

US Electric Utilities & IPPs

Utilities Macro Check-In: More Pain to Come? Interest Rates Havoc on Utilities

Industry Overview

Risk-on, rates, drive sector underperformance in 2023

Utilities are the worst-performing GICS sector in the S&P 500 with a YTD return through August 22 of -11%, compared to nearly +15% for the index broadly. 2023 has seen a wide level of dispersion among sectors with large-cap tech leading the way. While the market as a whole is up, more sectors are down YTD (six) than up (five). With interest rates at the highest level in years – and importantly expectations coalescing around a higher for longer regime – Utility valuations continue to look neutral at best. Risks linger for '24.

Rate correlation is back after COVID-era dislocation

The XLU Utility Index has moved relatively tightly in line with the inverse 30Y UST over the last 12 months, as higher rates have driven yields on risk-free and highly rated fixed income assets to levels that are competitive with utility dividend yields for the first time in years. Our historical regression still suggests that Utilities are close to fairly valued, framing the recent underperformance as a needed adjustment rather than a temporary dip resulting in a clear buying opportunity.

Valuations at 2009 and 2015 levels

Average PE valuation for the Utility sector is near levels last seen in 2009 and 2015 (not including COVID markets which saw substantial dislocations) – see Exhibit 5 inside. In both of those preceding periods, the sector quickly rebounded to trade at a premium to historical levels. We see the existing setup as less favorable, as higher rates mean Utilities do not offer a cheap and low-risk source of yield as was the case for much of the past decade.

Sub-sector differences matter much less in this market

Among the more notable trends within the Utilities sector recently has been dedining valuation spreads among sub-sectors. Gas vs Electric has been an active debate among dedicated investors in recent years with Electric utilities trading at a sustained 4-5x PE premium in 2020-21, a spread that is now between 0-1x depending on the specific comp groups. A similar trend has offered with large-cap value utilities and small/mid-cap names, suggesting investors are trading the group more or less as a whole and looking less closely at merits and valuation metrics of individual companies. With this backdrop, large-cap premium equities remain our clear preference: clear when looking at our ratings skew. Muted spreads enable a stock-pickers' environment.

Equity issuance needs dragging down outlooks

Weak balance sheets continue to be a drag for companies with funding needs, with Eversource Energy's (ES) offshore wind sale and Dominion Energy's (D) business review particularly cautious. Algonquin Power & Utilities (AQN) recently announced its intention to pursue a renewables sale has also been met cautiously by investors given recent market comps. We also flag several other names with potentially meaningful equity needs including AES Corp (AES), Avista Corp (AVA), Black Hills Corp (BKH), Essential Utilities (WTRG), Portland General Electric (POR), and Spire Inc (SR). Yet the higher rate backdrop leaves us further cautious on companies with asset sale processes ongoing.

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Electric Utilities

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Glossary

GICS: Global Industry Classification Standard
IRA: Inflation Reduction Act

Utility dividend yields now notably lagging Treasuries

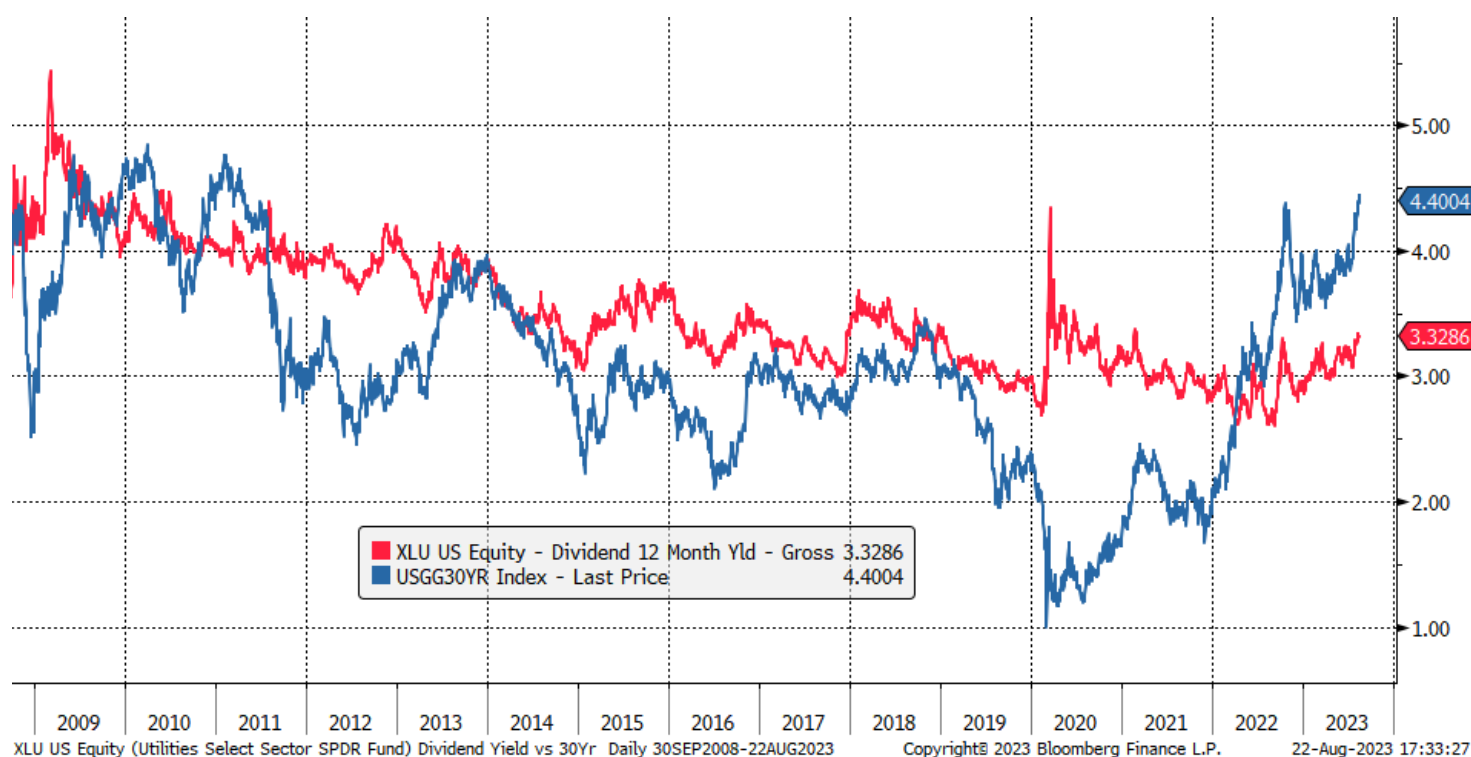
The most closely watched utilities sector ETF (XLU) is yielding 3.3%, which includes some lower dividend paying members such as NextEra Energy (2.8%), Constellation Energy (1.1%), PG&E Corp (no dividend), and American Water (2.0%) in membership size.

