Meta Platforms Inc

Social media legal call suggests CA trial early phase of a long process

Maintain Rating: BUY | PO: 810.00 USD | Price: 549.90 USD

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Equity

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Key takeaways from expert call with former FTC counsel

We hosted Megan Gray, Founder & CEO of GrayMatters Law & Policy and former Senior Counsel at the FTC, to discuss social media addiction litigation and other youth safety cases. Below we list our top takeaways from the call on potential risks and factors to consider for the current Northern California Social Media Trial (more details on page 3).

Risks: Big headlines, product implications & long timeline

1) While the jury verdict is only advisory, juries may not look favorably on social media, creating headline risk, 2) the verdict could influence future State actions and settlement negotiations, 3) remedies could require changes to some design features, and 4) if the plaintiffs are awarded a financial remedy, a stay on payment may or may not be granted during appeal. The trial could take 8 weeks, then 1-2 weeks for jury decision, followed by final ruling by the judge, so trial outcome uncertainty overhang could last until year-end.

Important factors to consider

1) The current bellwether trial represents just an early data point, and likely part of a long process establishing potential liability and damages, 2) the judge has already dismissed several of the plaintiff claims, 3) the jury decision is advisory, and the judge has final say, 4) causation remains a hurdle, as plaintiffs must link specific platform features to alleged youth harms, 5) design features in current trial have been limited by the judge and may not represent major feature changes, and 6) courts can reduce excessive damages through remittitur and awards may be overturned on appeal.

Valuation compelling, fundamentals to come back in focus

At ~$550, Meta is valued at ~16x 2027E GAAP EPS, which we view as attractive given an above market growth profile and growing AI capacity assets. While the stock is down on CA trial headlines, we believe the current bellwether trial outcome will represent only one data point in a multi-jurisdictional litigation process that will take many years to resolve. Maintain Buy. Several potential catalysts ahead: Connect Conference (Sep 23), Watermelon LLM launch, proprietary chip launch, Enterprise AI tools launch. Street sentiment on a Meta AI investments and ability to develop a compelling Personal AI product seems negative, so a strong offering could reshape AI views.

Estimates (Dec) (US$)	**2024A**	**2025A**	**2026E**	**2027E**	**2028E**
EPS	23.92	23.49	32.53	34.73	39.71
EPS Change (YoY)	60.3%	-1.8%	38.5%	6.8%	14.3%
Consensus EPS (Bloomberg)			35.20	38.30	46.34
Consensus EPS (Visible Alpha)			31.61	33.80	39.88
DPS	2.00	2.11	2.26	2.40	2.40
Valuation (Dec)					
P/E	23.0x	23.4x	16.9x	15.8x	13.8x
Dividend Yield	0.4%	0.4%	0.4%	0.4%	0.4%
EV / EBITDA*	14.9x	12.4x	10.3x	8.3x	6.7x
Free Cash Flow Yield*	3.8%	3.3%	0.2%	-1.1%	0.2%

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

Stock Data

Price	549.90 USD
Price Objective	810.00 USD
Date Established	30-Jul-2026
Investment Opinion	B-1-7
52-Week Range	520.26 USD - 790.80 USD
Mrkt Val (mn) / Shares Out (mn)	1,411,593 USD / 2,567.0
Free Float	99.9%
Average Daily Value (mn)	9623.63 USD
BofA Ticker / Exchange	META / NAS
Bloomberg / Reuters	META US / META.OQ
ROE (2026E)	39.2%
Net Dbt to Eqty (Dec-2025A)	22.1%

FTC: Federal Trade Commission
AI: Artificial intelligence
CA: California

iQprofile℠ Meta Platforms Inc

*iQ*method℠ – **Bus Performance***

(US$ Millions)	2024A	2025A	2026E	2027E	2028E
Return on Capital Employed	34.8%	26.0%	28.3%	24.3%	22.6%
Return on Equity	43.9%	46.6%	39.2%	33.3%	28.7%
Operating Margin	53.2%	52.4%	47.4%	45.2%	43.2%
Free Cash Flow	54,072	46,109	2,869	(15,000)	3,243

