

## CSX Corporation

**Better, stronger, faster... ONE CSX; focus on momentum; PO to \$39**

Reiterate Rating: BUY | PO: 39.00 USD | Price: 34.39 USD

**Targets low-mid single digit revenue & volume gains in '24**

CSX posted 4Q23 EPS of \$0.45, down 8% year-year, above our \$0.43 and Street's \$0.44 estimates. In 2024, the company targets low-to-mid single digit growth in both volumes (we were/are +4%) and revenue (we were +1.5%/now +4%) as it sees momentum building across its Merchandise, Intermodal and Export Coal franchises. While CSX does not provide operating income, margin, or EPS goals, it targets profitable growth in 2024 as top-line gains, improving efficiency, and lower cost inflation are balanced by \$50 million of incremental depreciation expense, a slightly higher tax rate (24.5% target from 23.6% in 2023; we were 24%), and the cycling of a \$50 million 1Q23 insurance recovery benefit. CSX COO Mike Cory noted that despite strides it made in safety, efficiency, and service in 2023, the company remains in the early stages of refining its operating plan. Mr. Cory is focused on maximizing car connections and train loads, and reducing dwell and active locomotive horsepower, which contributed to an uptick in stored locomotives and a 2.5% reduction in daily train starts in 4Q23. We believe CSX can drive meaningful long-term improvement in Purchased Services & Materials costs, which have climbed outside the impacts from its Quality Carriers acquisition. CSX targets flattish sequential headcount in 2024 from 4Q23, reflecting its increased focus to leverage its network.

**Slight beat on yields and ops; targets 4Q-1Q margin uplift**

Revenues were \$3.68 billion, down 1% year-year, but \$101 million above our estimate. Operating income was \$1.32 billion, down 10% year-year, but \$33 million above our estimate, for an operating ratio of 64.1%, a 320 bps deterioration year-year, and 10 bps worse than our forecast. CFO Sean Pelkey expects 1Q24 operating ratio to improve sequentially (we forecast 63.4% or 70 bps better), a shift from normal 1Q deterioration, aided by slightly lower seq. cost/employee after 4Q23 vacation/benefit true-ups.

**Reiterate Buy, PO to \$39**

We reiterate our Buy rating and increase our PO to \$39 (from \$38), now based on 19.5x our 2024 EPS estimate (was 19x). Our target multiple remains above the top of its historical 12x-18x range as earnings move past trough and volume gains begin to ramp. The network is primed for operating leverage as volumes improve. We hold our 2024 & 2025 EPS estimates at \$2.00 & \$2.25, respectively, and introduce our 2026e at \$2.55.

| Estimates (Dec) (US\$)    | 2022A | 2023A | 2024E | 2025E | 2026E |
|---------------------------|-------|-------|-------|-------|-------|
| EPS                       | 1.91  | 1.84  | 2.00  | 2.25  | 2.55  |
| GAAP EPS                  | 1.96  | 1.84  | 2.00  | 2.25  | 2.55  |
| EPS Change (YoY)          | 22.4% | -3.7% | 8.7%  | 12.5% | 13.3% |
| Consensus EPS (Bloomberg) |       |       | 1.98  | 2.19  | 2.45  |
| DPS                       | 0.40  | 0.43  | 0.48  | 0.52  | 0.56  |
| Valuation (Dec)           |       |       |       |       |       |
| P/E                       | 18.0x | 18.7x | 17.2x | 15.3x | 13.5x |
| GAAP P/E                  | 17.5x | 18.7x | 17.2x | 15.3x | 13.5x |
| Dividend Yield            | 1.2%  | 1.3%  | 1.4%  | 1.5%  | 1.6%  |
| EV / EBITDA*              | 11.7x | 12.1x | 11.6x | 11.0x | 10.3x |
| Free Cash Flow Yield*     | 4.9%  | 4.5%  | 6.0%  | 5.3%  | 5.8%  |

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

25 January 2024

## Equity

**Key Changes**

| (US\$)        | Previous | Current  |
|---------------|----------|----------|
| Price Obj.    | 38.00    | 39.00    |
| 2024E Rev (m) | 14,770.3 | 15,210.4 |
| 2025E Rev (m) | 15,391.3 | 15,902.0 |
| 2026E Rev (m) | NA       | 16,695.3 |
| 2026E EPS     | NA       | 2.55     |