The average US utility has a 3.8% dividend yield which is 3.4% for the higher P/E 'premium' utilities, 3.9% for the small- and mid-cap utilities, and 4.0% for the lower P/E 'value' utilities (4.2% excluding PG&E). Among large cap utilities, the highest yields are Dominion Energy (D 5.6%) and Avangrid (AGR 5.1%). Neither D nor AGR are forecast to have any material dividend growth. Avangrid has kept its dividend flat at \$0.44 per quarter since July 2018. The natural gas utilities ex-UGI are yielding 3.9% and the water utilities yield ~2.2%.

Many investors primary objective of investing in regulated utilities is safety and income, attributes that Treasuries can more than replicate. The average regulated utility offers ~6% EPS growth which is the advantage over the safe Government debt.

Exhibit 1: Utilities Dividend Yield (Red) and 30Y US Treasury Yield (Blue)

The 30Yr US Treasury yield has sharply increased and is over 100bp above the most closely watched dividend yield



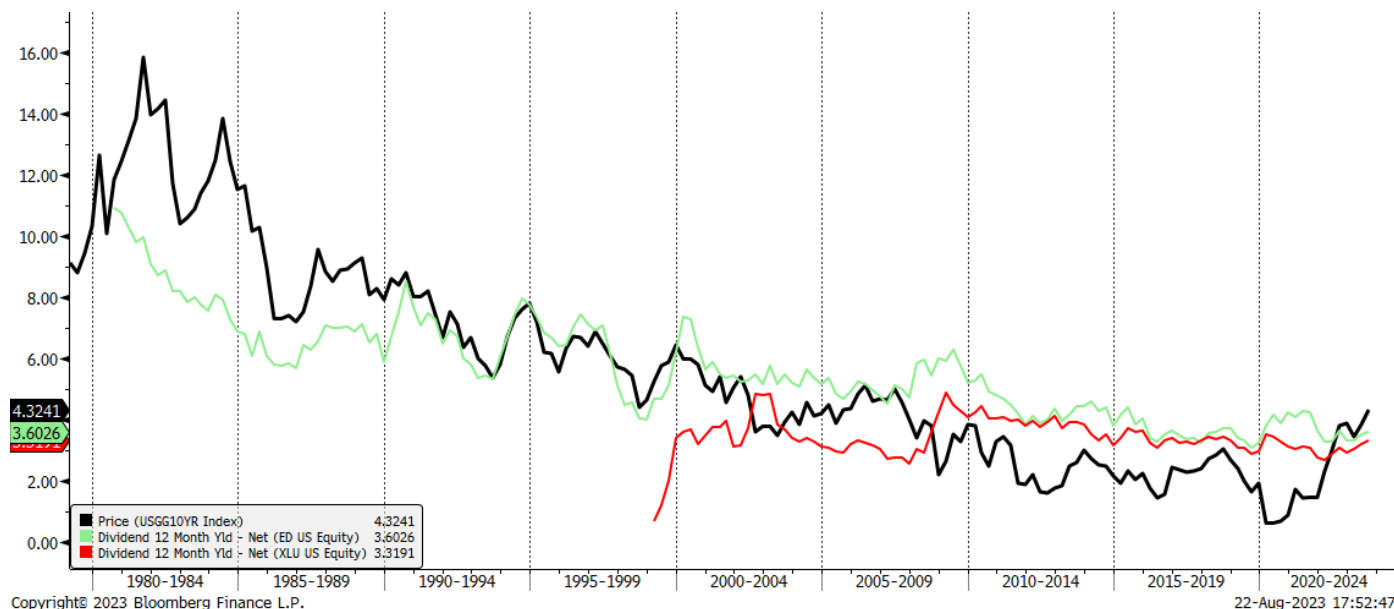
Source: Bloomberg

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The Exhibit below shows historical utilities sector (XLU) and Consolidated Edison (ED) dividend yield versus the 10Y US Treasury yield. For the first time since 1999, the US Treasury yield is higher than the dividend yield on Consolidated Edison. The yield on US Treasuries is now ~100bp higher than the utilities sector dividend yield.

Exhibit 2: Utilities Dividend Yield, Consolidated Edison Dividend Yield, and 10Y US Treasury Yield (Black)

Utility yields are now solidly below US Government yields for the first time in over a decade.

