

Vertiv

# Multi-year AI demand tailwinds, but some questions on '24 guidance details

Reiterate Rating: BUY | PO: 72.00 USD | Price: 62.02 USD

## Solid 2024 guidance, but questions on some of the details

Despite beat-and-raise results, VRT shares declined (5.6)% on the day of results versus +0.1% for the S&P 500 index. While 2024 guidance bracketed consensus revenue and adj. EPS, investors questioned the sizable 1Q deceleration and lower than expected price/cost benefit. We reiterate our Buy given the multi-year tailwind from artificial intelligence (AI) demand. We note AI chip manufacturer Nvidia (NVDA, covered by our colleague Vivek Arya) reported 4QF24 (Jan) revenue 8% above consensus and guided for 1QF25 (Apr) revenue 10% above consensus. We maintain our above-consensus 2024 adj. EPS and \$72 price objective.

## 1Q revenue guidance reflects comps, seasonality

1Q's revenue guidance reflects a tough year ago "comp" (+35% y/y organic in 1Q23) and a return of more normal seasonality (e.g., 1Q18 and 1Q19 revenue were down ~10% q/q). As expected, 4Q orders accelerated to +23% y/y organic from +11% last quarter. We view guidance for a sequential decline in 1Q24 orders as reflective of conservatism around the sequencing/timing of large orders. We forecast 27% y/y organic orders growth in 1Q24, which represents a q/q decline and continued y/y acceleration.

## Price/cost guidance raises more questions than answers

Vertiv is no longer disclosing pricing for competitive reasons. However, 2024 guidance includes only a \$60mn benefit from price/cost versus \$360mn in 2023. Our sense is that pricing remains robust, but management is leaving room for unexpected inflationary pressures. For perspective, initial 2023 guidance was for \$100mn price/cost benefit (versus the actual \$360mn).

## Maintain our above-Street 2024 adj. EPS at \$2.34

For 2024, we continue to forecast 11% y/y organic revenue growth with ~40% incremental margins (versus guidance for 9-11% organic growth and implied ~35% incrementals at midpoint). Our 2024 adj. EPS is unchanged at \$2.34 (versus \$2.24 consensus). For 1Q24, we maintain our unchanged \$0.66 adj. EPS estimate.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.53	1.77	2.34	2.97	3.51
GAAP EPS	0.20	1.19	1.92	2.58	3.13
EPS Change (YoY)	-30.3%	234.0%	32.2%	26.9%	18.2%
Consensus EPS (Bloomberg)			2.24	2.70	3.31
DPS	0.01	0.02	0.10	0.14	0.18
Valuation (Dec)					
P/E	117.0x	35.0x	26.5x	20.9x	17.7x
GAAP P/E	310.1x	52.1x	32.3x	24.0x	19.8x
Dividend Yield	0%	0%	0.2%	0.2%	0.3%
EV / EBITDA*	49.6x	22.8x	17.8x	14.6x	12.8x
Free Cash Flow Yield*	-1.1%	3.2%	3.6%	4.5%	5.3%

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

22 February 2024

Equity

### Key Changes

(US\$)	Previous	Current
2024E Rev (m)	7,660.3	7,635.2
2025E Rev (m)	8,563.7	8,501.9
2026E Rev (m)	9,500.7	9,425.4

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### Stock Data

Price	62.02 USD
Price Objective	72.00 USD
Date Established	13-Feb-2024
Investment Opinion	C-1-7
52-Week Range	11.95 USD - 65.56 USD
Mrkt Val (mn) / Shares Out (mn)	23,657 USD / 381.4
Free Float	93.4%
Average Daily Value (mn)	411.98 USD
BofA Ticker / Exchange	VRT / NYS
Bloomberg / Reuters	VRT US / VRT.N
ROE (2024E)	40.9%
Net Dbt to Eqty (Dec-2023A)	107.2%
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: 22 February 2024 05:00AM EST

# iQprofile<sup>SM</sup> Vertiv

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	2.2%	11.6%	15.2%	19.6%	21.9%
Return on Equity	14.0%	39.6%	40.9%	41.6%	38.8%
Operating Margin	3.9%	12.7%	15.5%	17.6%	18.6%
Free Cash Flow	(264)	766	850	1,066	1,255