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**Stock Data**

|                                 |                       |
|---------------------------------|-----------------------|
| Price                           | 34.39 USD             |
| Price Objective                 | 39.00 USD             |
| Date Established                | 24-Jan-2024           |
| Investment Opinion              | B-1-7                 |
| 52-Week Range                   | 27.60 USD - 35.09 USD |
| Mrkt Val (mn) / Shares Out (mn) | 71,703 USD / 2,085.0  |
| Free Float                      | 99.7%                 |
| Average Daily Value (mn)        | 385.94 USD            |
| BofA Ticker / Exchange          | CSX / NAS             |
| Bloomberg / Reuters             | CSX US / CSX.OQ       |
| ROE (2024E)                     | 29.8%                 |
| Net Dbt to Eqty (Dec-2023A)     | 140.9%                |
| 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".

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Timestamp: 25 January 2024 12:17AM EST

# iQprofile<sup>SM</sup> CSX Corporation

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

| (US\$ Millions)            | 2022A | 2023A | 2024E | 2025E | 2026E |
|----------------------------|-------|-------|-------|-------|-------|
| Return on Capital Employed | 11.8% | 10.8% | 10.7% | 11.1% | 23.9% |
| Return on Equity           | 31.3% | 29.9% | 29.8% | 30.5% | 66.2% |
| Operating Margin           | 39.9% | 37.6% | 37.9% | 39.0% | 40.0% |
| Free Cash Flow             | 3,518 | 3,256 | 4,328 | 3,823 | 4,143 |

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

| (US\$ Millions)          | 2022A  | 2023A  | 2024E  | 2025E  | 2026E |
|--------------------------|--------|--------|--------|--------|-------|
| Cash Realization Ratio   | 1.4x   | 1.5x   | 1.8x   | 1.5x   | 1.5x  |
| Asset Replacement Ratio  | 1.4x   | 1.4x   | 1.5x   | 1.5x   | 1.6x  |
| Tax Rate                 | 23.0%  | 23.6%  | 24.5%  | 24.5%  | 24.5% |
| Net Debt-to-Equity Ratio | 126.4% | 140.9% | 118.3% | 118.3% | NA    |
| Interest Cover           | 8.0x   | 6.8x   | 7.0x   | 7.6x   | 8.2x  |

## Income Statement Data (Dec)

| (US\$ Millions)              | 2022A        | 2023A        | 2024E        | 2025E        | 2026E        |
|------------------------------|--------------|--------------|--------------|--------------|--------------|
| Sales                        | 14,853       | 14,657       | 15,210       | 15,902       | 16,695       |
| % Change                     | 18.6%        | -1.3%        | 3.8%         | 4.5%         | 5.0%         |
| Gross Profit                 | 7,327        | 7,092        | 7,430        | 7,893        | 8,398        |
| % Change                     | 11.7%        | -3.2%        | 4.8%         | 6.2%         | 6.4%         |
| EBITDA                       | 7,420        | 7,126        | 7,430        | 7,893        | 8,398        |
| % Change                     | 11.3%        | -4.0%        | 4.3%         | 6.2%         | 6.4%         |
| Net Interest & Other Income  | (609)        | (670)        | (685)        | (685)        | (701)        |
| <b>Net Income (Adjusted)</b> | <b>4,089</b> | <b>3,703</b> | <b>3,836</b> | <b>4,159</b> | <b>4,517</b> |
| <b>% Change</b>              | <b>16.2%</b> | <b>-9.4%</b> | <b>3.6%</b>  | <b>8.4%</b>  | <b>8.6%</b>  |

## Free Cash Flow Data (Dec)

| (US\$ Millions)                        | 2022A        | 2023A        | 2024E        | 2025E         | 2026E        |
|--|--------------|--------------|--------------|---------------|--------------|
| Net Income from Cont Operations (GAAP) | 4,089        | 3,703        | 3,836        | 4,159         | 4,517        |
| Depreciation & Amortization            | 1,500        | 1,611        | 1,664        | 1,698         | 1,714        |
| Change in Working Capital              | 91           | (1,192)      | 705          | (110)         | (122)        |
| Deferred Taxation Charge               | 117          | 140          | 622          | 675           | 733          |
| Other Adjustments, Net                 | (146)        | 1,275        | 0            | 0             | 0            |
| Capital Expenditure                    | (2,133)      | (2,281)      | (2,500)      | (2,600)       | (2,700)      |
| <b>Free Cash Flow</b>                  | <b>3,518</b> | <b>3,256</b> | <b>4,328</b> | <b>3,823</b>  | <b>4,143</b> |
| <b>% Change</b>                        | <b>6.4%</b>  | <b>-7.4%</b> | <b>32.9%</b> | <b>-11.7%</b> | <b>8.4%</b>  |
| Share / Issue Repurchase               | NA           | NA           | NA           | NA            | NA           |
| Cost of Dividends Paid                 | (852)        | (882)        | (922)        | (959)         | (991)        |
| Change in Debt                         | 1,814        | 447          | (200)        | (100)         | (100)        |