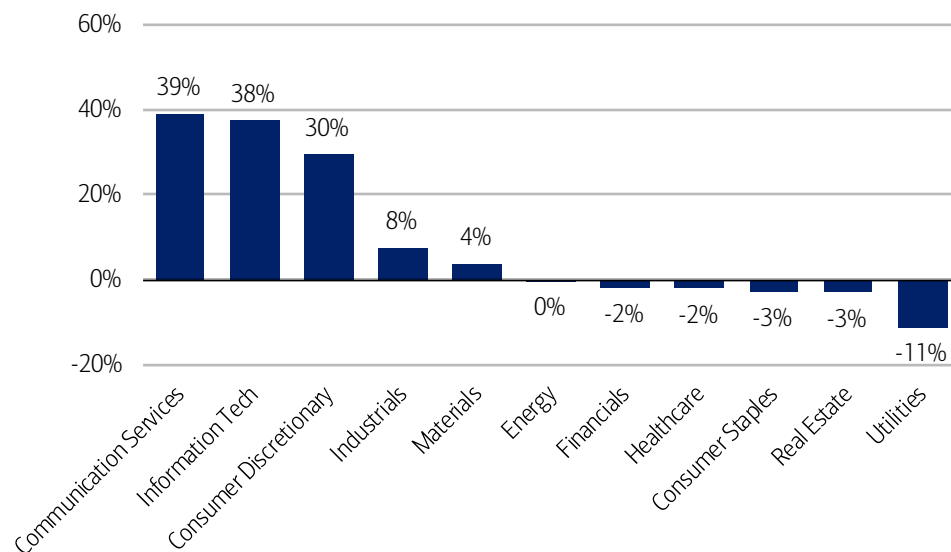


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Relative utility valuation vs rates has been among the top questions we have received from investors this year. Below we examine relative valuations as compared to historical correlations vs the 10Y and 30Y UST.

Exhibit 3: Relative Sector Performance

S&P +15% YTD, Utilities are the biggest laggard



Source: BofA Global Research, Bloomberg

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Equity needs hurt the outlook for many utilities

The surge in interest rates and corresponding plunge in utility/infrastructure valuations is the most negative for companies with weaker balance sheets. Higher interest rates should result in lower asset sale proceeds for Eversource Energy's (ES) offshore wind sale and any additional asset sales from Dominion Energy's (D) business review due by 9/30. Other companies with material equity and/or asset sale exposure includes Algonquin Power & Utilities (AQN), AES Corp (AES), Avista Corp (AVA), Black Hills Corp (BKH), Essential Utilities (WTRG), Portland General Electric (POR), and Spire Inc (SR).



California cost of capital will be a key test

PG&E Corp (PCG) is outperforming the broader utilities sector +70bp over the past 15 days but is -350bp off its relative highs due to broad concerns about wildfire risk following the Hawaiian Electric (HE) situation. Similarly, but stronger, shares of Edison International (EIX) are outperforming the utilities sector +200bp are trading near their relative highs. From our investor conversations, it is firmly buy-side consensus that the California Cost of Capital mechanism triggers upward and is enforced by the California Public Utilities Commission (CPUC). Investors see California utilities as clearly a net beneficiary from this potential positive revision to EPS with higher rates. Our base case remains that the Cost of Capital trigger would not be enforced by the CPUC as an extraordinary event.

We acknowledge that the potential for 'higher for longer' interest rates could influence the CPUC's decision making as an upside risk to our Underperform on shares of EIX. We continue to see much better value in shares of PCG, which offer one of the highest EPS growth rates and have more conservatism in the long-term guidance than EIX's plan in our view. A Cost of Capital positive trigger enforcement would help EIX but the higher interest rates on parent obligations & unrecoverable wildfire debt (variable and maturities) will cause management to have to locate more "operational variances" to keep the guidance unchanged, in isolation of other variables. We will be closely following the Cost of Capital proceeding discovery for details on Edison International's interest rate curve assumptions on the financial long-term guidance. We estimate materially higher unrecoverable interest expense in 2025/2027 than management's guidance.

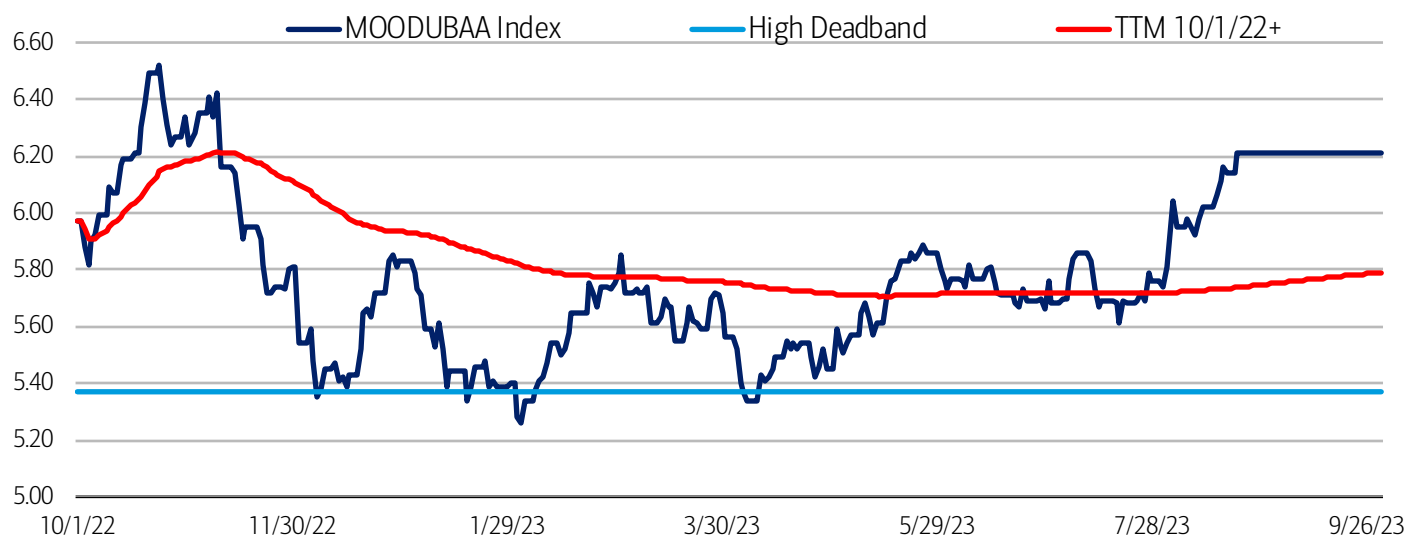
[Edison International: Long-Term Roll-Forward: One step forward, one step back. Reit Underperform 28 July 2023](#)

