

## Eversource Energy

# Offshore Wind Goes from Bad to Worse: Latest impairment leaves little value

Reiterate Rating: UNDERPERFORM | PO: 50.00 USD | Price: 62.87 USD

## Deeper than expected and guided offshore impairment

We reiterate Underperform on Eversource Energy (ES), a northeast regulated utility and offshore wind developer who is completing the costly unwind of its offshore ventures. Eversource announced its latest impairment for its offshore wind projects, an incremental \$1.4-\$1.6Bn after-tax (\$1.75-\$2.0Bn pre-tax at a 20% tax rate). This ~\$1.9Bn pre-tax impairment compares with a net \$2.2-\$2.3Bn investment balance as of September 30, 2023 per management. This follows a May 2023 \$220-\$280Mn after-tax impairment warning which was revised up to \$331Mn (\$401Mn pre-tax) with 2Q23 earnings. The latest \$1.9Bn pre-tax impairment is particularly jarring as management emphasized multiple times on the 3Q23 earnings call on November 6, 2023 that it had substantially completed negotiations with a buyer. At the time, ES stated there was ~\$850Mn “contingency consideration” but recorded an impairment yesterday that was double. We detail the breakdown of the 8K impairment in the full report.

## Less proceeds is a risk to earnings power again

Our adjusted EPS forecast embeds ~\$500Mn offshore proceeds which could now prove to be optimistic. ES impairment assumes ~\$400Mn 10pp bonus investment tax credit for the contaminated soil at the onshore interconnection substation. We will look for details in the final terms with a buyer for terms, conditions, and timing of cash flows.

## No EPS CAGR guidance. We see little growth 2023-2025

In contrast to its May 2023 impairment press release and 8K, management did not reaffirm the expectation to achieve a 5-7% long-term EPS CAGR and be solidly in the upper half. We see minimal growth YoY in 2024 with net ~\$0.25 estimated non-recurring items in 2023. This is before factoring in the headwind from stopping offshore wind interest capitalization which is more of a 2025 factor in estimates given timing.

## Equity needs the clear focus: how much incremental?

ES stated that it plans to disclose equity needs with its 4Q23 call. ES has one of the lowest funds from operations (FFO) / debt historically at 10-12% in 2019-2022 and we forecast 12-13% prospectively excl tax equity. The combo of a weak balance sheet, challenging CT regulation, and below-avg EPS growth leads us to remain cautious.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	3.86	4.09	4.37	4.40	4.37
GAAP EPS	3.54	4.05	4.37	4.40	4.37
EPS Change (YoY)	6.0%	6.0%	6.8%	0.7%	-0.7%
Consensus EPS (Bloomberg)			4.35	4.59	4.83
DPS	2.41	2.55	2.70	2.78	2.86
Valuation (Dec)					
P/E	16.3x	15.4x	14.4x	14.3x	14.4x
GAAP P/E	17.8x	15.5x	14.4x	14.3x	14.4x
Dividend Yield	3.8%	4.1%	4.3%	4.4%	4.5%
EV / EBITDA*	15.2x	13.2x	13.3x	12.5x	11.7x
Free Cash Flow Yield*	-5.5%	-4.7%	-0.6%	-7.8%	-7.7%

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

09 January 2024

### Equity

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### Stock Data

Price	62.87 USD
Price Objective	50.00 USD
Date Established	16-Oct-2023
Investment Opinion	B-3-7
52-Week Range	52.03 USD - 86.84 USD
Mkt Val (mn) / Shares Out (mn)	21,955 USD / 349.2
Free Float	99.1%
Average Daily Value (mn)	157.89 USD
BofA Ticker / Exchange	ES / NYS
Bloomberg / Reuters	ES US / ES.N
ROE (2023E)	9.5%
Net Dbt to Eqty (Dec-2022A)	140.8%
ESGMeter <sup>TM</sup>	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](#)".