## Balance Sheet Data (Dec)

| (US\$ Millions)                       | 2022A         | 2023A         | 2024E         | 2025E         | 2026E    |
|---------------------------------------|---------------|---------------|---------------|---------------|----------|
| Cash & Equivalents                    | 2,087         | 1,436         | 2,199         | 2,199         | 0        |
| Trade Receivables                     | 1,313         | 1,427         | 1,380         | 1,380         | 0        |
| Other Current Assets                  | 449           | 521           | 521           | 521           | 0        |
| Property, Plant & Equipment           | 34,242        | 34,935        | 35,771        | 35,771        | 0        |
| Other Non-Current Assets              | 3,316         | 3,459         | 4,459         | 4,459         | 0        |
| <b>Total Assets</b>                   | <b>41,407</b> | <b>41,778</b> | <b>44,329</b> | <b>44,329</b> | <b>0</b> |
| Short-Term Debt                       | 151           | 558           | 558           | 558           | 0        |
| Other Current Liabilities             | 2,320         | 2,666         | 2,021         | 2,021         | 0        |
| Long-Term Debt                        | 17,896        | 17,975        | 17,775        | 17,775        | 0        |
| Other Non-Current Liabilities         | 8,432         | 8,439         | 10,328        | 10,328        | 0        |
| <b>Total Liabilities</b>              | <b>28,799</b> | <b>29,638</b> | <b>30,683</b> | <b>30,683</b> | <b>0</b> |
| <b>Total Equity</b>                   | <b>12,625</b> | <b>12,133</b> | <b>13,639</b> | <b>13,639</b> | <b>0</b> |
| <b>Total Equity &amp; Liabilities</b> | <b>41,424</b> | <b>41,771</b> | <b>44,322</b> | <b>44,322</b> | <b>0</b> |

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

## Company Sector

Rail Transport/Railroads

## Company Description

CSX provides rail freight transportation over a network of approximately 21,000 route miles and 36 terminals (and 57 intermodal terminals) across the Eastern half of the U.S. It owns approximately 4,000 locomotives, 60,150 rail cars, and 18,100 containers. It has roughly 20,000 employees, and we forecast it to generate more than \$12 billion in annual revenues.

## Investment Rationale

CSX operates a Precision Scheduled Railroad model, aided by new COO Mike Cory while focusing on quality revenue growth under CEO Joe Hinrichs. CSX is focused on culling costs and profitable growth, as pricing grows above inflation. CSX should achieve double-digit sustainable earnings growth over the long term given its low cost structure among its peers and share gains.

