

## US Utilities &amp; Clean Tech

**PowerPoints: WEC Capex, CMS Growth Accelerating, UGI Beat, & SR Reaffirm**

Industry Overview

**WEC: +\$300M capex at 50% equity. Waiting on FY24 guide**

WEC Energy (WEC) reported \$1.10 4Q23 adjusted EPS (\$0.69 GAAP), a small beat vs \$1.09 BofA/Consensus. The \$179Mn pre-tax Illinois Commerce Commission impairment was adjusted out from results, as expected. 6.5-7.0% annual EPS growth 2023-2028 was reaffirmed as expected. The 2024-2028 capital plan increased +\$300Mn net, consistent with the January 2024 'flexibility' disclosures with Illinois gas -\$800Mn, unregulated energy infrastructure +\$800Mn, regulated renewables +\$200Mn, and electric delivery +\$100Mn. The +\$300Mn capex leads to a net +\$100Mn increase in year-end average 2028 asset base with regulated decreasing for less Illinois spending, more than offset by more unregulated asset base. For example, the unregulated Infrastructure asset base in 2028 is +200bp to 6% versus the prior plan (still below the 7% in 2023A). The +\$300Mn capex will be financed 50% equity at the midpoint (\$1.95-\$2.2Bn 2024-2028, up from \$1.8-\$2.2Bn previously) with debt correspondingly increasing +\$150Mn. FY23 weather adjusted electric sales ex-iron ore mine were -1% and natural gas was -2.4%.

FY24 adjusted EPS guidance was not provided with the initial materials and we expect the current year outlook to be discussed on the earnings call. Consensus and BofA \$4.90 represents +5.8% YoY growth from \$4.63 adjusted EPS and +6.5% YoY growth from the \$4.60 adjusted guidance midpoint. Initial investor feedback has been cautious related to the lack of FY24 guidance with WEC underperforming the utilities sector in early trading. *We maintain Underperform with shares relatively expensive.*

**CMS: Rate base and EPS growth accelerating**

CMS Energy (CMS) reported \$1.05 4Q23 adjusted EPS vs \$1.07 BofA/\$1.04 Consensus. FY24 guidance was increased \$3.29-\$3.35 with an expectation to be towards the high-end, consistent with \$3.34 BofA/Consensus. The five-year utility capital plan was increased +\$1.5Bn (+10%) still with no equity until 2025 and then up to \$350Mn annually 2025-2028 (vs 2025-2027 previously) with mid-teens FFO/debt plan. FY28 rate base is \$35.2Bn, up from \$32Bn 2027 with a +10% growth, signaling an acceleration in the future with rate base growth +50bp to 7.5% in the roll-forward. \$2024-2028 adjusted operating cash flow is +5.6% to \$2.64Bn, up from \$2.5Bn. Stress does not include energy legislation upside: new renewable plan coming in 2H24 but approval on upsides not coming until 2H25 meaning 'real' FY plan outlook with Feb '26 update. DIG upside remains clear and not included in CFO: biggest driver of EPS upside to reconcile high end of 6-8% EPS despite 7.5% ratebase CAGR. FY23 capex missed the company's objective at \$3.3Bn vs \$3.7Bn plan and FY24 is +\$400Mn versus the prior plan to offset.

The FY24 dividend increase was ~5.6%, light of the 6-8% annual guidance with an unchanged +\$0.11 annual increase. The unregulated fossil portfolio is expected to be +\$5Mn pre-tax in 2024 vs historical levels and has over 30% capacity available in 2026+, a notable potential earnings driver we have highlighted previously. Weather normalized electric sales were +20bp YoY, a weakening YoY from +80bp in 2022. *We maintain Buy on shares of CMS which represent one of the best high quality regulated utilities with a runway of premium growth.*

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## UGI: Beat at International mitigated by AmeriGas declines.

