

ITT Inc.

4Q23 earnings: Svanehoj one-time costs drive '24 guide miss

Reiterate Rating: BUY | PO: 135.00 USD | Price: 119.84 USD

Continuing to execute well

ITT reported 4Q earnings that came a penny above the Street and in line with our estimate. Guidance bracketed the Street on the high end, but missed our estimate. This reflected the dilutive impact of the Svanehoj acquisition. We view the quarter as a non-event operationally, but lower our 2024 estimates as a result. Industrial Process demand remains strong, with implied 2024 book-to-bill above 1.0x. Motion Tech continues to drive sequential margin improvement and Friction OE is still outperforming auto builds. Connect & Control Technologies is facing destocking and related mix headwinds in 1H, but we expect growth to accelerate in 2H24. The stock was down 5% on the day of reporting versus the S&P flat. We think this reflects a lack of EPS cushion from the Svanehoj acquisition, which investors were expecting. Reiterate Buy.

We like Svanehoj long-term, but dilutive in 2024

Svanehoj is a privately held provider of liquid and cryogenic pumps for liquefied gas applications. We are constructive on the Svanehoj acquisition long-term. ITT expects the company to grow low-double digits and ultimately be accretive to segment margins. We had assumed ITT would finance the deal with cash. Interest expense is a \$0.20 y/y headwind to EPS. Guide assumes inventory step-up costs, amortization, and one-time M&A costs will drive zero operating profit for Svanehoj in 2024.

Lowering our 2024 adj. EPS; maintain 2025

We lower our 2024 adj. EPS estimate by \$0.16 to \$5.90, at the high end of guidance. We note that the high end of guidance implies outperformance on the company's organic growth and operating margin ranges. Our lowered estimate largely reflects the dilutive impact of Svanehoj headwind. We conservatively maintain our FY25 forecast to include some one-time spillover impacts from Svanehoj step-up costs into FY25. We conservatively do not model any underlying margin expansion in Svanehoj in FY25.

4Q23 adj. EPS is in line with our estimate

Adj. EPS of \$1.34 above our estimate and a penny above \$1.33 estimate. Organic revenue growth of +4.5% y/y was 30bps better than our +4.2% estimate and +2.8% consensus. Core operations drove \$(0.01)/share of downside. Higher corporate expense was a \$(0.03) headwind. Lower tax/interest was a \$0.03 benefit.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.44	5.21	5.90	6.77	7.36
GAAP EPS	4.40	5.10	5.82	6.72	7.32
EPS Change (YoY)	9.6%	17.3%	13.2%	14.7%	8.7%
Consensus EPS (Bloomberg)			5.88	6.54	7.11
DPS	1.06	1.16	1.28	1.40	1.52
Valuation (Dec)					
P/E	27.0x	23.0x	20.3x	17.7x	16.3x
GAAP P/E	27.2x	23.5x	20.6x	17.8x	16.4x
Dividend Yield	0.9%	1.0%	1.1%	1.2%	1.3%
EV / EBITDA*	18.9x	16.5x	14.3x	13.0x	12.1x
Free Cash Flow Yield*	1.6%	4.0%	4.1%	4.7%	5.3%

* For full definitions of *IQmethod*SM measures, see page 7.

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09 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	3,477.2	3,664.7
2025E Rev (m)	3,673.8	3,876.0
2026E Rev (m)	3,861.2	4,063.4
2024E EPS	6.06	5.90
2025E EPS	6.75	6.77
2026E EPS	7.29	7.36

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Stock Data

Price	119.84 USD
Price Objective	135.00 USD
Date Established	13-Dec-2023
Investment Opinion	B-1-7
52-Week Range	75.82 USD - 127.13 USD
Mrkt Val (mn) / Shares Out (mn)	10,834 USD / 90.4
Free Float	99.4%
Average Daily Value (mn)	42.09 USD
BofA Ticker / Exchange	ITT / NYS
Bloomberg / Reuters	ITT US / ITT.N
ROE (2024E)	18.0%
Net Dbt to Eqty (Dec-2023A)	-3.0%
ESGMeter TM	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 ITT Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	12.9%	13.9%	14.7%	15.2%	15.3%
Return on Equity	16.6%	18.0%	18.0%	18.4%	17.8%
Operating Margin	15.9%	16.9%	17.6%	18.7%	19.3%
Free Cash Flow	174	430	448	509	574

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.7x	1.2x	1.2x	1.2x	1.2x
Asset Replacement Ratio	1.0x	1.0x	1.2x	1.1x	1.0x
Tax Rate	20.0%	20.6%	21.0%	21.0%	21.0%
Net Debt-to-Equity Ratio	-4.9%	-3.0%	-11.1%	-18.7%	-25.8%
Interest Cover	NM	NM	21.3x	41.2x	NM

