

KBR

# Strength in Government and Sustainable Services; Raise PO to \$75

Reiterate Rating: BUY | PO: 75.00 USD | Price: 61.13 USD

## Defense & Intel drives GS performance

We see a strong global backdrop for KBR's Government Solutions (GS), given the business' exposure to Defense & Intelligence work. We see opportunities on both sides of the business as requested defense RDT&E funding remains strong and IAC-MAC intelligence awards increase. We see upside opportunity to the business in the international segment from UK & Australia buildup. We raise our estimates on continued strength in both GS & STS. We reiterate our Buy rating and raise our PO to \$75. Details inside.

## HomeSafe delayed, but strong USTRANSCOM commitment

We appreciate that during the latest quarter, KBR management took steps to provide additional clarity around the program and emphasize that the US Transport Command (USTRANSCOM) remains committed to the program. [As we highlighted in our 14 February note](#), HomeSafe Alliance was awarded a \$60mn modification contract for an additional 12 months of transition services for the rollout of the contract. In line with management's expectations, we lower our HomeSafe contribution to \$150mn in 2024 (vs. prior \$350mn). We continue to expect a meaningful ramp up in 2025 with domestic moves and in 2026 as international moves are added.

## STS primer to demystify the business

To date, Sustainable Technology Solutions (STS) has largely remained a "black box". We appreciate management's effort to demystify the segment by announcing an STS "primer" to be released today. We think this will help allay investor concerns about the resiliency and sustainability of the high-growth high-margin segment. We continue to look favorably on KBR STS's exposure to the energy trilemma and see opportunities for KBR throughout all phases of maturity of the energy market. See details inside.

## Derisked balance sheet & enhanced cap deployment opp.

We were pleased to see management continue to use cash to retire risk as well as return cash to shareholders. As of the end of 2023, all outstanding convertible notes and associated warrants have been settled and the legacy legal matter has been resolved. KBR also refinanced much of its debt, mitigating maturity risk by pushing out a cluster of maturities due in 2026/2027 to 2029/2031. Additionally, the company upsized the longer-term maturity Term Loan B to free up almost all the \$1bn revolver. We think these actions significantly enhance capital deployment opportunities going forward.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.71	2.96	3.20	3.85	4.55
GAAP EPS	1.26	(1.96)	2.98	3.72	4.44
EPS Change (YoY)	12.0%	9.2%	8.1%	20.3%	18.2%
Consensus EPS (Bloomberg)			3.20	3.97	4.88
DPS	0.46	0.53	0.59	0.63	0.68
Valuation (Dec)					
P/E	22.6x	20.7x	19.1x	15.9x	13.4x
GAAP P/E	48.5x	NM	20.5x	16.4x	13.8x
Dividend Yield	0.8%	0.9%	1.0%	1.0%	1.1%
EV / EBITDA*	15.5x	13.9x	12.4x	10.8x	9.7x
Free Cash Flow Yield*	3.9%	3.0%	4.7%	5.6%	6.5%

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

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12 March 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	70.00	75.00
2024E Rev (m)	7,838.7	7,558.4
2025E Rev (m)	9,072.6	8,933.8
2026E Rev (m)	10,306.7	10,285.8
2024E EPS	3.05	3.20
2025E EPS	3.70	3.85
2026E EPS	4.45	4.55
2024E DPS	0.57	0.59

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### Stock Data

Price	61.13 USD
Price Objective	75.00 USD
Date Established	12-Mar-2024
Investment Opinion	B-1-7
52-Week Range	49.37 USD - 65.87 USD
Mrkt Val (mn) / Shares Out (mn)	8,257 USD / 135.1
Free Float	98.8%
Average Daily Value (mn)	94.31 USD
BofA Ticker / Exchange	KBR / NYS
Bloomberg / Reuters	KBR US / KBR.N
ROE (2024E)	28.5%
Net Dbt to Eqty (Dec-2023A)	109.6%
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".

