HCA

Fischbeck Focus: How do HCA's volume comments fit into the utilization puzzle?

Reiterate Rating: BUY | PO: 360.00 USD | Price: 301.59 USD

31 January 2024

Equity

Volumes + pricing + labor to drive another strong year

HCA reported better than expected Q4 results with adj EBITDA +9% above consensus driven by higher state supplemental payments and strong volume growth (+3.9% SS adj adm growth, slightly above consensus). We remain bullish on hospitals as we see 2024 as a year where we expect volumes to be modestly above average, labor to continue slowly improving and pricing to continue to rise (all three factors were on display in Q4). We are raising our 2024-25 EBITDA estimates and rolling out our 2026 estimates. We raise our PO to $360 from $330, based on 10.5x 2024E EBITDA (vs 10.1x 2024E prior). Reiterate Buy, and we see Q4 as a bullish readthrough to THC, UHS and SGRY.

Bridging to the new guidance – it's mostly volumes

State supplemental payments were a boost in the quarter, and although NV will add $100m in 2024, the company indicated that supplemental payments will be a y/y headwind of $100-$200m in 2024. When thinking about the new guidance vs the guidance at the investor day, supplemental payments are likely $100m of the $300m increase in EBITDA. The other moving piece was volumes, with the outlook of 3-4% being above the 2-3% LT outlook it cited in November. If we assume a 30-35% incremental EBITDA margin on additional volume, that extra 1% of volume would add $200-$250m of EBITDA, explaining the rest of the delta.

Fischbeck Focus: Piecing together the utilization puzzle

This quarter, we focus on volume growth. Volumes came in better than consensus and HCA provided detailed 2024 guide that assumes continued above average demand. UNH and HUM both saw higher Medicare utilization, but HCA largely shot down theories for the MCO misses, noting that COVID/respiratory (UNH) and the two-midnight rule (HUM) weren't factors. HCA did see faster Medicare admission trends in 2023, but cautioned that it was difficult to draw too many conclusions and given HCA's track record of share gains. That said, we note the relative softness in surgeries vs medical procedures actually does support some of UNH's and HUM's theories. One thing is increasingly clear, 2023 is the new base, and growth should be at least normal off of it, which leaves us glad that HUM took such a conservative stance on guidance.

Estimates (Dec) (US$)	2022A	2023A	2024E	2025E	2026E
EPS	16.88	19.01	20.61	22.58	24.72
GAAP EPS	19.24	18.98	20.63	22.58	24.74
EPS Change (YoY)	-3.5%	12.6%	8.4%	9.6%	9.5%
Consensus EPS (Bloomberg)			19.52	21.86	24.58
DPS	2.24	2.40	2.52	2.65	2.78
Valuation (Dec)					
P/E	17.9x	15.9x	14.6x	13.4x	12.2x
GAAP P/E	15.7x	15.9x	14.6x	13.4x	12.2x
Dividend Yield	0.7%	0.8%	0.8%	0.9%	0.9%
EV / EBITDA*	11.5x	10.9x	10.4x	9.9x	9.4x
Free Cash Flow Yield*	4.9%	5.6%	5.5%	6.8%	7.4%

* For full definitions of *iQmethod*SM measures, see page 9.

Key Changes

(US$)	Previous	Current
Price Obj.	330.00	360.00
2024E Rev (m)	67,239.2	68,999.6
2025E Rev (m)	71,492.3	73,364.1
2026E Rev (m)	NA	77,765.0
2024E EPS	19.68	20.61
2025E EPS	21.93	22.58
2026E EPS	NA	24.72
2024E EBITDA (m)	13,023.1	13,249.8
2025E EBITDA (m)	13,834.3	13,947.6
2026E EBITDA (m)	NA	14,755.8

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Stock Data

Price	301.59 USD
Price Objective	360.00 USD
Date Established	31-Jan-2024
Investment Opinion	B-1-7
52-Week Range	215.96 USD - 304.95 USD
Mrkt Val (mn) / Shares Out (mn)	83,902 USD / 278.2
Free Float	73.2%
Average Daily Value (mn)	338.23 USD
BofA Ticker / Exchange	HCA / NYS
Bloomberg / Reuters	HCA US / HCA.N
ROE (2024E)	574.8%
Net Dbt to Eqty (Dec-2023A)	NA
ESGMeter™	Medium