## Stock Data

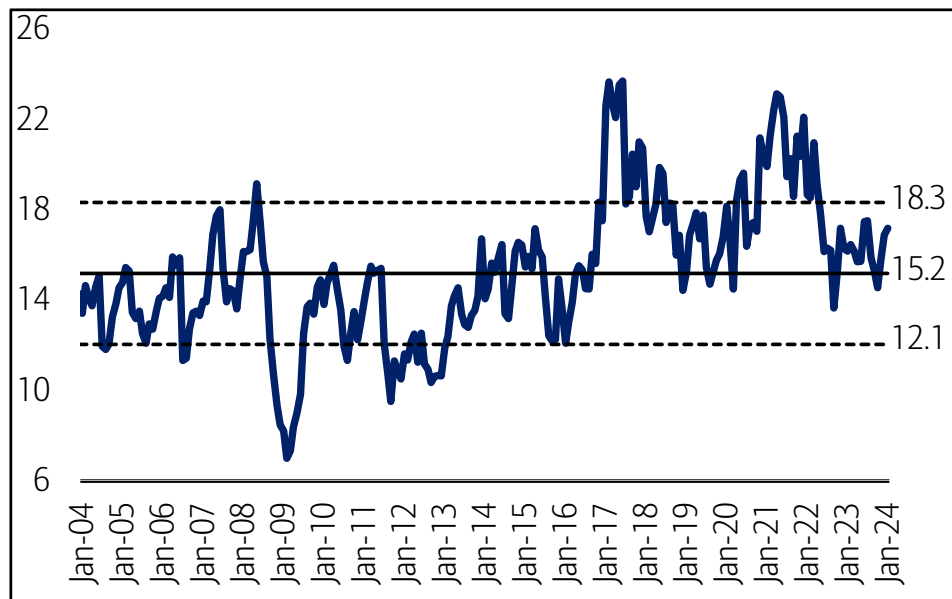
Average Daily Volume 11,222,451

## Quarterly Earnings Estimates

|    | 2023  | 2024  |
|----|-------|-------|
| Q1 | 0.47A | 0.46E |
| Q2 | 0.49A | 0.51E |
| Q3 | 0.42A | 0.51E |
| Q4 | 0.45A | 0.52E |

**Exhibit 1: CSX Forward P/E Ratio**

CSX trades at 17.2x our '24e EPS, above the midpoint of its historical 12.1x-18.3x range



Source: BofA Global Research estimates, Bloomberg

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**Tgts '24 volume gains, slight mix pressure, service focus**

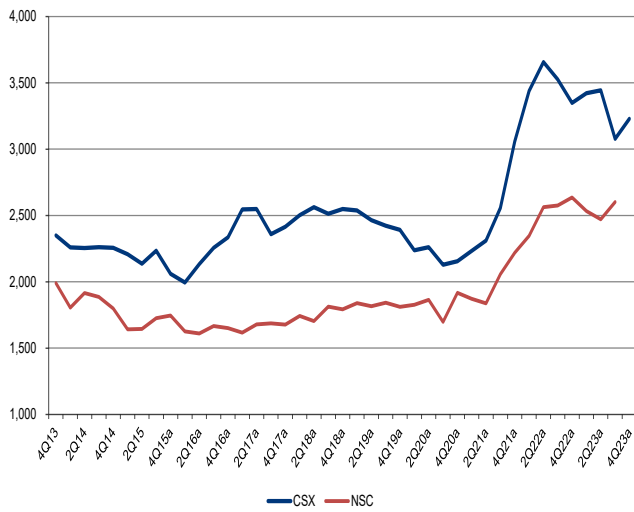
CSX targets 2024 revenue and volume growth of low single digits. EVP Sales & Marketing Kevin Boone noted Merchandise volume growth will be supported by ongoing momentum in service improvement, new business wins, and modal share gains, as well as encouraging developments in Chemicals, Forest Products and Fertilizer markets. Mr. Boone targets new industrial development projects to contribute 1% to merchandise volume gains in 2024. The company expects continued service improvement will support pricing efforts, though gains will be partly balanced by mix pressure intra-category mix pressure from shorter-haul fertilizer moves, and gains in lower-revenue-per carload categories of agriculture and cement. We forecast 2024 Merchandise volume and revenue/carload growth of 3% each.

In Intermodal, the company expects to see a ramp in domestic volumes, led by service-driven truck conversions and growth with its channel partners. It also expects a more constructive international intermodal market, with potential upside from Red Sea and Panama Canal disruptions. We forecast intermodal carload growth of 7%, and revenue per carload growth of 3%.

In Coal, CSX sees continued strength in export coal demand, with volumes supported by unit train performance and the ramp-up of a new coal mine in West Virginia. While it anticipates a moderate normalization in export coal benchmark pricing, it expects pricing to remain at above-average levels. Domestic demand upside will remain contingent on weather in 2024 as stockpiles have reverted to more normalized levels (we expect utility volumes to continue to decline). We forecast 2024 total coal carload declines of -3.5%, and revenue per carload growth to be flat.