FFO: Funds from operations  
OREC: Offshore Wind Renewable  
Energy Certificates

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Timestamp: 09 January 2024 05:30AM EST

# iQprofile<sup>SM</sup> Eversource Energy

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

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	3.5%	3.5%	3.7%	3.8%	3.8%
Return on Equity	9.2%	9.3%	9.5%	9.3%	8.8%
Operating Margin	20.2%	17.9%	24.7%	25.9%	26.7%
Free Cash Flow	(1,212)	(1,041)	(140)	(1,702)	(1,696)

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

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.5x	1.7x	3.1x	1.9x	1.9x
Asset Replacement Ratio	2.4x	2.1x	3.5x	3.3x	3.1x
Tax Rate	21.9%	24.3%	23.2%	23.2%	23.2%
Net Debt-to-Equity Ratio	132.5%	140.8%	134.8%	123.5%	127.6%
Interest Cover	3.4x	3.2x	3.7x	3.3x	3.0x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	9,863	12,289	9,701	9,972	10,297
% Change	10.8%	24.6%	-21.1%	2.8%	3.3%
Gross Profit	6,491	7,275	5,656	5,927	6,252
% Change	9.7%	12.1%	-22.3%	4.8%	5.5%
EBITDA	3,328	3,841	3,809	4,054	4,331
% Change	5.7%	15.4%	-0.8%	6.4%	6.8%
Net Interest & Other Income	(582)	(678)	(652)	(790)	(925)
<b>Net Income (Adjusted)</b>	<b>1,330</b>	<b>1,419</b>	<b>1,542</b>	<b>1,643</b>	<b>1,696</b>
<b>% Change</b>	<b>8.0%</b>	<b>6.7%</b>	<b>8.7%</b>	<b>6.5%</b>	<b>3.2%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	1,228	1,412	1,550	1,650	1,582
Depreciation & Amortization	1,335	1,643	1,410	1,470	1,586
Change in Working Capital	(277)	(75)	1,672	41	(18)
Deferred Taxation Charge	347	347	293	42	7
Other Adjustments, Net	(670)	(926)	(83)	(83)	38
Capital Expenditure	(3,175)	(3,442)	(4,982)	(4,823)	(4,892)
<b>Free Cash Flow</b>	<b>-1,212</b>	<b>-1,041</b>	<b>-140</b>	<b>-1,702</b>	<b>-1,696</b>
<b>% Change</b>	<b>3.8%</b>	<b>14.2%</b>	<b>86.6%</b>	<b>NM</b>	<b>0.4%</b>
Share / Issue Repurchase	0	197	520	1,270	520
Cost of Dividends Paid	(813)	(868)	(950)	(1,006)	(1,066)
Change in Debt	2,044	2,827	2,094	227	2,095

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	221	522	562	507	398
Trade Receivables	1,226	1,517	2,781	2,848	2,902
Other Current Assets	1,823	2,184	1,278	1,316	1,356
Property, Plant & Equipment	33,378	36,113	39,685	43,038	46,344
Other Non-Current Assets	11,844	12,895	12,895	12,895	12,895
<b>Total Assets</b>	<b>48,492</b>	<b>53,231</b>	<b>57,200</b>	<b>60,604</b>	<b>63,894</b>
Short-Term Debt	2,742	2,806	1,222	1,311	1,249
Other Current Liabilities	3,105	3,994	6,023	6,170	6,246
Long-Term Debt	17,024	19,724	21,918	22,245	24,440
Other Non-Current Liabilities	10,866	11,079	11,372	12,382	12,389
<b>Total Liabilities</b>	<b>33,737</b>	<b>37,602</b>	<b>40,535</b>	<b>42,107</b>	<b>44,324</b>
<b>Total Equity</b>	<b>14,755</b>	<b>15,629</b>	<b>16,749</b>	<b>18,663</b>	<b>19,820</b>
<b>Total Equity &amp; Liabilities</b>	<b>48,492</b>	<b>53,231</b>	<b>57,283</b>	<b>60,770</b>	<b>64,144</b>

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

## Company Sector

Electric Utilities

## Company Description

ES is a regulated utility company providing electric and gas distribution as well as electric transmission services to customers in CT, MA and NH. It also owns a water utility (Aquarion) which serves the same three states. ES has invested in offshore wind and announced a strategic review of the business in 2022.