See p. 7 for abbreviations and

iQprofile[SM] HCA

iQmethod [SM] – Bus Performance*

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	16.5%	16.6%	14.6%	11.7%	21.8%
Return on Equity	NM	NM	574.8%	59.9%	79.2%
Operating Margin	15.1%	14.9%	14.5%	14.4%	14.3%
Free Cash Flow	4,127	4,687	4,626	5,722	6,211

iQmethod [SM] – Quality of Earnings*

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.7x	1.8x	1.8x	1.8x	1.7x
Asset Replacement Ratio	1.5x	1.5x	1.6x	1.3x	1.3x
Tax Rate	23.6%	23.6%	23.6%	23.6%	23.6%
Net Debt-to-Equity Ratio	NM	NM	NM	174.3%	NA
Interest Cover	5.2x	5.0x	5.0x	5.1x	5.3x

Income Statement Data (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	60,233	64,968	69,000	73,364	77,765
% Change	2.5%	7.9%	6.2%	6.3%	6.0%
Gross Profit	9,053	9,627	9,984	10,510	11,122
% Change	-6.5%	6.3%	3.7%	5.3%	5.8%
EBITDA	12,067	12,726	13,250	13,948	14,756
% Change	-4.6%	5.5%	4.1%	5.3%	5.8%
Net Interest & Other Income	(1,709)	(2,792)	(2,890)	(2,970)	(3,046)
Net Income (Adjusted)	**4,976**	**5,254**	**5,441**	**5,785**	**6,198**
% Change	**-13.5%**	**5.6%**	**3.6%**	**6.3%**	**7.1%**

Free Cash Flow Data (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	6,834	6,091	6,321	6,689	7,126
Depreciation & Amortization	2,969	3,077	3,240	3,408	3,600
Change in Working Capital	(1,152)	(457)	(57)	(257)	(457)
Deferred Taxation Charge	571	229	0	0	0
Other Adjustments, Net	(700)	491	322	382	442
Capital Expenditure	(4,395)	(4,744)	(5,200)	(4,500)	(4,500)
Free Cash Flow	**4,127**	**4,687**	**4,626**	**5,722**	**6,211**
% Change	**-23.3%**	**13.6%**	**-1.3%**	**23.7%**	**8.5%**
Share / Issue Repurchase	(7,000)	(3,811)	(3,400)	(3,190)	(3,509)
Cost of Dividends Paid	(653)	(661)	(665)	(678)	(696)
Change in Debt	3,287	1,295	319	(950)	(1,077)

Balance Sheet Data (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	908	935	935	935	0
Trade Receivables	8,891	9,958	12,797	15,088	0
Other Current Assets	3,844	4,034	9,049	17,048	0
Property, Plant & Equipment	25,575	27,715	29,675	31,667	0
Other Non-Current Assets	13,220	13,569	16,569	22,569	0
Total Assets	**52,438**	**56,211**	**69,025**	**87,307**	**0**
Short-Term Debt	370	2,424	2,424	2,424	0
Other Current Liabilities	9,532	10,231	9,965	8,956	0
Long-Term Debt	37,714	37,169	37,488	35,460	0
Other Non-Current Liabilities	4,895	5,327	11,766	19,270	0
Total Liabilities	**52,511**	**55,151**	**61,643**	**66,111**	**0**
Total Equity	**(73)**	**1,060**	**7,381**	**21,196**	**0**
Total Equity & Liabilities	**52,438**	**56,211**	**69,025**	**87,307**	**0**

* For full definitions of *iQmethod*[SM] measures, see page 9.

Company Sector

Hospital Management

Company Description

HCA is the largest for-profit hospital company in the US, representing 4-5% of the hospital industry. HCA owns and operates 184 hospitals with approximately 48,500 beds, as well as 125 freestanding surgery centers. The company also provides extensive outpatient and ancillary services.