*iQ*method℠ – **Quality of Earnings***

(US$ Millions)	2024A	2025A	2026E	2027E	2028E
Cash Realization Ratio	1.2x	1.2x	1.4x	1.5x	1.6x
Asset Replacement Ratio	2.4x	3.7x	5.0x	4.6x	3.4x
Tax Rate	11.7%	29.6%	6.1%	15.0%	14.5%
Net Debt-to-Equity Ratio	2.8%	22.1%	25.1%	19.6%	17.3%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US$ Millions)	2024A	2025A	2026E	2027E	2028E
Sales	164,500	200,965	255,193	316,788	379,106
% Change	21.9%	22.2%	27.0%	24.1%	19.7%
Gross Profit	135,397	165,915	206,869	247,878	285,869
% Change	23.3%	22.5%	24.7%	19.8%	15.3%
EBITDA	102,069	122,932	147,309	183,841	226,875
% Change	41.0%	20.4%	19.8%	24.8%	23.4%
Net Interest & Other Income	1,284	2,657	(1,179)	(80)	(80)
Net Income (Adjusted)	**73,718**	**93,094**	**103,312**	**121,537**	**139,152**
% Change	**43.2%**	**26.3%**	**11.0%**	**17.6%**	**14.5%**

Free Cash Flow Data (Dec)

(US$ Millions)	2024A	2025A	2026E	2027E	2028E
Net Income from Cont Operations (GAAP)	62,387	60,459	83,493	89,591	102,989
Depreciation & Amortization	15,498	18,616	27,304	41,882	64,241
Change in Working Capital	1,051	(885)	(4,456)	10,049	12,657
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	12,392	37,610	34,256	35,415	40,873
Capital Expenditure	(37,256)	(69,691)	(137,728)	(191,937)	(217,518)
Free Cash Flow	**54,072**	**46,109**	**2,869**	**-15,000**	**3,243**
% Change	**22.7%**	**-14.7%**	**-93.8%**	**NM**	**NM**
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	(5,071)	(5,324)	(5,761)	(6,168)	(6,226)
Change in Debt	10,432	29,906	24,910	0	0

Balance Sheet Data (Dec)

(US$ Millions)	2024A	2025A	2026E	2027E	2028E
Cash & Equivalents	43,889	35,873	26,653	22,163	9,621
Trade Receivables	16,994	19,769	23,774	28,594	32,528
Other Current Assets	39,162	53,080	54,049	30,337	30,763
Property, Plant & Equipment	121,346	176,400	299,390	449,445	602,722
Other Non-Current Assets	54,663	80,899	98,787	98,847	98,907
Total Assets	**276,054**	**366,021**	**502,653**	**629,387**	**774,540**
Short-Term Debt	1,942	2,213	2,425	2,425	2,425
Other Current Liabilities	31,654	39,623	58,267	74,285	91,162
Long-Term Debt	47,118	81,684	101,990	101,990	101,990
Other Non-Current Liabilities	12,703	25,258	30,466	30,666	30,866
Total Liabilities	**93,417**	**148,778**	**193,148**	**209,366**	**226,443**
Total Equity	**182,637**	**217,243**	**309,505**	**420,021**	**548,098**
Total Equity & Liabilities	**276,054**	**366,021**	**502,653**	**629,387**	**774,540**

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

Company Sector

Internet/e-Commerce

Company Description

Meta Platforms is the largest social network with over 3 billion monthly active users across its properties. The company generates revenue from advertising and payments, with over 95% of revenue from advertising. Meta's revenues are split at rough 50% in North America, and 50% in International markets.

Investment Rationale

Meta is an investment in increasing social and mobile Internet usage, and also offers exposure to the increasing use of AI technology. Meta is positioned for strong EPS growth when the current investment cycle slows and growing capacity is better monetized.

Stock Data

Average Daily Volume	16,608,668

Quarterly Earnings Estimates

	2025	2026
Q1	6.43A	10.44A
Q2	7.14A	6.18A
Q3	1.05A	7.10E
Q4	8.88A	8.82E

Key Takeaways from expert call

We hosted Megan Gray, Founder & CEO of GrayMatters Law & Policy and former Senior Counsel at the FTC, to discuss social media addiction litigation and other youth safety cases. Below we highlight key risks, potential offsets and expected timelines for Meta litigation according to Ms Grey on the call.