See inside for Glossary

# iQprofile<sup>SM</sup> KBR

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	5.5%	9.9%	12.1%	14.1%	15.9%
Return on Equity	23.1%	26.4%	28.5%	31.0%	34.1%
Operating Margin	5.2%	6.4%	9.0%	9.0%	8.9%
Free Cash Flow	325	251	388	465	536

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.0x	0.8x	1.1x	1.1x	1.1x
Asset Replacement Ratio	0.5x	0.6x	0.5x	0.6x	0.7x
Tax Rate	32.4%	NM	26.0%	25.0%	25.0%
Net Debt-to-Equity Ratio	82.8%	109.6%	81.3%	81.4%	73.7%
Interest Cover	3.9x	3.9x	5.2x	6.1x	7.1x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	6,564	6,956	7,558	8,934	10,286
% Change	-10.6%	6.0%	8.7%	18.2%	15.1%
Gross Profit	828	977	1,191	1,331	1,464
% Change	2.7%	18.0%	21.9%	11.8%	10.0%
EBITDA	668	747	837	959	1,074
% Change	6.9%	11.8%	12.1%	14.6%	11.9%
Net Interest & Other Income	(59)	(614)	(130)	(132)	(129)
<b>Net Income (Adjusted)</b>	<b>385</b>	<b>400</b>	<b>430</b>	<b>506</b>	<b>577</b>
<b>% Change</b>	<b>12.8%</b>	<b>3.8%</b>	<b>7.6%</b>	<b>17.7%</b>	<b>14.0%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	192	(261)	406	503	590
Depreciation & Amortization	137	141	145	146	147
Change in Working Capital	(48)	4	(83)	(95)	(104)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	115	447	0	0	0
Capital Expenditure	(71)	(80)	(79)	(89)	(98)
<b>Free Cash Flow</b>	<b>325</b>	<b>251</b>	<b>388</b>	<b>465</b>	<b>536</b>
<b>% Change</b>	<b>31.0%</b>	<b>-22.8%</b>	<b>54.6%</b>	<b>20.0%</b>	<b>15.1%</b>
Share / Issue Repurchase	(198)	(133)	(100)	(400)	(400)
Cost of Dividends Paid	(66)	(72)	(79)	(83)	(86)
Change in Debt	(122)	768	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	389	304	513	496	546
Trade Receivables	942	981	1,126	1,356	1,561
Other Current Assets	416	366	410	473	543
Property, Plant & Equipment	182	239	276	322	374
Other Non-Current Assets	3,637	3,675	3,573	3,470	3,368
<b>Total Assets</b>	<b>5,566</b>	<b>5,565</b>	<b>5,898</b>	<b>6,117</b>	<b>6,392</b>
Short-Term Debt	0	31	31	31	31
Other Current Liabilities	1,457	1,541	1,647	1,845	2,016
Long-Term Debt	1,740	1,801	1,801	1,801	1,801
Other Non-Current Liabilities	737	798	798	798	798
<b>Total Liabilities</b>	<b>3,934</b>	<b>4,171</b>	<b>4,277</b>	<b>4,475</b>	<b>4,646</b>
<b>Total Equity</b>	<b>1,632</b>	<b>1,394</b>	<b>1,621</b>	<b>1,642</b>	<b>1,745</b>
<b>Total Equity &amp; Liabilities</b>	<b>5,566</b>	<b>5,565</b>	<b>5,898</b>	<b>6,117</b>	<b>6,392</b>

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

## Company Sector

Engineering & Construction

## Company Description

KBR is a global provider of science, technology, and engineering solutions to government and commercial customers. Key capabilities include: scientific R&D, defense systems engineering, operational support, information technology, and sustainable technologies.

The company operates in two business segments: Government Solutions (GS) and Sustainable Technology Solutions (STS). The Government Solutions segment accounts for 75% of sales and 70% of EBITDA.