Investment Rationale

HCA's scale advantages position it well to control costs in a difficult operating environment, and it is well positioned to benefit from improving pricing, volumes, and labor in 2024+. Meanwhile, we expect upside from capital deployment.

Stock Data

Average Daily Volume	1,121,495

Quarterly Earnings Estimates

	2023	2024
Q1	4.93A	5.17E
Q2	4.29A	4.76E
Q3	3.91A	4.35E
Q4	5.89A	6.36E

Focus: Trying to solve the volume puzzle

In the Fischbeck Focus section, we choose a theme to explore in more detail, either in response to recent investor questions or because of an unexpected development in the quarter. This quarter, we focus on volume growth. Volumes came in better than consensus and HCA provided detailed 2024 guide that assumes continued above average demand. UNH and HUM both saw higher Medicare utilization, but HCA largely shot down theories for the MCO misses, noting that COVID/respiratory (UNH) and the two-midnight rule (HUM) weren't factors. HCA did see faster Medicare admission trends in 2023, but cautioned that it was difficult to draw too many conclusions and given HCA's unique track record of above average growth and share gains, read throughs might be difficult. That said, HCA's guidance for above average growth in 2024 leaves us glad that HUM's guidance is conservative and we note the relative softness in surgeries vs medical procedures actually does support some of UNH's and HUM's theories.

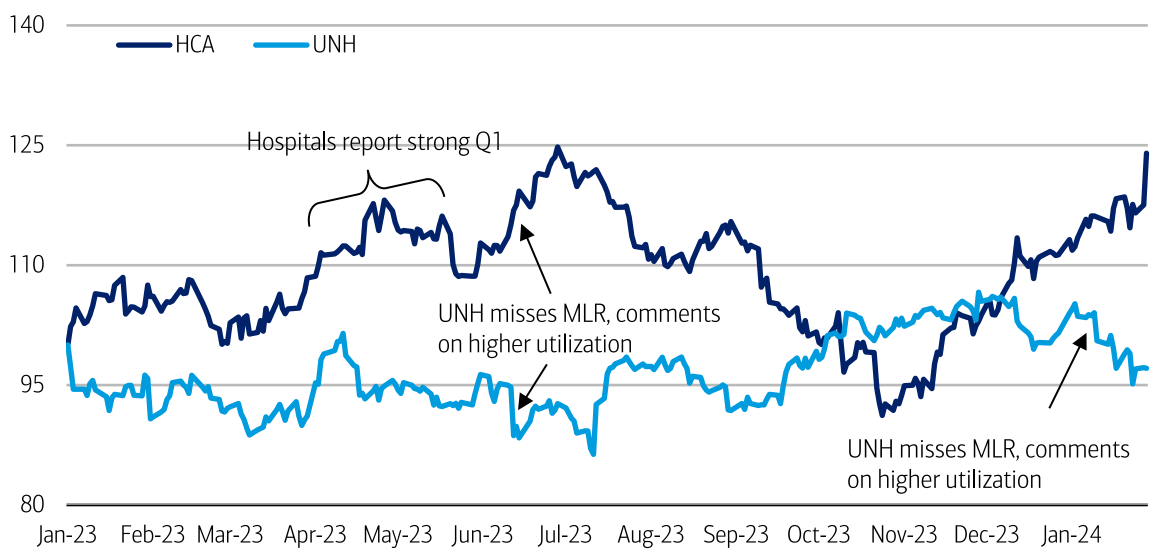
Backdrop – MCOs signal higher utilization

UNH and HUM got trend wrong in 2023, but what does that mean for 2024?

UNH flagged higher utilization, particularly in Medicare outpatient, at an investor conference in June, triggering a selloff of MCOs. UNH was down 6% the day after, while HCA was up 2% as investors assumed higher utilization meant higher volumes for hospitals. Bullishness on hospitals intensified days later when HUM indicated that it was also seeing higher utilization.

Ahead of HCA's Q4 results, a similar sequence of events occurred as both UNH and HUM signaled higher utilization trends in Q4.