Key risks include:

1) **Litigation resembles toxic tort risk:** Ms. Grey compares the many cases to lead paint & tobacco litigation, which can be fragmented, costly and long-running. The process is likely to play out across multiple jurisdictions over many years rather than resolve through a single near-term event.

2) **Multiple litigation tracks increase complexity:** Meta faces proceedings across California state court, California federal court, New Mexico, Massachusetts, other state cases, private class actions and bellwether trials. The fragmented structure makes it harder to assess aggregate liability and increases the likelihood of years of case-specific headlines.

3) **Product remedies are possible**: Ms Grey believes rulings and settlements could require changes to design features, which may impact engagement. Potentially exposed areas include recommendation algorithms, notifications, infinite scroll, autoplay and other engagement-driven features. In the Northern California case the judge has reduced the scope of the design features to be considered in the trial (see below).

4) **Bellwether verdicts could impact settlement discussions:** Even if later reduced or overturned, large awards can add to the body of bellwether results used to assess potential liability. Plaintiffs and state AGs may use favorable outcomes to strengthen their negotiating position and push an eventual settlement outcome higher.

5) **Section 230 protections could be tested:** Litigation may test whether Section 230 applies to platform design decisions, creating broader structural risk for internet platforms. A narrowing of Section 230 in design-related claims could have implications beyond Meta and potentially affect the broader social media sector, creating higher legal, compliance and product-design costs for social platforms.

6) **State enforcement momentum is increasing:** States are coordinating more aggressively on child safety and privacy, with children treated as vulnerable data subjects under many state privacy regimes. The Oakland/Ninth Circuit case is an important test case and could influence how other courts evaluate child safety obligations, age-appropriate design and platform liability going forward.

Factors to consider include:

- **The current CA bellwether trial provides an early data point, not a final outcome**: The current case will test how the facts and legal theories resonate with the judge and advisory jury. While the outcome could influence future litigation and settlement discussions, ruling will represent only one data point within a fragmented, multi-jurisdictional process.

- **Dismissal of several claims:** Ms. Gray noted that the judge has already dismissed several plaintiff claims, reducing the number of legal theories Meta must defend at trial. The narrower scope could reduce Meta's ultimate financial and product-related exposure. (See further discussion of what product features are under review below.)

- **Causation is a major hurdle for plaintiffs** Unlike tobacco litigation, where the link between product usage and health outcomes was more established, social media addiction cases face greater uncertainty around liability and medical causation. Plaintiffs will need to show that specific platform features directly caused or materially contributed to alleged harm, which could be difficult given the many other factors influencing youth mental health.

- **Long-duration process:** The litigation is likely to unfold over many years, with multiple trials, appeals and potentially Supreme Court review, making a near-term resolution unlikely. Ms Grey believes this should be viewed as a long-running regulatory overhang rather than a near-term binary event, with headline volatility likely to persist as individual cases move through different courts and jurisdictions. Any cash award could be stayed pending the appeals process.

- **Headline verdicts may overstate ultimate liability:** Individual jury awards can generate significant headlines, but they may later be reduced, overturned or become less meaningful as the broader litigation develops. Courts can also lower excessive damages through remittitur, where a judge reduces a jury award and gives the plaintiff the option to accept the lower amount or pursue a new trial.

- **Ultimate decision rests with the judge (advisory only jury):** The jury in the Northern California case is advisory, meaning its findings and recommended damages are not binding. The judge will determine the final outcome and may accept, modify or reject the jury's conclusions, potentially reducing the significance of an adverse headline verdict.

- **Ultimate financial liability expected to be reasonable:** Ms. Gray did not offer an opinion on the final financial verdict in the Northern California case, but noted that the judge is expected to consider whether the penalties are proportionate and financially reasonable.

- **Settlement could strengthen the position of scaled incumbents and create barriers to entry:** A broad settlement framework could impose compliance costs, monitoring requirements or product changes that larger platforms can absorb more easily than smaller competitors. This could reinforce the position of scaled incumbents and create a higher fixed-cost burden for smaller platforms or new entrants.