PCG Fire Victim Trust waiting for market conditions

On August 2nd the PG&E Fire Victim Trust (FVT) Trustee stated that will sell its remaining shares "when market conditions present the best opportunity to maximize yield for fire survivors. The next *pro rata* payment will be predicated on that sale and resolution of outstanding claims." Historically the FVT has had a tendency to sell in 60Mn blocks and has ~67Mn shares as of August 1st. *We maintain Buy on shares of PCG and Underperform on shares of EIX based on the respective EPS growth outlooks and relative valuations.*

Exhibit 4: California Cost of Capital Mechanism Pro-Forma

Cost of capital triggering and being enforced is firmly consensus from our conversations.



Source: Company Filings, California Public Utilities Commission, Bloomberg, & BofA Global Research

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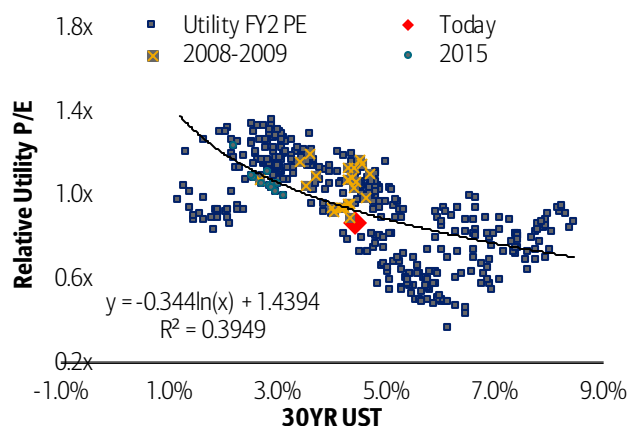


Historical signals mixed amid rate volatility

Below we refresh our look at Utility PE valuations regressed against historical yields of the 10Y and 30Y UST. Notably Utilities now look modestly under-valued vs the 30Y and over-valued vs the 10Y – these signals tend to be aligned historically. We note that the directional variance is not as significant as the delta to the regression line which itself is relatively modest, suggesting that on balance utilities appear to be close to in-line with “fair” value based on these backward-looking relationships.

Exhibit 5: Non-linear relationship vs 30Y UST

Utilities screen as modestly under-valued vs 30Y UST

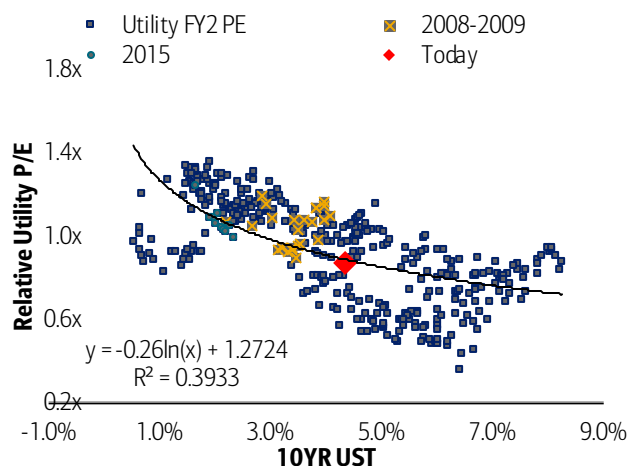


Source: BofA Global Research, Bloomberg

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Exhibit 6: Non-linear relationship vs 10Y UST

Utilities screen as modestly under-valued vs 10Y UST



Source: BofA Global Research, Bloomberg

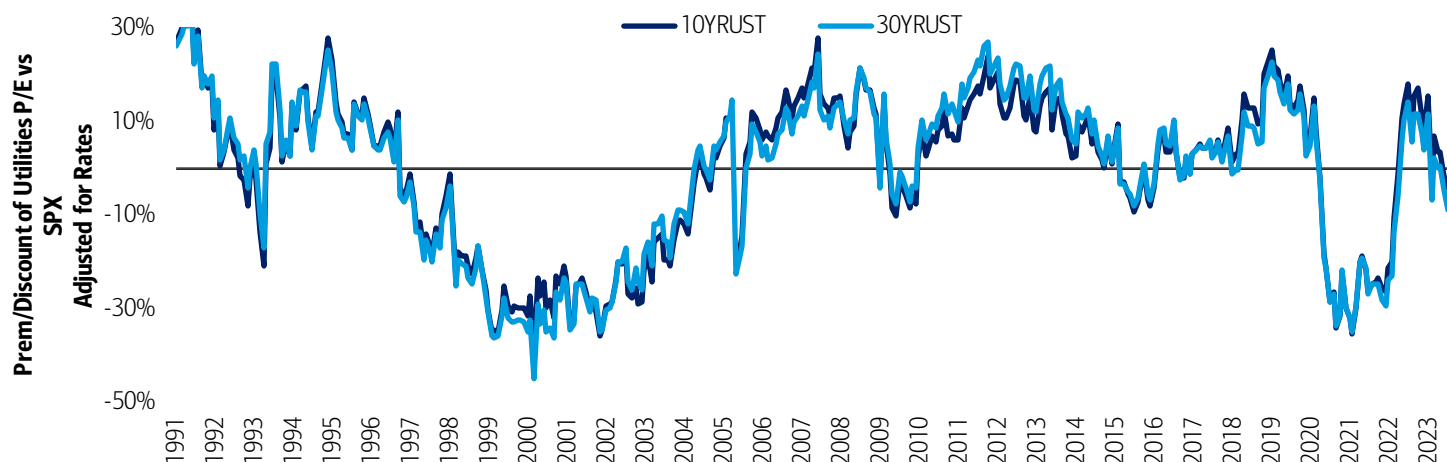
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Relative valuations implied by the regression relationships above recently returned to implying that Utilities were over-valued after indicating the sector was inexpensive for much of the 2020-2022 period.