UGI Corp (UGI) reported \$1.20 adjusted EPS fiscal 1Q24 (calendar 4Q23, a solid beat vs \$1.11 BofAe/\$1.05 Consensus. \$425Mn adjusted EBIT increased +\$14Mn due to +\$51Mn international +\$7Mn utilities, -\$5Mn midstream, and -\$39Mn AmeriGas. Management described 1Q24 performance as "strong" and in-line with expectations despite adverse weather while noting that AmeriGas' decline in performance was expected. AmeriGas had -13% decline in volume from -12% warmer weather YoY leading to -9% decline in margin. Operating costs increased due to higher compensation and vehicle costs. We estimate that below \$5Mn adjusted free cash flow, a particularly challenging development in a winter quarter. -\$65Mn after-tax loss (-\$0.30) for exiting International energy marketing, -\$5Mn (-\$0.02) for AmeriGas "operations enhancement for growth project", and -\$3Mn (-\$0.01) restructuring costs were excluded from adjusted earnings. UGI's segment breakdown does not fully reconcile with GAAP or adjusted results with the allocation of non-GAAP adjustments. Compared with our expectations, we calculate the net +\$0.08 outperformance was +\$0.12 International/Parent, +\$0.06 Midstream, +\$0.02 Utilities, and -\$0.12 AmeriGas.

### "The Journey Ahead" – set to conclude next quarter?

The 1Q24 slides introduce a new section on priorities which are similar but include new clues such as "provide operational clarity". The strategy and financial priorities are minimally changed from the 4Q23 presentation. No discussion of FY24 or long-term guidance was included, not atypical for the company with the 1Q updates historically. The company stated that it is the later stages of the business review and plans an update on the 2Q24 earnings call.

Could very well expect full strategic update including addressing 6-10% EPS outlook. Difficulty remains on extent of reset with Amerigas biz potentially seeing \$150-400 Mn of incremental parent cash needs to delever (taking up more dilution thru plan). We carefully watch strategic repositioning in months ahead given nearing conclusion on plan. We also note muted cash gen at Amerigas in the quarter itself and expectations for upwards of \$150 Mn in debt paydown using cash at subsidiary itself this year suggesting an improving backdrop: this will be key to demonstrate (~\$60 Mn on balance sheet already today that could use to delever).

### International outperformance clouded by marketing exit

The strength of 'core' International excluding energy marketing was a positive development with unit margins expanding +9% excluding foreign currencies which includes the benefit of removing the marketing drag. Midstream was also better than anticipated but more than offset by declines at AmeriGas. If the international margin strength is sustained into future periods, that would be a positive development. We maintain Underperform on shares of UGI which are relatively expensive and still need to address the AmeriGas leverage and cash flow profiles. The noted deterioration of AmeriGas will take some of the shine off an otherwise solid winter quarter.

**Exhibit 1: UGI 1Q24 EPS By Segment**

UGI non-GAAP adjustments do not fully reconcile by segment

UGI EPS 1Q24	BofA	Actual	Delta	YoY
UGI Utilities	\$0.38	\$0.40	\$0.02	\$0.02
Midstream	\$0.37	\$0.43	\$0.06	\$0.08
UGI International	\$0.19	\$0.39	\$0.20	\$0.18
AmeriGas	\$0.19	\$0.07	(\$0.12)	(\$0.16)
Parent/Other	(\$0.02)	(\$0.09)	(\$0.07)	(\$0.06)
<b>Total</b>	<b>\$1.11</b>	<b>\$1.20</b>	<b>\$0.09</b>	<b>\$0.06</b>
Consensus	\$1.05	\$1.05	\$0.15	
Delta	5.62%	13.96%		

Source: Company Filings and BofA Global Research

BofA GLOBAL RESEARCH

**Exhibit 2: UGI International Margin Performance**

1Q24 had a large increase in margin dollars and units YoY

International	1Q24	1Q23	Change
Retail Gallons Mn	214	205	4%
<b>Total Margin</b>	<b>\$279</b>	<b>\$215</b>	<b>30%</b>
Unit Margin	\$1.30	\$1.05	24%
Margin ex FX	<b>\$264</b>	<b>\$242</b>	<b>9%</b>
Unit Margin	\$1.23	\$1.18	5%