Overview of the current California Case

We think the multistate youth addiction lawsuit being tried in CA is one of the most critical near-term lawsuits for Meta due to its scale, multi-state implications, and potential to influence broader litigation and settlement dynamics across social media addiction cases. Opening arguments in the case were made on Aug 18 and press reports suggest the trial could last 6-10 weeks, with a decision on liability potentially arriving in late 2026 or early 2027. If Meta is found liable, the case could then move into a remedies phase in 2027 focused on civil penalties, injunctive relief, and potential product safety changes.

The core plaintiff claim is that Meta engaged in unfair or deceptive practices and violated children's privacy protections in connection with younger users' access to Facebook and Instagram. While the broader litigation alleges that Meta designed its platforms to increase youth engagement and contributed to harmful usage patterns, the judge has dismissed many claims involving features such as infinite scroll and autoplay. The current trial is therefore focused on a narrower set of product practices, safety-related statements and alleged COPPA violations.

- **Unfair product practices:** Plaintiffs allege that certain remaining platform features created risks for younger users. The claims proceeding to trial focus primarily on allowing multiple accounts, appearance-altering filters and inadequate tools for managing time spent, rather than the broader set of engagement features initially challenged.
- **Deception and consumer protection:** Plaintiffs allege that Meta made false or misleading statements about the safety of its platforms for younger users, including whether the company had adequate safeguards in place. The claims focus on specific public representations, rather than Meta's broader safety messaging. Meta argues that the statements must be evaluated in their full context and alongside any related qualifications or disclosures, rather than considered in isolation.
- **Children's privacy and COPPA:** Meta did not obtain parental consent for younger users, but an important legal question is whether Facebook qualifies as a child-directed service under the Children's Online Privacy Protection Act, or COPPA. Meta maintains that Facebook is a general-audience platform that is also used by some children. Internal documents discussing Meta's interest in increasing teen adoption could influence how the court assesses the platform's intended audience.
- **Platform design liability:** Plaintiffs allege that Meta's own product-design choices encouraged excessive or addictive use among younger users and contributed to alleged harm. The claims focus on platform architecture and engagement features, rather than the third-party content itself, and seek to establish that Meta can be held liable for how Facebook and Instagram are designed and operated.

Bellwether trial represents an early data point & informs settlement discussions

Ms. Gray highlighted that the current proceedings represent a bellwether trial selected to test how the underlying legal claims, evidence and damages theories perform in court. Its outcome will likely serve as one data point rather than a definitive measure of Meta's aggregate liability, as thousands of individual claims remain across separate legal tracks. Over time, additional bellwether trials should establish a broader pattern around liability, damage and potential product remedies. These outcomes will help various plaintiff and defense committees assess the relative strength and value of the claims, informing the structure and economics of a potential broader settlement. The current trial is therefore an important early benchmark, but a comprehensive resolution will likely require multiple verdicts and could take several years to develop.

Timing

The trial is expected to run through late October, followed by potentially one week of advisory jury deliberations, potentially resulting in a verdict around November. Because the jury's findings are nonbinding, the judge is expected to review the case independently rather than simply adopt the verdict. A judicial ruling could arrive in late 2026 or early 2027. Depending on the outcome, either party could appeal, potentially extending the process into 2028.

Price objective basis & risk

Alphabet (GOOGL / GOOG)
Our price objective of $430/$430 is based on 27x 2027E core Google GAAP EPS plus cash per share. Alphabet has traded at an average multiple of 22x GAAP P/E over the last ten years, and we think our target multiple is reasonable vs history given expectations for double-digit revenue growth, Cloud margin expansion, and opportunity to capitalize on strong AI assets.

Downside risks are 1) loss of search traffic to AI tools from competitors, 2) LLM integration in search may take longer than expected or negatively impact search revenues, 3) revenue pressure from compliance with the EU Digital Markets Act (DMA), and 4) potential for increasing Capex and lower FCF-given AI investments.

Meta Platforms Inc (META)
Our $810 price objective is based on 24x 2027E GAAP EPS. On a total company basis, including Metaverse investments, our valuation is at a slight premium to S&P 500 given Meta's higher growth rate and AI opportunity. Historically, Meta has traded at an average premium of 3pts to S&P 500.