Excluding the COVID market, the most recent move lower in Utility shares relative to historical regression looks similar to 2009 or 2015, the last time that the sector moved below the ‘fair value’ regression line, both times briefly. *One meaningful difference between these periods is the level of interest rates with both the 2009 and 2015 periods occurring during relatively low periods in the cycle.*

Exhibit 7: Historical relative valuation as implied by correlations

Utilities move lower vs implied valuation for the first time since early 2020



Source: BofA Global Research, Bloomberg

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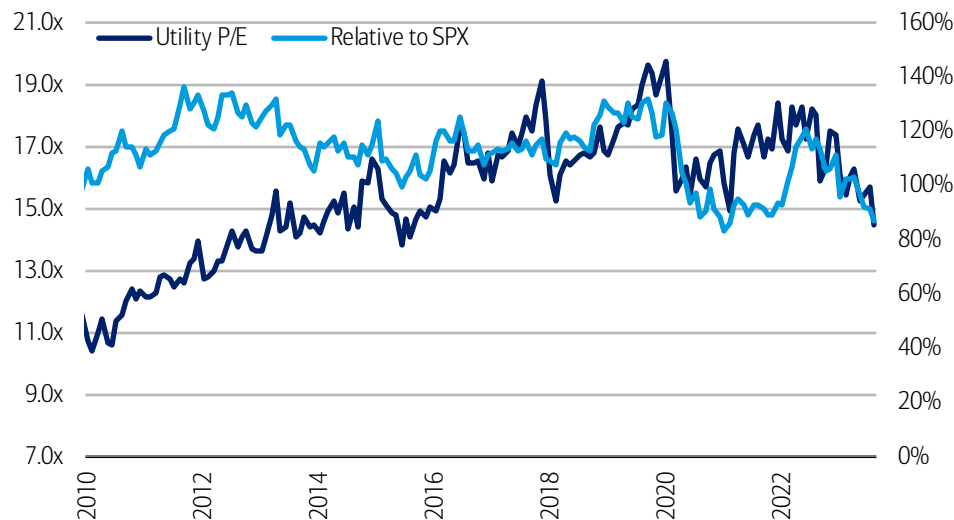
Valuation gap to broader equity market

The absolute PE ratio for the Utility sector has contracted of late, unsurprising given the negative YTD return. Given outperformance elsewhere in the market, the relative valuation of utilities to the S&P has declined below 0.9x, a level not seen for a sustained period outside of the COVID market since 2009. Again note that post-financial crisis interest rates were set close to zero, allowing Utilities' comparably stronger returns on a dividend yield basis to drive a rerating that persisted for much of the 2010s.

Overall utilities appear to be pricing in a higher-for-longer interest rate regime where 3-4% dividend yields that investors have become accustomed to do not screen as attractive in a market where nearly risk-free securities can offer 5-6%.

Exhibit 8: Utilities absolute PE and relative to SPX

As sector has traded lower on absolute basis, relative valuation has shrunk too



Source: BofA Global Research, Bloomberg

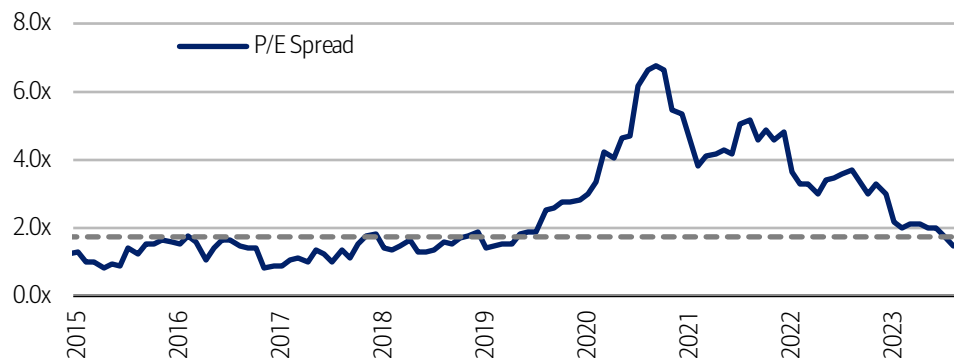
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Gas vs Electric – not much difference in this market

In recent years Utility stocks have seen at times wide variations between relative values of electric vs gas names. Near term drivers for this trend were fundamental (renewables capex), thematic (ESG, Inflation Reduction Act), and technical (rise of super-premium valuations among electrics). With the electric-gas valuation spread largely returning to near historical levels of late, it appears that macro factors have once again reasserted themselves with total return for both electric and gas seen as not differentiated enough to warrant substantially different valuations.