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	2,988	3,283	3,665	3,876	4,063
% Change	8.1%	9.9%	11.6%	5.8%	4.8%
Gross Profit	922	1,107	1,246	1,314	1,378
% Change	2.5%	20.1%	12.6%	5.5%	4.8%
EBITDA	581	666	767	848	910
% Change	4.6%	14.5%	15.3%	10.5%	7.3%
Net Interest & Other Income	(6)	(7)	(28)	(18)	(15)
Net Income (Adjusted)	372	432	487	559	608
% Change	6.0%	16.2%	12.8%	14.8%	8.8%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	372	432	487	559	608
Depreciation & Amortization	107	109	120	123	125
Change in Working Capital	(221)	25	(55)	(58)	(52)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	20	(28)	42	20	23
Capital Expenditure	(104)	(108)	(146)	(136)	(131)
Free Cash Flow	174	430	448	509	574
% Change	NM	147.6%	4.1%	13.5%	12.8%
Share / Issue Repurchase	(254)	(60)	(100)	(110)	(121)
Cost of Dividends Paid	(88)	(96)	(106)	(116)	(126)
Change in Debt	258	(268)	6	(123)	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	561	489	738	898	1,226
Trade Receivables	629	675	734	787	836
Other Current Assets	647	693	736	759	776
Property, Plant & Equipment	527	561	623	672	715
Other Non-Current Assets	1,417	1,514	1,489	1,456	1,417
Total Assets	3,780	3,933	4,319	4,572	4,969
Short-Term Debt	451	413	123	0	0
Other Current Liabilities	735	625	679	700	714
Long-Term Debt	0	0	296	296	296
Other Non-Current Liabilities	337	356	359	360	359
Total Liabilities	1,523	1,394	1,457	1,356	1,369
Total Equity	2,257	2,539	2,862	3,216	3,600
Total Equity & Liabilities	3,780	3,933	4,319	4,572	4,969

* For full definitions of iQmethodSM measures, see page 7.

Company Sector

Industrials/Multi-Industry

Company Description

ITT Corporation is a New York based supplier of flow control and motion and interconnect solutions. In 2011, the company spun off its defense business as Exelis and its water technology business as Xylem. The remaining businesses maintained the ITT name and includes the heritage Motion & Flow Control segment. Its products include industrial pumps, aircraft fuel systems, motion control, electronic connectors, and friction materials.

Investment Rationale

ITT is a top-tier operator with plenty of opportunities for margin expansion to deliver positive EPS revisions next year. End markets (autos, oil & gas, aerospace) have solid visibility into positive growth in '24. ITT has improved pricing and operated well against constrained supply chains this year in its Motion Technologies segment, and we expect to see more benefits next year.