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	-0.8x	1.3x	1.1x	1.1x	1.1x
Asset Replacement Ratio	0.4x	0.5x	0.7x	0.7x	0.8x
Tax Rate	118.8%	27.3%	28.0%	27.0%	26.0%
Net Debt-to-Equity Ratio	203.2%	107.2%	64.7%	28.2%	1.1%
Interest Cover	1.5x	4.8x	7.6x	11.1x	14.7x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	5,692	6,863	7,635	8,502	9,425
% Change	13.9%	20.6%	11.2%	11.4%	10.9%
Gross Profit	1,616	2,401	2,780	3,173	3,545
% Change	6.1%	48.5%	15.8%	14.1%	11.8%
EBITDA	526	1,143	1,466	1,783	2,041
% Change	-11.2%	117.4%	28.2%	21.6%	14.5%
Net Interest & Other Income	(147)	(181)	(154)	(135)	(120)
<b>Net Income (Adjusted)</b>	<b>200</b>	<b>684</b>	<b>920</b>	<b>1,172</b>	<b>1,386</b>
<b>% Change</b>	<b>-27.9%</b>	<b>241.0%</b>	<b>34.6%</b>	<b>27.4%</b>	<b>18.2%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(14)	503	738	994	1,210
Depreciation & Amortization	302	271	286	286	286
Change in Working Capital	(449)	67	0	(32)	(51)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	8	60	26	28	29
Capital Expenditure	(111)	(135)	(200)	(210)	(219)
<b>Free Cash Flow</b>	<b>-264</b>	<b>766</b>	<b>850</b>	<b>1,066</b>	<b>1,255</b>
<b>% Change</b>	<b>NM</b>	<b>NM</b>	<b>11.0%</b>	<b>25.4%</b>	<b>17.7%</b>
Share / Issue Repurchase	0	27	(256)	(294)	(339)
Cost of Dividends Paid	(4)	(10)	(39)	(55)	(71)
Change in Debt	219	(262)	(772)	(422)	(422)

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	261	780	563	857	1,280
Trade Receivables	1,889	2,185	2,389	2,637	2,911
Other Current Assets	1,009	1,036	1,089	1,166	1,252
Property, Plant & Equipment	489	560	665	778	897
Other Non-Current Assets	3,448	3,437	3,254	3,080	2,907
<b>Total Assets</b>	<b>7,096</b>	<b>7,999</b>	<b>7,960</b>	<b>8,518</b>	<b>9,247</b>
Short-Term Debt	22	22	0	0	0
Other Current Liabilities	1,876	2,284	2,516	2,794	3,093
Long-Term Debt	3,169	2,919	2,169	1,747	1,325
Other Non-Current Liabilities	587	759	791	821	845
<b>Total Liabilities</b>	<b>5,654</b>	<b>5,984</b>	<b>5,476</b>	<b>5,362</b>	<b>5,262</b>
<b>Total Equity</b>	<b>1,442</b>	<b>2,015</b>	<b>2,484</b>	<b>3,156</b>	<b>3,985</b>
<b>Total Equity &amp; Liabilities</b>	<b>7,096</b>	<b>7,999</b>	<b>7,960</b>	<b>8,518</b>	<b>9,247</b>

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

## Company Sector

Industrials/Multi-Industry

## Company Description

Vertiv is an electrical product manufacturer focused on data centers (70% of revenue) and telecom (20%) end markets. In 2022, Vertiv generated \$5.7bn in revenue. Key product offerings include power & thermal management, IT management, and related services.

## Investment Rationale

We view Vertiv as benefitting near-term from a margin recovery, and improving FCF generation. Artificial intelligence adoption within data centers adds incremental demand for Vertiv's thermal management products. Pricing benefits from capacity constraints for data center infrastructure products.

## Stock Data

Average Daily Volume

6,642,668

## Quarterly Earnings Estimates

	2023	2024
Q1	0.24A	0.36E
Q2	0.46A	0.58E
Q3	0.52A	0.64E
Q4	0.56A	0.77E

## Maintain '24E adj. EPS at \$2.34, +32% y/y

For 1Q24, we forecast 6.9% y/y organic revenue growth. Our adjusted operating income is \$2mn higher at \$219mn, or an 13.5% margin. Our 4Q23 adjusted EPS is unchanged at \$0.36.