## Investment Rationale

After a multi-year transformation, the Government Solutions segment represents 80% of sales. KBR is well positioned to benefit from US bipartisan support to systems modernization to face near-peer threats. We also see strength in IT & modernization efforts from civil agencies (incl. NASA) and international militaries (UK & Australia). Additionally, Sustainable Technology Solutions has a strong ESG profile with focus on sustainability, net-zero carbon solutions, high-tech and digital solutions.

## Stock Data

Average Daily Volume 1,542,792

## Diversified GS portfolio hedges against changing backdrop

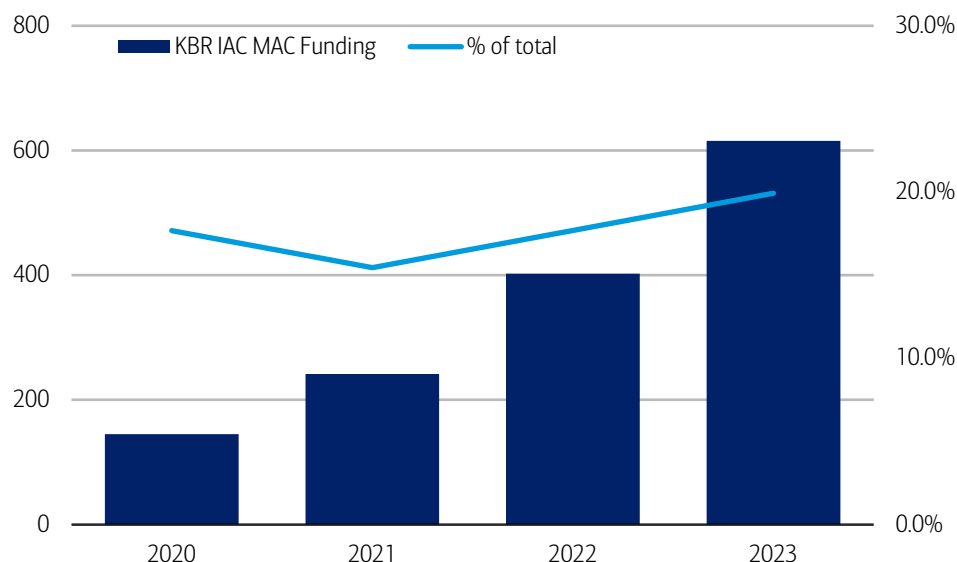
2023 has clearly demonstrated the resiliency of KBR's Government Solutions (GS) portfolio against an ever-changing backdrop. In the first half of the year, Readiness & Sustainment (R&S) was a clear segment driver due to 1) Defense & Intel (D&I) lagging from delays in the DE M-SHORAD program and 2) challenges at International due to Australian government turnover implications. However, in the second half of the year, particularly in 4Q23, both D&I and International returned to higher growth, partially offset by a slowdown in R&S. We see this as evidence of the strength and diversity of KBR's broad GS portfolio.

### D&I: key driver of GS growth in 4Q23

In 4Q23, Defense & Intel (D&I) benefited from strong growth in advanced technology projects funded under the RDT&E budget. Given the robust RDT&E budget requested for FY24, we expect these advanced tech programs to continue to grow and strengthen the Defense side of the D&I portfolio. KBR's Defense offerings have become more digitally differentiated and KBR has been able to win a significant amount of new business under government-wide ID/IQ awards, such as IAC MAC (see Exhibit 1).

#### Exhibit 1: IAC MAC spending allocated to KBR increased 50% Y/Y in 2023

In 2023, KBR rose to 19.9% of total IAC MAC spending



Source: BofA Global Research, Bloomberg Government  
Spending in \$mn

BofA GLOBAL RESEARCH

On the Intelligence side, KBR resumed pace on the DE M-SHORAD program, making up for delays seen in the first half of the year. Directed Energy remains a key priority area for the DoD, and we look favorably on KBR's exposure to the end market. We see KBR's Centauri acquisition as helping to transform the company from a "small business to a prime" in the Intelligence end market, thus helping KBR gain market share in the space.

