

Ford Motor

A Super (Duty) finish to '23, Navigating a better Expedition in '24 – 4Q quick take

Reiterate Rating: BUY | PO: 21.00 USD | Price: 12.07 USD

4Q:23 results portend even better times ahead

Ford reported 4Q:23 adj. EPS of \$0.29, above our estimate of \$0.11 and consensus of \$0.13. Adj. EBIT of \$1.1bn was also above our \$0.85bn estimate. The operating beat was driven by solid execution and stronger-than-expected price especially in Pro, while a tax benefit was a material positive to net income. Ford Model e loss was heavier than BofAe due to the tough pricing environment, slow volume, and higher material costs. Credit was slightly lower than our expectations due to lower lease residuals. See pages 3-5 for details. Following 4Q results, we raise estimates and our PO from \$19 to \$21 (still based on ~4x 2024E EV/EBITDAP).

2024 outlook follows Ford Pro – above prior estimates

Ford provided its 2024 outlook, which is above prior BofA and consensus estimates. Specifically, Ford expects 2024 adj. EBIT of \$10bn-\$12bn (up from \$10.4bn in 2023), well above prior estimate of \$10.8bn. It should be noted given the strength of 4Q and 2023 our revised estimates are now more in-line with Ford's outlook. FCF is expected at ~\$6bn-\$7bn (BofAe \$6.7bn). Capex is expected at \$8bn-\$9.5bn (BofAe \$9bn). Ford Credit is assumed to mildly increase from 2023 levels to ~\$1.5bn (BofAe \$1.5bn). Regarding the other segments, Ford expects Blue to deliver operating results in the range of \$7bn-\$7.5bn (BofAe \$7.4bn) and Pro to grow to \$8bn-\$9bn (BofAe \$8.6bn). Ford Model e is still expected to suffered heavy losses of \$(5.5)bn-\$(5)bn (BofAe \$(5.0)bn). Ford believes that in the US there is room for volume growth, which the company assumes to be in the range of 16mm-16.5mm SAAR, but that industry-wide pricing may be down ~2%. We generally agree with the trajectory of volumes, but believe pricing may be more resilient.

Ford's Core to Future transition underway

Unsurprisingly, Ford highlighted the increasingly challenging EV market conditions as customer demand has faded and aggressive price cuts further challenged profits. Nonetheless, Ford continues to invest in electrification, but at a more measured pace, and is re-orienting expenditures to smaller platforms while expanding the offering of hybrids for large vehicles (recent out performers). Ford continues to expect Gen2 EVs to be a major benefit to cost reduction/profits. Despite this shifting landscape, Ford is leveraging its core strength in the Ford Blue and Ford Pro businesses to fund its developing Model e business. There is a long way to go, but with a strong near-term product cadence (Super Duty, Navigator, Expedition) combined with management focus, we expect strong profits and progress. Therefore, we reiterate our Buy rating on Ford.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.88	2.01	2.05	2.30	2.70
EPS Change (YoY)	18.2%	6.9%	2.0%	12.2%	17.4%
Consensus EPS (Bloomberg)			1.69	1.70	1.60
DPS	0.50	1.24	0.60	0.60	0.60
Valuation (Dec)					
P/E	6.4x	6.0x	5.9x	5.2x	4.5x
Dividend Yield	4.1%	10.2%	5.0%	5.0%	5.0%
EV / EBITDA*	2.1x	2.3x	2.2x	2.1x	1.9x
Free Cash Flow Yield*	11.2%	11.4%	13.7%	14.4%	16.3%

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

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Timestamp: 07 February 2024 05:00AM EST

07 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	19.00	21.00
2024E Rev (m)	169,060.5	176,010.3
2025E Rev (m)	173,598.4	183,213.4
2026E Rev (m)	180,083.5	193,223.3
2024E EPS	1.95	2.05
2025E EPS	2.25	2.30
2026E EPS	2.65	2.70

