

Northern Trust Corporation

Diamond in the rough: CFO meeting takeaways

Maintain Rating: BUY | PO: 93.00 USD | Price: 82.13 USD

The wheels are in motion

We view Northern Trust (NTRS) as one of the most differentiated (and hard to replicate) wealth management (WM) franchises (segment contributes ~50% to the bottom-line). We believe investors may be overly focusing on the near term net interest income (NII) outlook (we see potential for stabilization) and execution issues in recent years, and could miss a compelling alpha generating opportunity. A well-entrenched wealth franchise catering to the ultra-high net worth (UHNW), low hanging fruit on improved execution (client penetration, cost management), excess capital (+ Visa stake ~10% of mkt-cap) and a constructive market backdrop to drive stock outperformance.

Improved execution: drive +ve fee operating leverage

Our investor meetings with CFO Jason Tyler (CFO since 2020; joined 2011) suggest that mgmt. is aware of the need to right-size the cost base after the last few years when expenses got out of control. While the immediate focus is on flexing the expense to trust fee ratio to a target range of 105-110% vs. 121% in FY23, mgmt. feels comfortable with the construct of delivering ~6% in annual revenue growth vs. 4-5% expense growth over the medium to long term. We see potential for FY24 expense growth to be better relative to consensus forecast of 4.4% YoY vs. \$5.1bn FY23 base.

Improved execution: wealth mgmt. client penetration

Northern's focus on the UHNW segment should serve as a secular growth theme for the bank. Based on a recent report by Knight Frank, the number of UHNW individuals is expected to rise by ~28% globally by 2028. Add to this what we view as potentially low hanging fruit to increase client wallet share by reorienting sales behavior. It is worth noting that this is a bank that is laser focused on delivering the best outcomes for its customers. While this approach may weigh on growth (vs. more aggressive competitors), the customer loyalty this garners is hard to value, but should not be overlooked.

Shareholders likely to benefit in multiple ways

While most investors seem to agree with our constructive view on the franchise, we sense some skepticism from them in relation to consistent mgmt execution. At 13x/12x 2024/25 P/E, 1.6x YE24e P/TBV, we view risk/reward as attractive for a high-quality franchise where shareholder returns should benefit from improved execution by the current mgmt. team or via potential strategic actions, including M&A. Maintain Buy rating. Relevant research: [NTRS: Hard to replicate wealth franchise](#)

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	7.09	6.25	6.16	6.75	7.85
GAAP EPS	6.14	5.08	6.16	6.75	7.85
EPS Change (YoY)	-0.6%	-11.9%	-1.4%	9.5%	16.4%
Consensus EPS (Bloomberg)			6.21	6.74	7.35
DPS	2.90	3.00	3.10	3.20	3.30
Valuation (Dec)					
P/E	11.6x	13.1x	13.3x	12.2x	10.5x
GAAP P/E	13.4x	16.2x	13.3x	12.2x	10.5x
Dividend Yield	3.5%	3.7%	3.8%	3.9%	4.0%

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Timestamp: 01 March 2024 05:30AM EST

01 March 2024

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Stock Data

Price	82.13 USD
Price Objective	93.00 USD
Date Established	19-Jan-2024
Investment Opinion	B-1-7
52-Week Range	62.44 USD -95.82 USD
Mkt Val / Shares Out (mn)	16,847 USD / 205.1
Free Float	95.7%
Average Daily Value	111.55 USD
BofA Ticker / Exchange	NTRS / NAS
Bloomberg / Reuters	NTRS US / NTRS.OQ
ROE (2024E)	11.9%
ESGMeter™	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](#)".

iQprofileSM Northern Trust Corporation

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Income	1,887	1,982	1,873	1,923	2,042
% change	36.5%	5.0%	-5.5%	2.7%	6.2%
Net Fee Income	5,088	4,961	5,245	5,452	5,635
Securities Gains / (Losses)	(214)	(170)	0	0	0
Total Operating Income	6,761	6,774	7,118	7,375	7,677
Operating Expenses	(4,983)	(5,284)	(5,345)	(5,487)	(5,575)
% change	9.9%	6.0%	1.1%	2.7%	1.6%
Provisions Expense	(12)	(25)	(70)	(70)	(53)
% change	NA	104.2%	185.7%	0%	-25.0%
Operating Pre-Tax Income	1,766	1,465	1,703	1,819	2,050
Operating Net Income to Comm S/Hold.	1,481	1,297	1,254	1,342	1,519
GAAP Net Income	1,282	1,054	1,254	1,342	1,519