Source: Company Filings and BofA Global Research

BofA GLOBAL RESEARCH



## SR: Utility-driven 5% EPS beat. FY24 and long-term guidance reaffirmed

Spire Energy (SR) reported 1QFY24 (calendar 4Q) EPS of \$1.47, a beat versus BofA estimate of \$1.40 and consensus of \$1.38. Consolidated EPS declined modestly from \$1.55 in the prior-year quarter, reflecting normalization of nonutility business conditions, particularly reduced year-over-year volatility in gas prices that in 1QFY23 drove elevated marketing earnings. Gas utility net economic earnings growth (NEE) grew +21% YoY, but was more than offset by a 72% decline in gas marketing NEE. Midstream NEE also declined on less favorable market conditions YoY, though FY24 segment earnings remain on track with the recent 2QFY24 close of the MoGas and Omega pipeline acquisitions.

Overall, SR's 1QFY24 gas utility performance was encouraging given heating-degree days (HDDs) in Missouri declined -19% year-over-year and -11% versus normal; HDDs in Alabama and Mississippi were down mid-single digits year-over-year but approximately normal. Higher rates YoY rates in most of the quarter in Missouri (+\$22.5Mn to contribution margin) and for the entire quarter in Alabama (+\$3.9Mn) more than offset lower commercial and industrial usage. O&M declined 2% YoY (+\$3.2Mn) on lower employee-related costs, partially offset by higher insurance expense. Other activities (parent) loss of \$2.7Mn improved \$4.6Mn YoY on settlement of an interest rate hedge, partially offset by higher corporate costs.

All components of FY24 and long-term guidance were reaffirmed. SR still expects FY24 adjusted EPS of \$4.25-\$4.45, the midpoint of which will serve as the base for long-term EPS growth of 5-7% annually, underpinned by 7-8% rate base growth. Individual NEE guidance for each business remains unchanged, a positive sign after two straight fiscal years in which gas utility guidance trended lower through the year but was counterbalanced by stronger gas marketing business earnings. We look to SR's seasonally strong 2QFY24 utility performance for further signs of acceleration that could drive consolidated earnings EPS growth higher versus our current below-guide expectations long-term. *Maintain Underperform on SR which we view as relatively expensive versus peers.*

### Exhibit 3: Primary stocks mentioned in this report

Prices and ratings for primary stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
WEC	WEC US	WEC Energy Group Inc	US\$ 80.76	A-3-7
CMS	CMS US	CMS Energy	US\$ 57.16	A-1-7
UGI	UGI US	UGI Corp.	US\$ 22.14	B-3-7
SR	SR US	Spire	US\$ 56.77	B-3-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

## Price objective basis & risk

### CMS Energy (CMS)

Our PO of \$66 is based on a SotP relying on 2026E forward P/E multiples for the utility business and a 2025E forward EV/EBITDA multiple for CMS' IPP assets. For the utility seg we apply a 3.0x prem to the average 2026E regulated multiple P/E of 13.6x for the electric segment and of 13.9x for the gas segment, with the 10-yr capex update providing clear sight on ratebase growth and further upside, as well as continued favorable regulatory environment, and finally historically proven ability to consistently perform at the high end of guidance range. Both electric and gas peer P/E multiples are grossed up +5% to reflect capital appreciation across the sector. For CMS' merchant business we apply a 4x EV/EBITDA multiple, in line with current market value of CMS' power plants. We value Dearborn Industrial Generation (DIG) on a DCF basis through 2038 given the plant is no longer expected to be sold to Consumers.

Downside risks are: 1) earned ROEs declining which reduce CMS utility earnings 2) execution risk on capex and cost cutting which would primarily affect the utility earnings, 3) negatives changes to market energy prices which could affect the DIG plant's ability to re-contract at the assumed prices.