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Stock Data

Price	12.07 USD
Price Objective	21.00 USD
Date Established	7-Feb-2024
Investment Opinion	B-1-7
52-Week Range	9.63 USD - 15.42 USD
Mkt Val (mn) / Shares Out (mn)	48,823 USD / 4,045.0
Free Float	99.8%
Average Daily Value (mn)	655.92 USD
BofA Ticker / Exchange	F / NYS
Bloomberg / Reuters	F US / F.N
ROE (2024E)	4.6%
Net Dbt to Eqty (Dec-2023A)	-5.0%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

iQprofileSM Ford Motor

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	4.1%	3.6%	3.4%	3.7%	4.2%
Return on Equity	4.5%	4.7%	4.6%	4.9%	5.6%
Operating Margin	7.1%	5.2%	5.3%	5.7%	6.4%
Free Cash Flow	5,461	5,582	6,702	7,029	7,982

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.6x	1.7x	1.9x	1.7x	1.6x
Asset Replacement Ratio	2.6x	3.1x	3.4x	3.4x	3.3x
Tax Rate	16.4%	8.8%	17.5%	17.7%	17.9%
Net Debt-to-Equity Ratio	-7.2%	-5.0%	-7.8%	-10.8%	-14.1%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	149,079	165,901	176,010	183,213	193,223
% Change	18.1%	11.3%	6.1%	4.1%	5.5%
Gross Profit	23,629	23,533	23,018	24,952	27,156
% Change	41.2%	-0.4%	-2.2%	8.4%	8.8%
EBITDA	19,689	18,087	18,829	20,206	22,249
% Change	47.6%	-8.1%	4.1%	7.3%	10.1%
Net Interest & Other Income	(226)	1,745	2,266	2,261	2,357
Net Income (Adjusted)	7,618	8,132	8,276	9,318	10,935
% Change	18.4%	6.7%	1.8%	12.6%	17.4%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	8,877	9,434	9,576	10,552	12,170
Depreciation & Amortization	5,200	5,300	5,280	5,333	5,386
Change in Working Capital	3,538	5,871	2,956	3,020	2,584
Deferred Taxation Charge	(2,234)	(1,032)	(1,000)	(1,017)	(1,189)
Other Adjustments, Net	(3,112)	(5,835)	(1,111)	(1,859)	(1,969)
Capital Expenditure	(6,808)	(8,156)	(9,000)	(9,000)	(9,000)
Free Cash Flow	5,461	5,582	6,702	7,029	7,982
% Change	NM	2.2%	20.1%	4.9%	13.6%
Share / Issue Repurchase	(484)	(335)	0	0	0
Cost of Dividends Paid	(2,009)	(4,995)	(2,423)	(2,423)	(2,423)
Change in Debt	(517)	(327)	(1,000)	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	32,184	28,724	33,554	39,721	46,937
Trade Receivables	4,575	5,771	6,510	5,772	5,823
Other Current Assets	20,683	24,313	25,661	26,247	27,114
Property, Plant & Equipment	37,032	40,551	44,082	47,475	50,729
Other Non-Current Assets	162,937	177,470	176,483	175,154	173,633
Total Assets	257,411	276,829	286,290	294,369	304,236
Short-Term Debt	730	477	477	477	477
Other Current Liabilities	44,672	55,286	53,321	56,189	59,691
Long-Term Debt	19,200	19,467	18,467	18,467	18,467
Other Non-Current Liabilities	23,565	27,158	27,158	27,158	27,158
Total Liabilities	88,167	102,388	99,424	102,291	105,793
Total Equity	169,244	174,411	186,866	192,078	198,443
Total Equity & Liabilities	257,411	276,799	286,290	294,369	304,236

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

Company Sector

Autos/Car Manufacturers

Company Description

Ford Motor is one of the world's largest vehicle manufacturers, with over 6mm units manufactured/sold globally. In our view, the company has made significant progress executing on its One Ford plan and delivering best in class vehicles. The company also remains committed to positioning itself well within the evolving auto industry through balanced investments across electrification, autonomy, and mobility services.

Investment Rationale

Our Buy rating on Ford is predicated on our expectation for a micro earnings inflection at the company, driven by the confluence of a favorable product cycle in the all-important US/NA market and benefits from its Global Redesign restructuring, in addition to the ongoing macro recovery underway in the global automotive cycle. Together, these dynamics should help to fund the Ford+ plan and Ford's Core to Future transition, which should start to get more credit among the investment community.