For 2024, we forecast 11.5% y/y organic revenue growth and 17.8% adjusted operating margin. This represents a 40% incremental margin. Our 2024 adjusted EPS is unchanged at \$2.34, up 32% y/y.

### Exhibit 1: How our estimates have changed

Maintain our 2024 adj. EPS of \$2.34

(\$mn, except per sh.)	1Q24E			Vertiv Guidance	2024E			Vertiv Guidance
	New	Old	Change		New	Old	Change	
Revenue	1,620	1,634	-1%	1,575-1,625	7,635	7,660	0%	7,515-7,655
Organic %	6.9%	7.8%	-90bp	3.5-6.5%	11.5%	11.4%	10bp	9-11%
Total %	6.5%	7.4%	-90bp		11.2%	11.1%	10bp	
Adj. EBITA	219	217	1%	200-220	1,362	1,360	0%	1,275-1,325
Adj. EBITA margin	13.5%	13.3%	20bp	12.9-13.3%	17.8%	17.8%	0bp	16.9-17.3%
Adj. EBITDA	243	239	2%		1,466	1,456	1%	
Adj. EBITA margin	15.0%	14.6%	40bp		19.2%	19.0%	20bp	
Adjusted EPS	\$0.36	\$0.36	1%	\$0.32-0.36	\$2.34	\$2.34	0%	\$2.20-2.26
Diluted shares	391.6	390.1	0%	~391.6	393.2	391.2	1%	~393.2

Source: BofA Global Research, company filings

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## VRT has capacity, but clients have their own constraints

CEO Albertazzi “does not see capacity as a limiting factor.” After adding plants in Mexico and India, further steps will be more “gradual” around adding additional lines, tools, and shifts. AI demand is driving larger projects, which come with longer client-requested lead times. We see client-driven restraints (e.g., permitting, electricity connections, construction schedules) as the largest limiting factor for Vertiv revenue growth in '24.

## Variance analysis

4Q23 revenue was 2% below our estimate, up +12% y/y organically. Adjusted operating margin of 17.7% was up 500bp y/y and was 80bp better than our estimate. Adjusted operating profit was \$9mn above our estimate, driving \$0.02/share of upside from core operations. A higher tax rate was a \$(0.01) drag. In total, adjusted EPS was \$0.01 above our estimate.