Downside risks are: 1) Significant dependence on digital advertising revenue, which remain highly sensitive to macroeconomic conditions, 2) Elevated spend on AI initiatives that will negatively impact margins, 3) Growing base of fixed assets could reduce cost flexibility in a macro downturn, 4) Intensifying competition for user engagement and advertising budgets from AI-native platforms, and 5) Elevated regulatory overhang from new teen safety cases or unfavorable outcomes in ongoing litigation.

Snap (SNAP)
Our $7.00 price objective is based on 8x 2027E EV/EBITDA. Our valuation reflects a modest discount to Online media peer group median at 12x given lower relative growth, high revenue volatility and lower FCF including SBC expense.

Risks to our PO are 1) deceleration in user growth that would raise concerns on long-term revenue opportunity, 2) pressure on usage due to competing services, 3) valuation that has less earnings-based support than peers and 4) high share-based compensation (SBC) expense that could lower valuation multiples.

Analyst Certification

I, Justin Post, 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 - Internet Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Alphabet	GOOGL	GOOGL US	Justin Post
	Alphabet	GOOG	GOOG US	Justin Post
	Amazon.com	AMZN	AMZN US	Justin Post
	Booking Holdings Inc	BKNG	BKNG US	Justin Post
	Chewy Inc	CHWY	CHWY US	Michael McGovern
	DoorDash	DASH	DASH US	Justin Post
	Ethos	LIFE	LIFE US	Michael McGovern
	Etsy, Inc.	ETSY	ETSY US	Michael McGovern
	Expedia	EXPE	EXPE US	Justin Post
	LegalZoom	LZ	LZ US	Michael McGovern
	Life360	LIF	LIF US	Nitin Bansal, CFA

US - Internet Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Magnite, Inc.	MGNI	MGNI US	Omar Dessouky, CFA
	Meta Platforms Inc	META	META US	Justin Post
	Navan, Inc.	NAVN	NAVN US	Nafeesa Gupta
	Peloton	PTON	PTON US	Nafeesa Gupta
	Take-Two Interactive	TTWO	TTWO US	Omar Dessouky, CFA
	Tripadvisor	TRIP	TRIP US	Nafeesa Gupta
	Uber	UBER	UBER US	Justin Post
	Unity	U	U US	Omar Dessouky, CFA
	Wayfair	W	W US	Michael McGovern
	Wix.com	WIX	WIX US	Michael McGovern
NEUTRAL				
	Airbnb	ABNB	ABNB US	Justin Post
	AppLovin	APP	APP US	Omar Dessouky, CFA
	Carvana	CVNA	CVNA US	Michael McGovern
	Coursera Inc.	COUR	COUR US	Nafeesa Gupta
	eBay	EBAY	EBAY US	Michael McGovern
	Instacart	CART	CART US	Justin Post
	Match Group	MTCH	MTCH US	Omar Dessouky, CFA
	Pinterest	PINS	PINS US	Justin Post
	Reddit	RDDT	RDDT US	Justin Post
	Roblox Corp. Class A	RBLX	RBLX US	Omar Dessouky, CFA
	Snap	SNAP	SNAP US	Justin Post
	Zillow	Z	Z US	Omar Dessouky, CFA
	Zillow Group	ZG	ZG US	Omar Dessouky, CFA
UNDERPERFORM				
	ACV Auctions	ACVA	ACVA US	Michael McGovern
	Bending Spoons SpA	BSP	BSP US	Omar Dessouky, CFA
	Bumble	BMBL	BMBL US	Omar Dessouky, CFA
	Cardlytics, Inc	CDLX	CDLX US	Omar Dessouky, CFA
	Duolingo	DUOL	DUOL US	Omar Dessouky, CFA
	Ibotta	IBTA	IBTA US	Nitin Bansal, CFA
	Lyft, Inc.	LYFT	LYFT US	Justin Post
	StubHub Holdings	STUB	STUB US	Justin Post
	Yelp	YELP	YELP US	Nitin Bansal, CFA
RSTR				
	Global Business Travel Group, Inc.	GBTG	GBTG US	Nafeesa Gupta