## Investment Rationale

Our Underperform rating on Eversource is based on our view of a below-average EPS growth profile and lower balance sheet credit metrics than the overall utility average. Further, we see challenging Connecticut jurisdiction, forthcoming EPS reset, and the ongoing offshore wind strategic review that has been a setback for investor confidence.

## Stock Data

Average Daily Volume

2511,377

## Quarterly Earnings Estimates

	2022	2023
Q1	1.30A	1.40A
Q2	0.86A	1.00A
Q3	1.01A	0.96E
Q4	0.88A	0.96E

# Breaking down the latest impairments

Eversource management attributed the latest impairments to the following drivers:

- \$800-\$900Mn after-tax: Higher construction cost estimates including limited availability of offshore wind construction vessels. Joint venture partner Orsted discussed vessel availability as a driving factor in the company's August 2023 impairments.
- \$600-\$700Mn after-tax: New York expedited offshore wind rebid terms requiring the termination of the existing offshore wind contract for Sunrise Wind. Management did not provide details here but the quantum of the impairment here is surprising as management had previously discussed a \$450Mn upside potential from the offshore wind higher Offshore Wind Renewable Energy Certificates (OREC) at \$140/MWh if successful. While ultimately not successful, it is unclear why ES recorded an even larger impairment when it has the ability to rebid.

Shares of ES have relatively recovered +4pp vs utility peers from the lows as the company is a beneficiary of the decline in US Treasury rates leading to less financing pressures. We expect ES to retrace to its relative lows with the \$1.5Bn after-tax impairment midpoint representing ~7% of ES market cap for reference. Some investors we spoke to in recent months expected the ~\$800-900Mn contingent consideration to be ultimately impaired but very few investors we spoke to anticipated, the quantum of impairment ultimately realized. Shares had benefitted from growing expectations of a sale, renewed success on rebidding the assets and overall ability to put this behind them. ES short interest has fallen notably and was only 1.25% of float as of December 15.

## Exhibit 1: ES Equity vs Utility Peers

ES has steadily underperformed over the past two years but relatively recovered beginning on November 2023



Source: Bloomberg

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## BofA Global Research Reports

### Title: Subtitle

[Eversource Energy: Sunset for Sunrise Wind: Why We Are Still Cautious on ES, EPS & Credit Reset Ahead](#)

[Eversource Energy: Offshore Impairment Grows, Long-term EPS pressured by future CT rate cases](#)

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### Date Published

16 October 2023

01 August 2023



[Eversource Energy: Offshore Under Water? Why we still see a cautious setup for this Connecticut utility](#)  
[Eversource Energy: Capex up and EPS down, ES delivers \\$3.3Bn capex but LT guide disappoints](#)  
[Eversource Energy: Remain Cautious on Prospects Post-IRA: How much capex can the team deliver?](#)  
[US Utilities & IPPs: PowerPoints: PNMM&A, PEG & OGE cases, PPL-TLN, & ES/IDA/AGR/Oregon regulatory](#)  
[US Utilities & IPPs: PowerPoints: EPA 'Good Neighbor', ES CT Denial, D Virginia Update, and ALE Latest](#)  
[US Utilities & IPPs: PowerPoints: ALE M&A, PNM Mgmt, Oregon Wildfires, & ES Offshore Wind](#)  
[US Utilities & IPPs: PowerPoints: ES MA, EXC Labor, FE/AEP Ohio, Texas Earned ROEs, and NEP Latest](#)

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20 April 2023  
 14 February 2023  
 19 September 2022  
 02 January 2024  
 21 December 2023  
 06 December 2023  
 05 December 2023

## Price objective basis & risk

### Eversource Energy (ES)

Our sum of the parts based price objective of \$50 uses P/E multiples on 2025E earnings. The valuation is based on a 2025 sum of the parts analysis. We apply the 2025 average peer P/Es of 13.5x electric, 13.5x natural gas, and 20.0x water. For Connecticut electric & gas utilities, we value at -20% discount (-2.8x) to reflect historical challenges and prospective earnings risks. Connecticut water is valued in-line with natural gas. The other utilities are valued at a -15% discount (-2.1x) for below-average consolidated growth and weaker balance sheet metrics. Parent net loss per share is valued at an -1x discount to the electric utility average.