Exhibit 1: HCA rose higher post UNH and HUM commentary in Q2 and Q4
HCA and UNH stock prices indexed to 1/3/23



Source: Bloomberg, BofA Global Research

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HCA didn't see higher acuity COVID cases flagged by UNH

Comparing commentary about how the quarter or year played out vs expectations across companies is always difficult, in large part because it depends largely on what you were expecting. It also depends on your geographic mix and your payer mix, where volumes can vary widely. For example, Medicare hospital outpatient reimbursement represents only 5-10% of HCA's revenue, but it represents closer to 30% of a Medicare MCO's costs. Combine that with different companies giving updates at different times and it can be confusing to try to piece things together.

UNH specifically cited higher acuity COVID cases and more utilization of the system amongst seniors that responded to the availability of RSV vaccinations and then received follow on care for other needs. HCA did not see this dynamic, but it also isn't as directly exposed to PCP physician cost trend. UNH also cited higher acuity for the COVID cases that came through, but again, HCA indicated that it wasn't a factor. For our full UNH analysis, see the report UnitedHealth Group: Fischbeck Focus: Reviewing the state of Medicare Advantage 16 January 2024.

Some alignment with HUM, but not totally

HCA also shot down one of the theories that HUM proposed, which was changing regulations around how MA MCOs should treat the 2 Midnight rule starting Jan 1, actually saw some impact towards the end of the quarter, as it saw higher short stay admissions and lower observation visits. HCA largely downplayed this dynamic, noting that it didn't see a material impact (to be fair, HUM acknowledged that it didn't know if this was the cause of the issue, so it decided to run rate the expense when thinking about 2024).

That said, HCA's assumption that it will grow above average off of this 2023 base is somewhat in-line with HUM's view that the Q4 result should be run rated, and then grow normally from there. It is not clear if HUM's comments of run rating Q4 (which was their highest utilization quarter) and then adding normal trend gets us to the same end point as HCA's taking 2023 volume and adding above average growth, but it does make us feel relatively more comfortable in the stance that HUM took. Conversely, UNH's guidance that the Q4 pressure will not run rate, feels a little less conservative.

But some datapoints do support the MA MCO view

One dynamic that we saw in the quarter was that surgeries, both inpatient and outpatient, decelerated in Q4. Relative to 2019, same store adjusted admissions in Q4 were +5.5% above 2019, but this actually slowed from +5.9% above 2019 in Q3. That said, inpatient surgeries (-7.0% in Q4 vs -4.9% in Q3) and outpatient surgeries (+0.8% in Q4 vs +2.6% in Q3) decelerated faster. The relative strength in non-surgical procedures is actually somewhat in-line with UNH's COVID/respiratory as well as HUM 2-Midnight rule explanations.

MA growing but a result of shift away from FFS, share gains, and utilization

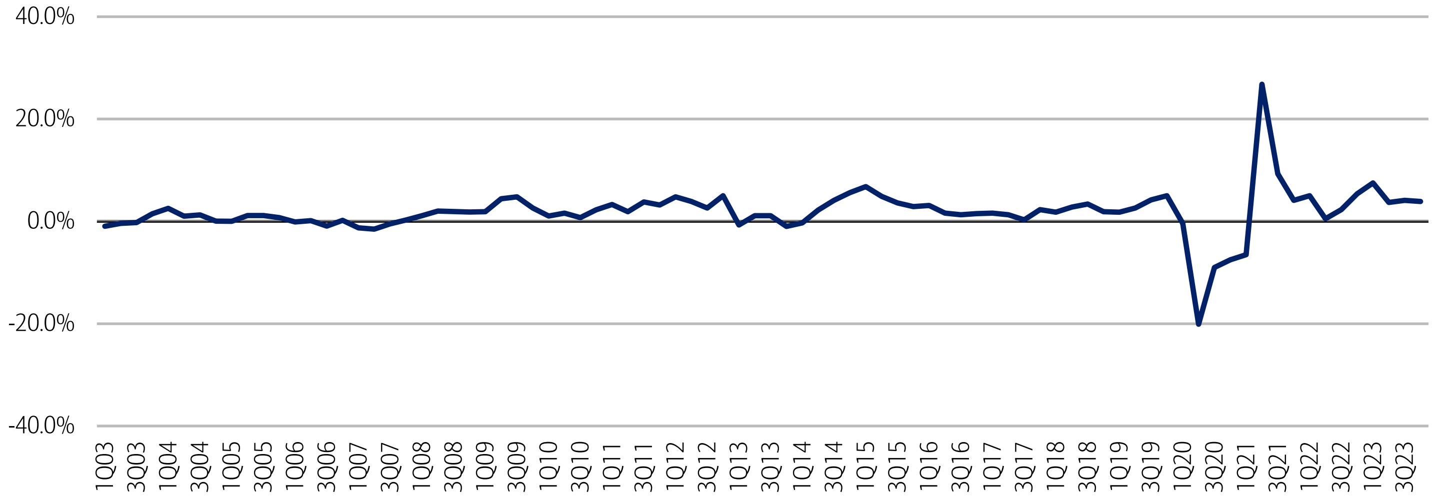
HCA also saw an increase in Medicare admissions in the quarter/year relative to prior years. With growth 1-2% higher in 2023 than in recent years, there had been an acceleration. However, the company noted that it has made a number of investments to grow market share, so comparing one year's growth to another's could be skewed by that or other local dynamics.