### Exhibit 2: Variance analysis

Adj. EPS of \$0.56 was \$0.01 above our estimate

	Actual	Reported	BofA Estimate		Variation Vs. BofA Est.			
(in US\$ mn, except per share data)	4Q:22A	4Q:23A	y/y %	4Q:23E	y/y %	Dollar	Percentage	EPS
<b>Segment revenue</b>								
Americas	834	1,020	22%	1,064	28%	(44)	-4%	
APAC	425	430	1%	412	-3%	19	5%	
EMEA	396	415	5%	420	6%	(4)	-1%	
<b>Total</b>	<b>1,655</b>	<b>1,865</b>	<b>13%</b>	<b>1,895</b>	<b>15%</b>	<b>(29)</b>	<b>-2%</b>	
<b>Adjusted operating profit</b>								
Americas	124	218	76%	275	122%	(57)	-21%	\$ (0.11)
APAC	57	43	-25%	79	38%	(36)	-45%	\$ (0.07)
EMEA	62	95	53%	108	73%	(13)	-12%	\$ (0.02)
<b>Segment Total</b>	<b>243</b>	<b>356</b>	<b>47%</b>	<b>461</b>	<b>90%</b>	<b>(105)</b>	<b>-23%</b>	<b>\$ (0.20)</b>
Corporate Overhead	(33)	(26)	NM	(140)	NM	114	-82%	\$ 0.21
<b>Total</b>	<b>211</b>	<b>330</b>	<b>57%</b>	<b>321</b>	<b>52%</b>	<b>9</b>	<b>3%</b>	<b>\$ 0.02</b>
<b>Adjusted operating profit margin</b>								
Americas	14.9%	21.4%	650 bp	25.9%	1100 bp	(440 bp)	-	
APAC	13.4%	10.0%	(340 bp)	19.1%	570 bp	(910 bp)	-	
EMEA	15.7%	22.9%	720 bp	25.6%	990 bp	(280 bp)	-	
<b>Total EBIT</b>	<b>12.7%</b>	<b>17.7%</b>	<b>500 bp</b>	<b>16.9%</b>	<b>420 bp</b>	<b>80 bp</b>	-	
<b>Net Sales</b>	<b>1,655</b>	<b>1,865</b>	<b>13%</b>	<b>1,895</b>	<b>15%</b>	(29)	-2%	
COGS	1,143	1,182	3%	1,242	9%	(60)	-5%	
<b>Gross Profit</b>	<b>512</b>	<b>683</b>	<b>34%</b>	<b>652</b>	<b>27%</b>	31	5%	<b>\$ 0.06</b>
SG&A	301	353	17%	331	10%	22	7%	\$ (0.04)
<b>Operating Income</b>	<b>211</b>	<b>330</b>	<b>57%</b>	<b>321</b>	<b>52%</b>	<b>9</b>	<b>3%</b>	<b>\$ 0.02</b>
Other deductions, net	48	45	-6%	42	-14%	4	9%	\$ (0.01)
<b>EBIT</b>	<b>162</b>	<b>285</b>	<b>76%</b>	<b>279</b>	<b>72%</b>	<b>6</b>	<b>2%</b>	<b>\$ 0.01</b>
Interest expense / (Income)	46	43	-5%	42	-7%	1	2%	\$ (0.00)
<b>EBT</b>	<b>117</b>	<b>242</b>	<b>107%</b>	<b>237</b>	<b>103%</b>	<b>5</b>	<b>2%</b>	<b>\$ 0.01</b>
Taxes	57	70	22%	64	13%	5	8%	--
Tax Rate	48.8%	28.8%	(2000 bp)	27.1%	(2170 bp)	1.7%	NM	\$ (0.01)
Noncontrolling interest	-	-	NM	-	NM	-	NM	\$ --
<b>Net Income (Continuing Operations)</b>	<b>60</b>	<b>172</b>	<b>188%</b>	<b>173</b>	<b>189%</b>	<b>(1)</b>	<b>0%</b>	<b>\$ (0.00)</b>
Operating EPS	\$0.16	\$0.44	179%	\$0.44	181%	-\$0.01	-1%	<b>\$ (0.01)</b>
Amortization of intangibles	\$0.13	\$0.12	-9%	\$0.11	-16%	\$0.01	9%	\$ 0.01
<b>FULLY DILUTED EPS</b>	<b>\$0.28</b>	<b>\$0.56</b>	<b>95%</b>	<b>\$0.55</b>	<b>93%</b>	<b>\$0.01</b>	<b>1%</b>	
Diluted Shares Outstanding	378	390	3%	389	3%	1	0	\$ (0.00)

Source: BofA Global Research, company filings

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# Valuation

We base our \$72 price objective on an 16x EV/EBITDA of our 2025 estimates. Our target multiple is in line with the 16x peer average on 2024E. We argue an in line multiple is warranted given above-peers earnings growth offset by below-peer margins.