### **Spire (SR)**

Our \$56 PO for SR is based on a sum-of-the-parts analysis. Consistently across our coverage universe we apply the peer gas 2026 P/E multiple (13.4x) as a starting point and 'gross-up' by five percent to account for growth across the sector. We include a 3x discount for Missouri given a less-constructive regulatory environment and an in-line multiple for Mississippi/Gulf and AL assets given their location and de-risked nature. For the midstream assets, we use a base 9.0x EV/EBITDA multiple with a 3x discount for storage given uncertainty, and a 2x discount for marketing due to volatility.

Upside risks: 1) favorable regulatory and/or legislative outcomes, 2) lower interest rates, 3) ability to earn the regulatory allowed rate of return, 4) lower equity needs, 5) higher capital expenditures, and 6) favorable unregulated performance.

Downside risks: 1) adverse regulatory and/or legislative outcomes, 2) higher interest rates, 3) inability to earn the regulatory allowed rate of return, 4) higher equity needs, 5) lower capital expenditures, 6) unfavorable performance at the unregulated subsidiaries, and 7) natural disaster.

### **UGI Corp. (UGI)**

Our \$22 PO is derived from our SOTP analysis. We mark-to-market (MtM) our UGI Utilities segment to 2025E peer 2025E P/E multiples of 14.9x for gas & 14.7x for electric. For U.S. & international LPG, we apply an 8.9x EBITDA base multiple in-line with propane comps & apply a -4x discount to UGI International (based on a challenged energy environment in Europe) and a -4x discount to AmeriGas based on challenges to customer retention & a slow return to the M&A market. We apply an 8.9x 2025E EV/EBITDA multiple to the midstream segment with premiums based on the asset. For the renewables business, we take the NPV of future cash flows, which implies a 0.9x FY25E EV/EBITDA multiple. For parent debt in the Corp & Other segment we net out 50/50 weighting for recapitalization & add back 50% of parent interest exp.

Upside risks: favorable weather, improving propane logistics efficiencies domestically or in Europe, increased conversion rates or faster new home construction within PA, and favorable currency exchange rates. Macroeconomic concerns are declining interest rates, lack of volatility and declining natural gas prices, and a general economic upturn.

Downside risks: unfavorable weather, propane logistics issues and shortages domestically or in Europe, reduced conversion rates or slower new home construction within PA, and unfavorable currency exchange rates. Macroeconomic concerns are rising interest rates, volatile and rising natural gas prices, and a general economic slowdown.

### **WEC Energy Group Inc (WEC)**

Our \$75 PO is based on 2026E SoTP, with a large cap electric group multiple of 13.3x and gas regulated multiple of 12.6x. Electric and gas peer P/E multiples are grossed up for a year to reflect capital appreciation across the sector. We apply a 1.0x premium to WEC's WI electric & gas subs for surety in earnings growth for the next two years following the Commission's recent settlement. We ascribe a 4x premium vs. the group at ATC to account for steady earnings growth as well as above avg Federal ROE's. IL Gas receives a -3x discount given the cautious tone set in the most recent rate case. We give Power the Future (PTF) a -2.0x P/E discount given nonutility risk profile. We ascribe an in line multiple for the parent accounting for the interest expense which finances overall utility operations. We value Energy Infrastructure on a net present value basis using a

WACC of 8.9%, in line with other renewable assets. We net out 50% of HoldCo debt from equity valuation and adjust to add back the parent drag on interest exp.

Upside risks to our PO: better than expected regulatory outcomes driving improved earnings and higher capital spend, lower interest rates, execution on unregulated projects at favorable returns. Downside risks are: worse than expected regulatory outcomes driving lower earned returns and lower capital spend, higher interest rates, inability to execute on unregulated projects.