Stock Data

Average Daily Volume 54,343,204

Quarterly Earnings Estimates

	2023	2024
Q1	0.63A	0.35E
Q2	0.73A	0.55E
Q3	0.39A	0.60E
Q4	0.27A	0.55E

4Q:23 beat on Pro pricing, with Super Duty trucking

Ford reported 4Q:23 adj. EPS of \$0.29, above our estimate of \$0.11 and Bloomberg consensus of \$0.13. Ford posted adjusted EBIT of \$1.1bn in 4Q:23, which was also above our estimate of \$0.85bn. The beat was driven by stronger than expected Ford Pro and Ford Blue results. This was partially mitigated by heavier losses at Model e and lighter results in Ford Credit and Ford Next. Ford Pro results benefited from strong pricing bolstered by the Super Duty. Ford Blue was weighed down less than expected from the UAW strike and had small benefits from commodity costs and FX. Ford Credit was negatively impacted by higher borrowing costs and higher credit losses. Slower EV volumes, lower pricing, higher material costs and investments hurt Model e.

Exhibit 1: Ford 4Q:23 results summary by segment

Ford reported 4Q:23 adjusted EPS of \$0.29 versus BofAe of \$0.11

	Versus BofAe			YoY Change		
	4Q:23A	4Q:23E	Variance	4Q:23A	4Q:22A	Variance
Ford Blue	\$813	\$654	\$159	\$813	\$1,549	(\$736)
Ford Model e	(\$1,570)	(\$1,404)	(\$166)	(\$1,570)	(\$631)	(\$939)
Ford Pro	<u>\$1,811</u>	<u>\$1,516</u>	<u>\$295</u>	<u>\$1,811</u>	<u>\$1,450</u>	<u>\$361</u>
Total Automotive	\$1,054	\$766	\$288	\$1,054	\$2,368	(\$1,314)
Ford Credit	\$280	\$320	(\$40)	\$280	\$191	\$89
Ford Next	(\$51)	(\$35)	(\$16)	(\$51)	(\$219)	\$168
Corporate Other	<u>(\$230)</u>	<u>(\$200)</u>	<u>(\$30)</u>	<u>(\$230)</u>	<u>\$224</u>	<u>(\$454)</u>
Total Company Adjusted EBIT						
Results	\$1,053	\$851	\$202	\$1,053	\$2,564	(\$1,511)
Net Income	\$1,162	\$431	\$731	\$1,162	\$2,069	(\$907)
EPS	\$0.29	\$0.11	\$0.18	\$0.29	\$0.51	(\$0.22)

Source: Company filings, BofA Global Research estimates

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Free cash flow ok and liquidity still solid

Ford generated \$2.0bn in adjusted free cash flow (FCF) in 4Q:23, which was down from \$3.6bn in 4Q:22. The FCF YoY decline was driven by lower operating results (UAW strike hit) and higher capital spending, partially mitigated by working capital tailwinds. Ford's total liquidity remains solid at \$46.4bn. Total gross cash of \$28.8bn and total debt of \$19.9bn translated into net cash of \$8.9bn. We think Ford's liquidity level is more than sufficient to weather potential challenges from production pressures, future product launches/ramps, as well as a possible recession.

Exhibit 2: Ford's balance sheet at end of 4Q:23 vs. 3Q:23 & 4Q:22 (\$mm)

Ford's liquidity level remains solid

	4Q:23	3Q:23	4Q:22
Company Cash	28,800	29,100	32,300
Debt	<u>19,900</u>	<u>(19,800)</u>	<u>(19,900)</u>
Net Cash	8,900	9,300	12,300
Net Cash per Share	\$2.20	\$2.30	\$3.04
Liquidity	\$46,400	\$50,600	\$48,000

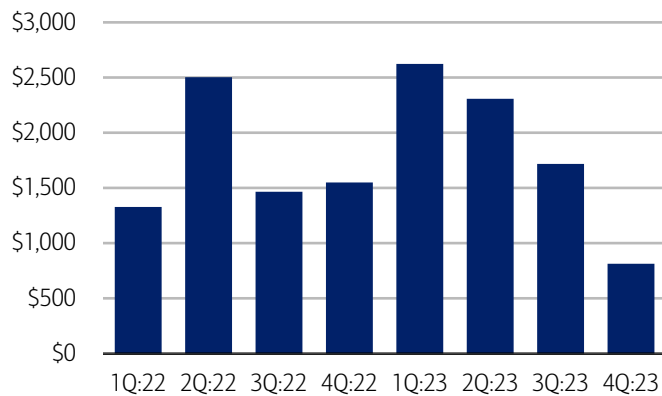
Source: Company filings

BofA GLOBAL RESEARCH

Segment results summary

Exhibit 3: Ford Blue quarterly EBIT (\$mm)