### Science & Space: nothing new here, CR continued to constrain growth

Science & Space reported modest growth in 2023 as the segment largely remains constrained by the continuing resolution. We anticipate more of the same in 2024. We expect to see revenue growth of 7% in 2024.

### International: Frazer Nash exemplifies synergies between GS and STS

Frazer Nash has been a standout performer within the overall GS segment. As highlighted, the business, which includes defense, energy, and commercial high-level consulting work, clearly exemplifies the synergies in customer and geographic intimacy between GS and STS. 60% of the Frazer Nash business is in the government realm –

including classified work, digital, cyber, nuclear assurance, etc. The remaining 40% of the business is in the commercial arena. While the International business struggled at the beginning of 2023 due to the implications of the Australian government turnover, we see opportunities for KBR to benefit from increased clarity seen in the Australian market and a strong emphasis on the AUKUS program.

#### **R&S: likely to be pressured due to HomeSafe Delay and decreased EUCOM**

Readiness & Sustainment pulled back in 4Q23 due to a reduction in spending in the European Command theater. We expect this is largely tied to the ongoing debate in Congress as to military support levels for Ukraine and see this as a potential area for upside opportunity. Given the delayed HomeSafe ramp, we expect revenues to be pushed to the right. We now expect a 1% contraction in R&S in 2024 (vs. 22% growth prior) and 56% growth in 2025 to reflect the later than expected HomeSafe ramp.

### **STS primer to demystify the business**

To date, Sustainable Technology Solutions (STS) has largely remained a “black box”. We appreciate management’s effort to demystify the segment by announcing an STS “primer” to be released today. We think this will help allay investor concerns about the resiliency and sustainability of the high-margin segment. We believe management has likely been hesitant to delve into details of the segment as ~2/3rds of revenue come from “consultant-type”/Time & Material work which tends to be much more volatile and difficult to forecast.

#### **Energy security vs energy transition: opportunities in both realms**

We look favorably on KBR STS’s exposure to the energy trilemma and see opportunities for KBR throughout all phases of maturity of the energy market. Management noted that right now, the energy security component is “dwarfing” the energy transition component. However, given STS’s broad portfolio of sustainable services, products, and licenses (including its work in ammonia and hydrogen), we see opportunities to leverage STS’s energy security business and capture market share in the growing energy transition space.

#### **Plastics Recycling: three global plastics plants to capture increased demand**

Management highlighted that they are hoping to release STS’s first plastics recycling product at the end of 1Q24 or early in 2Q24. We think this release will be a major accelerator into the plastics recycling market. We remind investors that STS has three scaled plastics plants all coming on-line which should provide further capacity to benefit from growing global demand.

#### **SAF: exposure to the next wave of aircraft fuel**

Additionally, we look favorably on KBR’s exposure to Sustainable Aircraft Fuel (SAF) and management expects to see SAF deals come through the pipeline in the coming quarters. We expect to continue to see strength in the SAF market as global government reinforce their sustainability and net-zero targets. [For more information on SAF, read our Green Aviation Primer here.](#)

### **Debt refi broadens capital deployment opps going forward**

As noted, we think KBR’s refinancing and Term Loan B upsizing significantly enhance the company’s capital deployment opportunities going forward. Returning cash to shareholders, share buybacks, and M&A remain key capital deployment priorities. On February 20, 2024, KBR increased its quarterly dividend to \$0.60/share, its 5<sup>th</sup> consecutive year of dividend increases. Given the reduction in maturity risk, we see common share buybacks as a potential use of capital throughout 2024. Management has not baked in any significant level of buybacks, and we therefore see upside to KBR adj. EPS estimates should the company make use of its \$500mn share buyback authorization.