Exhibit 9: Gas and Electric utilities trading close to historical average

Premium seen since 2019 has largely disappeared



Source: BofA Global Research, Bloomberg

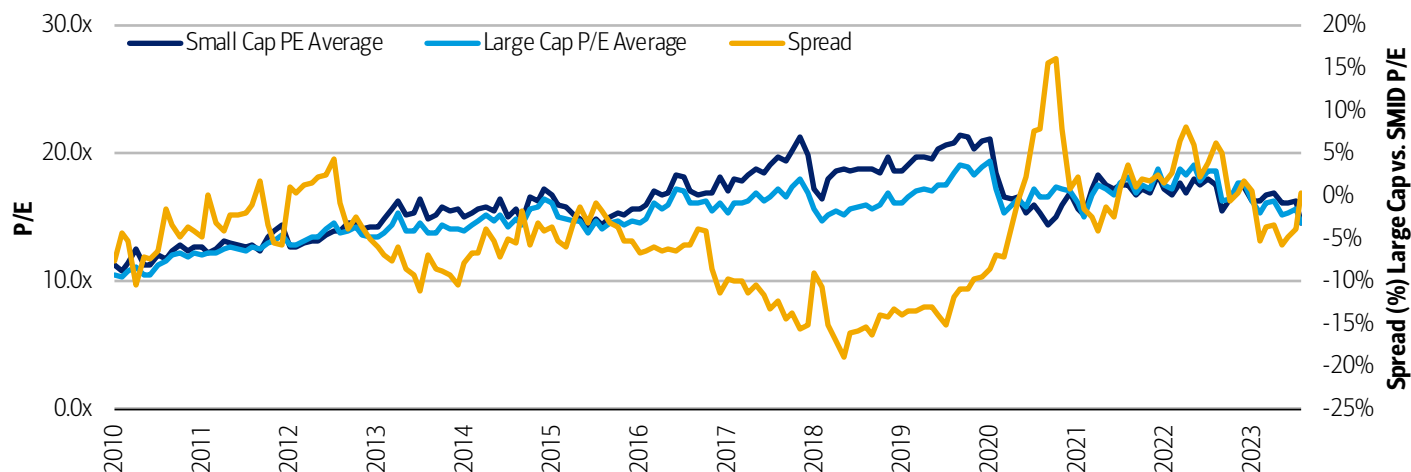
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Large cap value trading close to in line with SMIDs

Within the electric and diversified utilities there is also a relatively low level of dispersion in valuation. Absolute and relative PEs between large cap value utilities and Small/Mid (SMID) caps have largely converged in 2023 with little spread between the two groups today. This further illustrates the degree to which investors have shifted out of utilities broadly rather than picking relative winners and losers in the sector.

Exhibit 10: Small Cap to Large Cap Value Utility valuations

Spread has declined of late with groups trading largely in line



Source: BofA Global Research, Bloomberg

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The Illinois electric allowed return on equities have been formally delinked from the 30Yr US Treasury yield but some intervenors have pointed at the formula as still a reasonable baseline. The formula-based ROE would now be 10.2% versus ~9.5% in 1Q23. We continue to see a de-risking of the backdrop for Illinois utilities, with a specific benefit to EXC but also de-risking peers.

Exhibit 11: Illinois Electric Historical ROE Methodology: 580bp + 30YR US Treasury

The legacy Illinois ROE methodology would indicate a much higher ROE now than the national average



Source: Bloomberg and Company Filings

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1H23 average Electric and Gas ROEs moved up higher

We note both average Electric and Gas ROE moved **up** higher in 1H23 to 9.56% and 9.66% vs 9.54% and 9.53% in 2022, respectively, based on 21 electric and 10 gas rate cases YTD vs 53 electric and 33 gas rate cases in 2022.

Excluding rider cases, the average Electric and Gas ROE would have been 9.64% and 9.58% in 1H23, respectively.

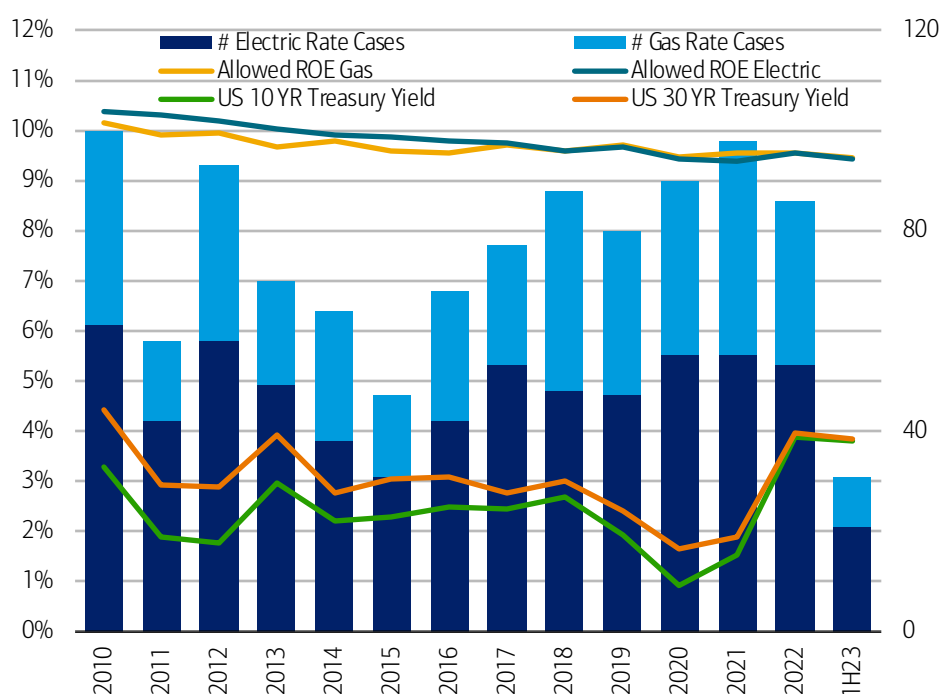
Notably, YTD spread between treasury and average ROE was largely remain same for both electric and gas vs 2022.