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Assets	155,037	150,783	154,220	155,977	158,379
Average Interest Earning Assets	134,560	127,255	139,808	139,398	148,021
Total Gross Customer Loans	42,893	47,617	55,164	56,268	57,956
% change	6.0%	11.0%	15.9%	2.0%	3.0%
Total Customer Deposits	123,932	116,164	117,545	119,100	121,298
% change	-22.5%	-6.3%	1.2%	1.3%	1.8%
Tangible Equity	9,683	10,311	10,551	10,785	11,109
Common Shareholders' Equity	10,375	11,013	11,248	11,483	11,806

Key Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Margin	1.40%	1.56%	1.34%	1.38%	1.38%
Effective Tax Rate	24.4%	24.4%	23.5%	23.5%	23.5%
Loan / Deposit Ratio	34.6%	41.0%	46.9%	47.2%	47.8%
Tangible Common Equity / Assets	6.2%	6.8%	6.8%	6.9%	7.0%
ROA	0.9%	0.8%	0.8%	NA	NA
ROE	12.8%	10.2%	11.9%	12.6%	13.9%
RoTE	14.7%	13.0%	12.0%	12.6%	13.9%
Dividend Payout Ratio	40.9%	48.0%	50.3%	47.4%	42.0%
Efficiency Ratio (Cost / Income Ratio)	71.4%	76.1%	75.1%	74.4%	72.6%

Quality of Earnings (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Non-Interest Inc / Operating Inc	72.1%	70.7%	73.7%	73.9%	73.4%
NPLs plus Foreclosed Real Estate / Loans	0.1%	0.1%	0.1%	0.1%	0.1%
Loan Loss Reserves / NPLs	350.98%	302.36%	406.13%	509.91%	586.16%
Loan Loss Reserves / Total Loans	0.38%	0.40%	0.47%	0.58%	0.64%

Company Sector

Trust Banks

Company Description

Northern Trust, headquartered in Chicago, is a provider of wealth management, asset servicing, asset management and banking solutions to corporations, institutions, families, and individuals. The company serves clients through its two client-reporting segments: Asset Servicing (previously Corporate & Institutional Services - C&IS) and Wealth Management. The company operates globally with offices in 23 U.S. states and Washington, D.C.

Investment Rationale

We view Northern Trust as well positioned relative to peers reflecting self-help factors, fee revenue resiliency, and favorable cyclical positioning that should drive EPS defensibility. Management has also been focused on using expense discipline as a lever in a tough revenue backdrop.

Stock Data

Average Daily Volume 1,358,248

Quarterly Earnings Estimates

	2023	2024
Q1	1.51A	1.39E
Q2	1.79A	1.46E
Q3	1.49A	1.69E
Q4	1.46A	1.62E

Management meeting takeaways

We view Northern Trust (NTRS) as one of the most differentiated (and hard to replicate) wealth management (WM) franchises (segment contributes ~50% to the bottom-line) in the world. By overly focusing on near term net interest income (NII) outlook (we see potential for stabilization) and the lethargic mgmt. execution in recent years, investors could miss a compelling alpha generating opportunity. A well-entrenched wealth franchise catering to the ultra-high net worth (UHNW), low hanging fruit on improved execution (client penetration, cost management), excess capital (+ Visa stake ~10% of mkt-cap) and a constructive market backdrop to drive stock outperformance.