Ford Blue adjusted EBIT of \$0.81bn vs. BofAe of \$0.65bn



Source: Ford, BofA Global Research

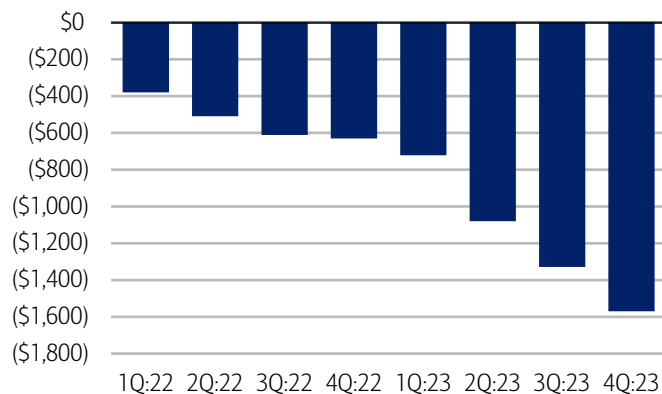
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Ford Blue 4Q:23 adjusted EBIT of \$0.81bn came in above our estimate of \$0.65bn, and was down from \$1.55bn in 4Q:22. Ford Blue EBIT margin of 3.1% was down YoY from 5.9% in 4Q:22, but was slightly stronger than our 2.8% estimate.

On a YoY basis, EBIT was negatively affected by pricing (-\$400mm), higher material costs partially mitigated by commodities (-\$300mm), and other (-\$200mm). This was partially offset by FX (+\$200mm). Recall that the quarter was impacted by the UAW strike. The company also highlighted that regions outside of North America were profitable.

Exhibit 4: Ford Model e quarterly EBIT (\$mm)

Ford Model e adjusted EBIT of (\$1,570)mm vs. BofAe of (\$1,404)mm



Source: Ford, BofA Global Research

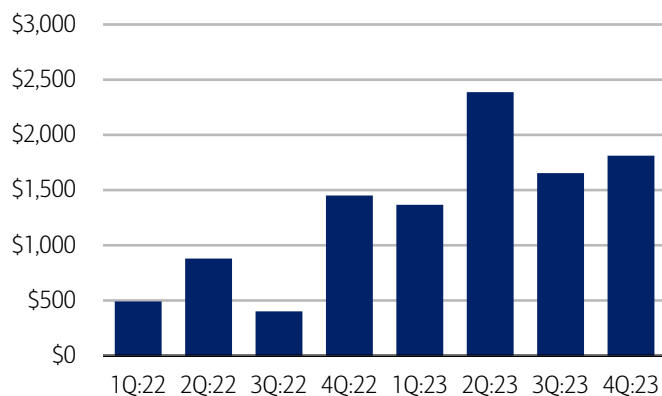
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Ford Model e reported a 4Q:23 EBIT loss of (\$1,570)mm, which came in below our estimate of (\$1,404)mm.

On a YoY basis, EBIT declined -\$939mm on lower pricing (-\$600mm) and higher material costs (-\$400mm). FX (+\$100mm) and Other (+\$100mm) partially offset the loss. Ford disclosed that it is currently working on improving the contribution margin of the existing product portfolio.