All in, we have another piece of the utilization puzzle, but we don't feel significantly closer to putting it all together. We think that the easiest conclusion to come to is that both payers and providers are seeing higher utilization across geographies, and do not view the 2023 growth as some sort of bolus, but rather the new baseline off of which to grow. We feel much better with MCOs taking a conservative view of cost trend and being prepared for another year of strong, but more normalized utilization growth in 2024.

Is HCA's above average 2024 growth reasonable?

HCA reported SS adj adm growth of +3.9% y/y, a deceleration from 4Q22 and 3Q23 but a strong print nonetheless. This growth was also above its initial 2-3% guidance for the year.

Exhibit 2: Growth decelerated from Q3, but still a strong print
HCA same store adjusted admissions growth y/y over time



Source: Company filings

BofA GLOBAL RESEARCH

HCA expects volumes above the LT range

The key debate continues to be whether the volume growth is sustainable. According to HCA, it is. HCA believes that demand will remain strong in 2024 and has baked into the guide as 1) Population growth and demographics remain strong across its markets, 2) HCA is investing in growth/strategies to gain market share. HCA sees its ability to maintain acuity while growing volumes at an above average rate supports just how strong underlying demand is. 3) At the same time, payer mix has been strong (commercial growing faster than overall vols) which points to a strong economy/fundamental demand rather than pent up demand driving growth. 4) HCA has a larger pipeline of projects in motion (outpatient and inpatient) coming online over the next 2 years than it has had in years.