## Reiterate Buy; raise PO to \$75

We reiterate our Buy rating on KBR. We raise our PO to \$75 to reflect the derisked balance sheet, increased clarity around the HomeSafe ramp, and continuing momentum at STS. We roll forward our valuation one year. Our PO of \$75 is based off a 0.9x relative EV/EBITDA multiple (unchanged) to the defense primes on 2025 estimates. This equals a 13x EV/EBITDA multiple. We think KBR should trade slightly below the primes as strong US and international security demand for innovative tech and solutions, exposure to sustainable tech and funds, and solid FCF are offset by a continued lumpy award environment and volatility surrounding sustainable technology projects.

## Raising 2024e and outyear EPS estimates on momentum in GS and STS

As a result of continued strength in both GS and STS, we raise our 2024e and outyear adj. EPS. We raise adj. EPS in 2024e to \$3.20 (vs. \$3.05 prior), 2025e to \$3.85 (vs. \$3.70 prior), 2026e to \$4.55 (vs. 4.45 prior), and 2027e to \$5.15 (vs. \$5.05 prior).

## Glossary

RDT&E: Research, Development, Test and Evaluation

IAC MAC: Information Analysis Center Multiple Award Contract

ID/IQ: Indefinite Delivery, Indefinite Quantity



## Price objective basis & risk

### KBR (KBR)

Our PO of \$75 is based on a 0.9x relative EV/EBITDA multiple to the defense primes on 2025 estimates. This equals a 13x EV/EBITDA multiple. We think KBR should trade slightly below the primes as strong US and int'l security demand for innovative tech and solutions, exposure to sustainable tech and funds, and solid FCF are offset by a continued lumpy award environment, labor and supply chain pressures, headline risk from political control impacting short cycle defense spending, and macroeconomic pressure on timing of sustainable technology projects.

Downside risks: cuts to the US Government budget vs. anticipated, increased competition from non-traditional players, problems integrating M&A, hiring the right personnel, containing costs, executing on fixed price contracts, sustaining reputational risk and earning future awards. On Sustainable Technologies, risks include slower than expected adoption of sustainable technologies, or higher than expected competition, and thus, lower than expected profitability.

Upside risks: better than anticipated budget allocated to innovative technologies and modernization, inexpensive and well-integrated M&A activity, unexpected capital return to shareholders in the form of dividends or share buybacks, market share gains, and better than expected margin expansion. On Sustainable Technologies, upside risks include faster than expected adoption of sustainable technologies, market share gains, and higher than expected profitability.

## Analyst Certification

I, Mariana Perez Mora, 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 - Aerospace and Defense Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY	AerCap Holdings N.V.	AER	AER US	Ronald J. Epstein
	Air Lease Corporation	AL	AL US	Ronald J. Epstein
	Booz Allen Hamilton	BAH	BAH US	Mariana Perez Mora
	BWX Technologies, Inc.	BWXT	BWXT US	Ronald J. Epstein
	CACI International	CACI	CACI US	Mariana Perez Mora
	Cadre Holdings Inc	CDRE	CDRE US	Ronald J. Epstein
	Crane Co.	CR	CR US	Ronald J. Epstein
	Embraer	ERJ	ERJ US	Ronald J. Epstein
	GE Aerospace	GE	GE US	Ronald J. Epstein
	General Dynamics	GD	GD US	Ronald J. Epstein
	HEICO Corporation	HEI	HEI US	Ronald J. Epstein
	Howmet Aerospace Inc.	HWM	HWM US	Ronald J. Epstein
	KBR	KBR	KBR US	Mariana Perez Mora
	Leidos Holdings	LDOS	LDOS US	Mariana Perez Mora
	Leonardo DRS, Inc.	DRS	DRS US	Ronald J. Epstein
	Northrop Grumman	NOC	NOC US	Ronald J. Epstein
	Palantir Technologies	PLTR	PLTR US	Mariana Perez Mora
	Parsons Corporation	PSN	PSN US	Mariana Perez Mora
	RBC Bearings Inc	RBC	RBC US	Ronald J. Epstein
	Rocket Lab	RKLB	RKLB US	Ronald J. Epstein
	Teledyne Technologies Inc	TDY	TDY US	Ronald J. Epstein
	Textron	TXT	TXT US	Ronald J. Epstein
	TransDigm Group Inc.	TDG	TDG US	Ronald J. Epstein
	Triumph Group	TGI	TGI US	Ronald J. Epstein