Exhibit 5: Ford Pro quarterly EBIT (\$mm)

Ford Pro adjusted EBIT of \$1,811mm vs. BofAe of \$1,516mm



Source: Ford, BofA Global Research

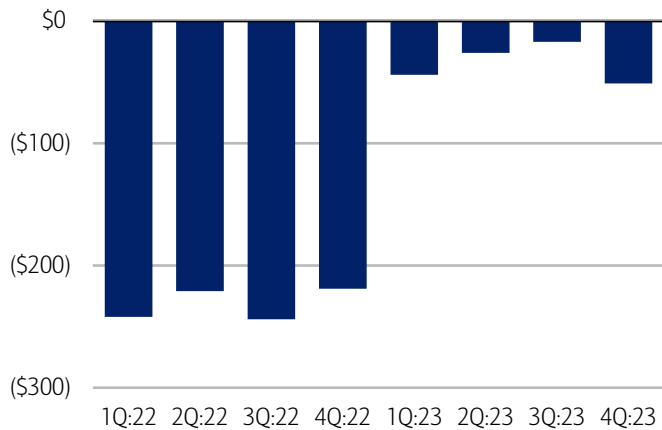
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Ford Pro reported EBIT of \$1,811mm in 4Q:23, which was above our \$1,516mm forecast, and significantly improved from \$1,450mm in 4Q:22. Adjusted EBIT margin was 11.8% in the quarter, which represents a 140bp improvement YoY.

On a YoY basis, the company delivered strong EBIT results driven by robust net pricing (+\$1,800mm) primarily due to the Super Duty. Volume/mix was a negative in the quarter (-\$600mm). Cost, which includes warranty, material, and freight, were a drag (-\$800mm) in 4Q:23. Ford noted that product demand outpaced supply.

Exhibit 6: Ford Next quarterly EBIT (\$mm)

Ford Next adjusted EBIT of (\$51)mm vs. BofAe of (\$35)mm



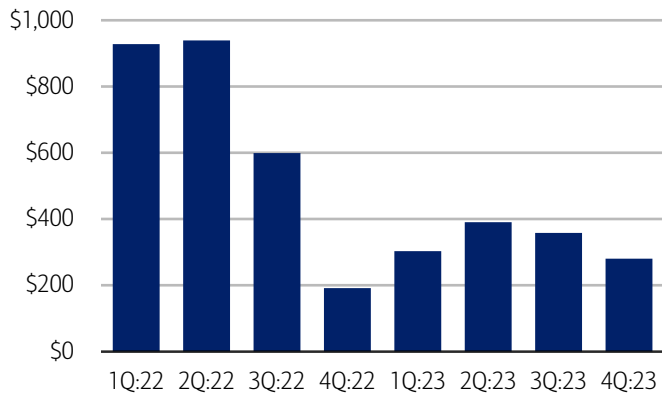
Source: Ford, BofA Global Research

BofA GLOBAL RESEARCH

Ford Next reported a 4Q:23 EBIT loss of (\$51)mm, which came in lower than our estimate of (\$35)mm, but meaningfully improved from the 4Q:22 loss of (\$219)mm.

Exhibit 7: Ford Credit quarterly EBIT (\$mm)

Ford Credit adjusted EBIT of \$280mm vs. BofAe of \$320mm



Source: Ford, BofA Global Research

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Ford Credit EBIT of \$280mm was below our estimate of \$320mm, but up YoY from \$191mm in 4Q:22.

The YoY increase in EBIT was driven by a higher financing margin (+\$100mm) and FX/Other (+\$100mm) while lease residuals (-\$100mm) were a headwind. The company expects auction values to be a headwind in 2024.

Price objective basis & risk

Ford Motor (F)

Our price objective of \$21 is based on an EV/EBITDAP multiple (EV/EBITDA adjusted for pension) of roughly 4x on our 2024 estimates. This valuation methodology reflects a multiple within Ford's historical range (3-6x). We believe a multiple at this level is warranted considering the timing of the cycle and as the company is on the verge of executing something analogous to our Core to Future transition framework, by which it will strengthen its core business pillars to fund its future business.

Downside risks: 1) a more swift and/or material downturn in US auto sales, 2) a sharp and sustained rise in input costs, 3) disruption in the supply base, 4) significant increase in gas prices, 5) new vehicle pricing deteriorates, 6) market share losses pressure results, 7) unwillingness of dealers to shoulder inventory risk, 8) suppliers gain significant pricing power, 9) stress in capital markets makes borrowing more expensive, 10) Incremental execution risk as management ramps up.

Upside risks: 1) continued strength in US auto cycle, 2) growth in China remains robust, which Ford is able to leverage with product launches, 3) mix and pricing remain favorable, 4) capital allocation is directed towards shareholder returns (special dividend, etc.).