**Exhibit 2: Coal Avg. Rev/Carload (CSX vs. NSC)**

CSX Avg rev per coal carload was \$3,229, down 3.6% year-year in 4Q23



Source: BofA Global Research estimates and company reports

Note: NSC is as of 3Q23. It is set to report 4Q23 on Jan. 26

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**Exhibit 3: Coal Carloads (CSX vs. NSC)**

CSX coal carloads were 192k, up 2.7% year-year in 4Q23



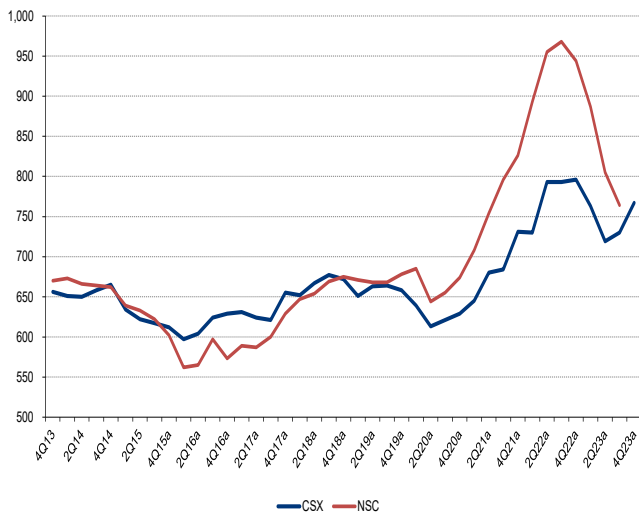
Source: BofA Global Research estimates and company reports

Note: NSC is as of 3Q23. It is set to report 4Q23 on Jan. 26

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**Exhibit 4: Intermodal Avg Rev/Carload (CSX vs. NSC)**

CSX Avg rev/intermodal carload was \$767, down 3.6% year-year in 4Q23



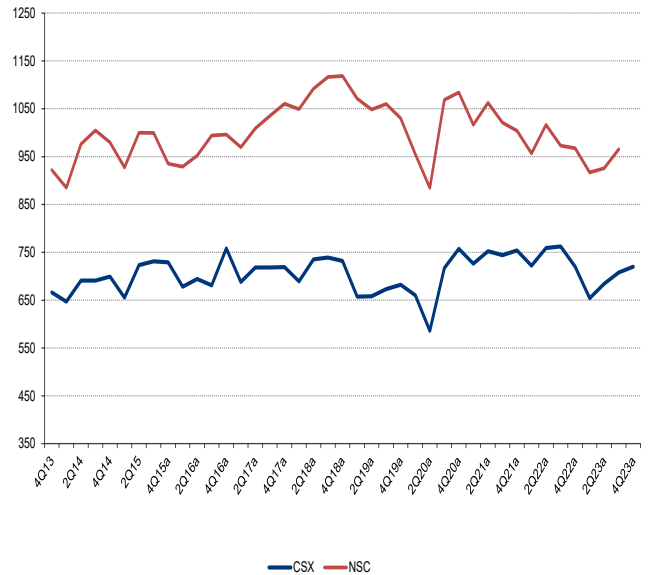
Source: BofA Global Research estimates and company reports

Note: NSC is as of 3Q23. It is set to report 4Q23 on Jan. 26

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**Exhibit 5: Intermodal Carloads (CSX vs. NSC)**

CSX intermodal carloads were 720k, flat year-year in 4Q23



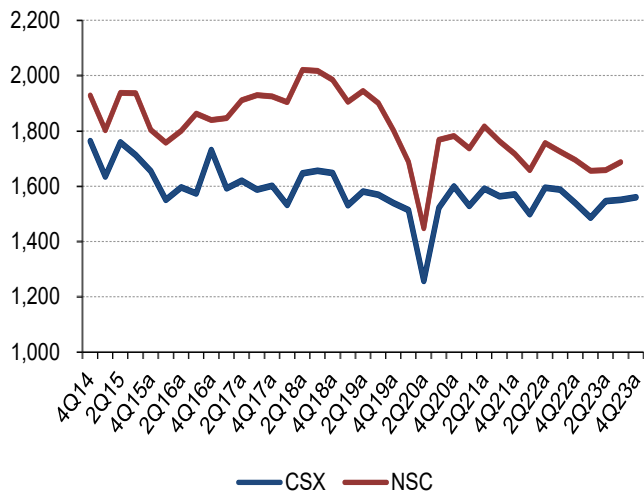
Source: BofA Global Research estimates and company reports

Note: NSC is as of 3Q23. It is set to report 4Q23 on Jan. 26

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**Exhibit 6: CSX vs NSC Total Carloads**