Although the senior leadership has been at Northern for 20 years on average, we picked-up a sense of urgency towards improved execution from our meetings. We sense significant skepticism among investors on this front. Recent research: [NTRS: Stock could use some self-help](#)

Exhibit 1: Northern Trust management team has ~20 years of experience at the bank

Northern Trust management team

Officer	Title	Years in Current Role	Years at NTRS	Previous Employer
Michael O'Grady	Chairman and Chief Executive Officer	6	13	Bank of America Merrill Lynch
Jason Tyler	Executive Vice President and Chief Financial Officer	4	13	Ariel Investments
Peter Cherecwich	President of Asset Servicing	7	17	State Street Bank
Steven Fradkin	President of Wealth Management	10	39	-
Daniel Gamba	President of Asset Management	1	1	BlackRock

Source: BofA Global Research, Company filings

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Valuation significantly discounted relative to history, mgmt. success in boosting franchise productivity could support a re-rating higher.

Exhibit 2: Stock trading at P/E discount vs. historical...

NTRS forward P/E



Source: BofA Global Research, Bloomberg

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Exhibit 3: ...and a narrower premium to the bank index

NTRS vs BKX forward P/E



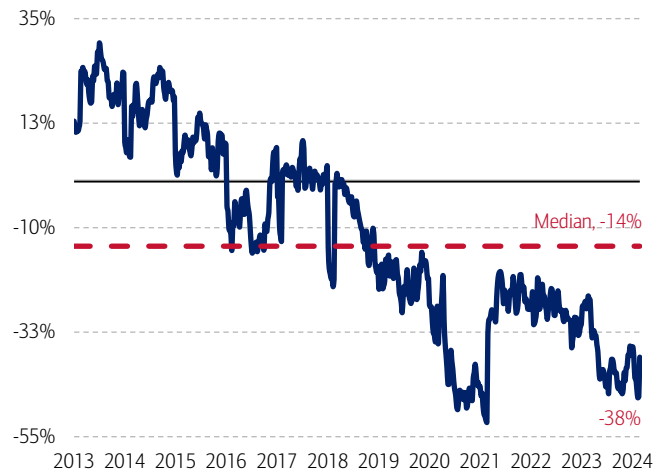
Source: BofA Global Research, Bloomberg

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Exhibit 4: NTRS trading at steep discount vs. S&P 500

NTRS vs SPX forward P/E

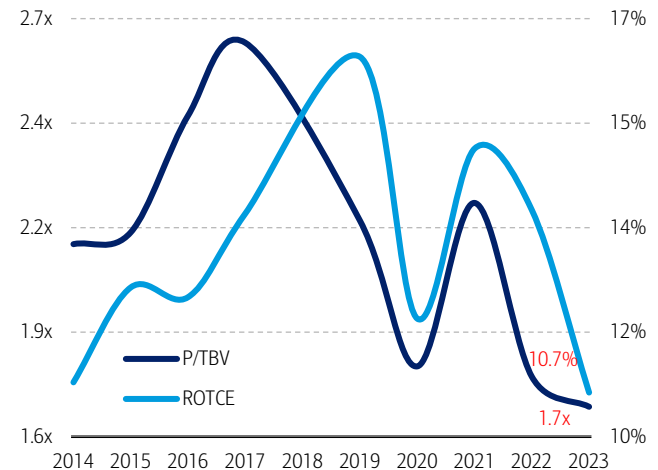


Source: BofA Global Research, Bloomberg

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Exhibit 5: Improved ROTCE should boost P/TBV multiple

NTRS P/TBV vs ROTCE



Source: BofA Global Research, Bloomberg, Visible Alpha

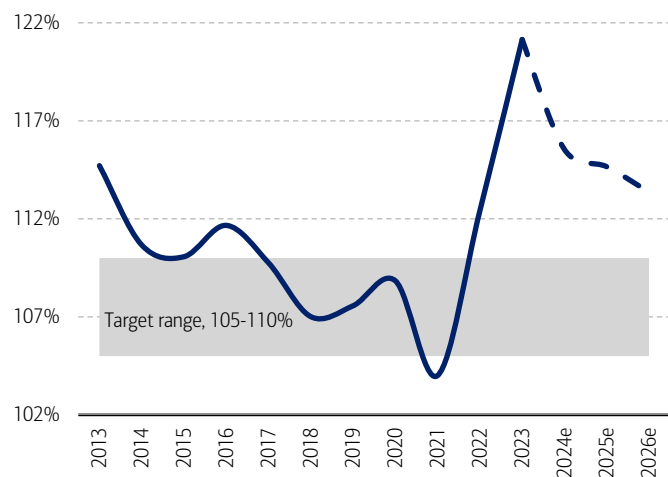
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Improved execution: drive positive operating leverage