## **Analyst Certification**

I, Julien Dumoulin-Smith, 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 - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	Array Technologies	ARRY	ARRY US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	ENLT	ENLT US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	XENLF	ENLT IT	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Paul Zimbardo
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Fluence Energy	FLNC	FLNC US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Julien Dumoulin-Smith
	MDU Resources Group, Inc.	MDU	MDU US	Julien Dumoulin-Smith
	Nextacker Inc	NXT	NXT US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Energy Group	NWE	NWE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Paul Zimbardo
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Sempra	SRE	SRE US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	TPI Composites	TPIC	TPIC US	Julien Dumoulin-Smith
	Vistra Corp	VST	VST US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
<b>NEUTRAL</b>				
	AES	AES	AES US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	AQN	AQN US	Paul Zimbardo
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Paul Zimbardo
	AltaGas	YALA	ALA CN	Cameron Lochridge
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	ChargePoint Holdings	CHPT	CHPT US	Cameron Lochridge
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Paul Zimbardo
	Generac Holdings Inc.	GNRC	GNRC US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	Maxon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	New Fortress Energy	NFE	NFE US	Cameron Lochridge
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	TransAlta Corp	TAC	TAC US	Julien Dumoulin-Smith
	TransAlta Corporation	YTA	TA CN	Julien Dumoulin-Smith

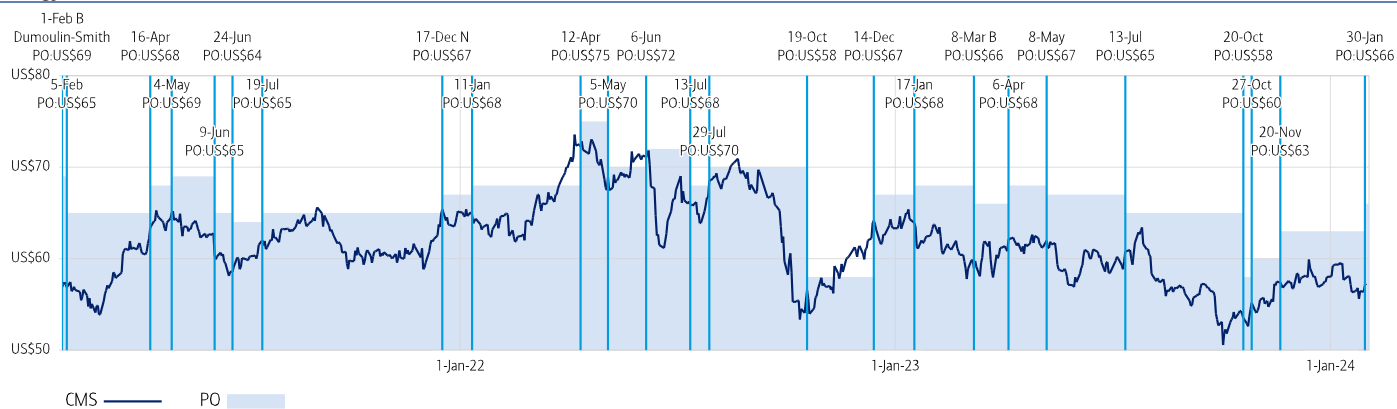
## North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>UNDERPERFORM</b>	Allete Inc	ALE	ALE US	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Paul Zimbardo
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Paul Zimbardo
	Edison International	EIX	EIX US	Paul Zimbardo
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Paul Zimbardo
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	FREYR Battery	FREY	FREY US	Julien Dumoulin-Smith
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	SolarEdge Technologies	SEDG	SEDG US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	Stem, Inc.	STEM	STEM US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith

## Disclosures

## Important Disclosures

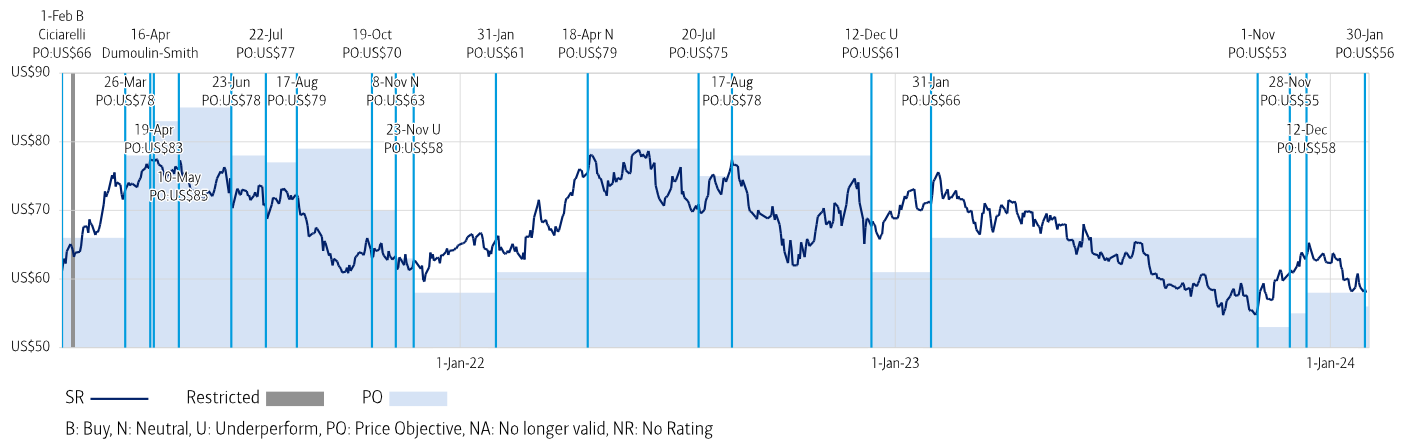
## CMS Energy (CMS) Price Chart



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.

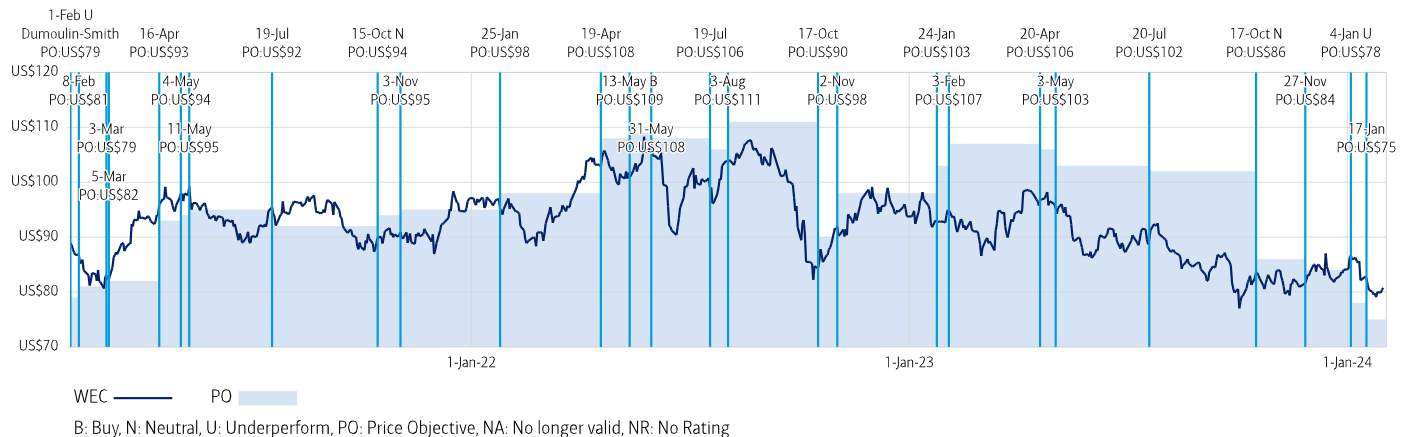


**Spire (SR) Price Chart**

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**UGI Corp. (UGI) Price Chart**

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**WEC Energy Group Inc (WEC) Price Chart**

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	83	61.48%	Buy	64	77.11%
Hold	28	20.74%	Hold	21	75.00%
Sell	24	17.78%	Sell	18	75.00%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	72	46.45%	Buy	52	72.22%
Hold	45	29.03%	Hold	32	71.11%
Sell	38	24.52%	Sell	21	55.26%

**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%

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