Stock Data

Average Daily Volume 351,213

Quarterly Earnings Estimates

	2023	2024
Q1	1.17A	1.34E
Q2	1.33A	1.38E
Q3	1.37A	1.54E
Q4	1.34A	1.63E

Exhibit 1: BofA actual vs. variance

Adj. EPS of \$1.34 was in line with our estimate

	Actual	Reported	BofA Estimate		Variation Versus BofA Est.			
(in US\$ mn, except per share data)	4Q:22	4Q:23	YOY % Chg.	4Q:23E	YOY % Chg.	Dollar	Percentage / b.p.	EPS
Revenue								
Industrial Process	281	290	3.2%	291	3.8%	(2)	-1%	
Motion Technologies	330	365	10.4%	356	7.8%	8	2%	
Connect & Control Technologies	165	176	6.7%	175	6.3%	1	0%	
Intra-segment elim.	(1)	(1)	-18.2%	(1)	-36.4%	(0)	29%	
TOTAL	775	829	7.0%	822	6.1%	7	1%	
Adjusted Operating Income								
Industrial Process	64	60	-5.9%	62	-2.9%	(2)	-3%	\$ (0.02)
Motion Technologies	49	62	28.5%	63	29.9%	(1)	-1%	\$ (0.01)
Connect & Control Technologies	32	33	5.7%	32	1.3%	1	4%	\$ 0.01
Segment Total	144	156	8.2%	157	9.0%	(1)	-1%	\$ (0.01)
Corporate Expense	(8)	(15)	83.1%	(14)	62.7%	(2)	13%	\$ (0.02)
TOTAL Operating Profit	136	141	3.6%	144	5.8%	(3)	-2%	\$ (0.03)
Operating Margin								
Industrial Process	22.9%	20.8%	(200 bp)	21.4%	0bp	(60 bp)	--	
Motion Technologies	14.7%	17.1%	240 bp	17.7%	300 bp	(60 bp)	--	
Connect & Control Technologies	19.2%	19.0%	(20 bp)	18.3%	(90 bp)	70 bp	--	
Segment Total	18.6%	18.8%	20 bp	19.1%	50 bp	(30 bp)	--	
Revenue	775	829	7.0%	822	6.1%	7	1%	
Cost of Revenue	526	543	3.2%	542	2.9%	2	0%	
Gross Income	248	286	15.2%	280	12.9%	6	2%	\$ 0.05
Selling, General & Administrative	90	120	33.6%	108	21.2%	11	10%	\$ (0.11)
R&D	23	26	11.8%	28	22.6%	(2)	-9%	\$ 0.02
Operating Profit	136	141	3.6%	144	5.8%	(3)	-2%	\$ (0.03)
Interest Expense, Net	3	2	-51.6%	2	-30.5%	(1)	-30%	\$ 0.01
Other Expense, Net	1	(0)	NM	-	-100.0%	(0)	--	\$ 0.00
Earnings Before Taxes (EBT)	132	140	5.4%	142	7.0%	(2)	-1%	\$ (0.02)
Income Taxes	24	28	15.4%	30	24.1%	(2)	-7%	
Tax Rate	18.2%	19.9%	170 bp	21.1%	bp	(120 bp)	--	\$ 0.02
Net Income for Minority Interest	1	1	0.0%	1	11.1%	(0)	(0)	\$ 0.00
Net Income (Operating)	107	111	3.3%	111	3.2%	0	0%	\$ 0.00
FULLY DILUTED EPS	\$1.29	\$1.34	3.9%	\$1.34	3.9%	(\$0.00)	0.0%	-
Diluted Shares Outstanding	83	83	-0.6%	83	-0.7%	0	0.1%	\$ (0.00)
	Actual	Reported	BofA Estimate		Variation (b.p.)			
Margin Analysis	4Q:22	4Q:23	4Q:23		BofA Est		4Q:22	
Gross Margin	32.1%	34.5%	34.1%		40 bp		240 bp	
SG&A as % revenue	11.6%	14.4%	13.2%		120 bp		290 bp	
Operating Margin	17.6%	17.0%	17.5%		(50 bp)		(60 bp)	
Pretax Margin	17.1%	16.8%	17.2%		(40 bp)		(30 bp)	
Net Margin	13.9%	13.4%	13.5%		(10 bp)		(50 bp)	
Segment Incremental Margin	33.0%	21.7%	27.6%		(600 bp)		(1130 bp)	
Bookings Analysis	4Q:22	3Q:23	4Q:23	Q/Q % Chg.	YOY % Chg.			
Industrial Process	271	271	286	5.6%	5.5%			
Motion Technologies	337	367	373	1.7%	10.6%			
Connect & Control Technologies	169	187	183	-2.3%	8.6%			
Total Bookings	776	824	841	2.1%	8.4%			
Book-to-Bill Analysis	4Q:22	3Q:23	4Q:23					
Industrial Process	0.97x	0.97x	0.99x					
Motion Technologies	1.02x	1.02x	1.02x					
Connect & Control Technologies	1.02x	1.02x	1.04x					
Total Bookings	1.00x	1.00x	1.01x					

Source: BofA Global Research

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How our estimates have changed

We are adjusting our estimates to account for the impact of Svanejoj. Our prior estimates did not include the acquisition. Our estimates reflect 0% Svanejoj profit margins in 2024, with the impact of step-up inventory costs, M&A costs, and amortization offsetting ~21% EBITDA margins.



We raise our underlying margin assumption excluding the impact of Svanehoj. Our underlying assumption includes meaningful improvement in Industrial Process margins, sequentially improving Motion Tech margins, and material y/y increases in Connect & Control Technologies in 2H24 as destock returns to growth.

Exhibit 2: Adjusting our estimates for the Svanehoj impact

Lowering our estimate to the high end of guidance

	2024 guidance		BofA estimate	
	As of 4Q23	Old	New	Consensus
Adj. EPS	\$5.45-\$5.90		\$6.06	\$5.90
<i>Revenue growth</i>				
Industrial Process	MSD-HSD		6.4%	8.2%
Motion Tech	LSD-MSD		7.0%	6.4%
Connect & Control Technologies	LSD-MSD		6.5%	6.0%
Total ITT growth	3-6%		6.7%	7.0%
Sales			\$3.5bn	\$3.7bn
Operating Margin	16.9-17.5%		17.6%	n/a
Operating ex-Svanehoj	17.7%-18.3%	18.3%	18.6%	-
Corporate Expense	\$(60)mn	\$(56)mn	\$(60)mn	\$(56)mn
Tax rate	~21%	21.0%	21.0%	21.0%
Share count	~82.6mn	83mn	83mn	82mn
Interest expense	\$30mn	-1	30	10
Capex	~\$145mn	-\$121mn	-\$146mn	
FCF	\$435-\$475mn		\$495mn	\$448mn

Source: BofA Global Research

BofA GLOBAL RESEARCH

Svanehoj & underlying Industrial Process estimates

Below we show our estimates for Svanehoj versus the underlying Industrial Process business. Our forecast assumes that the one-time inventory step up costs are largely occurred in 1Q/2Q.