Our investor meetings with CFO Jason Tyler (CFO since 2020; joined 2011) suggests that mgmt. is acutely aware of the need to right-size the cost base after the last few years when expenses got out of control. While the immediate focus is on flexing the expense to trust fee ratio to 105-110% target range vs. 121% in FY23, mgmt. feels comfortable with the construct of delivering ~6% in annual revenue growth vs. 4-5% expense growth over the medium to long term. We see potential for FY24 expense growth to be better relative to consensus forecast of 4.4% YoY vs. \$5.1bn FY23 base.

Exhibit 6: Street needs visibility on timeline for improved efficiency

Expense to trust fee ratio

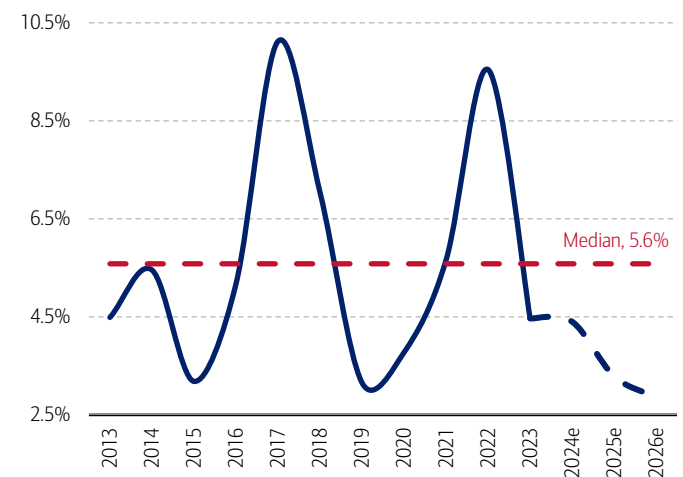


Source: BofA Global Research, S&P Capital IQ Pro, Visible Alpha, Company filings

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Exhibit 7: Tech spend, inflation drove elevated exp. growth recently

NTRS annual expense growth



Source: BofA Global Research, S&P Capital IQ Pro, Visible Alpha, Company filings

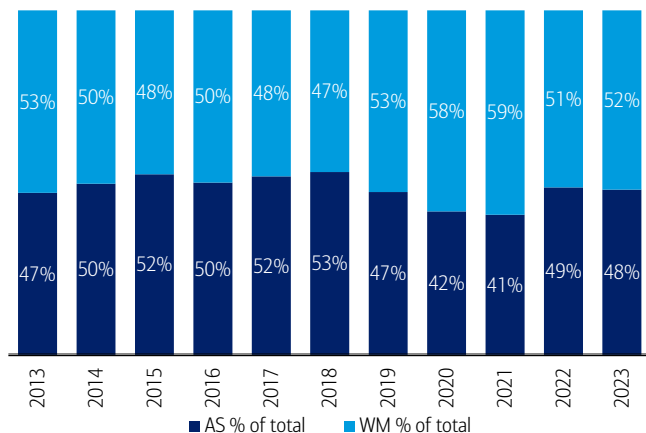
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Improved execution: wealth mgmt. client penetration

Northern's focus on the UHNW segment should serve as a secular growth theme. Top this with what we heard as potentially low hanging fruit to increase client wallet share by reorienting sales behavior. It is worth noting that this is a bank that is laser focused on delivering best outcomes for its customers. While this approach may weigh on growth (vs. more aggressive competitors), the customer loyalty that this garners is hard to value. That said, mgmt. focused on doing more with its existing client base, an area where we sense a significant opportunity given Northern's incentive structure.