CSX total carloads were 1.56 mil, up 1.2% year-year in 4Q23

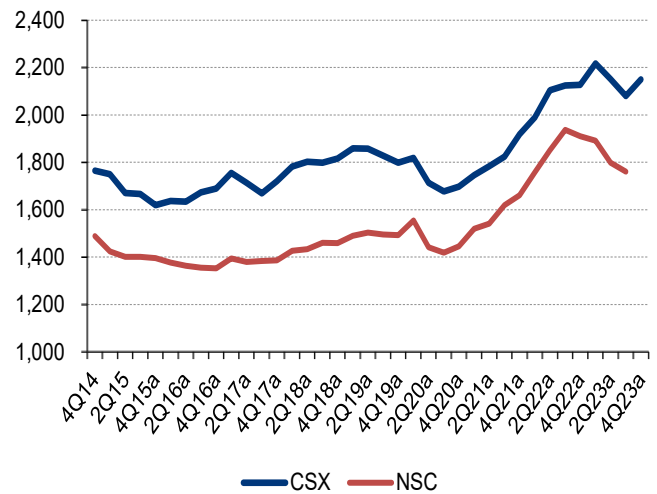


**Source:** BofA Global Research estimates and company reports  
 Note: NSC is as of 3Q23. It is set to report 4Q23 on Jan. 26

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**Exhibit 7: CSX vs NSC Average Revenue per Carload**

CSX average revenue/carload was \$2,359, down 2.5% year-year in 4Q23

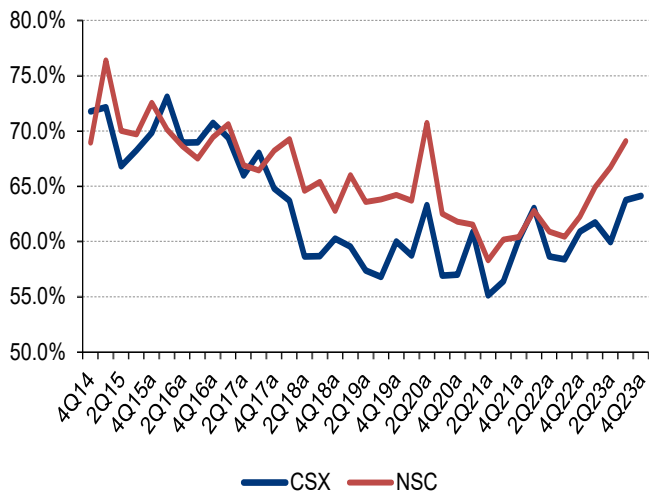


**Source:** BofA Global Research estimates and company reports  
 Note: NSC is as of 3Q23. It is set to report 4Q23 on Jan. 26

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**Exhibit 8: CSX vs NSC Operating Ratio**

CSX operating ratio was 64.1%, a 320 bps deterioration year-year in 4Q23



**Source:** BofA Global Research estimates and company reports  
 Note: NSC is as of 3Q23. It is set to report 4Q23 on Jan. 26

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## Price objective basis & risk

### CSX Corporation (CSX)

Our \$39 price objective is based on a 19.5x target multiple on our 2024 EPS estimate, just above the top of the company's 12x-18x historical range, given its move above trough earnings and potential for rebounding ops and top line growth. CEO Joe Hinrichs, previously head of Ford's global auto business, aims to balance improving service with top line growth, as part of ONE CSX. It continues to absorb impacts from its acquisition of Pan Am Rail, Quality Distribution, and declining fuel surcharges. It has topped its target to hire Train & Engine employees as it restores its service levels.

Risks to our price objective are operational issues, a return to significant pricing competition among the rails, slower-than-expected economic growth, a deterioration in service metrics, any work stoppages or impacts from its unionized employee base, inability to exercise pricing power due to regulatory changes or legal challenges from customers, external factors (such as weather) impacting operations, additional regulations for the rails, or ones that impact customers, such as expediting shutdown of coal generating facilities, and low nat gas prices that push continued coal to Nat Gas switching.

## Analyst Certification

I, Ken Hoexter, 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 - Transportation Coverage Cluster