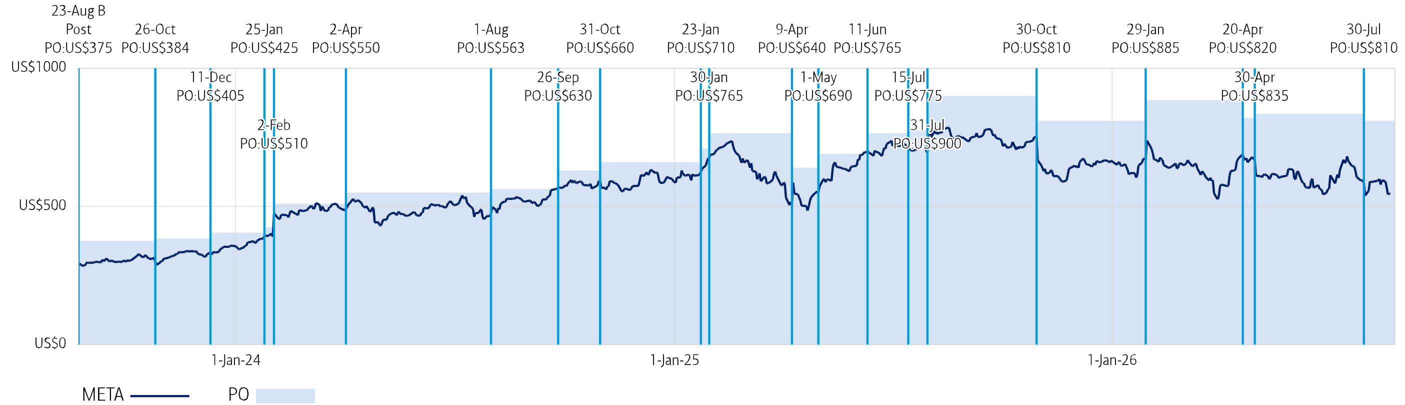
*iQ*method℠ Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings	**Numerator**	**Denominator**
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	**Numerator**	**Denominator**
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

Disclosures

Important Disclosures

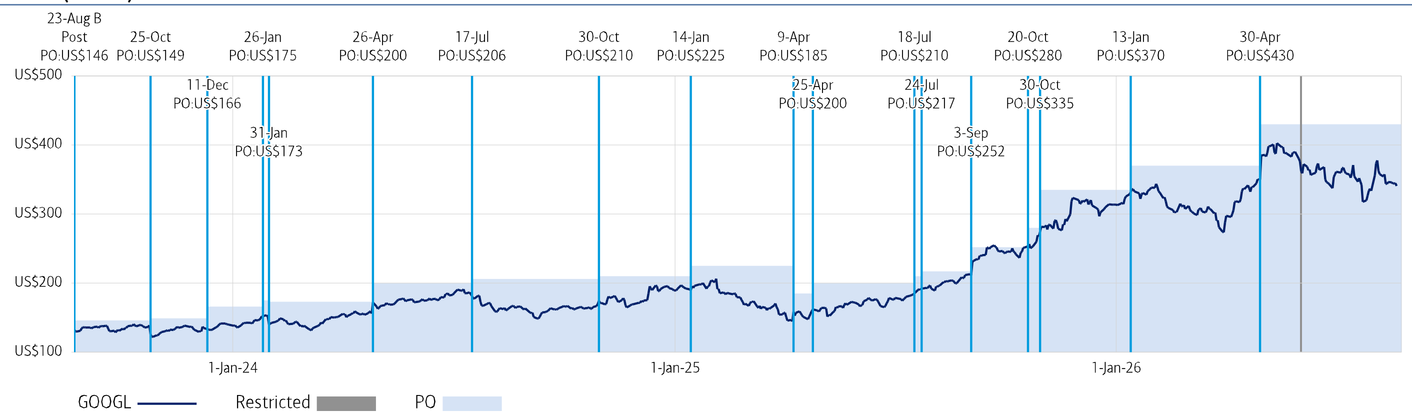
Meta Platforms (META) Price Chart



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.