## US - Aerospace and Defense Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>NEUTRAL</b>	Albany International	AIN	AIN US	Ronald J. Epstein
	Boeing	BA	BA US	Ronald J. Epstein
	Garmin	GRMN	GRMN US	Ronald J. Epstein
	Hexcel Corporation	HXL	HXL US	Ronald J. Epstein
	L3Harris	LHX	LHX US	Ronald J. Epstein
	Lockheed Martin	LMT	LMT US	Ronald J. Epstein
	RTX Corp	RTX	RTX US	Ronald J. Epstein
<b>UNDERPERFORM</b>	Bombardier	BDRBF	BDRBF US	Ronald J. Epstein
	Bombardier Inc.	YBBD B	BBD/B CN	Ronald J. Epstein
	CAE Inc.	YCAE	CAE CN	Ronald J. Epstein
	CAE Inc.	CAE	CAE US	Ronald J. Epstein
	Huntington Ingalls Industries	HII	HII US	Ronald J. Epstein
	Mercury Systems	MRCY	MRCY US	Ronald J. Epstein

**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 valuations. 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<sup>®</sup> 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.

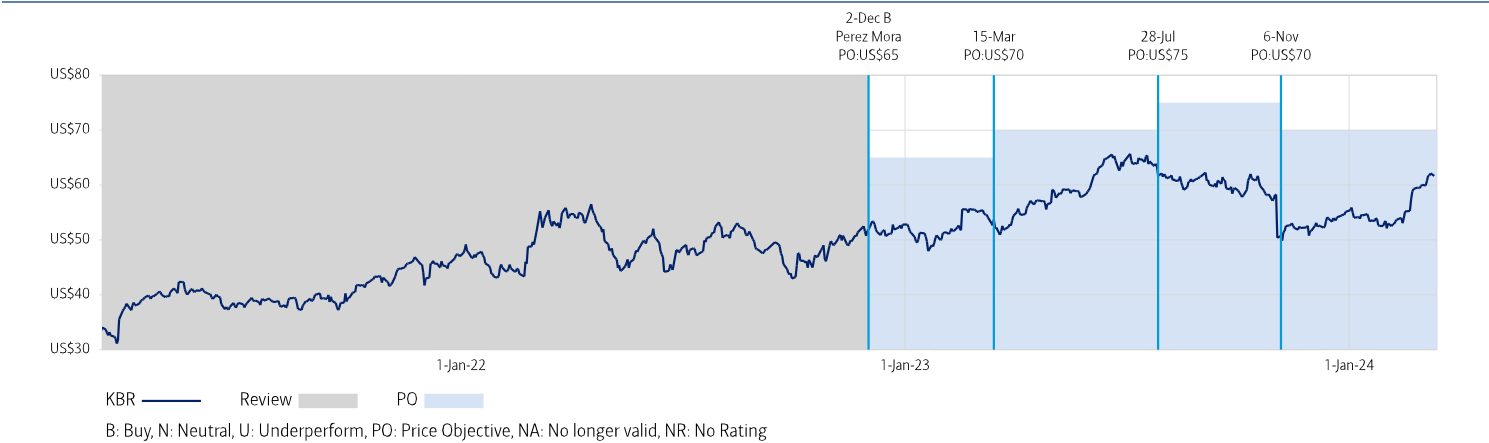
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# Disclosures

## Important Disclosures

KBR (KBR) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Engineering & Construction Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	9	42.86%	Buy	5	55.56%
Hold	7	33.33%	Hold	3	42.86%
Sell	5	23.81%	Sell	3	60.00%

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%

<sup>R2</sup> 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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