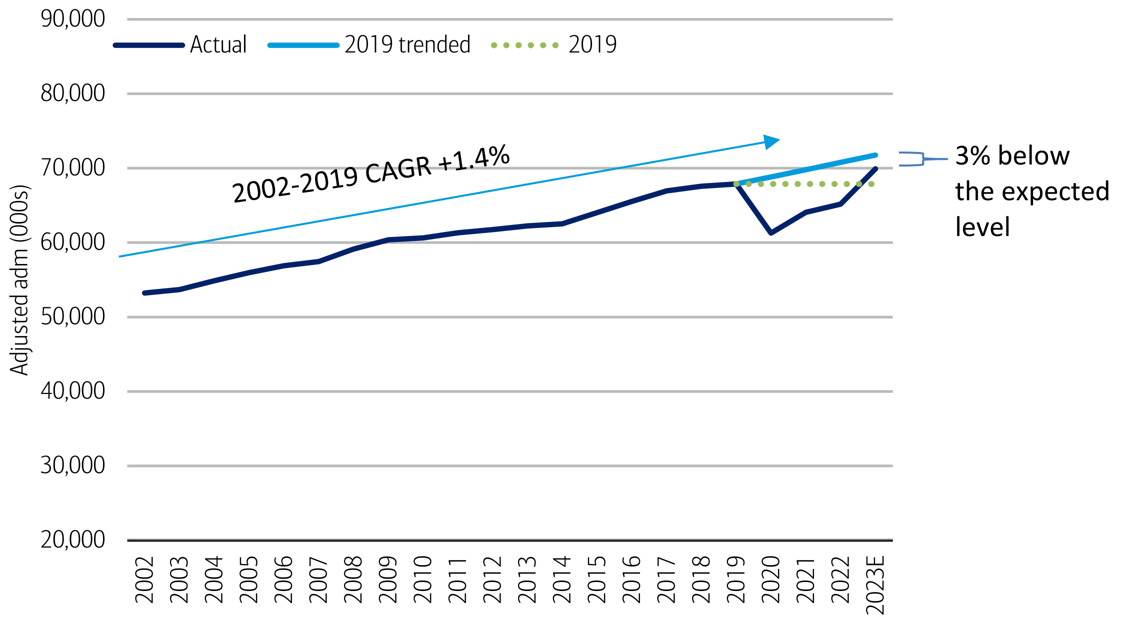
> "Our guidance next year, calls us for **3-4% [growth] expectations on adjusted admissions** that may be a little higher than our 2-3% historical, but I think we're reading **continued strong demand**. We saw really strong enrollment in the health insurance exchanges across our states, and that continues to be a favorable development for us. We believe we continue to see strong economic indicators and employments and our access to contracted lives remaining well." – HCA, 4Q23 Earnings Call (Bloomberg transcript)

Strong but slower growth makes a lot of sense

Although HCA grew well in 2023 it still is below 2019 volumes trended forward at the LT growth rate. HCA initially targeted 2-3% volume growth in 2023 but volume growth for the year came in at 5%. The quarter's results indicate that HCA vols are now +5% vs 2019 levels, but if they're right about growing 2-3% normally, that would suggest that they should be 8-12% above 2019 at the end of 2023. As a result, the 3-7% delta means that there is reason to believe that above average volume should continue for some time.

Entering 2023, we estimated that hospital industry volumes were 8% below the LT trend line and then volumes grew well above average. Now, entering 2024, we believe that hospital volumes are 3% below the LT trend line. Although this means volumes are likely to be higher than average in 2024, it means that a repeat of 2023 utilization is highly unlikely. As a result, the 3-4% range, which is nicely in between normal and the 2023 growth feels like it is in the sweet spot.

Exhibit 3: Hospital volumes are above 2019 levels but still below expected level
Hospital industry adjusted admissions: 2002-19A; 2021-2023 BofA estimate



Source: BofA Global Research estimates, American Hospital Association, Kaufman Hall

BofA GLOBAL RESEARCH

The capex outlook also supports the volume outlook

It is always good to see that management puts its "money where its mouth is", and in this instance, the 10% increase in capex spending in 2024 is a bullish sign. The ability to ramp capex, while still targeting high teens ROI, is perhaps the strongest indicator that HCA has confidence in continued strong demand in the future.

Implications for the group

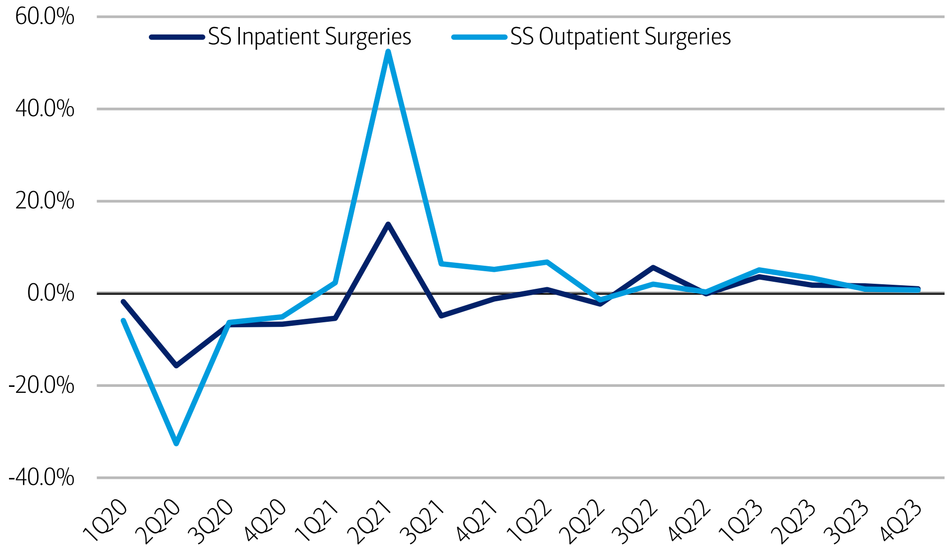
HCA operates in above average markets, with strong population growth and demographics that historically have driven above average volume trends. When combined with strong capex spending and consistent execution, HCA has a track record of showing some of the strongest growth in the group. That said, HCA's results bode well for peers THC, SGRY, and UHS reporting in the coming weeks.