Exhibit 8: Focus on accelerating wealth management growth

Asset Servicing and Wealth Management net income



Source: BofA Global Research, Company filings

Note: Only includes Asset Servicing and Wealth Management, excludes "Other Segment"

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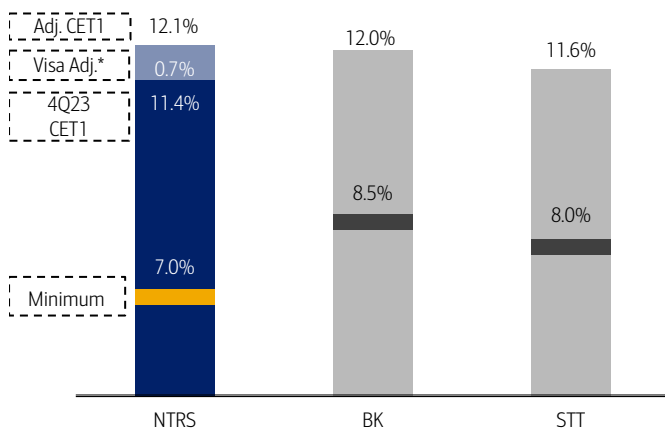
Mgmt. acknowledged the need to work on growth within the wealth business and fully leverage the phenomenal client franchise (30% of Forbes 400 are clients). Increasing asset levels and scale will be a driver of success going forward, while continuing to provide a range of services from custody, reporting, integrity to cash and investment management. As we have noted and heard from mgmt. teams, the competition in the wealth space is fierce with high barriers to entry in UHNW. Competitors include private bank offerings from JPMorgan, Goldman Sachs.

Strong capital position, Visa boost

Northern operating with a CET1 capital ratio of 11.4% vs 7% minimum. Moreover, the opportunity to monetize part of the Visa stake (total valued at ~\$1.7bn) provides additional capital/strategic flexibility. Most likely to be a 2Q24 event with a 50% stake sale estimated to boost CET1 by ~70bp. While mgmt. has capital flexibility to execute additional balance sheet restructuring (although we believe that the low hanging fruit has been picked here during recent bond book restructurings), it is worth noting the importance of a strong capital position and balance sheet strength as a competitive advantage when competing for government deposits internationally.

Exhibit 10: NTRS highest buffer: 440bp above min., 509bp w/ Visa adj.

4Q23 CET1 vs minimum



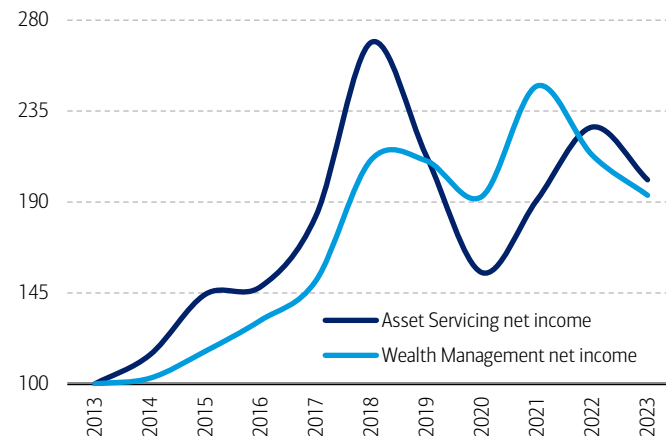
Source: BofA Global Research, S&P Capital IQ Pro, Company filings, Federal Reserve

*Note: Visa adj. based on 50% monetization of \$1.7bn stake, tax effected (24.4%)

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Exhibit 9: Asset servicing has kept pace with growth in wealth