## Exhibit 3: Selected valuation metrics for Vertiv and peers

We base our \$72 price objective on 16x our 2025E adjusted EBITDA

Company	Ticker	Stock Price 2/21/2024	P/E		EV/EBITDA		EBITDA Margin		EBITDA Growth		Net debt/EBITDA	
			2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Legrand	LGRVF	\$89.48	20.8 x	19.2 x	14 x	12 x	22.1%	23.1%	-6%	7%	0.7x	0.3x
Schneider	SBGSF	\$218.94	29.7 x	26.5 x	18 x	16 x	19.9%	20.3%	5%	9%	0.9x	0.5x
Hubbell*	HUBB	\$354.15	21.8 x	20.3 x	16 x	14 x	22.5%	22.9%	10%	7%	1.0x	0.6x
Eaton	ETN	\$277.16	27.3 x	25.6 x	22 x	20 x	21.9%	22.1%	11%	8%	1.6x	1.3x
nVent*	NVT	\$63.20	19.8 x	18.0 x	14 x	13 x	24.1%	24.3%	12%	6%	1.4x	1.1x
TE Connectivity	TEL	\$89.48	<u>11.7 x</u>	<u>10.8 x</u>	<u>8 x</u>	<u>8 x</u>	<u>23.1%</u>	<u>22.5%</u>	<u>6%</u>	<u>3%</u>	<u>0.6x</u>	<u>0.4x</u>
<b>AVERAGE</b>			<b>21.8 x</b>	<b>20.1 x</b>	<b>16 x</b>	<b>14 x</b>	<b>22.3%</b>	<b>22.5%</b>	<b>6%</b>	<b>7%</b>	<b>1.0x</b>	<b>0.7x</b>
<b>Vertiv</b>	VRT	\$58.55	25.0 x	19.7 x	17 x	13 x	19.2%	21.0%	28%	22%	1.1x	0.5x
<b>Vertiv @ PO</b>	VRT	\$72.00	30.8 x	24.2 x	20 x	16 x						

Source: BofA Global Research, Bloomberg.

Note: \* indicates Bloomberg consensus.

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## Price objective basis & risk

### Vertiv (VRT)

We base our \$72 price objective on an 16x EV/EBITDA of our 2025 estimates. Our target multiple is in line with the 16x peer average on 2024E. We argue an in line multiple is warranted given above-peers earnings growth offset by below-peer margins.

Downside risks to our price objective are 1) declines in company-owned data centers, 2) inability to execute on cost savings plans, 3) pricing deterioration due to competition, and 4) disruptions due to supply chain or manufacturing execution.

## 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
<b>BUY</b>				
	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
<b>NEUTRAL</b>				
	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
<b>UNDERPERFORM</b>				
	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

## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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.

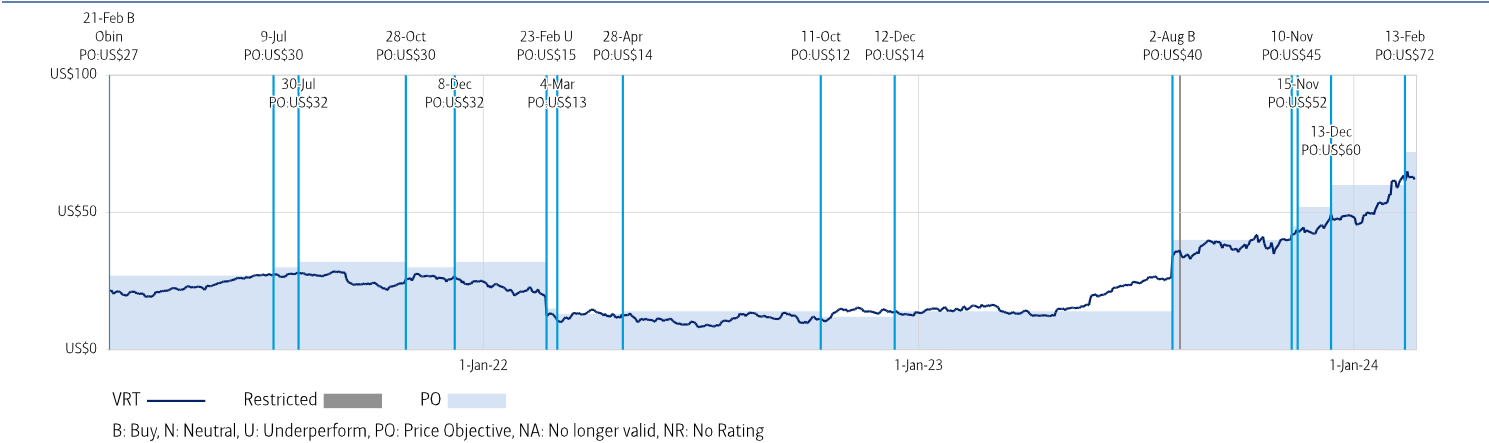
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Vertiv (VRT) Price Chart



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Equity Investment Rating Distribution: Industrials/Multi-Industry Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <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.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
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Underperform	N/A	≥ 20%

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