HCA noted that growth was broad-based across markets and service lines. Specifically, Medicare adjusted admissions were up 3% in the quarter and 4% in 2023. Meanwhile, they cited 10% MA admissions growth in the quarter, which they attributed to the shift away from FFS as well as to some volume gains and "maybe a bit of utilization." HCA saw payer mix improve with managed care and other admissions growing 6% for the full year in a same-store basis. Furthermore, we see this above average vol growth as sustainable and a signal of normalization.

Outpatient surgeries +0.7% y/y in Q4, +2.5% y/y in 2023

HCA's outpatient surgery growth of +0.7% y/y in the quarter, down from +0.9% in Q3. HCA attributed this to the way the calendar fell in December, which saw weaker outpatient activity than October and November, which is potentially a read through to THC and SGRY. That said, surgery center growth is largely above shifting volumes out of the hospital, so weak hospital surgery volume in itself is not necessarily a negative readthrough. Instead, we believe that the generally strong utilization backdrop seen by HCA and the MCOs mean that ASC volumes should be fine.

Exhibit 4: HCA SS surgery growth decelerated in 4Q23
HCA SS inpatient and ss outpatient surgery growth y/y, 1Q20 to 4Q23



Source: Company filings

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Conclusion

All in, we have another piece of the utilization puzzle, but we don't feel significantly closer to putting it all together. In our view, the easiest conclusion to come to is that both payers and providers are seeing higher utilization across geographies, and do not view the 2023 growth as some sort of bolus, but rather the new baseline off of which to grow. This is a bullish indicator for HCA, which is only further confirmed by its bullish increase in capex. Finally, although HCA usually outperforms on growth, the strong Q4 as well as the bullish outlook for 2024 is a positive readthrough to the peers.

Abbreviations

Adj adm = Adjusted admissions

ASC = Ambulatory surgery center

HCA = HCA Healthcare

HHS = Department of Health and Human Services

HUM = Humana

MCO = Managed care organization

SS = Same store

THC = Tenet Healthcare

UNH = UnitedHealth Group

UHS = Universal Health Services

Price objective basis & risk

HCA (HCA)

Our $360 price objective is based on 10.5x our 2024E EBITDA, above the high end of its historical 6-9x multiple range, given what we see as a favorable backdrop for hospitals broadly and a strong balance sheet.

Risks to the downside are that labor costs continue to rise, volumes recover slower than expected, or margins are pressured if payor mix deteriorates as volumes normalize.