Asset Servicing and Wealth Management net income - Indexed to 100

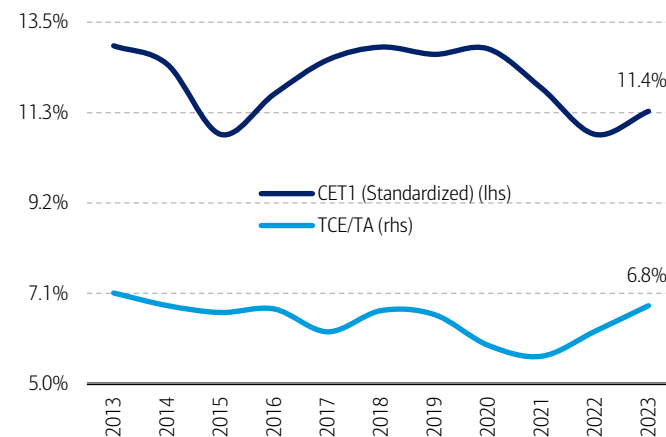


Source: BofA Global Research, Company filings

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Exhibit 11: Maintained strong capital position through the cycle

CET1 vs TCE/TA



Source: BofA Global Research, S&P Capital IQ Pro, Company filings

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Price objective basis & risk

Northern Trust Corporation (NTRS)

Our \$93 PO is based on 50%/50% weighting between our 2024e EPS and 2024e TBV. We assign 17.0x/1.6x multiples respectively, in-line with/below the bank's 5 year pre pandemic median of 16.9x/2.3x given heightened uncertainty surrounding EPS/ROTCE outlooks, owing to uncertainty surrounding the outlook for interest rates and equity/bond prices.

Risks to the downside are a selloff in equity/bond markets that would put downward pressure on fee growth, rising deposit costs that would put downward pressure on net interest income, management's inability to execute on efficiency/profitability goals. Risk to the upside driven stronger equity/bond markets, sooner than expected achievement of mgmt's profitability/strategic targets.

Analyst Certification

I, Ebrahim H. Poonawala, 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 - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Ares Capital Corporation	ARCC	ARCC US	Derek Hewett
	Ares Commercial Real Estate Corporation	ACRE	ACRE US	Derek Hewett
	Bank of Montreal	BMO	BMO US	Ebrahim H. Poonawala
	Bank of Montreal	YBMO	BMO CN	Ebrahim H. Poonawala
	Barings BDC Inc	BBDC	BBDC US	Derek Hewett
	Blackstone Mortgage Trust Inc	BXMT	BXMT US	Derek Hewett
	Blue Owl Capital Corporation	OBDC	OBDC US	Derek Hewett
	Carlyle Secured Lending Inc	CGBD	CGBD US	Derek Hewett
	Citigroup Inc.	C	C US	Ebrahim H. Poonawala
	Compass Diversified Holdings	CODI	CODI US	Derek Hewett
	Crescent Capital BDC	CCAP	CCAP US	Derek Hewett
	Cullen/Frost Bankers Inc	CFR	CFR US	Ebrahim H. Poonawala
	East West Bancorp, Incorporated	EWBC	EWBC US	Ebrahim H. Poonawala
	Fifth Third Bank	FITB	FITB US	Ebrahim H. Poonawala
	First Bancorp Puerto Rico	FBP	FBP US	Brandon Berman
	First Horizon Corporation	FHN	FHN US	Ebrahim H. Poonawala
	FNB Corporation of Pennsylvania	FNB	FNB US	Brandon Berman
	Goldman Sachs	GS	GS US	Ebrahim H. Poonawala
	JPMorgan Chase & Co.	JPM	JPM US	Ebrahim H. Poonawala
	KeyCorp	KEY	KEY US	Ebrahim H. Poonawala
	M&T Bank	MTB	MTB US	Ebrahim H. Poonawala
	Morgan Stanley	MS	MS US	Ebrahim H. Poonawala
	New Mountain Finance Corporation	NMFC	NMFC US	Derek Hewett
	Northern Trust Corporation	NTRS	NTRS US	Ebrahim H. Poonawala
	Nuveen Churchill Direct Lending	NCDL	NCDL US	Derek Hewett
	Royal Bank of Canada	RY	RY US	Ebrahim H. Poonawala
	Royal Bank of Canada	YRY	RY CN	Ebrahim H. Poonawala
	Safehold, Inc	SAFE	SAFE US	Derek Hewett
	Starwood Property Trust	STWD	STWD US	Derek Hewett
	Synovus Financial Corp.	SNV	SNV US	Ebrahim H. Poonawala
	The Bank of New York Mellon Corporation	BK	BK US	Ebrahim H. Poonawala
	Truist Financial	TFC	TFC US	Ebrahim H. Poonawala
	U.S. Bancorp	USB	USB US	Ebrahim H. Poonawala
	Webster Financial Corp.	WBS	WBS US	Brandon Berman
	Wells Fargo & Company	WFC	WFC US	Ebrahim H. Poonawala
	Western Alliance Bancorp	WAL	WAL US	Ebrahim H. Poonawala