Upside and downside risks to our Price Objective are 1) regulatory/political/legislative changes, 2) capital expenditures forecasts, 3) ability to earn the regulatory allowed ROE, 4) offshore wind review, 5) natural disasters & storms, 6) operational performance and gas incidents, 7) integration of historical and prospective M&A, 8) pension plan performance, and 9) equity issuances.

## Analyst Certification

I, Paul Zimbardo, 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
<b>BUY</b>				
	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
	Duke Energy	DUK	DUK 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	Dariusz Lozny, CFA
	MDU Resources Group, Inc.	MDU	MDU US	Dariusz Lozny, CFA
	Nextracker Inc	NXT	NXT US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Paul Zimbardo
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Sempra Energy	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



## North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
<b>NEUTRAL</b>				
	AES	AES	AES US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	AQN	AQN US	Dariusz Lozny, CFA
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Dariusz Lozny, CFA
	AltaGas	YALA	ALA CN	Dariusz Lozny, CFA
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	ChargePoint Holdings	CHPT	CHPT US	Cameron Lochridge
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Emera Inc	YEMA	EMA CN	Dariusz Lozny, CFA
	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
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	TransAlta Corp	TAC	TAC US	Dariusz Lozny, CFA
	TransAlta Corporation	YTA	TA CN	Dariusz Lozny, CFA
<b>UNDERPERFORM</b>				
	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
	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	Dariusz Lozny, CFA
	Fortis Inc	FTS	FTS US	Dariusz Lozny, CFA
	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

## **IQmethod<sup>SM</sup> 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

*IQmethod<sup>SM</sup>* is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of *IQmethod* are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

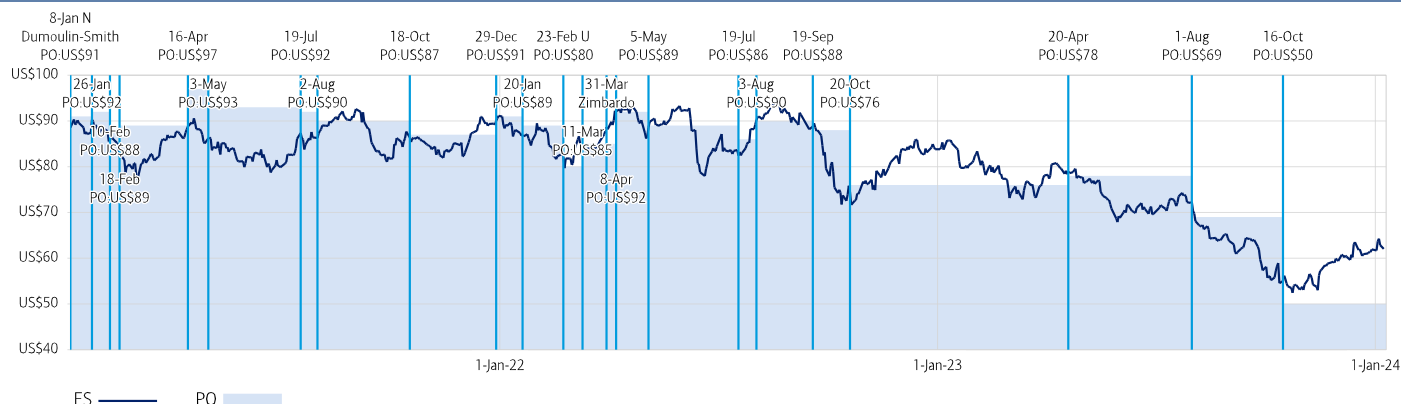
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# Disclosures

## Important Disclosures

### Eversource Energy (ES) Price Chart



ES — PO

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: Utilities Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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

**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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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