10 and 30-year treasury yields came down slightly in 1H23 from 2022 level. We see spreads were ~160bps lower than historical average (2010 through 1H23).

TTM data indicated average authorized Electric ROE was 9.60%, and the average authorized Gas ROE was 9.62%, respectively.

Exhibit 12: ROE trends vs US treasury yield

1H23 ROE – Treasury Spread largely remain same vs 2022

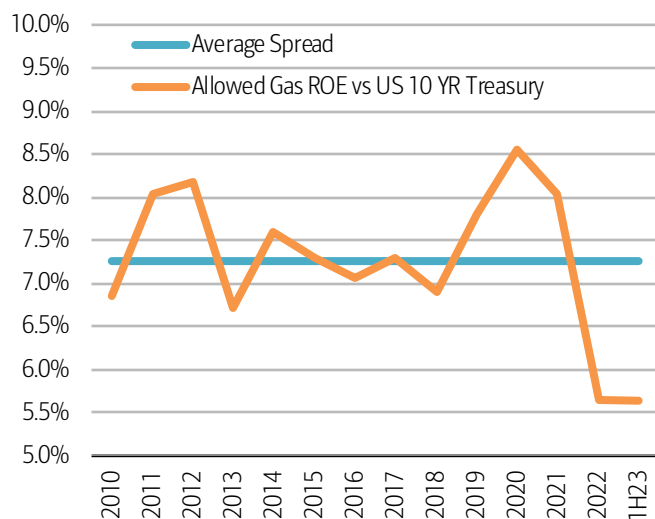


Source: BofA Global Research, S&P Capital IQ, Factset

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Exhibit 13: Allowed Gas ROE and US 10 YR treasury yield spread

Will the natural gas ROEs respond upward before electrics? Or lag?

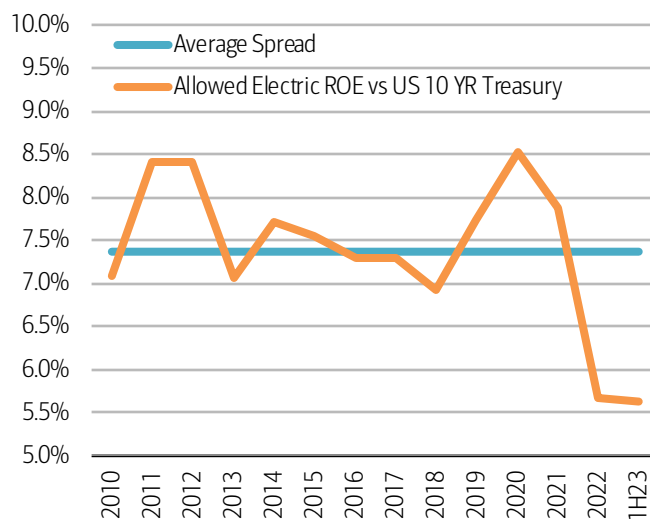


Source: BofA Global Research, S&P Capital IQ, Factset

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Exhibit 14: Allowed Electric ROE and US 10 YR treasury yield spread

Treasury spread is at 10+ year low but no major signs of higher ROEs yet



Source: BofA Global Research, S&P Capital IQ, Factset

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Exhibit 15: Primary stocks mentioned in this report

Prices and ratings for primary stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
EIX	EIX US	Edison Intl	US\$ 69.54	B-3-7
PCG	PCG US	PG&E Corp.	US\$ 16.78	C-1-9

Source: BofA Global Research

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Price objective basis & risk

Edison International (EIX)

Our \$57 PO is based on sum of the parts analysis with a peer 16.3x 2024 P/E grossed-up 5% for group growth. A -3x P/E discount is applied to the CPUC, as well as the Parent/Other segment, and -1x P/E discount to FERC jurisdictional utilities. The discount reflects below-average growth and regulatory considerations, albeit FERC risk profile is less challenging than the CPUC. The negative wildfire adjustments are netted-out to reflect a probabilistic approach to the risk of shareholder funded wildfires and the ongoing contribution to the CA fund on an NPV basis.

Positive and negative risks are changes in: 1) Wildfire and other natural disasters/catastrophic events, 2) regulatory outcomes, 3) interest rates, 4) equity needs, 5) earned returns and operating costs, 6) Edison Energy returns, 7) ability to deploy capital, 8) environmental, social, & governance [ESG] profile, and 9) wildfire liabilities for shareholders.

PG&E Corporation (PCG)

Our PO of \$19 reflects an in-line P/E versus the respective electric (16.1x) and gas (16.0x) peer P/E groups with both grossed-up by 5% to reflect capital appreciation across the sector) based on 2025E. The acute wildfire risk is incorporated separately via a scenario probability weighted at 100% assuming PCG hits the cap in 3-year increments. Lastly, we net out 50% weighting of HoldCo debt and add back 50% weighting of interest expense to derive our Price Objective.

Risks to achievement to estimates and Price Objective are: 1) Wildfire and other natural disasters/catastrophic events, 2) regulatory outcomes, 3) interest rates, 4) equity needs, 5) earned returns and operating costs, 6) Fire Victim Trust monetizations, 7) ability to deploy capital, 8) asset sales, 9) management changes, and 10) environmental, social, & governance [ESG] profile.