Analyst Certification

I, Kevin Fischbeck, 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 - Facilities, Hospitals and Managed Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Acadia Healthcare	ACHC	ACHC US	Kevin Fischbeck, CFA
	Addus HomeCare	ADUS	ADUS US	Joanna Gajuk
	Agilon Health	AGL	AGL US	Adam Ron
	Chemed Corporation	CHE	CHE US	Joanna Gajuk
	Elevance Health Inc	ELV	ELV US	Kevin Fischbeck, CFA
	Encompass Health	EHC	EHC US	Kevin Fischbeck, CFA
	HCA	HCA	HCA US	Kevin Fischbeck, CFA
	Humana Inc	HUM	HUM US	Kevin Fischbeck, CFA
	Option Care Health	OPCH	OPCH US	Joanna Gajuk
	Oscar Health	OSCR	OSCR US	Adam Ron
	Privia Health	PRVA	PRVA US	Adam Ron
	Select Medical Corp.	SEM	SEM US	Kevin Fischbeck, CFA
	Service Corp.	SCI	SCI US	Joanna Gajuk
	Surgery Partners, Inc	SGRY	SGRY US	Kevin Fischbeck, CFA
	Tenet Healthcare	THC	THC US	Kevin Fischbeck, CFA
	The Cigna Group	CI	CI US	Kevin Fischbeck, CFA
	UnitedHealth Group	UNH	UNH US	Kevin Fischbeck, CFA
	Universal Health Services	UHS	UHS US	Kevin Fischbeck, CFA
	US Physical Therapy	USPH	USPH US	Joanna Gajuk
NEUTRAL				
	Alignment Healthcare	ALHC	ALHC US	Adam Ron
	AMN Healthcare	AMN	AMN US	Kevin Fischbeck, CFA
	Apollo Medical	AMEH	AMEH US	Adam Ron
	Brookdale	BKD	BKD US	Joanna Gajuk
	Centene Corporation	CNC	CNC US	Kevin Fischbeck, CFA
	Molina Healthcare, Inc.	MOH	MOH US	Kevin Fischbeck, CFA
UNDERPERFORM				
	AdaptHealth Corp.	AHCO	AHCO US	Joanna Gajuk
	Agiliti Health Inc	AGTI	AGTI US	Kevin Fischbeck, CFA
	Cross Country Healthcare	CCRN	CCRN US	Kevin Fischbeck, CFA
	DaVita Inc	DVA	DVA US	Kevin Fischbeck, CFA
	Enhabit Home Health & Hospice	EHAB	EHAB US	Joanna Gajuk
	Pediatrix Medical Group, Inc.	MD	MD US	Kevin Fischbeck, CFA

*iQ*method℠ Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings	**Numerator**	**Denominator**
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	**Numerator**	**Denominator**
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

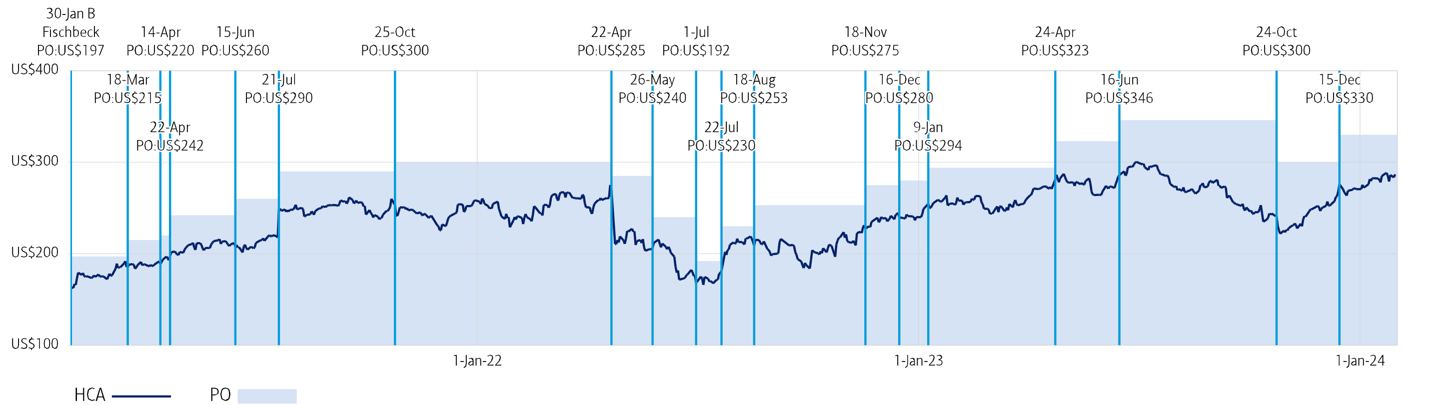
iQmethod℠ is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines 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.

Disclosures

Important Disclosures

HCA Healthcare (HCA) 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: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

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]
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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