Exhibit 3: BofAe, industrial process versus Svanehoj estimates

We model 20.7% IP margin in 2024E

IP	1Q24	2Q24	3Q24	4Q24	2024	2025	2026
Total Revenue	328.9	340.9	347.0	364.5	1381.2	1460.2	1518.6
Total Profit	66.3	67.1	74.3	77.5	285.1	330.7	358.1
Total Margin	20.1%	19.7%	21.4%	21.3%	20.7%	22.6%	23.6%
Svanehoj revenue	33.6	42.6	42.6	42.6	161.4	188	203
Svanehoj margin	-9.7%	-7.6%	7.6%	7.6%	0.0%	13.6%	17.8%
Svanehoj profit	-3.2	-3.2	3.2	3.2	0.0	25.53	36.03
Underlying IP sales	295.8	299.5	302.2	315.8	1213.2	1271.4	1314.7
Underlying IP profit	69.5	70.4	71.0	74.2	285.1	305.1	322.1
Underlying IP margin	23.5%	23.5%	23.5%	23.5%	23.5%	24.0%	24.5%

Source: BofA Global Research, company files

BofA GLOBAL RESEARCH

Valuation

Our \$135 price objective reflects 13x our 2025 estimates, in line with peers trading at 13x 2024E. We believe an in-line valuation is warranted given better EPS growth and margin expansion in '24, offset by decelerating organic growth.

Exhibit 4: Comparable company analysis

We base our 2025E on 13x EV/EITDA, in line with peers on 2024E

Company	Ticker	Stock Price 2/8/2024	P/E		EV/EBITDA		EBITDA margins		EPS growth	
			2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Flowserve	FLS	\$41.34	17.2 x	14.2 x	10.9 x	9.6 x	12.6%	13.6%	20.5%	20.7%
Illinois Tool Works	ITW	\$254.51	25.0 x	23.2 x	18.3 x	17.4 x	28.0%	28.3%	4.1%	7.8%
IDEX*	IEX	\$225.83	27.0 x	25.2 x	18.7 x	16.8 x	27.7%	28.7%	2.3%	7.3%
Parker Hannifin	PH	\$515.51	21.1 x	19.3 x	14.7 x	14.0 x	26.1%	26.3%	9.0%	9.4%
Pentair	PNR	\$74.44	18.3 x	16.9 x	14.5 x	12.8 x	23.1%	25.2%	8.8%	8.6%
Regal Rexnord Corp	RRX	\$148.00	14.2 x	11.8 x	9.9 x	8.7 x	22.4%	22.4%	14.1%	20.0%
Sulzer*	SULZF	CHF 87.5	12.3 x	11.5 x	6.7 x	6.0 x	13.3%	13.7%	4.9%	7.1%
Weir	WEIGF	1,803 p	<u>16.3 x</u>	<u>14.2 x</u>	<u>9.9 x</u>	<u>9.0 x</u>	<u>20.0%</u>	<u>20.9%</u>	<u>11.1%</u>	<u>14.9%</u>
AVERAGE			18.9 x	17.0 x	12.9 x	11.8 x	21.6%	22.4%	9.4%	12.0%
ITT	ITT	\$119.84	20.3 x	17.7 x	12.5 x	11.1 x	20.9%	21.8%	13.1%	14.5%
ITT	ITT	\$135.00	22.9 x	20.0 x	14.1 x	12.6 x				

Source: BofA Global Research, company files

BofA GLOBAL RESEARCH

Price objective basis & risk

ITT Inc. (ITT)

Our \$135 price objective reflects 12x our 2025 estimates, in line with peers trading at 12x 2024E. We believe an in-line valuation is warranted given better EPS growth and margin expansion in '24, offset by decelerating organic growth.

Downside risks to our PO are: 1) ITT may overpay for deals in the pursuit of diversifying and expanding its product portfolio, 2) Lower than expected capex spending in the auto, oil & gas, power gen, and other key end markets, 3) Short-cycle and chemical pumps could slow, 4) above-peer exposure to European markets, and 5) declining backlog coverage may limit visibility.

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
BUY				
	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
NEUTRAL				
	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
UNDERPERFORM				
	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

iQmethodSM 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 & 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

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

ITT Inc. (ITT) 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: Industrials/Multi-Industry Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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 ^{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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