Analyst Certification

We, Julien Dumoulin-Smith and Paul Zimbardo, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective 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
BUY				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC 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
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	ChargePoint Holdings	CHPT	CHPT US	Alex Vrabel
	Cheniere Energy Inc	LNG	LNG 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
	Exelon	EXC	EXC US	Paul Zimbardo
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	FREYR Battery	FREY	FREY US	Julien Dumoulin-Smith
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Dariusz Lozny, CFA
	Maxon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	MDU Resources Group, Inc.	MDU	MDU US	Dariusz Lozny, CFA
	Nextracker Inc	NXT	NXT US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Corporation	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
	ReNew Power	RNW	RNW US	Julien Dumoulin-Smith
	Sempra Energy	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 Energy	VST	VST US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
NEUTRAL				
	AES	AES	AES US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	AQN	AQN US	Dariusz Lozny, CFA
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Dariusz Lozny, CFA
	AltaGas	YALA	ALA CN	Dariusz Lozny, CFA
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Emera Inc	YEMA	EMA CN	Dariusz Lozny, CFA
	Entergy	ETR	ETR US	Paul Zimbardo
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Fluence Energy	FLNC	FLNC US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	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
	Northwest Natural Holdings	NWN	NWN US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	SolarEdge Technologies	SEDG	SEDG US	Julien Dumoulin-Smith



North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	TransAlta Corp	TAC	TAC US	Dariusz Lozny, CFA
	TransAlta Corporation	YTA	TA CN	Dariusz Lozny, CFA
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith

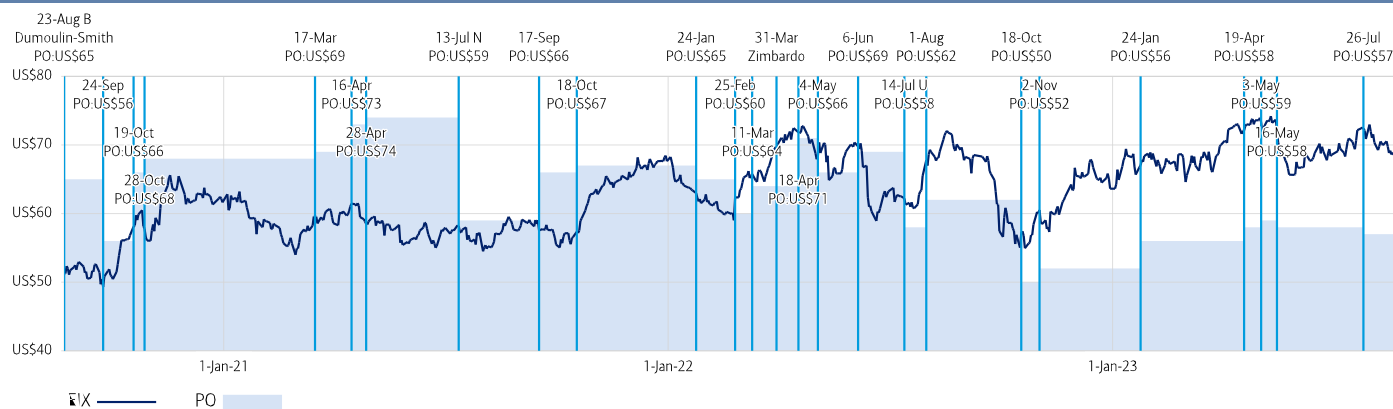
UNDERPERFORM

	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
	Dominion Energy	D	D US	Paul Zimbardo
	Edison International	EIX	EIX US	Paul Zimbardo
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Evergy, Inc	EVERG	EVERG US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Paul Zimbardo
	EVgo Inc.	EVGO	EVGO US	Alex Vrabel
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Dariusz Lozny, CFA
	Fortis Inc	FTS	FTS US	Dariusz Lozny, CFA
	Generac Holdings Inc.	GNRC	GNRC 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
	Southern Company	SO	SO 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
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith

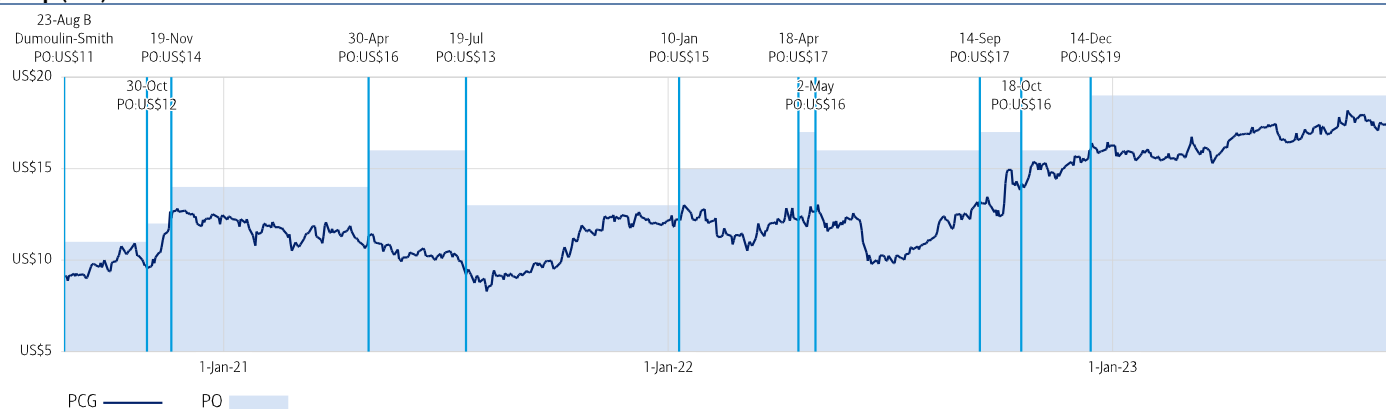
Disclosures

Important Disclosures

Edison Intl (EIX) 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.

PG&E Corp. (PCG) 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: Utilities Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	80	51.61%	Buy	52	65.00%
Hold	40	25.81%	Hold	29	72.50%
Sell	35	22.58%	Sell	23	65.71%

Equity Investment Rating Distribution: Global Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1877	53.28%	Buy	1040	55.41%
Hold	815	23.13%	Hold	464	56.93%
Sell	831	23.59%	Sell	385	46.33%

^{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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