Alphabet A (GOOGL) Price Chart



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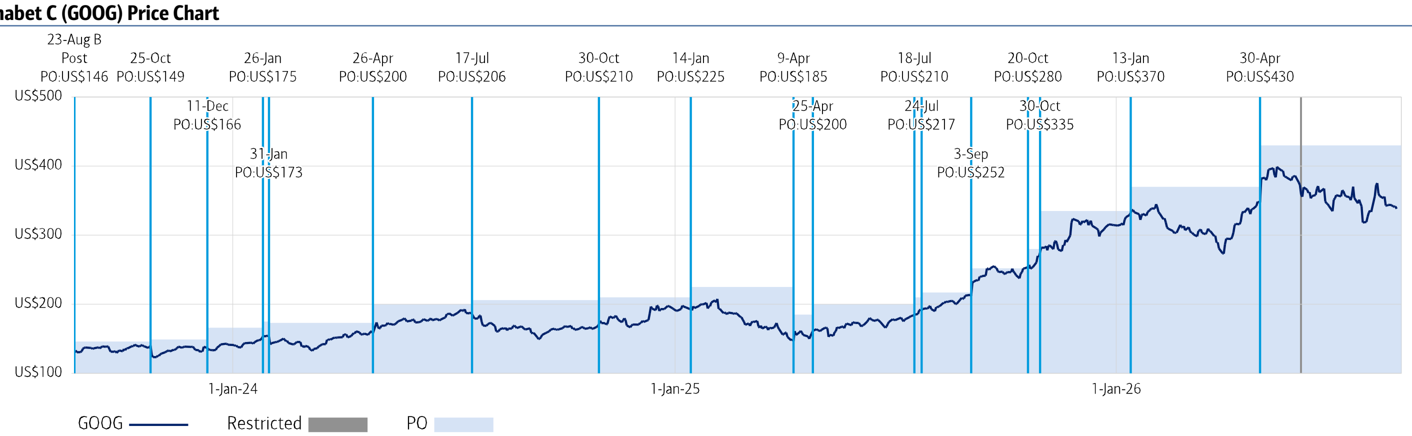
Alphabet C (GOOG) Price Chart



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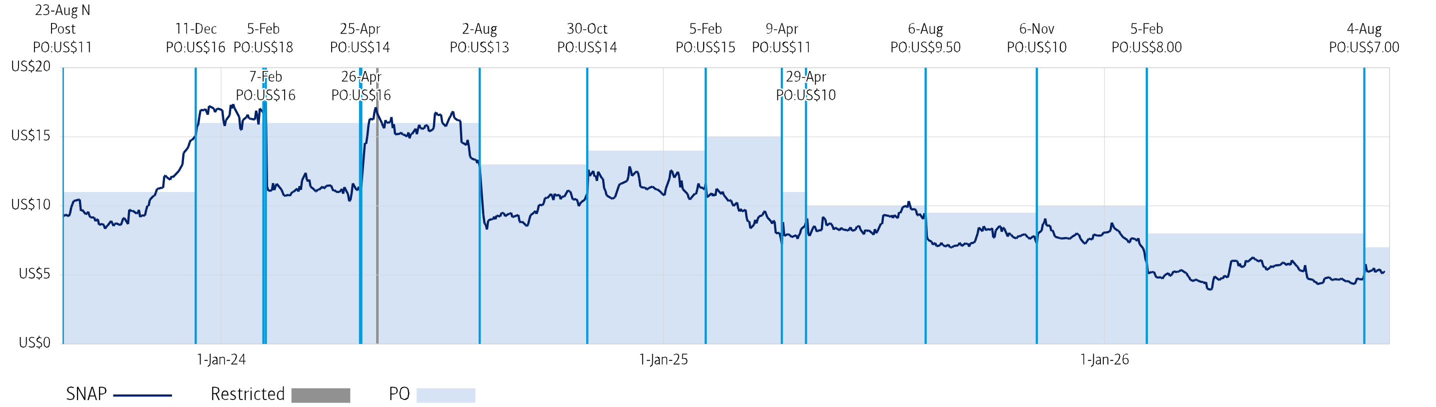
Snap Inc (SNAP) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Technology Group (as of 30 Jun 2026)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	243	60.60%	Buy	123	50.62%
Hold	87	21.70%	Hold	45	51.72%
Sell	71	17.71%	Sell	21	29.58%

Equity Investment Rating Distribution: Global Group (as of 30 Jun 2026)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1987	56.11%	Buy	1190	59.89%
Hold	797	22.51%	Hold	496	62.23%
Sell	757	21.38%	Sell	391	51.65%

[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%

[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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