North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
NEUTRAL				
	AGNC Investment Corp	AGNC	AGNC US	Derek Hewett
	Ally Financial	ALLY	ALLY US	Brandon Berman
	Annaly Capital Management	NLY	NLY US	Derek Hewett
	Apollo Commercial Real Estate Finance	ARI	ARI US	Derek Hewett
	Associated Banc-Corp	ASB	ASB US	Brandon Berman
	Bain Capital Specialty Finance, Inc.	BCSF	BCSF US	Derek Hewett
	Bank of Nova Scotia	YBNS	BNS CN	Ebrahim H. Poonawala
	Bank of Nova Scotia	BNS	BNS US	Ebrahim H. Poonawala
	Blackstone Secured Lending Fund	BXSL	BXSL US	Derek Hewett
	BrightSpire Capital Inc.	BRSP	BRSP US	Derek Hewett
	Canadian Imperial Bank of Commerce	CM	CM US	Ebrahim H. Poonawala
	Canadian Imperial Bank of Commerce	YCM	CM CN	Ebrahim H. Poonawala
	Citizens Financial Group	CFG	CFG US	Ebrahim H. Poonawala
	Comerica Incorporated	CMA	CMA US	Brandon Berman
	Commerce Bancshares Inc.	CBSH	CBSH US	Brandon Berman
	Goldman Sachs BDC, Inc.	GSBD	GSBD US	Derek Hewett
	Golub Capital BDC, Inc.	GBDC	GBDC US	Derek Hewett
	Huntington Bancshares Inc.	HBAN	HBAN US	Ebrahim H. Poonawala
	Ladder Capital Corp	LADR	LADR US	Derek Hewett
	New York Community Bancorp	NYCB	NYCB US	Ebrahim H. Poonawala
	Palmer Square Capital BDC	PSBD	PSBD US	Derek Hewett
	PennyMac Mortgage Investment Trust	PMT	PMT US	Derek Hewett
	Popular Inc	BPOP	BPOP US	Brandon Berman
	Regions Financial	RF	RF US	Ebrahim H. Poonawala
	The PNC Financial Services Group, Inc.	PNC	PNC US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	TD	TD US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	YTD	TD CN	Ebrahim H. Poonawala
	TPG RE Finance Trust, Inc.	TRTX	TRTX US	Derek Hewett
UNDERPERFORM				
	Bank of Hawaii Corp.	BOH	BOH US	Brandon Berman
	First Hawaiian Inc.	FHB	FHB US	Brandon Berman
	Guild Holdings Company	GHLD	GHLD US	Derek Hewett
	Invesco Mortgage Capital, Inc.	IVR	IVR US	Derek Hewett
	loanDepot Inc	LDI	LDI US	Derek Hewett
	MidCap Financial Investment Co	MFIC	MFIC US	Derek Hewett
	Prosperity Bancshares Inc	PB	PB US	Ebrahim H. Poonawala
	State Street Corporation	STT	STT US	Ebrahim H. Poonawala
	Texas Capital Bancshares Inc.	TCBI	TCBI US	Brandon Berman
	Zions Bancorp	ZION	ZION US	Brandon Berman
RSTR				
	Sixth Street Specialty Lending, Inc	TS LX	TS LX US	Derek Hewett

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

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

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

iQdatabase[®] is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

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Disclosures

Important Disclosures

Northern Trust (NTRS) 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: Banks Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	100	49.75%	Buy	84	84.00%
Hold	54	26.87%	Hold	41	75.93%
Sell	47	23.38%	Sell	35	74.47%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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