| Investment rating   | Company                                  | BofA Ticker | Bloomberg symbol | Analyst     |
|---------------------|--|-------------|------------------|-------------|
| <b>BUY</b>          |  |             |                  |             |
|                     | Canadian Pacific Kansas City Ltd         | CP          | CP US            | Ken Hoexter |
|                     | CSX Corporation                          | CSX         | CSX US           | Ken Hoexter |
|                     | FedEx Corp.                              | FDX         | FDX US           | Ken Hoexter |
|                     | J.B. Hunt Transport Services             | JBHT        | JBHT US          | Ken Hoexter |
|                     | Kirby Corp                               | KEX         | KEX US           | Ken Hoexter |
|                     | Knight-Swift Transportation Holdings Inc | KNX         | KNX US           | Ken Hoexter |
|                     | Norfolk Southern                         | NSC         | NSC US           | Ken Hoexter |
|                     | Old Dominion Freight Line                | ODFL        | ODFL US          | Ken Hoexter |
|                     | RXO, Inc.                                | RXO         | RXO US           | Ken Hoexter |
|                     | Saia Inc.                                | SAIA        | SAIA US          | Ken Hoexter |
|                     | Teekay Tankers Limited                   | TNK         | TNK US           | Ken Hoexter |
|                     | Union Pacific                            | UNP         | UNP US           | Ken Hoexter |
|                     | Wabtec Corp.                             | WAB         | WAB US           | Ken Hoexter |
|                     | XPO, Inc.                                | XPO         | XPO US           | Ken Hoexter |
| <b>NEUTRAL</b>      |  |             |                  |             |
|                     | Canadian National                        | CNI         | CNI US           | Ken Hoexter |
|                     | Schneider National                       | SNDR        | SNDR US          | Ken Hoexter |
|                     | Scorpio Tankers Inc.                     | STNG        | STNG US          | Ken Hoexter |
|                     | TFI International                        | TFII        | TFII US          | Ken Hoexter |
|                     | TFI International                        | YTFII       | TFII CN          | Ken Hoexter |
|                     | UPS                                      | UPS         | UPS US           | Ken Hoexter |
| <b>UNDERPERFORM</b> |  |             |                  |             |
|                     | ArcBest Corporation                      | ARCB        | ARCB US          | Ken Hoexter |
|                     | C.H. Robinson                            | CHRW        | CHRW US          | Ken Hoexter |
|                     | The Greenbrier Companies                 | GBX         | GBX US           | Ken Hoexter |
|                     | Werner Enterprises                       | WERN        | WERN US          | Ken Hoexter |
|                     | World Kinect                             | WKC         | WKC US           | Ken Hoexter |

## 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.

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.

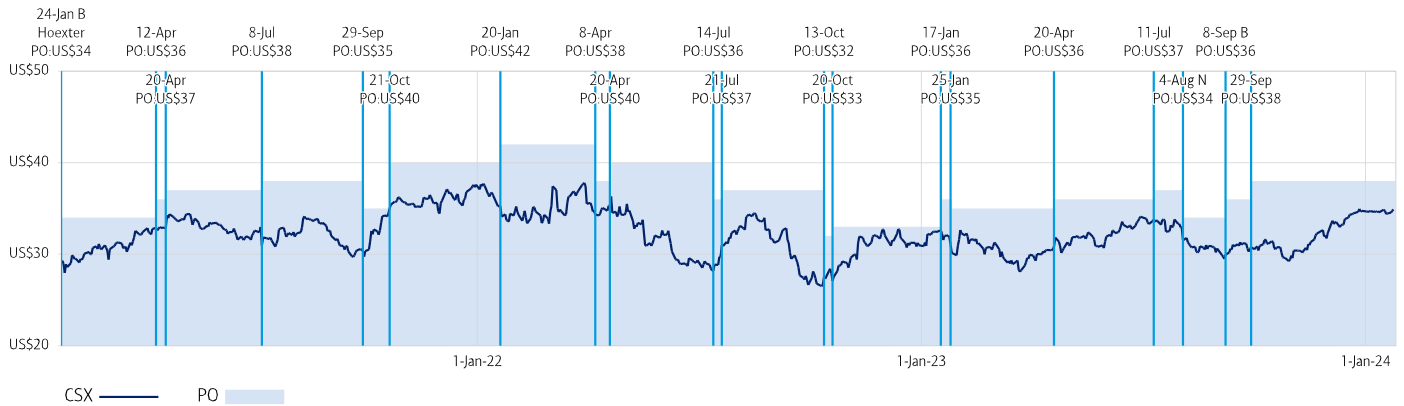
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# Disclosures

## Important Disclosures

### CSX Corporation (CSX) Price Chart



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: Transport/Infrastructure Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships <sup>R1</sup> | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy               | 67    | 50.38%  | Buy                                      | 44    | 65.67%  |
| Hold              | 31    | 23.31%  | Hold                                     | 13    | 41.94%  |
| Sell              | 35    | 26.32%  | Sell                                     | 17    | 48.57%  |

### 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> |
|-------------------|---|--|
| 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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