Analyst Certification

I, John Murphy, CFA, 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 - Automotives Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Adient Plc	ADNT	ADNT US	John Murphy, CFA
	Aptiv PLC	APTV	APTV US	John Murphy, CFA
	Asbury Auto	ABG	ABG US	John Murphy, CFA
	AutoNation, Inc.	AN	AN US	John Murphy, CFA
	BorgWarner	BWA	BWA US	John Murphy, CFA
	Ferrari	RACE	RACE US	John Murphy, CFA
	Ferrari NV	XJHKF	RACE IM	John Murphy, CFA
	Ford Motor	F	F US	John Murphy, CFA
	General Motors Company	GM	GM US	John Murphy, CFA
	Group 1 Auto	GPI	GPI US	John Murphy, CFA
	Lear Corp.	LEA	LEA US	John Murphy, CFA
	Lithia Motors A	LAD	LAD US	John Murphy, CFA
	Magna Intl	MGA	MGA US	John Murphy, CFA
	Magna Intl	YMG	MG CN	John Murphy, CFA
	Penske Auto Group	PAG	PAG US	John Murphy, CFA
	Rivian Automotive	RIVN	RIVN US	John Murphy, CFA
	Visteon	VC	VC US	John P. Babcock
NEUTRAL				
	Gentex	GNTX	GNTX US	John Murphy, CFA
	Lucid Group	LCID	LCID US	John Murphy, CFA
	Luminar Technologies	LAZR	LAZR US	John P. Babcock
	Tesla Motors	TSLA	TSLA US	John Murphy, CFA
UNDERPERFORM				
	American Axle	AXL	AXL US	John Murphy, CFA
	America's Car-Mart, Inc.	CRMT	CRMT US	John Murphy, CFA
	CarMax, Inc.	KMX	KMX US	John Murphy, CFA
	Mobileye	MBLY	MBLY US	John Murphy, CFA

US - Automotives Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	OPENLANE	KAR	KAR US	John Murphy, CFA
	Sonic Automotive	SAH	SAH US	John Murphy, CFA
RVW	Fisker	FSR	FSR US	John P. Babcock

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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

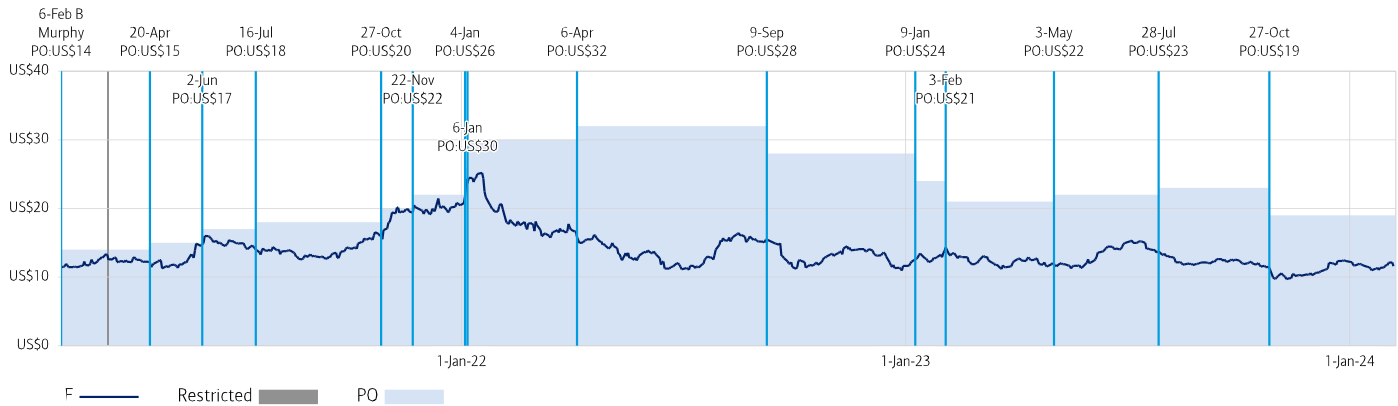
iQdatabase[®] is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

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Disclosures

Important Disclosures

Ford Motor (F) Price Chart



F: 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: Autos Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	67	55.83%	Buy	39	58.21%
Hold	30	25.00%	Hold	15	50.00%
Sell	23	19.17%	Sell	12	52.17%

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.

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 ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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