 x	20.9 x	18.0 x	16.0 x				

Source: BofA Global Research estimates, Bloomberg

* Estimates based on Bloomberg consensus

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Price objective basis & risk

Fortive Corporation (FTV)

We base our \$85 price objective on a 16x EV/EBITDA multiple of our 2025 EBITDA estimate. Our target multiple is a discount to the 20x peer average on 2024 estimates. We argue a discount is warranted given below-peer margins and EPS growth.

Upside risks to our PO are: 1) stronger industrial demand, 2) better than expected pricing, 3) potential accretive acquisitions.

Downside risks to our PO are: 1) weaker-than-expected capex cycle, 2) acquisition integration risks, 3) continued weakness in China (approx. 12% of revenue).

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
BUY				
	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
NEUTRAL				
	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
UNDERPERFORM				
	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

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

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

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

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

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

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

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.

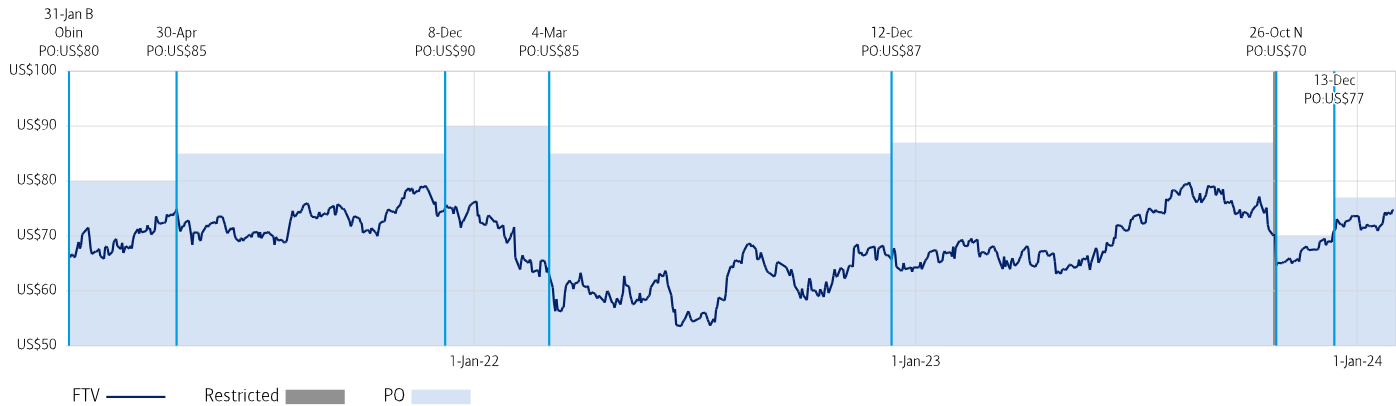
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Disclosures

Important Disclosures

Fortive (FTV) 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: Industrials/Multi-Industry Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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 ^{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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